



Africa, Growth Sustainability and
the Great Recession

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“Africa, Growth Sustainability and the Great Recession”¹

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Abstract

Sub-Saharan Africa as a whole did remarkably well during the Great Recession exceeding global growth by 4.7% in 2008 and a whopping 6.2% in 2009. Though there was some variation, overall growth was 2.9 % higher than the world as a whole over the period 2008--13. A number of factors are examined. First, a number of African countries have built up significant reserves and tapped new sources of finance which allowed them greater policy space to avoid IMF loans and associated conditionality while maintaining anti-cyclical fiscal and monetary policy. New financing sources permitted historically larger levels of infrastructural spending during the Great Recession effectively acting as anti-recessionary public work projects. Second, SSA countries were able to reorient their economies away from traditional export markets and sources of FDI toward Asian and other emerging countries. This allowed them to diminish their ties with Europe and other developed countries which were hit much harder during the Great Recession. Third, SSA countries continued to rely heavily on commodity production before and during the Great Recession. Prior to the Great Recession there was a commodity boom led by the high level of commodity prices which held up remarkably well during the Great Recession. There is little doubt that this helped build stimulate economic growth and build up reserves. However, the structural conditions related to the reliance on commodity production are a threat to the sustainability of growth in SSA.

Introduction

The Great Recession was punishing in its severity, ubiquity and prolongation. In the United States, the recession lasted 18 months through June, 2009 and was the longest downturn since

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the Great Depression (NBER, 2015). Unemployment (seasonally adjusted) rose from 4.4% in 2007 to 10% in October, 2009. It remained above 6% through September, 2014 (BLS, 2015). However, elsewhere it has been far worse and far more protracted. Southern Euro countries have now been subjected to years of ill-conceived pro-cyclical policies in return for debt relief. As of October, 2014, unemployment in the Euro zone was 11.5% compared to 7.5% in 2007 in the EC but far higher in some countries. Greece has experienced negative growth between 2007 and 2013. Unemployment has gone from 7.8 % in 2008 to 27.8% in 2013 with GDP falling nearly 25% (OECD, 2015a; UNCTAD, 2015).

In contrast, Sub-Saharan Africa² as a whole did remarkably well during the Great Recession exceeding global growth by 4.7% in 2008 and a whopping 6.2% 2009. Overall growth was 2.9 % higher than the world as a whole over the period 2008—13 than the global level. The growth level on the continent was a very robust 5.08% and the second highest region in the world. This is even more remarkable given how far SSA has lagged behind the rest of the world in recent decades. However, not all countries or sub-regions fared equally with some countries doing much better than others. Both East and West Africa grew by over 4% points more than Southern Africa over the period 2008-13 (UNCTAD, 2015). The paper will explore the reasons for the overall performance compared to other regions, the differences within the continent, and issues associated with the sources of growth, its sustainability and its relationship to the structure of economic activity.

Economic Growth Trends in SSA

Table One presents data on the real growth trends since 1970. We can see that SSA growth was below global growth in the 1980s and 1990s and well below other developing areas. During those decades, Sub-Saharan Africa (SSA) was a focal point of the neoliberal agenda or Structural Adjustment Programs (SAPs) of the World Bank. Between 1980 and 90, SSA countries received 31 adjustment loans (SALs), which was about 50% of all loans in this category allocated by the Bank globally during those years. By the mid-90s 37 countries received structural or sectoral adjustment loans (Stein, 2008). With the full scale introduction of neoliberal policies through the conditionality of the international financial institutions (IFIs) and bilateral donors, SSA growth plummeted in the 1980s to only a third of the global level. Many consider the 80s to be a lost decade. No region of SSA did well with Western Africa actually experiencing negative growth. With population growth rates at 2.5-3% per annum, all sub-regions experienced negative growth per capita with the overall rate declining by 1.5 % per annum.

The 1990s were only slightly better with growth in the sub-regions ranging below growth in other developing countries. Average growth was also below the 1970s though better than the 80s but was not sufficient to compensate for the declines of the 1980s. By 2000, real per capita income was only slightly above \$300 per capita in East Africa. The overall level for SSA was still nearly 20% below the level of the 1980s (UNCTAD, 2015). By 1999, poverty levels increased to almost 60% of the population from around 53% in 1981 with 170 million more

² Figure does not include South Africa.

people living on less than \$1.25 per day, the global measure of extreme poverty (Chen and Ravallion, 2008).

This began to change after 2000. Excluding South Africa, growth averaged an impressive 6.7-6.8% between 2000-05 and 2005-08 only surpassed by the numbers in Asia but more than double the growth of the global economy. The numbers held up remarkably well during the Great Recession. Only Southern Africa experienced significantly lower growth in 2008 and negative growth in 2009 largely due to the big impact on South Africa which was more closely tied to Western Economies compared to other countries in SSA. Excluding South Africa, growth in 2008 was still 6.16% still close to the trends of the 2000s and above all other regions or the world. In 2009 SSA did remarkably well and was only slightly surpassed by Asian growth. Overall, growth in SSA excluding South Africa did very well during and following the Great Recession averaging more than 5.6% between 2008-11, which is nearly double the growth rate of the previous global recession and its aftermath of 3.2% (1997-2000). How was this done? What has changed over the past decade? What are the sources of growth? Are these changes sustainable? How does it related to the structure of these economies? This will be the focus of the remainder of the paper. We will begin by examining the Great Recession in the context of business cycle theories.

Table One: Regional Economic Growth Trends 1970-2013

Region	1970 1980	1980 1989	1990 2000	2000 2005	2005 2008	2005 2009	2008 2013	2007	2008	2009	2010	2011	2012	2013
World	3.79	3.29	2.86	2.93	3.26	2.02	2.20	3.98	1.46	-2.05	4.07	2.82	2.34	2.22
Developed economies	3.36	3.24	2.67	2.12	1.85	0.56	0.91	2.51	0.01	-3.69	2.60	1.52	1.33	1.18
Eastern Africa	2.76	2.57	2.86	4.17	6.39	6.13	6.92	6.90	5.85	5.28	6.93	6.63	9.23	5.38
Middle Africa	2.53	2.45	1.40	7.46	10.62	8.91	4.84	13.10	9.14	2.64	4.55	4.11	6.36	6.46
Southern Africa	3.17	1.55	2.25	3.80	5.05	3.54	2.33	5.62	3.63	-1.71	3.38	3.58	2.63	2.08
Western Africa	3.76	-0.46	2.64	8.08	5.53	5.55	6.36	5.55	5.83	5.45	6.89	6.05	6.67	6.52
Sub-Saharan Africa	3.25	1.33	2.46	5.58	6.12	5.30	4.23	6.78	5.24	2.41	5.24	4.58	3.89	4.37
Sub-Saharan Africa excluding South Africa	3.38	1.32	2.71	6.71	6.76	6.28	5.08	7.49	6.16	4.57	6.35	5.14	3.73	5.64
South America and Central America	6.07	1.70	3.18	2.54	5.04	3.58	3.28	5.51	4.03	-1.63	5.94	4.43	3.02	2.49
Eastern, Southern and South-Eastern Asia	6.03	7.13	6.83	6.93	8.37	7.59	6.64	9.88	5.80	5.54	9.16	6.85	5.26	5.60
EU28 (European Union)	3.24	2.43	2.36	1.87	2.39	0.79	0.14	3.20	0.35	-4.54	2.05	1.65	-0.40	0.10

UNCTAD, 2015

Africa, Business Cycles and Other Drivers of Recessions in Africa

Understanding the theory of the causes and consequences of economic downturns would seem to be important in placing the Great Recession and its impact on Africa in the context of other recessions. The classic work by the institutionalist Wesley Clair Mitchell (1927) and the later neo-classical economic real business cycle theory of people like Lucas (1981) all focused on the behavior of developed economies. The literature on Africa and developing countries has been scarce and tends to be influenced by theories and assumptions about the nature and length of business cycles generated from the developed country literature (Rand and Tarp, 2002). Many have simply applied stochastic general equilibrium models using real business cycle theory with its absurd assumptions like perfectly operating markets that have little relevance even to the

developed world.³ One exception is Rand and Tarp (2002) who compare the character of business cycles in 15 developing countries including 5 in Africa relative to conditions elsewhere over the period 1980-99. They determine that SSA downturns tend to be longer in duration than other regions in their sample prolonged by initial events like oil shocks and the subsequent recessions in developed countries. FDI and foreign aid are highly volatile while investment and consumption were strongly procyclical. While there was a strong need for countercyclical policies these were not implemented. For the group as whole consumption was much more volatile than growth which is not the case in developed countries. In addition, monetary expansion and fiscal spending were strongly procyclical. Though not stated, this is not very surprising given the typical austerity packages of IMF loans to these countries in times of crisis, over the period they study (Stein, 2010). As we will see below, SSA was able to shift its dependency on developed country markets and hence reduced the second round of shocks from the Great Recession. This allowed many more countries to either avoid the IMF or diminish the duration of IMF loans hence cutting down on procyclical conditionality and creating greater policy space for counter cyclical interventions.

Explanations for the Performance

As is frequently the case the IMF was eager to seize the moment generated by the crisis and assert that “good policies” as defined by the usual Fund style orthodoxy was responsible for the resiliency of Africa and other developing areas in the face of severe downturn following the Great Recession:

Many emerging market and developing economies have done well over the past decade and through the global financial crisis. These economies did so well during the past decade that for the first time, emerging market and developing economies spent more time in expansion and had smaller downturns than advanced economies. Their improved performance is explained by both good policies⁴ and a lower incidence of external and

³ See for example Mendoza (1995), Kydland and Zarazaga, (1997) and Pallage and Robe (2001). Later literature like Aguiar and Gopinath (2007) use similar real business cycle models to argue that shocks to trend growth are due to productivity changes rather than short-term fluctuations around a stable trend and caused the higher volatility in emerging economies. This is used to explain things like the higher variations in consumption relative to income, and greater volatility in net-exports and income in emerging markets compared to developed countries. The model hinges on an absurd set of assumptions including the notion that agents are aware of the degree of persistence of shocks and adjust their behavior accordingly in an optimal manner. Hence one can use aggregates like consumption, investment and net exports to identify underlying trends in productivity. For this to occur one must be in the fantasy world (see below) of the permanent income hypothesis. Hence if consumption is lowered more in emerging markets during a downturn it is because it is perceived as a permanent change in the trend line eg if it was transitory there would be less adjusting given the knowledge that the people would soon return to the natural trend of their permanent incomes. Naoussi and Tripier (2010) use the model to explain the higher variations in consumption in SSA eg.trend shocks in productivity are even higher in African countries. Rand and Tarp (2002) examine data on variations in income and private and public consumption and find no evidence of behavior associated with the Permanent Income Hypothesis. Of course the idea that millions of African subsistence farmers and informal sector workers which constitute the majority of the working population fully understand how quotidian shocks affect their transitory vs. permanent income is nothing short of absurd to anyone other than a neoclassical economist.

⁴ They define good policies as the usual suspects including low inflation and inflation targeting, good fiscal and external balances, exchange rate flexibility, trade openness etc.

domestic shocks: better policies account for about three-fifths of their improved performance, and less-frequent shocks account for the rest. (IMF, 2012, 129)

However, in their zeal to pat themselves on the back, the IMF missed the key driving force in places like Africa which was more about avoiding IMF policies than implementing them along with the “positive” shocks associated with the boom in commodity production and its associated foreign investment inflows (Akyuz, 2013). Policy space which allowed for fiscal expansion during the crisis was created by the deliberate building of reserves to inoculate themselves from the austerity of the IMF not because they were following conservative fiscal and monetary policies.

One of approach has been to look increasingly East for sources of capital inflows and for export markets. Due to these expanded linkages SSA was not hit as badly by the downturn which was far worse in some European countries partly because of greater reliance on IMF loans and associated austerity. In addition, independence from the vagaries and conditionality of foreign aid and international loans from the IFIs has been created by accessing new sources of international finance including remittances and sovereign bond markets. Moreover, commodity prices held up remarkably well, largely because they have been driven by the continued optimism of hedge funds and other speculators. However as sentiment has turned against commodities like oil and the dollar has risen in value, prices have begun to plummet putting growth at risk in a number of SSA countries.

The evidence in support of these propositions is quite strong.

SSA Reserves and Their Relationship to Economic Growth

Table Two provides information illustrating the dramatic increase in reserves in numerical terms and the reserve to import ratios in SSA countries prior to the crisis. Between 1997 and 2001 SSA countries had roughly 3.7 months of reserves relative to annual imports. In absolute terms, the number quadrupled between 2004 and 2008 with reserves building to more than five months. By 2008 as the crisis hit, SSA countries’ reserves had expanded almost seven fold reaching an almost unprecedented 7 months of reserves. While the numbers were clearly driven by the accumulation of reserves in oil producing countries due to the rise in oil prices, the rise was fairly widespread with 80% of the countries having at least 3 months of reserves (IMF, 2014a). The literature on the relationship between reserves and their impact on economic growth has been growing.

The early literature was mixed. Blanchard et al (2010) and Rose and Spiegel (2009) find that reserves did not protect economies from the Great Recession while Llaudes et al (2010) find that it had a strong impact with countries with low reserves hit much harder by the Great Recession. One problem was the sample size. Blanchard et al (2010) only use a sample of 29 countries and only look at emerging economies. Bussiere et al, (2014) in contrast look a much larger sample of

112 countries which includes both emerging and developing countries. Most sub-Saharan African countries are included in the sample. Using a variety of measures of reserves they test to see if they help protect economies from the impact of the crisis, They find that the ratio of reserves to short debt has a large and significant impact in reducing the negative effect of the recession on growth.⁵ They also find that the presence of capital controls enhances the impact of reserves as well as acting independently to diminish the impact of the Great Recession. The see reserves in two different ways. They can act as gun powder where governments finance imports to keep them at more sustainable levels or intervene to stabilize foreign exchange markets or debt markets. They might also act as a deterrent much like a nuclear device. The mere presence of sufficient reserves builds confidence that the country can intervene in markets if needed thereby deterring overreactions in private markets. Their evidence is mixed and indicates both purposes. Countries with very large and very little reserves did not use them. Those in the middle range saw significant declines in their reserves. We can see from Table Two that there was a significant overall decline in SSA reserves in 2009 and 2010 with recovery likely indicating more usage in the gun powder role. Still there could be some evidence of Bussiere's et al (2014) observation in SSA with a number of countries at the upper and lower end exhibiting stable or rising reserve ratios in 2009 and 2010 (IMF, 2014a).

Table Two: Reserves, Imports and Reserve Ratios 1997-2013 SSA(\$ billions)⁶

Year	97-01	04-08	2008	2009	2010	2011	2012	2013
SSA total Reserves	33.7	117.7	229.7	148.6	139.6	185.0	226.3	219.4
Imports	108.6	273.8	396.0	337.8	398.8	486.8	502.9	510.2
Reserve/Imports	.31	.43	.58	.44	.35	.38	.45	.43

Source: calculated from IMF, 2014a; UNCTAD, 2015.

Challenging Aid Dependence: Debt Reduction, Personal Remittances, ODA, Sovereign Debt Markets and FDI in SSA

For many decades SSA countries have had a very high dependence on bilateral and multilateral aid. This dramatically limited policy choice. Governments were obliged to follow the development strategies embedded in the conditionality tied to donor assistance. The leader in generating donor fashions was the World Bank. While there were some changes to structural adjustment in the 1980s and 1990s, the major shift occurred under the Wolfenhson presidency in the late 90s with the reemphasis on poverty reduction something that was largely ignored by the donor community for nearly two decades. The Bank replaced SALs with poverty support credits

⁵ Blanchard et al (2010) also find a positive affect using the ratio of reserves to short term debt but fund when they break it down to see if it is the numerator or denominator that it is short term debt is the cause. Bussuere et al (2014) reject this argument since it is the ratio itself that is important eg. sending the message that debt is easily covered by reserves. Moreover even when they ran regression using different combinations of reserves to GDP and short term debt to GDP they got ambiguous results. Their working paper Bussuere et al (2013) provides much more information on this and the list of countries used than the published version.

⁶ Dollar figures on reserves are generated by taking the Import aggregate import level from UNCTAD, 2015 and multiplying it by the ratio of reserve/imports taken from IMF, 2014a.

(PSCs) for the low income countries and development policy loans ((DPLs) for middle income countries. They assisted in debt relief for the least developed countries through the HIPC (highly indebted poor country) initiative. The effort included “home-grown” country poverty reduction support papers (PRSPs) which outlined the usage of the funds released from debt servicing. In most cases it allowed for the expansion of spending on education and health which were badly neglected under SAPs. Still standard neoliberal policies continued to be embedded in the PRSPs (Stewart and Wang 2003). They also introduced the comprehensive development framework (CDF). The CDF generated a more human centered strategy along with the typical neoliberal agenda, focused macroeconomic and financial policies. Still despite some broadening, new neoliberal types of strategies were introduced including the “Doing Business” project with focused on deregulatory type indicators and formalizing private property rights in urban and rural areas (See Bazbauers, 2014 and Stein et al, 2015).

The movement of SSA countries away from aid dependence with its sometimes punishing conditionality has been a high priority of many SSA countries. The data in Table Three shows two important alternatives to aid: FDI and remittances that do not carry the baggage of conditionality. The statistics for SSA are quite dramatic. The ratio of remittances and FDI to ODA went from .19 to .88 in the 1990s due largely to the fall in ODA from donor fatigue with some moderate increases in remittances and FDI. After 2000, largely from the introduction of the Millennium Development Goals (MDGs), ODA reversed its downward trajectory and expanded almost three fold from 2000 to 2005. However this was more than compensated by the nearly five-fold increase in remittances and a three-fold increase in FDI. Consequently FDI and remittances for the first time exceeded ODA and rose to 1.25 of ODA in 2005. Growth in all three continued with FDI and remittances exceeding the expansion of ODA leading to a rise of the ratio to 1.67 just prior to the crisis. All three sources of financing held up remarkably well during the recession undoubtedly helping to sustain economic growth. Remittances only declined in one year 2009 by a moderate 5%. FDI fell in 2010 by 16% but then continued to climb except for a slight decline in 2012. ODA steadily rose during and after the Great Recession though the early peak ratio of 1.67 was once again attained in 2013, reasserting the growing independence from ODA. Overall, financial flows from these three sources were 35% higher than the pre-crisis year of 2007.

Table Three: Personal Remittances, ODA and FDI in SSA (\$ millions)

Year	1990	2000	2005	2007	2008	2009	2010	2011	2012	2013
Remit	1638	4301	19613	24958	27500	26173	27858	29722	29814	30853
FDI	1660	6763	21018	29773	38724	39635	33352	42206	41044	44839
ODA	17811	12552	32416	34720	39627	42466	43700	45643	44619	45198
R+F/O	.19	.88	1.25	1.57	1.67	1.55	1.40	1.58	1.59	1.67

OECD, 2015; UNCTAD, 2015

In the past few years, a dramatic new source of international finance became available to sub-Saharan African countries which helped to support the expanded policy space during the Great Recession. National governments in sub-Saharan Africa have historically borrowed extensively from abroad, but, with the notable exception of South Africa, none until recent years have been

able to access sovereign bonds denominated in foreign currency.⁷ African governments seeking hard currency loans relied primarily on multilateral and bilateral concessional lending with all the conditionality baggage and secondarily on commercial lending from private banks.⁸

While concessional lending by definition⁹ has terms more favorable to the borrower than those of commercial lending in a narrowly financial sense, multilateral concessional lending comes with strings attached. The conditionalities for which the loans of Bretton Woods institutions are so well known have required governments to adopt and adhere to policies which have had extensive harmful effects on the economy in general and the poor in particular, not in sub-Saharan Africa alone but across the developing world.¹⁰

For example, the policy of requiring patients at public-sector clinics and hospitals to pay user fees was widely imposed through such conditionalities and may have resulted in 3 million additional African child deaths from 1988-2008.¹¹ The Bank and the Fund have mandated such policies not only upon the extension of new loans but also as a condition of the relief of old and defaulted debt during the Heavily Indebted Poor Countries (HIPC) initiative. For example, in order to qualify for debt relief, the government of Tanzania was required to privatize the public water system of Dar es Salaam,¹² selling it in 2003 to a British company which mismanaged the system so badly that the government re-nationalized the utility two years later and eventually won a judgment against the company in a British court for £3.5 million in cost and damages.¹³ If a sovereign may be compelled to adopt destructive policies one to receive disbursement of loan

⁷ As of June 2013, South Africa had about \$10 billion of sovereign bonds outstanding, and, even after all the sovereign bond issues by other countries in sub-Saharan Africa, was still greater at that point than the combined total for all other sub-Saharan sovereigns (BMI June 11, 2013).

⁸ For example, according to OECD statistics, of the \$164 billion in external debt that the governments of sub-Saharan Africa collectively owed at the end of 1990, only 17% was owed to foreign banks, with the remaining 83% owed to OECD governments and international financial institutions, principally the World Bank and the International Monetary Fund (George 1992). More recently, all private lenders combined accounted for barely 5% of total foreign loans to governments of low-income countries from 2006-2010, compared to 20% from bilateral loans, 11% from the IMF, 34% from the World Bank (2015b) and 29% from other multilateral lenders such as regional development banks (calculated from Jones 2012 p. 26). Though not specific to sub-Saharan Africa, these figures do give an overall sense of the sources of developing country sovereign borrowing.

⁹ The International Development Association is the branch of the World Bank which lends to low-income countries, currently defined as countries which had a 2012 GNI per capita of less than \$1,205. The Bank defines concessional lending as follows: “The IDA lends money on concessional terms. This means that IDA charges little or no interest and repayments are stretched over 25 to 40 years, including a 5- to 10-year grace period” (World Bank 2012). On these terms, the grant element of IDA loans exceeds 60 percent of the total sum lent (IMF and World Bank 2012 p. 10).

¹⁰ There is an extensive literature examining the consequences of IMF loans and associated conditionality on social, political and economic indicators. There seems to be considerable evidence that reforms increase unemployment and poverty rates, exacerbate income equality, lowers economic growth and reduce social services. See Stein, 2010 for a review of some of this literature.

¹¹ Yates 2009 p. 2079. Yates’ analysis is a simple back-of-the-envelope extension across two decades of the figure of 153,000 excess child deaths per year, which was the lower bound of the relevant confidence interval resulting from the simulation of the effect of user fees in 20 (unspecified) African countries published in James et al. 2005.

¹² Jones 2012 p. 6.

¹³ Seagar 2008

funds and then again in the event of a need for debt relief, a certain wariness of multilateral, concessional, conditional lending on the part of African finance ministers becomes understandable.

Still the quantity of debt reduction was quite significant. External debt in SSA more than tripled between 1980 and 1998 to \$205 billion. Debt/GDP and debt to export went from .33 to 1.08 and from 1.1 to a completely unsustainable 3.6. Between 1996 and 2010, \$104 billion bilateral and multilateral debt was written off through the HIPC and the Multilateral Debt Relief Initiative covering 30 countries in SSA. By 2006 aggregate external debt fell to \$138 billion with ratios declining to very manageable .3 and .6. Private debt fell below the 1980 level. (IDA and IMF, 2010, Stein, 2013).¹⁴ This was very important for reorienting spending from debt servicing toward more productive government expenditures. At the same time it set up the possibility of taking on new forms of private debt.

Although bonds denominated in local currencies are issued routinely by 32 sub-Saharan countries,¹⁵ no sub-Saharan African country had issued a Eurobond in many years until the Seychelles sold a \$200 million Eurodollar bond in September of 2006.¹⁶ In 2007, Ghana became the first HIPC (Highly Indebted Poor Countries) nation to issue sovereign bonds in international markets. Tanzania and Zambia have also been able to float new bond issues on international markets often with very heavy oversubscription. In the case of Zambia, there was \$12 billion offered for a \$750 million bond issue. The general pattern of oversubscription has continued. In early December, 2014, Ethiopia, became the poorest country to ever tap the global sovereign bond market with a 10 year \$1 billion issue yet was able to attract \$2.6 billion in bids with a yield of 6.625 percent (Platt, 2015).

Table Four provides the details on the recent history of sovereign bond. In all 15 SSA countries participated in these markets over the seven year period, with multiple issues from countries like Senegal and Ghana. In 2007, just prior to the start of the Great Recession three SSA countries were able to issue bonds for a total of \$2.2 billion. However in line with general bond issues worldwide activity was hit by the Great Recession in 2008 and 2009 with only one small issue in 2009. However, the ability to float sovereign bond issues recovered to pre-recession levels in 2010-2012 with seven countries participating in the markets. In 2013 and 2014 the activity increased substantially with a doubling of the value of the face value of bonds in 2013 and tripling in 2014. Five of the dozen bond issues were from first time entries into the market. By

¹⁴ Figures do not include South Africa.

¹⁵ The sub-Saharan governments which regularly issue bonds in their local currencies are Angola, Benin, Botswana, Burkina Faso, Burundi, Cameroon, Cote d'Ivoire, the Democratic Republic of Congo, Gambia, Ghana, Guinea, Guinea-Bissau, Kenya, Madagascar, Malawi, Mali, Mauritania, Morocco, Mozambique, Namibia, Niger, Nigeria, Rwanda, Senegal, the Seychelles, Sierra Leone, South Africa, Swaziland, Tanzania, Togo, Uganda and Zambia. The eight member states of the Western African Economic and Monetary Union, or WAEMU, issue bonds denominated in CFA francs. (OECD 2012 p. 29). Interestingly, Gabon and Congo-Brazzaville have issued dollar-denominated Eurobonds but do not regularly issue bonds in their own currencies, although Gabon issued a \$180 million CFA franc-denominated bond simultaneously with its Eurobond issue in 2007 (Birch et al. 2012 p. 86).

¹⁶ Multiple sources incorrectly list the \$750 million Ghanaian Eurobond issue of September, 2007 as the first sub-Saharan Eurobond issue outside of South Africa (see for example Sulaiman 2012).

2014, a total of 15 countries had issued \$20.5 billion worth of bonds which is not insignificant and amounts roughly 12% of the total reserves of SSA excluding S.Africa.¹⁷

Table Four: SSA Sovereign Bond Issues excluding S. Africa, Millions of USD, 2006-14

Countries	2006	2007	2009	2010	2011	2012	2013	2014	Total
Angola						1,000			1,000
Congo		478							478
Cote d'Ivoire				2,330				750	3,080
Ethiopia								1,000	1,000
Gabon		1,000					1,500		2,500
Ghana		750					750	1,000	2,500
Kenya								2,750	2750
Mozam							850		850
Namibia					500				500
Nigeria					500		1,000		1,500
Rwanda							400		400
Senegal			200		500			500	1,200
Seychelle	200			168					368
Tanzania							600		600
Zambia						750		1,000	1,750
Total	200	2,228	200	2,498	1,500	1,750	5,100	7,000	20,476

Source: Olabisi and Stein, 2014, Tyson, 2015, Platt, 2015

The funds have been used for a variety of different purposes including increasing the bargaining power of countries with the IMF. For example, in September, 2014, Ghana issued a \$1 billion in the face of growing deficits and dwindling reserves just a few days before the scheduled arrival of an IMF mission. Sources indicated that the timing was not a coincidence but aimed at increasing their bargaining power with the IMF (Bigg and Kopodo, 2014). Others have been used to deal with outstanding debt. In 1985, Congo defaulted on its foreign debt. By 2004 principal, interest and penalties exceeded 200% of GDP.¹⁸ Countries participating in the HIPC program have an incentive to make at least token payments to creditors as they attempt to win relief of old debts.¹⁹ Congo, however, had an additional reason to pursue a consensual, negotiated resolution with its creditors. As an oil exporter, Congo receives revenues

¹⁷ If we take the figure above on reserves for 2013 in Table Two and subtract the \$45 billion reserves in South Africa taken from World Bank, 2015a you arrive you get reserves of 20.5 billion divided by reserves of \$174 billion which is roughly 12%. South Africa dwarfed any individual player in other parts of Africa issuing an estimated \$10.9 B of bonds over the 2006-14 period or nearly 25% of reserves (Hakim, 2014)

¹⁸ Unless otherwise explicitly indicated, the following discussion of Congolese debt restructuring is based on Richards 2010, an article published in a legal journal and written by a practicing attorney who is partner at a firm that Congo's creditors in the debt restructuring negotiations.

¹⁹ For example, Myanmar, Somalia, Sudan and Zimbabwe have all thus far declined to participate in the HIPC initiative. This may be because they are already making no payments on the old debt that might eventually be canceled, and yet they would need to resume some level of payments during the HIPC debt relief process, which can take years. Thus one could view applying for HIPC debt relief as irrational for these governments unless they strongly desire to regain the ability to borrow new funds in international capital markets (Jones 2012 p. 13).

denominated in foreign currencies and deposits them into foreign bank accounts. These overseas assets are vulnerable to writs of attachment issued by foreign courts in response to lawsuits. Many of Congo’s creditors had filed and won writs over the country’s two decades of default and which, in the absence of a negotiated debt restructuring, they could thus use to seize funds from any Congolese government bank account they could find. Thus, in order to safeguard its continued possession of its own oil revenues, Congo decided against a unilateral exchange offer and opted instead to issue a sovereign bond on terms negotiated with its creditors, whose expenses it paid during the negotiation process. Judging by the eventual participation rate of 92% in this debt exchange deal, Congo’s creditors deemed these terms an acceptable exit strategy from 20 years of default (Richards, 2010).

Some governments were quite explicit in their usage of funds for expanding reserves and others for fiscal expansion. Seychelles used its 2007 \$30 million Eurobond to increase its foreign currency reserves (Olabisi and Stein, 2015). In Namibia, funding from the bond issue financed the Targeted Intervention on Employment and Economic Growth, which was a three-year, N\$14.7 billion fiscal stimulus program intended to reduce the country’s high unemployment rate by creating 104,000 new jobs in the country (Brown 2011; Heita 2011). However, in the majority of cases funds have been used for infrastructural projects which are by nature expansionary and implicitly countercyclical when undertaken during a period of slow economic growth. In Tanzania funds were used for a gas pipeline. In Zambia proceeds were used for a hydroelectric project and for railroad infrastructural rehabilitation. In Rwanda the focus was on electrical projects and to build a convention center while in Nigeria the funds were invested in power generation. In Ethiopia the funds are being used for hydropower, rail projects and sugar plantations (Olabisi and Stein, 2015, Platt, 2015). Overall, there is little doubt that new sovereign debt expanded policy space for state sponsored projects aimed at sustaining higher economic growth during the recession and after. Diversifying the sources of FDI and trade away from the West toward the developing and emerging countries of the East has also helped sustain economic growth during the Great Recession.

Diversifying Sources of FDI and Export Targets

A key element in sustaining economic growth was in looking toward Asia for new sources of FDI. We can see in Table Three with the exception of 2010, FDI steadily grew after 2007. The growth was quite remarkable in the face of the global decline in FDI. In 2009, global FDI was 39% below the 2007 level but up by 33% in SAA. In 2013, global FDI had not yet recovered from the Great Recession and was still 28% below 2007’s numbers. In contrast, SSA FDI was 51% above the 2007 level (UNCTAD, 2015).

Table Five illustrates the ability of SSA to move away from a reliance of flows from Western developed countries toward sourcing investment from Asia.

Table Five: Developing Country Asian FDI Stock as percentage of total FDI Stock in Largest SSA Recipient Countries in Different Sub-Regions 2002-2012²⁰

²⁰ Countries listed are two largest with data available in four sub-regions of SSA East, West, Central and Southern Africa.

Country	2002-4	2010-12
Nigeria	2.3%	22.6%
Cote D'Ivoire	4.3%	2.8%
Eq Guinea	.2%	9.2%
Congo, DRC	8%	75.6%
Uganda	3%	3.4%
Kenya	1.8%	12.2%
South Africa	4.0%	5.6%
Zimbabwe	5.2%	34.4%
Average	3.6 %	20.8%

Calculated from UNCTAD: 2014

The table captures the two largest recipients of FDI in the four different regions of SSA and compares the yearly averages of FDI stock from 2002-04 to 2010-12. Figures for counties like the Congo, Nigeria and Zimbabwe are quite dramatic with a huge increase in flows from Asia leading to significant rise in the stock of FDI. Overall, the increase in the stock of flows over the decade was from 3.6% from Asian countries to 20.8% of the total.

Table Six provides data on the direction of trade exports. The figures are quite striking. We saw above that the Great Recession had a much larger impact on the developed world led by the EU which experienced average annual negative growth of .13% between 2008 and 2013. A key element in sustaining growth was the ability of SSA to diversify export markets away from the advanced economies. Between 1995 and 2008 the share of exports to the emerging and developing countries increased from 22.7% of the total to 36.7%. This has continued in the aftermath of the Great Recession with the share nearly rising to a half of exports in 2013.

As a result, in 2009, excluding South Africa, SSA exports of goods and services were only 4.6% below the 2007 level compared to a global decline of 11.8%. By 2013, African exports were 55% above the 2007 level compared to 34% at the world level (UNCTAD, 2015).

Table Six: SSA Direction of Trade Exports 1995-2013 Percentages of World

Year	1995	2000	2005	2008	2010	2012	2013
Advanced Economies	76.0	62.8	67.1	61.7	55.1	51.1	47.4
Emerging and Developing Countries	22.7	26.2	28.8	36.7	43.5	45.1	49.2

Source: Calculated from IMF, 2015a

Table Seven provides country and regional specific data on the direction of African exports between 1992 and 2009. The most significant drop is in exports to OECD Europe which absorbed 57.3% of exports in 1992 but only 35.3% by 2009. The drop is pretty much across the board in Europe both with former colonial powers and others. China and India had the most dramatic increase in their share of African exports rising from 3.3% of the total to 18.8% over the same period.

Table Seven: Direction of Africa Exports 1992-2009²¹

	Exports			
	As a percentage of total African merchandise exports			
	1992	2000	2005	2009
OECD total	82.0	75.7	73.2	62.7
OECD-Europe total	57.3	46.6	41.4	35.3
Belgium	..	3.5	2.8	2.1
France	11.7	8.0	7.2	7.8
Germany	11.1	7.1	5.5	5.5
Italy	13.8	9.4	7.8	9.6
Netherlands	3.4	2.5	2.6	3.3
Portugal	1.8	1.1	1.4	1.1
United Kingdom	5.0	5.5	5.0	3.9
All others	10.5	9.5	9.1	2.0
OECD other total	24.7	29.1	31.8	27.5
Canada	1.0	1.2	1.9	1.9
Japan	3.7	3.2	3.2	2.6
Korea	1.1	2.0	1.1	1.3
Turkey	0.9	1.7	2.0	1.6
United States	16.0	18.6	21.1	18.2
All others	2.0	2.3	2.5	1.9
Non-OECD total	18.0	24.3	26.8	37.3
Intra-African total	2.7	8.6	9.1	8.4
South Africa	0.4	0.4	0.8	1.3
All others	2.3	8.3	8.3	7.1
Non-OECD other total	15.3	15.6	17.7	28.8
Brazil	0.6	1.9	2.2	2.4
China and Hong-Kong	1.7	4.2	7.2	12.9
India	1.6	2.2	1.6	5.9
Russian Federation	..	0.2	0.3	0.5
All others	11.3	7.1	6.4	7.1
World	100.0	100.0	100.0	100.0

Source: OECD, 2011

Table Eight illustrates a similar pattern on the import side with some notable increase in the gap in some countries and regions. There was some notable increase in the gap between the export and imported percentages in some countries and regions. For example, in 1992 the difference in the percentage of exports over imports with OECD Europe was 2.2 but -3.3 points in 2009 likely indicating rising deficits in trade as the share was falling. Trade with China followed a similar pattern with the percentage of exports over imports rising from -.1% to -1.1% by 2009. In contrast the pattern went the opposite way with the gap between the percentage share of exports over imports to India rising from .7% to 2%.

²¹ Figures are from all regions of Africa not just Sub-Saharan

Table Eight: Sources of African Imports 1992-2009

	Imports			
	As a percentage of total African merchandise imports			
	1992	2000	2005	2009
OECD total	81.5	70.8	62.2	58.4
OECD-Europe total	55.1	49.9	43.9	38.5
Belgium	..	3.0	2.6	2.9
France	16.0	14.3	10.8	9.5
Germany	11.4	8.2	8.0	7.1
Italy	8.3	7.1	6.1	6.6
Netherlands	2.9	2.6	3.0	3.8
Portugal	1.4	0.8	0.8	1.4
United Kingdom	7.2	5.8	4.5	3.6
All others	7.8	8.0	8.1	3.6
OECD other total	26.3	21.0	18.3	19.9
Canada	0.9	0.9	0.7	0.8
Japan	7.4	4.2	3.5	2.8
Korea	3.0	2.8	3.5	3.8
Turkey	0.9	1.2	1.6	3.0
United States	11.2	9.0	6.5	6.9
All others	3.0	3.0	2.6	2.5
Non-OECD total	18.5	29.2	37.8	41.6
Intra-African total	4.2	11.4	10.1	9.9
South Africa	2.4	3.4	3.1	3.1
All others	1.8	8.0	7.0	6.8
Non-OECD other total	14.3	17.8	27.7	31.7
Brazil	1.3	1.1	2.6	2.6
China and Hong-Kong	1.8	4.3	8.1	14.0
India	0.9	1.8	2.8	3.9
Russian Federation	..	0.9	1.1	1.6
All others	10.3	9.6	13.1	9.7
World	100.0	100.0	100.0	100.0

Source: OECD, 2011

Disengagement from the IMF

The literature on the impact of IMF policies on economic growth is long and protracted. Critics like Joe Stiglitz (2002) have long complained about the theoretical and ideological narrowness of the IMF with its almost pathological focus on the state as the source of all economic crises. During the Great Recession, a publicity-focused IMF fact sheet argued that “the domestic sources” of economic crises arise from “excessive monetary creation, unsustainable fiscal deficits, an overvalued domestic currency, political instability, and natural disasters” (IMF, 2008a). Later versions of the fact sheet have been renamed “IMF Crisis Lending” and have added “weak financial systems” to the list without specifying which part of the financial system (state or private) or its causes.²² The September, 2014 fact sheet divides the sources into domestic and external shocks and is slightly vaguer in the language. For example, they now talk of “inappropriate fiscal and monetary policy which can lead to large economic imbalances.” (IMF, 2014b). There is no mention of the role of domestic private actors. Still the emphasis is on “sound policies” which are almost invariably procyclical in nature during crises due to the assumed relationship between government spending and monetary policy and balances.²³ After the start of the crisis, the Fund argued they would shift from their normal position and support an increase in fiscal expenditures to deal with the collapse. This is quite explicit in a now widely quoted IMF paper by Antonio Spilimbergo et al (2008).²⁴ However, reviews of the actual programs introduced in the wake of the Great Recession have shown strong evidence of the continuity with past program interventions with their emphasis on pro-cyclical policies (Stein, 2010, Van Waeyenberge et al, 2010, Grabel, 2011, Weisbrod et al, 2009, Weisbrod and Ray, 2010). Moreover, the IMF has demonstrated its continued commitment to countercyclical policies in Europe over the past five years including the four year 2012 extended facility to Greece. The impact of these policies on economic growth is now widely documented in many articles and books covering many regions and time periods including studies by mainstream economists like Barro and Lee (2002).²⁵

A key element in the sustaining of growth was the ability to completely avoid, diminish the frequency or decrease the duration of IMF loans. After the interventions following the Asian crisis there was widespread sentiment in Asia and Latin America with political implications. The position of Asian governments at the start of the crisis was nicely summed up by Wing Thye Woo of the Brookings Institute:

²² As many have argued the IMF, itself, has contributed to the weakening of financial systems by encouraging developing countries to deregulate their financial systems. See Stiglitz, 2002.

²³ The linkage between government expenditure reductions and monetary contraction is embedded in the Polak financial program model which has provided the rationale for austerity during recessions in the IMF since the 1950s. For a discussion of the problematic nature and assumptions of the model, see Stein, 2010.

²⁴ They argue that the economic downturn was driven both by a financial crisis and the collapse in aggregate demand. They indicated the usual option for addressing aggregate demand through devaluations, which is to stimulate exports through monetary policy, was not available. The former because it is a global phenomenon and will only lead to competitive devaluations and the latter because it has already been fully utilized in many countries or because the financial sectors have become too dysfunctional for it to work. They argued “in these circumstances, the Managing Director of the IMF has called for a sizable fiscal response at the global level...” Spilimbergo et al (2008)

²⁵ Some examples of studies demonstrating the link between IMF conditionality and economic growth included Dreher (2006); Przeworski and Vreeland (2003); and Vreeland 2003. See Boyer (2012) and Alexiou and Nellis (2013) for the impact of IMF austerity in the context of Europe.

Asian countries, especially those in East Asia, have a deep distrust for the Fund, given its "poor track record" during the 1997 Asian financial crisis and "no proof" that it has improved its competence over the years... at the moment no Malaysian, Indonesian and South Korean government could go to the IMF and expect to survive.(China Daily, Dec. 3, 2008)

In Latin American the on-line newspaper Mercator reported in October, 2008:

The IMF became the target of popular contempt across the region for conditioning billions of dollars in much-needed loans on a so-called Washington consensus of policy dictates, including privatization, deregulation and balanced budgets. Many Latin American leaders blame those requirements for worsening economic hardships in the 1980s and 1990s rather than easing them, and pan what they consider the IMF continued heavy-handedness. "The fund is not giving the world what it needs," Argentine Economy Minister Carlos Fernandez said on behalf of six South American countries at an annual IMF meeting this month. "Its financial assistance fails to provide the services members seek, as it continues to send immediate negative signals (and) comes with too many conditions." Raw memories of their experiences with the IMF tight lending terms make it unlikely that Latin Americans will run for IMF help again (Mercator, 2008).

The data in Table Nine captures the economic activity of the IMF since the Asian crisis from the late 90s through the end of 2014. Overall lending from the IMF following the Asian crisis remained high from 1998 through 2004 then rapidly dropped off as the global economy recovered. Outstanding GRA credit to largely middle level income countries fell by an unprecedented 91 per cent by 2007 (from SDR 65 billion to a mere SDR 6 billion), a level not seen since the 1970s (IMF, 2008b). This extraordinary fall did not happen at once. It began in 2005 when Brazil and Argentina denounced the neo-liberal agenda of the Fund and repaid nearly \$25 billion in loans. The battle between Argentina and the IMF was particularly vocal and vitriolic. The Financial Times quoted then Argentinian President, Néstor Kirchner, as saying the IMF had "acted towards our country as a promoter and a vehicle of policies that caused poverty and pain among the Argentine people." (Thomson and Ball, 2005) The payment back to the Fund came after two years of extremely poor relations between Argentina and the IMF following the three year agreement signed in September, 2003. The third quarterly review led to the suspension of payments by the IMF in July, 2014 because Argentina had not complied with sufficient structural reforms. The response to previous reviews was to for Argentina to threaten default on the \$15 billion owed to the fund. However, this time they simply paid the \$1.5 owed and unilaterally suspended the agreement with the IMF until January, 2005 (Cibelis, 2004). Argentina's successful debt swap and rise of reserves in 2005 allowed them to exit from the IMF

This was followed by repayments from other large debtors including Indonesia, Philippines, Serbia and Turkey. Even African countries followed suit and did their best to exit the Fund. As

indicated in Table Nine only 13 SSA countries had programs with the IMF in 2007 which was 15 fewer than the 1999 level. These repayments, with their subsequent decline in the payment of interests and fees to the IMF, forced the Fund to begin an unprecedented process of restructuring and retrenchment. We can see from Table Nine, the operating income of the Fund declined, falling by nearly 80 per cent in 2007 compared to 2005 which in itself was well below the average of the previous 7 years. In order to better understand the IMF's urgency to engage in such a process, one has to understand that the interests and fees paid only by Argentina between 1995 and 2005 reached an extraordinary sum of \$ 3 billion. If we take into account the fact that during the same time the administrative costs of the Fund reached a total of \$ 4.85 billion, it is obvious that the repayment of debts by Argentina had a tremendous impact on the IMF's work (Brenta, 2008). In effect, and in light of the wave of repayments during that period, the former IMF's Managing Director, Rodrigo de Rato, announced on May 2006 "the appointment of a committee of eminent persons to provide the Fund with an independent view of the available options for ensuring that it has a sustainable and durable income base with which to finance its running costs over the long term". The unprecedented decline in the use of IMF resources through the GRA, the major source of income for the Fund, led to the threat of large losses and the announcement of \$100 million dollar cost reduction plan at the Fund in April 2008.²⁶

However, with the Great Recession the fortunes of the IMF quickly reversed with 2014 income returning to the level of the early 2000s. However much of the new income was from loans not to the old customers in Latin America, Asia and Africa but due to large disbursements to countries in Eastern, Central and Southern Europe. There were significant loans to Hungary, Ukraine Iceland and Latvia in 2008. In 2009 Romania, Serbia, Bosnia and Belarus borrowed heavily from the GRA. In 2010 Greece and Ireland joined in with a 26.4 B SDR standby agreement and 19.5 B SDR extended agreement respectively along with a large second loan to Ukraine. These loans in combination with lending to other European loans dwarfed all other loans. In December, 2010, 83% of all standby and extended loans were to European countries. The historically large users like middle income countries in South America did not participate in a single loan. For example, in December, 2000, six South American countries had loans in this category and constituting 50% of the face value of all agreements. The domination was even greater with a large new facility to Portugal in 2011, and new loans to Serbia and Romania. Lending to Europe hit 91% of the total. The pattern has continued to the present moment with Europe holding 95% of the loans in December, 2012, 87% in December, 2013 and 83% in December, 2014. (calculated from IMF, various years).

What of sub-Saharan Africa? Most countries participate in the concessionary low income facilities of the IMF, the Poverty Reduction Growth Facility/Trust and the Extended Shock Facility (until 2009), Extended Credit Facility and Standby Credits (from 2010) during the Great Recessions. Like other developing areas, the number of countries taking loans dropped compared to the previous global crisis of the late 90s and early 2000s. Only 22 countries had outstanding loans in the peak crisis year of 2009 compared to 28 in 1999. Two full years later (2001), the number of countries with programs was still quite high at 25 compared to only 17 in 2011. By 2013 there were only about half the number compared to the same 4-5 year period following the Asian crisis (eg. 13 vs.25).

²⁶ This section draws on Stein and Kedar, 2010

There is little doubt that the comparative absence of IMF program had a big impact on the policy space in SSA during the Great Recession permitting fiscal and monetary expansion rather than the typical contractionary policies.

**Table Nine: IMF Resources, Disbursements, Repayments, Income and Outstanding Credit
Billions SDRs , 1998-2014**

Time	General Resource Account				Out ²⁷ Crd	PRGF-ESF (PRGT-ECF- SBC)- ²⁸				Out Cr	Income
	Useable Res.	Disburs.	Repay.	Out. Crd	SSA (No.)	Useable Res.	Disb	Repay	Out Crd.	SSA (No.)	
1998	53.6	20.6	6.7	60.5	(4)	9.5	.9	.6	6.3	(22)	2.52
1999	94.9	10.0	19.4	51.1	.334 (4)	10.3	.7	.6	6.4	3.7 (28)	2.61
2000	109.7	7.2	15.2	43.0	.088 (2)	11.4	.5	.6	6.3	3.2 (23)	2.41
2001	102.5	23.8	13.3	53.5	.060 (1)	14.5	.9	.8	6.4	3.0 (25)	2.20
2002	100.2	25.2	15.1	63.6	(0)	15.8	1.3	.9	6.9	3.4 (24)	2.29
2003	100.7	20.3	18.9	65.0	(0)	15.8	.8	.8	6.9	2.8 (22)	2.40
2004	111.4	4.2	13.8	55.4	.064 (1)	15.8	.8	.9	6.8	2.9 (18)	2.34
2005	145.2	2.3	29.2	28.4	(0)	15.8	.4	.9	6.3	2.6 (18)	2.23
2006	161.2	2.4	21.0	9.8	(0)	15.8	.5	2.9	3.8	.372 (18)	1.14
2007	165.4	1.0	4.7	6.0	(0)	15.8	.3	.4	3.8	1.1 (13)	.48
2008	152.4	13.4	1.9	17.5	.006 (2)	15.8	.6	.5	4.0	.745 (18)	.62
2009	290.2	20.5	.7	37.2	.241 (3)	16.8	1.6	.5	5.1	2.2 (22)	.53
2010	304.8	20.3	1.9	55.6	.593 (2)	23.5	.9	1.1	4.8	1.6 (20)	.91
2011	396.9	33.6	2.0	87.3	.797 (2)	25.8	.9	.4	5.3	2.1 (17)	1.6
2012	373.1	15.0	12.2	90.0	.027 (1)	26.2	.9	.5	5.8	2.0 (19)	2.1
2013	404.5	13.5	19.7	47.5	(0)	26.2	.8	.4	6.2	1.6 (13)	2.3
2014	381.5	10.6	25.5	43.7	.029 (1)	26.2	.5	.4	6.3	1.6 (12)	2.4

Sources: IMF (various years); 2008b, 2009; 2015b

Pro-cyclical and Counter-cyclical Policy in Africa

²⁷ All figures correspond to SSA countries with outstanding loans with number in brackets relating to no. of countries with active loans during that year. All years except for 1999 and 1998 are taken from IMF (various years) and correspond to information in last report in December of each year using the recorded outstanding credit amount. No. of countries with loan activity are taken from Annual Reports of the IMF (IMF, 1998, 1999). Outstanding Credit for 1999 is taken from IMF, 2000.

²⁸ In 2010 the Poverty Reduction Growth Fund was renamed the Extended Credit Facility under the Poverty Reduction Growth Trust. Under the PRGT in 2010 loans were allocated for the Extended Shock Facility and for shorter term standby credit facilities.

As argued above, the changing structure and nature of trade, aid and capital flows seems to have converged to permit the policy space for a greater countercyclical intervention.²⁹ The effort was fairly widespread and undertaken in the early stages of the Great Recession. In South Africa, the government increased public investment amounting to R 787 billion (around USD 100 billion) during 2010-12. The measures were aimed at generating growth with job creation.

In Kenya, government expenditures over 2009-10 increased by roughly 25 percent from the year before, with financing coming from local infrastructure bonds and foreign aid. The government undertook a number of other measures to expand the economy, such as the removal of duties on maize and maize products, a decrease in VAT on electricity, and increasing spending on public works. The focus of the packages was to increase domestic demand to compensate for the decline in exports, to generate employment, to use infrastructure and other tools to improve competitiveness and to expand programs for the subsidization of food.

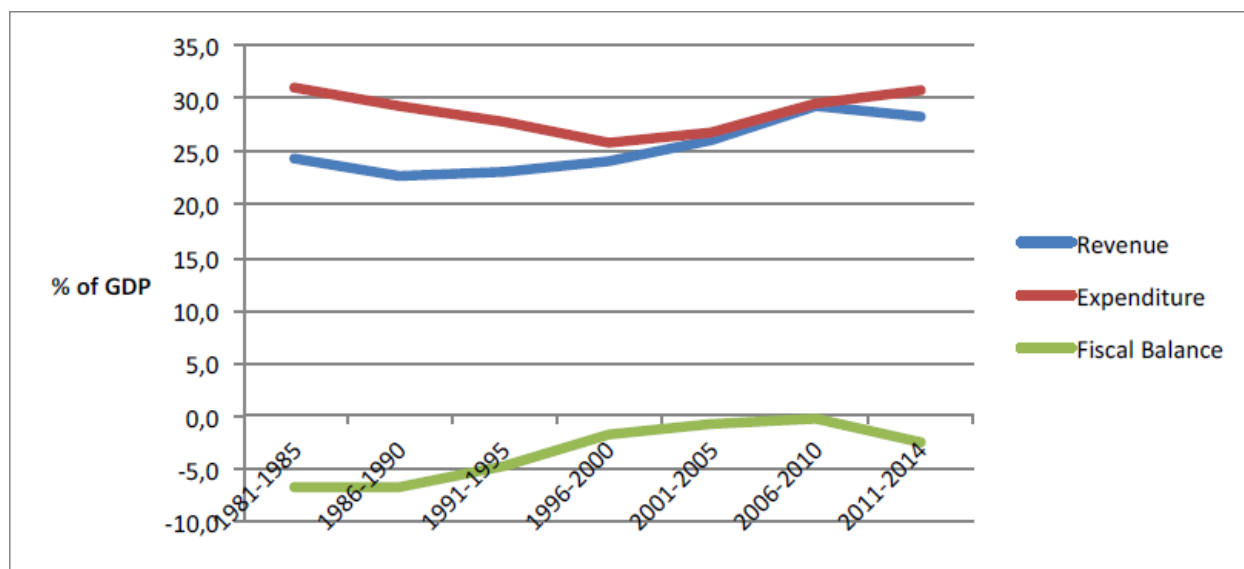
The Tanzanian government increased spending by around 30 percent in their 2009 -10 budget on infrastructural projects like roads and energy. Due partly to IMF pressure they also raised equivalent revenue though the overall effect was expansionary for the two year fiscal periods of 2008-09 and 2009-10.

The Mauritius government also undertook counter cyclical fiscal policy in May 2008 for the fiscal year 2008-09. The stimulus amounted to 3.4 percent of GDP and focused on infrastructure, education and raising the competitiveness of domestically focused industries and SMEs. In their 2009-10, Uganda budget increased fiscal spending by 29% compared to the previous fiscal year, with a focus on infrastructural and agricultural spending (Kasekende et al, 2010).

Figure One illustrates the trend quite clearly. During the previous global downturn in 1997 the pattern was procyclical with rising revenues, declining expenditures and an overall lowering of deficits relative to GDP. We can see the opposite trend of countercyclical intervention with expenditures rising, revenue falling and a large increase in the deficits after 2009.

Figure One: African Fiscal Policy 1981-2014

²⁹ Of course we assume that countercyclical policy is growth enhancing and eases the burden of downturns on populations in Africa countries. We therefore reject arguments such as the crowding out effect of deficits which make little sense in general and even less so in many African countries where banks have large excess liquid reserves. Between 1990 and 2009, the median bank liquid reserves to asset ratio varied in a sample of 18 SSA countries in between 11% to very lofty 19%.. In 2009, the level was 19% which was also reached in 2005 and 1993. In contrast, the ratio in the OECD countries never exceeded 55 and in most of the years In that period was in the 3 to 4% range. See Nana and Samson (2014) for the data and for a study of the causes and consequences of the high liquid reserve ratio.



Source: Leibfritz and Rottman, 2013

Table Ten shows this very clearly, with the swing from a surplus in 2004-08 of 2 % of GDP to a deficit of 5.2% in 2009 due to a rise in both expenditures relative to GDP and a fall in revenue. Following the 2009 fiscal year, governments continued the high level of fiscal expansion relative to GDP but the deficit declined due to the rise in revenue which lowered the deficit to 2.8% of GDP. The table also differentiates the changes for both African oil exporters and importers. As one can see, the pattern of a rapid rise in deficits in 2009 is even greater in the oil exporters followed by a decline in 2010-13. The oil importers also show evidence of countercyclical fiscal policy with significant increases in government spending relative to GDP though revenues were fairly stable in 2009 leading to less of a rise in the deficit. Unlike oil producers, expenditures continued to increase through 2013 and the deficit continued at an average of 4.5% of GDP.

Table Ten: African Fiscal Policy 2004-13

Region		2004-2008	2009	2010-2013
Africa	Revenue	29.5	26.9	28.2
	Expenditure	27.5	32	31.0
	Fiscal Balance	2.0	-5.2	-2.8
Oil Exporters	Revenue	34.0	28.6	30.4
	Expenditure	28.9	34.3	31.7
	Fiscal Balance	5.1	-5.7	-1.3
Oil Importers	Revenue	24.7	24.8	25.6
	Expenditure	25.9	29.3	30.0
	Fiscal Balance	-1.1	-4.5	-4.5

Source: Leibfritz and Rottman, 2013

Governments also undertook countercyclical monetary policy through expansion of the money supply and lowered interest rates. Table Eleven provides data on lending rates for a selection of countries in SSA for which data is available. We can see that the vast majority of countries had lower lending rates in both 2008 and 2009 or at least in one of the years. The only countries with higher rates in 2008 and 2009 compared to 2007 were Kenya, Seychelles, Uganda and Zambia. Seychelles and Zambia both signed agreements with the IMF in 2008. One also notices some countries that lowered rates in 2008 and raised them in 2009. In some cases this was due to new agreements with the IMF in 2009. This includes Angola, DRC, and Tanzania.

Table Eleven: Lending Rates During the Great Recession 2006-11

Country	2007	2008	2009	2010	2011
Angola	17.7	12.5	15.7	22.5	18.8
Botswana	16.2	16.5	13.8	11.5	11.0
Burundi	16.8	16.5	14.1	12.4	13.2
Cape Verde	10.6	10.0	11.0	11.0	9.8
Comoros	10.5	10.5	7.0	7.0	7.3
Congo, Dem. Rep.	47.0	43.2	65.4	56.5	43.8
Djibouti	11.2	11.6	11.1	10.3	10.6
Gambia, The	27.9	27.0	27.0	27.0	28.0
Kenya	13.3	14.0	14.8	14.4	15.0
Lesotho	14.1	16.2	13.0	11.2	10.4
Liberia	15.0	14.4	14.2	14.2	13.8
Madagascar	45.0	45.0	45.0	49.0	52.5
Malawi	27.7	25.3	25.3	24.6	23.8
Mauritania	23.5	20.3	19.5	17.0	17.0
Mauritius	21.9	11.5	9.3	8.9	8.9
Mozambique	19.5	18.3	15.7	16.3	19.1
Namibia	12.9	13.7	11.1	9.7	8.7
Nigeria	16.9	15.5	18.4	17.6	16.0
Rwanda	16.1	16.5	16.1	16.7	..
Sao Tome and Principe	32.4	32.4	31.1	28.9	27.0
Seychelles	10.9	11.8	15.3	12.7	11.2
Sierra Leone	25.0	24.5	22.2	21.3	21.0
South Africa	13.2	15.1	11.7	9.8	9.0
Swaziland	13.2	14.8	11.4	9.8	9.0
Tanzania	16.1	15.0	15.0	14.5	15.0
Uganda	19.1	20.5	21.0	20.2	21.8
Zambia	18.9	19.1	22.1	20.9	18.8

Source: World Bank, 2015a

Many of the falling interest rates were the deliberate product of countercyclical policy where policy space was available. The South African Reserve Bank relaxed at the end of 2008 through October, 2009 with a cumulative 500 basis point reduction in its policy rate. The Bank of Mauritius reduced its policy rate by 400 basis points between January 2008 and March 2009. In Botswana, the Central Bank also reduced its rate a number of times leading to a significant decline in its lending rate between 2008 and 2011. Tanzania’s Central Bank also increased the money supply growth by several percentage points, before the IMF demanded a cut in credit by 10% after 2009 (Stein, 2010, Kasekende et al, 2010).

Structure of Trade and the Sustainability of Growth in Africa

One disturbing trend in Africa is the continued dependence on the production and export of unprocessed raw materials with a heavy and growing reliance on petroleum and gas exports. Table Twelve provides details on the structure of the GDP in Sub-Saharan African countries. There are a number of striking features. First we can see that neoliberalism of the 80s and 90s dramatically pushed down government spending relative to GDP to a very low 13-14% after 1990. Second, the biggest structural change is the collapse of manufacturing and the growth mining. Mining (with some utilities) were roughly 13-14% of GDP in the 1970s and 80s rising to 16% in the 90s. However, it jumped to 24% after 2000 and in doubled to the range of 25-26% of GDP after the start of the Great Recession compared to the pre-structural adjustment period. This has corresponded to a massive decline in the manufacturing share of GDP from around 20% to 9% in the 90s to a mere 7% after 2008. The trends reflect the impact of neoliberalism which both dismantled the state organizations and policies that supported manufacturing while pushing SSA to specialize in unprocessed raw material in line with its static comparative advantage. This deindustrializing tendency was built into the underlying economic logic and policies associated with structural adjustment in Africa.

In the world of adjustment, devaluation and import liberalization, the reduction of protectionism and monetary policy that produces positive real interest rates will reward efficient companies while punishing inefficient industries. Companies will have incentives to become more export-oriented, and more labor-intensive and to use more local inputs, allowing the country to exploit its comparative advantage. The result will be a prosperous sector, which will greatly enhance exports while diminishing the use of imports. The poor performance of manufacturing is not surprising. Policies such as interest and exchange rate liberalization and government expenditure cuts, layoffs and austerity were debilitating to local manufacturing companies resulting in depressed markets and bankruptcies. As seen in Table Twelve by the drop in government spending from around 20% of GDP in the 70s to 13-14 % after 1990, governments were unable to invest in the infrastructure and human capital needed to support competitive manufacturing. Adjustment induced import deregulation and the associated removal of tariffs after the 1980s leading to the flooding of markets that undercut local production (Stein, 1992, 2008; Lall, 1992; 1995; Mkandawire, 1988).

Table Twelve: GDP Components of SSA excluding South Africa, 1970-2012

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<i>Average percentage shares of GDP</i>	1970-9	1980-9	1990-9	2000-6	2008	2012
2009						
Consumption	68%	73%	74%	69%	66%	64%
Government expenditure	20%	19%	14%	13%	13%	14%
Investment	17%	13%	16%	17%	18%	20%
Exports	33%	30%	33%	34%	40%	41%
Imports	38%	36%	37%	32%	36%	39%
<i>Agriculture, hunting, forestry, fishing</i>	30%	28%	31%	29%	27%	26%
<i>Industry</i>	40%	40%	32%	35%	36%	37%
<i>Mining, Manufacturing, Utilities</i>	34%	36%	28%	31%	33%	32%
<i>Manufacturing</i>	21%	22%	12%	9%	7%	7%
<i>Construction</i>	6%	4%	4%	4%	4%	5%
<i>Services</i>	30%	32%	38%	36%	37%	37%
<i>Wholesale, retail trade, restaurants and hotels</i>	12%	12%	14%	13%	14%	15%
<i>Transport, storage and communications</i>	5%	5%	5%	6%	6%	6%
<i>Other Activities</i>	14%	15%	18%	17%	16%	16%

Source: Jomo and Von Arnim, 2012, UNCTAD, 2015

Governments were under great pressure to divest in industry under adjustment. Few companies survived and many companies were deliberately liquidated. Between 1986 and 1998, Tanzania divested 183 parastatals, but only 83 were privatizations (Gibbon, 1999). By 2005, Zambia privatized 261 out of 282 companies in many sectors including manufacturing. From 1985 through 2005, the number of textile factories went from 140 to around 50 with an associated collapse of employment by nearly two-thirds. Few of the remaining privatized or restructured factories can produce internationally competitive products for exports (Pitcher, 2007). As some writers have argued, if states had rescued and rehabilitated failing enterprises instead of allowing them to be liquidated or privatized often leading to bankruptcy, it is likely that SSA's manufacturing sectors would have been able to build on the previous twenty years of accumulated learning and experience. Instead, structural adjustment has largely returned Africa to its colonial style extractive economy with its emphasis on unprocessed raw materials and cash crop exports (Lawrence, 2005).³⁰ We can see this clearly in the structure of exports.

**Table Thirteen: SSA Exports by Standard International Trade Classification (1995-2013)
(Millions of US \$)**

Year	1995	2000	2005	2008	2010	2012	2013
Total all products	48660	63945	142 505	269 836	265 293	338210	329198
Primary commodities, (SITC 0 + 1 + 2 + 3 + 4 + 68 + 667+ 971)	42641 (87.6%)	57348	130 025	250 827 (93.0%)	244 530	316916	304618 (92.5%)
Fuels (SITC 3)	19398 (39.8%)	36540	94858	194550 (72.1%)	175394	229684	219504 (66.7%)
Manufactured goods (SITC 5 to 8 less 667)	5730 (11.8%)	5868	11543	17458 (6.5%)	19321	19742	23074 (7.0%)

³⁰ An additional disturbing indicator is the rise in the export concentration index from .24 to .43 from 1995 to 2011 (Harsmar, 2014)

and 68)								
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Source: UNCTAD, 2015

Table Thirteen presents a breakdown of the type of exports by the SITC over the period 1995-2003. We can see a dramatic growth in exports which increased 600% from 1995 to 2008. The biggest source of growth was in fuels which increased by more than 1000% over that period. Overall, roughly 80% of the increase was from fuels. As a result primary commodities exports went from a very high 87.6% of the total to in 1995 to an overwhelming 93%. Little has changed over the course of the Great Recession and its aftermath with primary commodities constituting 92.5% of exports in 2013. Meanwhile manufacturing export growth's share dropped by half over from 1995 to 2008 to a mere 6.5%. The heavy reliance on the export of primary commodities has allowed SSA to ride the commodity boom of the past decade but also leaves the continent susceptible to any downturn. Table Fourteen illustrates the rise in the terms of trade after 2000 increasing by 36% through 2005 and with the exception of the downturn in 2009 continuing to rise following the Great Recession. By 2012 the terms of trade had nearly double compared to 12 years before.

Table Fourteen: Trade Indicators 1995-2013 SSA exc. S. Africa

Year	2000	2005	2008	2009	2010	2011	2012	2013
Tm of trade ind	100.00	136.89	177.80	146.33	168.34	189.91	190.32	187.65
P.P. ind of exp	100.00	184.43	257.88	204.68	254.86	284.08	288.62	286.95

Source: UNCTAD, 2015

These numbers are quite impressive from a historical perspective but also reveal the dangers of relying on commodities whose prices are notoriously volatile. Between 1980 and 1997 the net barter terms of trade fell by 47% (Stein, 2014). Table Fifteen provides information on the price of key commodities exported by SSA countries. The table covers the period from 1970 to 2013. Prior to 2000 the last commodity boom in the post-independence period was in the 1970s with an extraordinary rise in a wide variety of commodities including at least a tripling or more in the price of most agricultural products and rapid rise in the price of petroleum. The 1980 to 2000 period was not good for the products produced by SSA with a decline in most commodity prices. The fall was particularly acute in some goods. Robusta coffee plummeted by two-thirds but was not alone in the tropical beverage category which declined by 50%. Cotton prices were also 40% below their 1980 levels. The turnaround in prices is also striking with the tripling of the price of minerals and metals led by the extraordinary rise in the price of petroleum and copper between 2000 and 2008. While more moderate, most agriculturally produced raw materials increased in price with food more than doubling. We can see that the Great Recession led to an across the board decline but has since recovered with most prices matching or even exceeding the pre-Great Recession level by 2011.

Table Fifteen: Commodity Price Indices 1970-2015 (2000=100)

Year	1970	1980	1990	2000	2005	2008	2009	2010	2011	2012	2013	% change peak '14-Jan, 15 ³¹
Food	54	183	125	100	127	234	220	230	265	270	255	-17.1
Tropical Beverages	65	212	108	100	126	178	181	213	270	212	174	-6.5
Vegetable Oilsds and Oils	75	166	107	100	141	298	213	262	333	307	269	-19.1
Agricultural Raw Materials	40	131	128	100	129	198	163	226	289	223	206	-10.0
Minerals, Ores and Metals	54	116	127	100	173	332	232	327	375	322	306	-31.6
Crude Petroleum	8	126	78	100	189	344	219	280	368	372	369	-56.2
Coffee Arabica	70	261	104	100	127	153	139	182	305	215	148	-15.9
Coffee Robusta	98	349	131	100	127	252	183	200	275	263	239	-8.6
Copper	49	78	125	100	169	307	271	406	458	418	391	-20.0
Cotton	46	140	112	100	88	116	105	127	291	138	128	-30.5

Source: UNCTAD: 2015, Index Mundi, 2015

It is quite clear that the commodity boom of the past decade created the policy space and opportunity for SSA to adjust their policies and reorient their economies toward greater south-south ties (Salazaar-Xirinachs, Nubler and Kozul-Wright, 2014). This is not unlike the last commodity boom which was used to build import-substituting industrialization in Africa (Fransman, 1982). However, the reorientation toward the south has done little to alter the basic structure of these economies. The worry now is that the commodity boom is now completed and we could see a downward cycle on prices with implications to the sustainability of growth in Africa along with a potential loss of policy space. Table Fifteen also includes data on the movement in commodity prices between the peak month in 2014 and January, 2015. The signs for 2014-15 are rather worrisome, with declines of 56% in petroleum, 31.6% in metals and nearly 20% in food and beverages. The simple average from the table generates more than a 20% decline across the board.

³¹ Not all categories under this column fully match. This figure for metals, ores etc is only for metals and does not include energy products. The change for tropical beverages also use the general beverage index from Index mundi. The index on vegetable oil, oilseeds and oils etc combines sunflower and palm oil.

A second concern associated with the structure of African economies is the quality of growth in terms of the ability to both to reduce poverty levels and generate employment, both important dimensions to the creation of middle classes and the kinds of expenditure flows that can help sustain long term growth. The elasticities of growth to poverty and employment are very low in SSA. A one percentage growth in GDP leads to a decline in poverty of only .95 percent. This is very anemic by global standards. SSA has the lowest income elasticity of poverty among the six developing areas of the world (Page and Shimeles, 2014).

A key element in poverty reduction is the movement of the labor force from low to higher productivity activities which has the potential to pay out higher wages. Industry and particularly manufacturing tends to have higher productivity compared to the service and agricultural sectors. On average, in lower income Africa, the productivity of labor in manufacturing compared to agriculture is roughly 3.8 to 1. Structurally changing economies from agriculture to industry can have a significant impact on poverty reduction. Page and Shimeles, (2014) regress headcount poverty rates on multiple variables including per capita income, ginis for income distribution, and the share of employment in agriculture, services and industry. They use a generalized method of moments (GMM) approach and a two period lag to avoid endogeneity problems. Based on a sample of all developing countries and controlling for the growth of income and the distribution of income, they estimated that the poverty headcount will fall by .8% for each one percent increase in industrial employment.

Moreover, there is a strong negative relationship between the rate of growth and employment generation with the fastest growing African countries having the lowest elasticity of employment (Page, 2012). Studies of the direction of the elasticity of growth to employment are also disturbing. Kapsos (2005) analyzes the trends covering the period 1993 to 2003 in SSA and other parts of the world. In the case of SSA elasticity declined by nearly 30% between 1991-95 and 1999-2003.

A particularly important issue is the population structure of African countries which has huge implications to youth employment. Africa has the youngest age structure in the world. The ten countries with the youngest population in 2011 were in Africa. Projections indicate that Africa could have the largest labor force by 2040 posing extraordinary challenges. While youth make up 40% of the working age population they comprise 60% of the unemployed. In some countries the ratio is much higher. In Nigeria, the rate is five to one when comparing youth to general unemployment rates (Page, 2012).. Worse is the rising levels of migration of young people to urban areas driven in part by landlessness in villages and the absence of land set aside for youth in some countries that are generating land use plans as part of formalization exercises. In Tanzania, a study of 30 villages in three regions documented a landlessness rate of 11% with some villages exceeding 30% of the population. For the most part, there was no land set aside in the villages with land use plans.³² The problem is that in some African countries the youth unemployment rate can be as much as six times higher in urban areas compared to rural areas.

³² The study is part of an ongoing effort to examine the impact of formalization on poverty in Tanzania undertaken by Howard Stein, Faustin Maganga, Kelly Askew and Rie Odgaard between 2009-2015 in three regions Dodoma, Manyara and Mbeya. The first stage of the project was financed by the National Science Foundation, between 2009 and 2013 and focused on the regions of Manyara and Mbeya. The current project is supported by a generous grant

Worse, most are employed in the informal sector where income is low, uncertain and conditions are difficult. An estimated 81.5% of all working people are classified as working poor well above the global average of 39%. Most new jobs generated tend to be in the informal economy. The problem again is tied to the structure of these economies discussed above. Page (2012) compares SSA to a benchmark of countries that have managed to cross the lower-middle income and achieve both sustained growth and employment generation. Using a selection of low income African countries, he illustrates that the structural change is far below the benchmark level with the manufacturing share of value added labor employment roughly half of the benchmark. In addition the manufacturing sector that does exist has performed poorly with labor productivity below the levels found in the benchmark.

Despite the high levels of GDP growth labor productivity growth has been anemic once again with the structural tendencies of SSA countries feeding into this dynamic. Table Sixteen provides data on the trends in output per worker in the four sub-regions of SSA covering the period from 1980 to 2010.

Table Sixteen: SSA Output Per Worker by Sub-Region 1980-2010

Region of SSA	1980s	1990s	2000s
East	0.003	0.004	0.03
Central	-0.003	-0.034	0.004
South	0.006	0.007	0.017
West	-0.011	-0.017	0.009

Source: UNECA, 2014

We can see that the output per worker has been stagnant in East Africa, negative in West Africa and Central Africa in the 1980s and 90s with a small positive direction after 2000 and a general upward trend in Southern Africa. A quick glance at this would indicate an upward trend in the movement of productivity in line with economic growth which would seem to indicate that the trend away from manufacturing has not hurt productivity. However, Macmillan and Rodrik (2011) take the analysis a step further. They argue that that labor productivity can grow due to expansion within a sector or the movement of labor from low to higher productivity sectors or what they refer to as the component from structural transformation. They decompose the labor productivity growth in a sample of 11 African countries and indicate that internal sectoral growth increased by 2.1% while structural transforming labor productivity growth led to a decline of -1.3%. In essence SSA’s deindustrialization has led to the perverse tendency for labor to move from high to low productivity over the period 1990-2005 which is not a recipe for growth sustainability with shared prosperity.

Conclusions

The paper has examined the impact of the Great Recession on Sub-Saharan Africa. Sub-Saharan Africa as a whole did quite well during the Great Recession compared to both other regions and

from the Royal Danish embassy in Tanzania and covers the period 2014-2016. The project has already surveyed villages in Dodoma and has begun the same work in the region of Kigoma.

relative to global growth. There were a number of factors responsible for this outcome. An important element was the reorientation of the economies toward Southern trading partners and to sources of alternative FDI inflows. By moving away from the traditional Western partners, who were hit much harder by the Great Recession, they were able to diminish the effect of the downturn. In addition less reliance on aid from the West which has often been replete with problematic conditionality has permitted greater policy space enhanced by the rise of reserves from new sources of finance and the resource commodity boom of the past decade.

Unlike so many previous downturns, a key element was the ability to avoid IMF programs and to pursue anti-cyclical fiscal and monetary policy during the Great Recession. New financing sources have also permitted historically larger levels of infrastructural spending during the Great Recession effectively acting as anti-recessionary public work projects. The latter section of the paper raises questions on the sources of growth, the structure of economies in Africa, and the sustainability of growth, particularly in the service of broadly shared prosperity for the populations of African countries.

The latter point challenges the wisdom in some circles that the key to changing the problematic way that SSA countries have integrated into the global economy is by enhancing south-south cooperation through greater financial and trade linkages. While this shift was clearly important in diminishing the effect of the global downturn, it has done little to alter the character of trade or the structure of the economy with overreliance on unprocessed agricultural commodities and minerals. This does not bode well for the sustainability of growth with shared prosperity.

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