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THE IMPACT OF THE RECENT FINANCIAL CRISIS ON SUB-SAHARAN AFRICA: MACROECONOMIC MANAGEMENT VERSUS STRUCTURAL CHARACTERISTICS.

by

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Acronyms

GDP: Gross Domestic Product

FDI: Foreign Direct Investment

LDC: Less Developed Countries

IMF: International Monetary Fund

UNCTAD: United Nations Conference on Trade and Development

LIC: Low Income Countries

GDI: Gross Domestic Income

WAEMU: West Africa Economic and Monetary Union

CBWAS: Central Bank of West African States

AFC: African Financial Community

OECD: Organisation for Economic Cooperation and Development

ODA: Official Development Assistance

HIPC: Heavily Indebted Poor Countries

MDRI: Multilateral Debt Relief Initiative

GOG: Government of Ghana

NDC: National Democratic Congress

WEO: World Economic Outlook

ERP: Enterprise Resource Planning

CPI: Consumer Price Index

MPC: Monetary Policy Committee

CHAP I: INTRODUCTION

The income of developing countries especially sub-Saharan African countries is volatile. It has been seen that during1965 to 1997, the GDP of developing countries has been highly more volatile compared to that of developed countries. The standard deviation of output growth and the frequency of drops in real GDP larger than 3 percent were respectively two and five times larger in low-income countries than in high-income countries. This volatility is caused by the fact that developing countries are more vulnerable to external and internal shocks like natural disasters, change in prices of commodities, aid volatility among others. This volatility amplifies the prevalence of negative shocks and affect particularly more the poor people given a high fraction of population living under poverty in developing countries (Raddatz,2007). We care about volatility because consumers always prefer smooth consumption, and the volatility in income leads to the volatility in their consumption. This volatility in consumption is the cost for consumers (Allen and Giovanneti, 2011). For policy makers in developing countries, the instability in their economies is caused only by external shocks like aid volatility, decrease in Foreign Direct Investment (FDI), Volatility of price of commodities, terms of trade volatility among others (Raddatz,2007).

Exogenous shocks like terms of trade volatility, natural disasters, and others, have a significant negative impact on the fluctuations of income in Less Developed Countries (LDC), economic growth, and even on poverty and those countries are vulnerable to these shocks and influence their economic growth IMF (2003), World Bank (2004), and UNCTAD (2002) respectively. The focus on external shocks to be the main cause of volatility in economies of developing countries is understandable because economically speaking, those countries depend much more on foreign developed countries and are vulnerable to external shocks from those countries like terms of trade volatility, commodity price volatility and others. Nevertheless, internal shocks like political instability, macroeconomic mismanagement, the absence of vibrant institutions also have a significant impact on the volatility of their economies and are important source of these fluctuations (Acemoglu et al., 2003) and Ahmed (2003). Commodity prices are more volatile and constitute a significant portion of developing countries' exports which provide about 85% of income from exports and this feature influences the volatility in GDP when their prices negatively fluctuate. Foreign aid represents about 11 percent of GDI for the average (Low Income Countries) LIC (World Bank, 2000).

Our objective in this thesis is to examine the impact of the 2008-2009 financial crisis on two categories of sub-Saharan African countries. Our purpose is to investigate two countries; namely Benin and Ghana which have the same structural characteristics (e.g.: production, trade…) but have different framework for their macroeconomic management (e.g.: monetary policy, interest rate, exchange rate regime, fiscal policy….) and describe how the financial crisis has affected them differently due to their similarities in structural characteristics and differences in their macroeconomic management. Benin belongs to the West African Economic and Monetary Union (WAEMU). Other member countries are Burkina Faso, Ivory coast, Niger, Mali, Senegal, Togo, and Guinee Bissau. The WAEMU member countries have common monetary and exchange policies. The common currency is administered by the Central Bank of West African States (CBWAS). The franc AFC (African Financial Community) known as CFA is the WAEMU currency unit. There is no monetary policy implemented at the national level as the CBWAS is responsible for issuing AFC francs insuring the stability. On the other hand, however, Ghana has an inflationary target anchored and it is possible for him to set some monetary policies to be resilient to internal and external shocks. We are interested first in providing transmission channels of external shocks and their importance on economic fluctuations of these two countries. Second, we are also interested in describing the impact and importance of the recent financial crisis (2007-2009) on sub-Saharan African countries and the importance of government policy and the role of institutions to deal with external shocks.

A global financial crisis is a difficult business environment to succeed in the since that potential consumers tend to reduce their purchase of goods and services until the economic situation improves.

The global financial crisis which started in the summer of 2007, started in USA which affected financial economy and after the real economy of the US. It also has spread to the rest of the world in Europe and African countries. This has changed the global economc environment (Allen, 2009).

At the beginning there has been the credit boom in the US banking system which stimulated the asset price bubble. It has been due to the policy of the Federal Reserve which started in 2003 to reduce interest to 1% percent after the collapse of technology stock bubble but an increase in house prices was greater than the percentage decrease in interest rates.

The dramatic increase in house price reached its pick in 2006 where the prices of houses in the US and other countries in Europe like Spain, UK, Ireland and others started to fall.

In 2009, after this scenario the economic activities declined dramatically due to the steep decrease in investments and as a consequence unemployment increased sharply. This has been due to the fact that most of potential investors were unwilling to invest because they could not know what the price would be the couple of days later and this aggravated the situation. Consumers were unable to make a decision to buy and all those created the atmosphere of uncertainty within the economy around the world. This has reduced the consumption of durable consumer goods like equipment, cars among others which constitute the significant portion of trade in the global economy and this has influenced the collapse in the global imports and exports. This is what is chilling the global economy. Many of authors argue that 2008-2009 global financial crisis has been more severe since the Great depression of 1929. The volatility in commodity prices and the collapse in world trade are two aspects of the crisis that are likely to be particularly problematical for African countries (Reinhart and Rogoff, 2009).

It is reasonable to think that, the impact of external shocks depends on specific country characteristics: the level of trade openness, indebtedness, and the quality of institutions. Trade openness can make a country more vulnerable to fluctuations in the international demand or prices of its main products. On the other hand, the macroeconomic management such as Good governance, vibrant institutions among others, make the country's capability to cope with external shocks.

First, the exposure of countries to the crisis means that those countries are vulnerable economically when they are particularly sensitive to external shocks. To evaluate the exposure to shocks of a country we consider the following structure characteristics indicators of countries; Trade openness which is the extent to which the country depends on export and import, Concentration of export, External indebtedness and others. Fragile countries suffer from the steep fall in international trade. However, they also suffer from deteriorating terms of trade and shrinking remittances because of higher unemployment in developed countries and emerging sub-Saharan African countries, declining FDI and possibly a reduction in aid flows, at least in the short to medium run. To understand how they can cope with the recession or other negative shocks, we propose an overall resilience index. Macroeconomic resilience is a country's ability to deal with economic shocks. In other words, resilience means the capacity to cope with the crisis or other internal or external shocks using macroeconomic management such as the ability to use a sound monetary and fiscal policy.

By fiscal policy we mean a government's ability to spend safely, for a specific purpose without compromising fiscal sustainability and macroeconomic stability.

Monetary policy is the manipulation of money supply by the monetary authority in order to influence a given policy without creating extra ordinary problems of inflation, surges in real interest rates, or disequilibrium in international payments.

We build an index of resilience of each sub-Saharan African country by examining four separate dimensions; Macroeconomic management, which is reflected in balance of payments and fiscal balances and levels of currency reserves, Good governance, Market efficiency measured by the doing businesses, Social cohesion measured by using the ethnolinguistic fractionalisation index and the political stability index. If we consider the vulnerability and low resilience jointly, we see that many fragile countries have high vulnerability and have low resilience; these are the countries most exposed to the effect of the crisis (Allen and Giovannetti,2011). The importance of institutions for output volatility has been a source of debate. Countries with vibrant institutions are capable of coping with exogenous shocks than countries with bad institutions. This is because with well operating institutions the country can set policies to cope with any exogenous shocks but with no vibrant institutions, the country is easily affected by those shocks and therefore it cannot put the country to the path of sustainable development because it is unable to deal with uncertainty associated with these shocks (Rodrick,1999), (Acemoglu et al.,2002), and (Raddatz, 2009). Benin and Ghana, have the similar economic structure since they all produce and export commodities and have the similar vulnerability due to the concentration of their export to few commodities and to the same market. The economies of those countries are both not diversified.

Concerning their macroeconomic management, the two countries have totally different monetary policy as an instrument used to cope with some shocks especially financial crisis. Ghana has an inflation target anchored and it is possible for him to set some monetary and fiscal policy to be resilient to internal and external shocks while Benin is a fixed parity with the Euro and cannot on itself set monetary policy to cope with financial crisis and other shocks. This is the reason why, using descriptive method we have found that both Benin and Ghana have been affected by the 2007-2009 global financial crisis differently. Basically, comparing their GDP growth (annual %), we found that the GDP of Benin has reduced more than that of Ghana and the recession has lasted for long time and it took long to bring the economy back to recovery.

On the other hand, however, GDP for Ghana also declined at lower level compared to Benin and it did not take long to revive from the recession. The remaining of the thesis is structured as follow: In chapter 2 we make the clarification of concepts and channels of transmission, chap 3 discusses the relevant literature about the global financial crisis and sub-Saharan Africa. Chap4 is the case study which discusses the impact of the global financial crisis on Benin and Ghana. Chap 5 finally concludes.

CHAP II: CLARIFICATION OF CONCEPTS AND CHANNELS OF TRANSMISSION

2.1. Macroeconomic policies

One of the policies used by countries to cope with financial crisis is monetary policy.

Monetary policy is the process by which the monetary authority of a country, like the central bank or currency board, controls the supply of money often targeting an inflation rate to ensure price stability and general trust in the currency. Or

It is the process by which monetary authority of a country, generally a central bank controls the supply of money in the economy by its control over interest rates in order to maintain price stability and achieve high economic growth. Monetary policy may be contractionary monetary policy or expansionary monetary policy depending upon the objective to achieve.

- ✓ Contractionary monetary policy is a form of economic policy used to fight inflation which involves decreasing money supply in order to increase the cost of borrowing which in turn decreases GDP and dampens inflation.
- ✓ Expansionary monetary policy is a policy by monetary authority to expand money supply and boost economic activity, mainly by keeping interest rates low to encourage borrowing by companies, individuals, and banks (Allen, 2009).

To achieve its objectives, such as to cope with some negative shocks i.e., financial crisis, the central bank as a financial institution uses some instrument or channels such as; interest rate channel, exchange rate channel, credit rate channel, asset price channel, and bank lending channel.

For **interest rate**, when the interest rate increases there is a reduction in loans provided by the banks because by increasing the interest rate the cost of borrowing increases and individuals are not willing to borrow thereby decreasing money supply.

But when the interest rate decreases it becomes less costly to borrow for individuals and can afford to borrow. This leads to increase in money supply.

Exchange rate channel (Other asset price channel); For this channel, with the internationalisation of economies of the world, apart from monetary policy it is also possible to use exchange rate to influence different economic activities and stimulate economic growth. As it is known demand for a currency is a derived demand. It arises when people demand for that currency to import goods, pay fees abroad and pay foreign debts.

When the exchange rate increases it means that export becomes cheaper and import becomes expensive. This increases export in an economy and reduces import thereby increasing economic activities to produce for export and this stimulate economic growth. But when the exchange rate decreases, there is appreciation of the currency which makes export more expensive and import cheaper. This will increase import and reduce export. It is wise to note that this could succeed if demand for export and import is elastic (S. Mishkin, 1996).

For **Bank lending channel (Credit channel);** As it is known banks play a special role in financial systems and try to address the problem of asymmetric information. With expansionary monetary policy bank reserves increase which increase the liquidity available for banks to give loans. By doing so investors can get loan easily and cheaply thereby stimulating investment and economic activities. Let also note that due to the fact that small scale firms can in many cases not afford to get loans directly from financial market because it is expensive for them, it very important to use this channel in order to stimulate infant industries to develop and increase their output. In order to be successful, the monetary authorities must have an accurate assessment of the timing and effect of their policies on the economy, thus requiring an understanding of the mechanisms through which monetary policy affects the economy (S. Mishkin, 1996).

Another policy used by countries to cope with the global financial crisis is fiscal policy.

Fiscal policy is the means by which a government adjusts its spending levels and tax rates to monitor and influence a nation's economy. It is the sister strategy to monetary policy through which a central bank influences a nation's money supply (Kimberly, 2017).

There are two main types of fiscal policy; Expansionary and contractionary fiscal policies.

- ✓ Expansionary fiscal policy, designed to stimulate the economy, is most often used during a recession, times of high unemployment or other low periods of the business cycle. It entails the government spending more money, lowering taxes or both.
- ✓ Contractionary fiscal policy is a form of fiscal policy that involves increasing taxes, decreasing government expenditures or both in order to fight inflation pressure.

- ✓ Due to an increase in taxes, households have less disposable income to spend. Lower disposable income decreases consumption.

The two main instruments of fiscal policy are government taxation and expenditure. Both monetary and fiscal policy may be used to influence the performance of the economy in the short- run (Kimberly, 2017).

2.2. Transmission channels

There are two main channels through which the financial crisis has been transmitted to sub-Saharan Africa, namely direct or financial channel and indirect or the real channel. Due to the fact that sub- Saharan Africa is less integrated in the world financial market, many literatures suggest that as far as sub- Saharan Africa is concerned only indirect channel have prevailed and it is through them the 2008-2009 global financial crisis has been transmitted to sub- Saharan Africa. These include effect through trade (both reduction in export earnings and terms of trade effects), remittances, foreign direct investment and foreign aid (Allen, 2011).

Considering direct effects, i.e., **the financial channels,** due to the fact that sub- Saharan African countries are much less integrated in the world financial market, this feature somehow protected them from the effects of the global financial crisis through this channel. The external financing for Africa for example; bonds issues, stock and private borrowing is low, representing only 4% in 2007 of overall issue for emerging economies (Kasekende et al.,2009, p.1). Due to the fact that the financial channel involves selling and buying securities to the capital market or the effect through the stock market (stock market capitalisation of Africa is only 2.09% of world capitalisation) and the banking sector, the countries involved in this international financial system were affected depending on the extent to which they were involved and suffered the direct effect of the global financial crisis. Let note that the effect of the global financial crisis through financial channels to those emerging sub- Saharan African countries namely; south Africa, Kenya, Ghana and Nigeria, has also affected other countries who were not involved in the game through spill overs effects. Ghana has cancelled a plan for $300 million debt. Kenya has delayed a planned debut $500 million Eurobond; Tanzania has postponed plans to issue a debut Eurobond totalling at least $500 million until market conditions improve. Uganda will not issue a debut Eurobond to fund infrastructure projects. (Macias and Massa, 2009, p.5).

One of financial transmission which is relevant in SSA is the increase in the cost of external debt. This started to rise in July 2007, even though the spreads remained moderate until the beginning of the financial crisis.

In most countries, the impact of the financial crisis manifested itself through currency fluctuations, especially against the US dollar or the Euro. The depreciation of some currencies is attributable to the impact of the financial crisis on commodity prices and the decline in foreign exchange reserves (IMF 2008).

Trade development has affected sub- Saharan African countries in different ways, depending on its dependence on export and import, internationalisation of its firms, the degree of concentration on export of a given product, dependence on forms of financing, its export partners and others. International trade depends heavily on trade credit being extended; 90% of trade is traditionally financed by short term credit. With the credit crunch starting to bite, trade finance has also been reduced, concurring with an estimated fall in the world trade, as banks have limited their risk exposure. As a consequence, there is a dual pressure on fragile countries: few earnings, no credits. The transmission of the crisis through **terms of trade** depends on the degree of the concentration of export. Many sub-Saharan African countries produce and concentrate their production on few commodities which are exported at their primary level of production. This feature characteristic is risky because the volatility of the prices of these commodities on international market affect directly their economies and this squeezes their economic growth. Key consequences of the decrease in raw material prices for resource rich countries are: declining reserves, non- profitability of some oil fields that have high extraction cost, reduction in government funding capacity, and the cancellation or postponement of a number of investments in extractive industries which are highly dependent on foreign direct investment.

Concerning **Foreign Direct Investment(FDI),** the global financial crisis has reduced credit because banks had become more risk averse and credits were tightened. This has reduced foreign direct investment in sub-Saharan Africa in different activities like mining, the profit from many investments has reduced. This is the reason why some investments have been delayed and even cancelled. Furthermore, macroeconomic instability, exchange rate volatility, interest rate volatility and other macroeconomic indicators instabilities all of which caused by the effects of the global financial crisis have been deterrent to Foreign Direct Investment. Allen, (2009).

CHAPIII: LITTERATURE REVIEW

As we have seen so far, 2008-2009 world financial crisis has had (and may still have) an impact on sub-Saharan African countries economy through different channels namely; Trade, capital flow, remittances, foreign aids among others. This chapter discusses the relevant literature about the global financial crisis and sub-Saharan Africa.

According to **Mareike and Kennan, (2009)** the global financial crisis effects through trade are channelled by the price and volume effects. The countries whose economies are dependent on export and import at the same time their production are concentrated on few commodities were more affected by the crisis. Furthermore, the countries whose open economies were more affected because of their reliance on import and export and are more vulnerable to the effects of financial crisis through trade transmission mechanism. This is the case in most Sub-Saharan African countries on the eve of the global financial crisis. For example, Botswana, Mozambique, Namibia and Zambia, more than 80% of their exports are derived from mining and related activities, notably diamonds, aluminium and copper. The decrease in demand of exports from sub-Saharan African countries decrease investment which in turn lead to decline in economic activities in these countries and all of these decrease employment opportunities and income of households. Concerning manufactured goods produced in developing countries, they have been affected by the price fluctuations because manufacturing industries import raw materials and other input for their production. The increase in the price of raw materials increase their cost of production.

For commodity exporters, the way to prevent themselves from the effects of the crisis is to reduce the production of those commodities whose prices had reduced and shift to the production of other goods whose prices did not fluctuate more in order to reduce the effects shocks. However, this pro-cyclical behaviour requires the efficient allocation of resources to diversify production. For sub-Saharan African countries, it is difficult because they have low fiscal base which could allow them to pursue some fiscal stimulus strategies. National trade policy options to mitigate the effects of the crisis are limited. Many developing countries are incapable of applying interventionist policies such as stimuli programmes, supporting trade finance or subsidising companies, owing to high current account deficits, debts and double figure inflation rates. (Capital economics, 2009).

According to **Brambila et al, (2009)** the global financial crisis is likely to have had a negative impact on long run economic growth of Sub-Saharan Africa through the private capital flow channel. Sub-Saharan Africa has known an increasing capital inflow during the past decades owing to domestic and external factors, for example; political stability, economic growth, abundant global liquidity and other factors, which contributed to the attractiveness of foreign investors in search of high yields. Despite that however, the financial turmoil from developed countries in August 2007 has spread throughout developing countries even sub-Saharan African countries have been affected through the secondary effects of the financial crisis. As consequence of this, many sub-Saharan African countries have adopted the policy to delay some economic activities, some programs, investment, and even some of investment plans were left and not executed. For example, many bonds issuance plans were put on hold in countries such as Ghana who has cancelled plans for a \$300 million debt issues due to poor global market conditions, Kenya has delayed a planned debut \$500 million Eurobond, Tanzania has postponed plans to issue a debut Eurobond totalling at least \$500 million until market conditions improve, and Uganda would not issue a debut Eurobond to fund infrastructure projects. Portfolio equity flow slowed down and sometimes reversed due to fall in the stock markets in south- Africa, Nigeria, Kenya, Mauritius, and Ivory Coast.

Private equity and debt inflows into sub-Saharan African countries reached the high record of \$53 billion in 2007 (IMF, 2008a). This has been due to the fact that the period 2000-2007 was characterised by abundant global liquidity and an increasing number of investors in search for high yields who were attracted to Sub-Saharan Africa. Many factors played a role for sub-Saharan Africa to attract foreign investors namely; the strengthened economic performance, political stability, some countries embarked democratic transitions, the vast natural resources endowment, debt relief and others. Sub-Saharan African countries are exposed to the risk of slowdown and even the reversal of private capital inflows due to global financial crisis. The sub-Saharan Africa is not more integrated in the world financial system because it relies on domestic market resource mobilisation rather than foreign borrowings to finance operations. Despite that however sub-Saharan African countries are not immune to the effects of the global financial crisis to some extent because it is already feeling the secondary effects like the drying up of financial inflows and indirect effects of financial crisis like fall in demand for their exports.

Two main factors were responsible for a decrease in the portfolio investment to sub-Saharan Africa, namely; reduced capability to invest, a reduced propensity to invest, credit conditions become tighter making it more difficult and expensive to invest in foreign operations, the gloomy growth prospects worldwide and the increased risk aversion reduced investors' appetite for risk. Their estimates suggested that a drop by 10% in Foreign Direct Investment may lead to 0.5% decrease of Sub-Saharan Africa's income per capita, whereas a 10% decrease in cross-border bank lending may have a detrimental effect on growth by up to 0.7%.

Therefore, in the context of the current financial crisis, a drop of Foreign Direct Investment and cross-border bank lending may represent an additional channel through which the crisis is likely to negatively affect Sub-Saharan African economic growth.

According to **Massimiliano, (2009)** Remittances have a positive direct impact to households who receive them because it is the source of income in their daily lives which contribute to poverty reduction in recipient households. During the 2008-2009 financial crisis, the results suggest that the crisis is likely to have some independent remittance- reducing effect not captured by the impact of the crisis on GDP. On the basis of this independent effect on the crisis (and on the estimated elasticity of outflows with respect to host country GDP), they estimate that remittances to developing countries could drop by between $25 and $67billion in 2009. Using their estimated remittance inflows-host countries, GDP elasticity, they find a more modest but still significant range of remittances, drop; between $23 and $35 billion in 2009. The sub Saharan Africa is likely to experience more moderate drops. Forecasts on GDP growth in 2010 suggest that remittances to developing countries may start to grow again in 2010, although at a lower slower rate than before the crisis.

As the number of households receiving remittances increases, the effect of its reduction becomes more significant. It means that remittances help households to reduce poverty through smoothing their consumption and other expenses. A drop in remittances would directly affect the lives of recipient households and increase poverty. Not only smoothing consumption, remittances have indirect effect to help recipient households to accumulate different factors of production such as human capital through sending their children to school and even physical capital which can be used in the production of goods and services. To know exactly the effects of remittances on recipient households, there should be a survey in order to capture its independent effect. Edouard and Ureta, (2003) find that in El Salvador, increase in remittances was associated to more than proportional increases in education levels.

In addition, its effect at the macro level should not be isolated because a drop in remittances inflow might have the effect beyond the household level.

It would be difficult to isolate such impacts at the country level without developing new household surveys, although some changes in growth rates and poverty levels may be evident for highly remittance dependent countries.

According to **Dirk Willem et al, (2009)** the 2008-2009 crisis has coincided with new responses by bilateral aids agencies in terms of their own programmes and the way they advocate changes in the international institutions. They have seen that different donors either multilateral or bilateral adapt their program and policies depending on some macroeconomic fluctuations. For this case it is global financial crisis. The Organisation for Economic Cooperation and Development has analysed expected future aid flows for 2008-2009/200-11 from bilateral and multilateral donors on the basis of data available to them in January 2009. A donor survey included a number of bilateral and multilateral responses to the crisis. Taking one example for each;

Analysing multilateral donors' behaviour vis-à-vis the 2008-2009 global financial crisis, their response has been rapid at the same time countercyclical in providing aids to developing countries suffering from the effect of financial crisis. The IMF now expect sub-Saharan African growth (44 countries) to go from around 1% in 2009 to around 4% in 2010. The IMF is a better position to provide rapid assistance than bilateral donors tied to budget cycles. To end July 2009, $3.1 in concessional assistance has been provided (Poverty Reduction Growth Facility / Exogenous Shocks Facility). This is almost three times the $1.2 billion total in 2008.

Bilateral donors have made policy statement related to the crisis and some offer specific examples of reprogrammed aid or increased spending from reserves. Taking the example of Denmark and Sweden;

- Denmark was committed to providing 0.82% of GNI in ODA in 2009. Denmark has a made an assessment the vulnerability of different countries provided them with loans accordingly basing on their vulnerability to the effects of the global financial crisis. There would be no increase in aids in addition to the 0.8% of GNI.

- The Sweden usually give a high share of his GDP in ODA. However, it is willing to adjust its share in line with the effects of the global financial crisis. Sweden will be facing cuts in the level of ODA in 2010. An update was provided in September 2009.

Sweden has responded to the crisis in three ways; one is identifying partner countries that are most vulnerable to the crisis, second is developing a number of guidelines to respond to the crisis, and third is suggesting concrete measures to respond to the crisis.

According to **Dirk Willem et al, (2009)** different countries have been affected differently by the global financial crisis because of the fact that they are having different structural characteristics and different macroeconomic management to cope with the effects of the global financial crisis. Having done an assessment in 10 sub-Saharan African countries they found that given that these countries have different levels of openness, aid and remittance dependency, financial integration, economic and trade structures, and institutions, it is likely that they will be affected differently. The programme developments that have taken place in response to the crisis are primarily, though not exclusively, marginal increases to already limited programmes. Countries are struggling to maintain existing social protection commitments.

However, there is a limited policy response to the crisis which is particularly apparent in the sub-Saharan Africa case studies and is a result of combination of limited resources availability and a lack of prioritisation of social protection expenditure in the context of a constrained fiscal position. Let's take the example of Benin and Ghana vis à vis import and exchange rate development among other financial transmission channels.

- Benin is part of the West African Monetary Union (WAMU). The CFA Franc is fixed to the Euro. This severely limits the ability of the country to use its exchange rate in response to the crisis. Volatile exchange rate development between the Euro and the US dollar recently have affected the competitiveness of cotton exports and prices received by exporters.
- Ghana has suffered heavily from high fuel/food prices, which worsened its trade deficit between 2003 and 2007 by 47%. The Ghanaian cedi has lost substantial value vis à vis the euro and the US dollar since 2008, which reduces the country's potential benefits from lower fuel and food prices.

According to **MWENGA (2009),** assessing the effects of the global financial crisis in Kenya, he finds that the financial crisis has had direct and indirect effects on Kenya economy.

For direct effects, he said that Kenya is not integrated in the global financial market and its banks who have some shares in foreign banks are relatively small and are not in US whose financial market has been affected by the global financial crisis.

Because of this it was believed that Kenya would isolated from being affected by direct effect of the financial crisis. Despite that however, Kibaara, (2008) found that portfolio flows have adversely affected Kenyan capital market due to the fact that sales have exceeded buys in many counters as foreign portfolio investors diversify from the market.

For indirect effects about 75% of Kenya's tourists come from North America and Europe. He argued that if the tourists from US and Europe decreased by a half, there would be a decrease of $ 316 million which is a huge amount of loss in foreign exchange earnings in Kenya. The auction tea prices have substantially declined by 60% since September 2008.

According to **AMOUSSOUNGA (2009),** for the country to be affected by the global financial crisis through banking channel depends on the fact that there is a presence of the local banks in the foreign banks whose assets have depreciated. However, the exhibition to the risk in Benin is weak for two reasons; one is that the Beninese banks didn't engage their selves on risky financial products that are at the origin of the current crisis. Second, Beninese banks holdings with foreign financial institutions remain on the whole modest because of the regulation that imposes these holdings to cover only the current transactions specially the payment of import transactions.

Regarding private capital flow, Global financial crisis caused liquidity constraint, which in turn caused a decrease in capital flow which also causes decrease in the exterior investment since it accounts for almost half of the gross investment, this caused threat on the employment and consequently on the production and on the economic growth and then after social crisis.

This can be explained clearly in this scenario; where global financial crisis caused liquidity dry up which in turn reduced Foreign Direct Investment (FDI), and given that FDI is the main source of investment, its decrease led to fall in investment which in turn caused a decrease in Gross Domestic Product (GDP), then in its turn a decrease in GDP led to a decrease in employment and finally social crisis.

Concerning economic growth, several works show that the source of the growth in Benin are the primary sector and the tertiary sector. However, agriculture is touched by the fall in the cotton prices, the port activities are also touched because of the deceleration in the re-exporting activities. Therefore, in the short run it is expected a negative effect on the economic growth, everything that the economic policy should respond. The cotton sector and the re-exporting activities were supposed to be affected by this decreasing in prices.

These sectors generally employ and use the poor. The negative effect could be a decreasing in the poor income and a decreasing in taxes revenue.

According to **Olu Ajakaiye et al (2009)**, Nigerian economy capital market would be affected in such way that credit crunch became manifest in banks who had given out loans to some investors to invest in other financial instruments with the hope of making profit. Due to the withdrawal of funds and possibility of increase bad and doubtful debt of the bank, the net worth as well as the shareholders' values have been seriously eroded. The consequences of this, is the inability to finance the industry and real sectors. Concerning Oil sector, the changing international oil market poses grave concern for Nigeria's fiscal outlook.

The global financial crisis has led to slow growth across the world's economy, resulting in a lower demand for commodities especially oil. A reduction in the price of oil affects the foreign reserves which has dropped from \$ 64 billion in 2008 to \$ 56billion presently. The continuous fall implies less government spending for capital projects. The tentative result indicates closures and layoffs in an already weakened sectors particularly manufacturing and allied sectors in the economy. Lower growth translating into higher poverty. More crime, weaker health system, increase in HIV/ AIDS prevalence and even more difficulties meeting the Millennium Development Goals.

According to **Godfred et al, (2009)** said that the global financial crisis of 2008-2009 came up following the food and crude oil price shocks (2007-2008) which exacerbate economic hardship in Ghana. Ghana is considered more vulnerable than it has been in the recent past. The rapid increase in food price and crude oil price has increased the cost of production given that those commodities are imported as raw materials in production process. This has resulted in rising inflation (about 18.1% at the end of December 2008), and this has been a burden for the household because this has increased the cost of living to them.

The government's fiscal position has also deteriorated (the budget deficit stood at about 12% of GDP), both for cyclical reasons and because government spending has increased to alleviate the adverse impact of higher food and fuel prices. The country was two sided suffering; on one hand the global economy was experiencing the crisis which started in the summer of 2007. On the other side Ghana was experiencing food and crude oil price. The spike in global food and crude oil prices in 2007-2008 has raised the country's current account deficit to worrisome level.

Moreover, inflation is high and rising, and government's fiscal policy has deteriorated, both for cyclical reasons and government spending has increased to alleviate the adverse impact of higher commodity prices. Although the key monetary policy objective for 2008 was directed at reducing the end period inflation to 7.0% in 2008, and further down to 4-6% by the end 2009, the general level of prices has been on the ascendancy since the beginning of the year.

Inflation at the end of June 2008 stood at 17.8% (against 10.7% in June 2007), reaching 19.8% in January 2009and accelerating further to 20.34% in February 2009 the highest in more than four years.

Moreover, the international reserve target of at least three months' import cover set in the 2008 budget was missed, with reserve cover falling to 1.8 months of imports for goods and services. The ratio of gross public debt to GDP declined from 142.6% in 2001 to 41.4% in 2006 under the dual impact of the (Heavily Indebted Poor Countries) HIPC initiative and the (Multilateral Debt Relief Initiative) MDRI. Unfortunately, the ratio has since 2007 risen to 52.1% (as recorded in December 2008) as result of renewed borrowing on no concessional terms (GoG, 2009). Exchange rate volatility has also increased with realignments of the major currencies. These developments present new challenges for the new NDC government of President Atta Mills. The imminent macroeconomic pressures are evident from the depressing growth projections in the 2009 budget statement. The economy is projected to grow at 5.9% in 2009, down from the provisional estimate of 6.2% recorded in 2008 and the 6.3% registered in 2007. In fact, the IMF WEO for 2008 projects an even lower growth rate of 4.0%. There is a strong concern about the impact of the crisis on remittances, in a country like Ghana where remittances account for a large share of total household income and a very important source of foreign currency, there is concern that planned investments and social spending may be postponed or cancelled. Another channel is Foreign Direct Investment (FDI) where in Ghana FDI accounts for over fifth of total investment, there is concern that planned investments may be postponed or cancelled.

A particular concern is that slower growth and recession in rich countries like US will result in a slowdown of overseas aid. Ghana is heavily dependent on aid flows. A significant reduction in these flows would compound the shocks from other pathways forcing the country to contract sharply. (Aryeetey et al, 2009).

CHAPIV: CASE STUDY (GHANA Vs BENIN)

This thesis will assess the impact of the 2008-2009 financial crisis on sub Saharan African countries. The case study will focus on two countries (Ghana and Benin) who the same structural characteristics (e.g.; Openness, commodities...) but with different macroeconomic management (e.g.; monetary policy).

4.1. GHANA

4.1.a. Economic structure of Ghana

Ghana is a west African country bordering on the Gulf of Guinea. It is bounded by Ivory Coast to the West, Burkina Faso to the North, Togo to the East, and the Atlantic Ocean to the South.

Its total land area is 238540sq km and its population is estimated to 26908262 inhabitants. Its agriculture products are Cocoa, Rice, Cassava, Peanuts, Corn, sheanuts, Bananas, Timber. Industries; Mining, Lumbering, Light manufacturing, Aluminium smelting, Food processing, Cement, Small Commercial building, Petroleum.

Export Commodities are; oil, Cocoa, Timber, Tuna, Bauxite, Aluminium, Manganese or, Horticulture products. Exports are; India (25.2%), Switzerland (12.2%), China (10.6%), and France (5.7%).

Import commodities are; Capital equipment, Refined Petroleum, Food stuffs. Import partners are; China (36.6%), Nigeria (14%), Netherlands (5.5%), USA (5.4%). Its GDP (Real growth rate) was 4% (2014), 3.9% (2015), and 3.3% (2016). GDP per capita was $ 54300 (2014), $ 4300 (2015), and $4400 (2016). Ghana is Africa's second-biggest gold producer and second-largest cocoa producer. It is also rich in diamonds and oil. Most of its foreign debt was cancelled in 2005 under the Heavily Indebted Poor Countries (HIPC) program, but government spending later ballooned. Coupled with plunging oil prices, this led to an economic crisis that forced the government to negotiate a $920 million extended credit facility from the. IMF (2015)

Ghana is locked in a dispute with Ivory Coast over ownership of maritime oil fields, and a final ruling from an international court is expected in 2017. Ghana's main exports are gold, cocoa beans and timber products.

Others include tuna, aluminium, manganese ore, diamonds and horticulture. It's main exports partners are Netherlands, Burkina Faso, South Africa and United Kingdom.

Ghana has made effort to increase productivity of its economy, all of this in order to increase export production. This policy of Ghana to increase export has had great consequences despite the fact that there has been drought in 1983 which was devastating.

The initiation of Enterprise Resource Planning (ERP) has had as a consequence for Ghana to register a steady economic growth due to the increase in production of export sector of cocoa, minerals and even timber processing at some extent.

By ERP we mean the business process management, software that allows an organisation to use a system of integrated applications to manage the business and automate many back office functions related to technology, services and human resources. It is a software that is used for the purpose of business management and integrating various applications.

However, the cost of this booming export is external debts which financed the rehabilitation of different export sectors and used to curb inflation which was affecting consumers.

The government has tried with limited success to avoid some of the country's historical pitfalls by broadening the range of both exports and trading partners. Nevertheless, prices for the goods that most Ghanaians purchase have been rising faster than the wages they receive for their work. Agriculture is Ghana's most important economic sector, employing more than half the population on a formal and informal basis and accounting for almost half of GDP and export earnings. The country produces a variety of crops in various climatic zones which range from dry savannah to wet forest and which run in east west bands across the country. Agricultural crops, including yams, grains, cocoa, oil palms, kola nuts, and timber, form the base of Ghana's economy (Ghana-The World Fact Book-CIA, 2017).

4.1.b. Monetary policy framework of Ghana

The Bank of Ghana's monetary policy is to ensure price stability, low inflation and in order to support government many government objectives including to boost economic growth and creation of economic activities generating income and employment. Price stability is defined by the government inflation target which is revised annually and spelt out clearly in the budget statement for each fiscal year.

The objective recognizes the role of price stability in achieving economic stability more generally, and in providing the right conditions for sustainable growth in output and employment. The Bank of Ghana Act 612 (2002) made the Bank independent to set interest rates. The Bank is accountable to Parliament and the wider public.

4.1.c. Medium-Term Inflation Target

The medium-term inflation target (currently 8±2 percent) is set jointly by the fiscal and monetary authorities, and is expressed in terms of an annual rate of CPI (Consumer Price Index) inflation.

Although the Bank is not bound by law to explain developments to the Ministry of Finance or to Parliament if the target is not achieved, the Governor of the Bank of Ghana may be summoned to the Finance Committee of Parliament to explain developments within the economy. The target of (currently 8±2 percent) does not necessary mean that the inflation fluctuates in this bound. This is because most of the time the economy is subject to some unforeseen fluctuations which could influence inflation to go above beyond the defined target. The role of Monetary Policy Committee (MPC) is to steer interest rate so that inflation is brought back to the defined boundaries without causing unnecessary macroeconomic instability. Monetary policy framework (2015); Bank of Ghana (2015)

4.1.d. Monetary Policy Committee (MPC)

The Bank seeks to achieve the government's inflation target by setting a monetary policy interest rate which is decided by the MPC. The MPC consists of seven members – five from the Bank of Ghana and two external members appointed by the Minister of Finance. The meetings are chaired by the Governor of the Bank of Ghana. The MPC meets bi-monthly for a two-day meeting, usually beginning on Monday and ending on Tuesday, followed by a Press conference on Wednesday. The meeting dates for each year are determined well in advance at the beginning of each year.

Decisions are made by a vote of the Committee on a one-person one-vote basis, with each member stating clearly and with reasons why a particular rate decision was preferred or otherwise. The final decision is reached by consensus.

4.1.e. Communication

Although the Minutes of the MPC meetings are not published, a wide range of economic reports are made available at the Bank of Ghana website within two weeks after the announcement of the interest rate decision.

These economic reports provide a detailed analysis of economic conditions at the time of the meeting. The report covers the following areas: World Economic Outlook and External Sector Report, Monetary and Financial Developments, Financial Stability Report, Real Sector Developments, and an Inflation Outlook and Analysis Report.

The transcript of the Press briefing is also published on the Bank's website, within a week after the MPC meeting Monetary policy framework (2015); Bank of Ghana (2015).

From the previous literature, one can say that the central Bank of Ghana is independent from the Bank of Ghana Act 612 (2002) which made it independent to set interest rates. However, it is in close collaboration with the Government of Ghana because the price stability is defined by the Government's inflation target. The Bank of Ghana is transparent since it is accountable to parliament and the wider public. Once the inflation stays above the target monetary policy committee aims to steer interest rates so that inflation can be brought back to the target.

4.2. BENIN

4.2.a. Economic structure of Benin

Benin is a small country located on the West African cost, bordering Nigeria in the east and Niger in the north, Togo in the west and Burkina Faso in the north west with a total surface area of 112, 622 sq. km. It has a total population estimated at 9.2 million in 2012, composed of over 50 percent women, and 17.4 percent children under 5 years old.

Benin is predominantly a rural society- more than 70% of the population depends on agriculture which contributes around 35% of the Country's GDP. In 2008 the government of Benin was willing to set policies devoted to strengthening agriculture like staple crop value chain. In general, the aim of the government is to increase the production of corn and rice in order to promote food security and to become self-sufficient and fight against food shortage. Coarse grains (corn, sorghum, millet) and rice are cultivated and grown independently by households who produce 90% of the whole production while using a tiny proportion of the arable land. They use only 7% to 10% of the total land. The main aim of the government of Benin is to diversify the agriculture production which might permit Benin to increase export and cope with the effects of external shocks caused by price fluctuations of agriculture products and in order to become a major exporter of agricultural products by 2025 by increasing sustainable growth over the medium term. President Boni Yayi has also the aim of increasing agriculture productivity, diversification of production in order to reduce poverty given that the higher portion of the population is employed in agriculture activities. As we have seen, Benin main agriculture export products is Cotton (40% of total export) which is followed by cocoa, maize and seafood.

As it can be seen, this sector and Benin's economy as a whole is not diversified which means that it is still vulnerable to price fluctuations and other external shocks.

Benin's main export partners are Nigeria (21 percent) and China (20 percent). Others include: India, Chad, Ghana, Thailand, Togo and Indonesia.

Although Benin's macroeconomic climate showed clear improvement up to the beginning of this decade, Benin's economy remains fragile and vulnerable to external shocks.

This vulnerability is due to the economy's strong dependence on the cotton sector and trade with Nigeria. The real economic growth rate has continued to decline since 2001, reaching 3.4per cent in 2004 compared with 3.9 per cent in 2003. The sector has failed to achieve the transition from extensive margin growth to intensive marginal growth due to the fact that in 1999 the total land destined to this production has multiplied by 10.

There is also lack of structural transformation in agriculture sector which is due to the government failure to set a model for agriculture transformation.

In the 1990s, the sector reform module has been set in Beninese model and this has been implemented through privatisation of the sector. The state is heavily indebted in the cotton production sector which is jeopardizing the processor's financial viability and that of the banks financing cotton campaigns.

Producers suffer from payment delays, forcing them to borrow and aggravating poverty. New delays and the disorganization characterizing the early phases of 2013-14 harvest risk jeopardizing the crop's quality, leading to discounted prices on international market. (Diagnostic trade integration study, final report no 97242-BJ, 2015).

4.2.b. Monetary policy framework of Benin

The countries belonging to the West African Economic and Monetary Union (WAEMU), including Benin, have common monetary and exchange policies. Member countries of West Africa Economic and Monetary Union are; Benin, Burkina Faso, Ivory Coast, Niger, Mali, Senegal, Togo, and Guinea-Bissau. The WAEMU compliments the West African Monetary Union (WAEMU) by an economic integration components and its provisions, including common currency administered by the Central Bank of West African States (CBWAS), a specialised and autonomous institution of the WAEMU. Benin, like the other member countries of the WAEMU, accepted Article 7 of the IMF, s articles of agreements on 1 June 1996. The franc of the African Financial Community (AFC) is the WAEMU's currency unit.

Until 1 January 1999, when the Euro became the currency of countries belonging to the European Monetary Union, the AFC franc had fixed parity with the French franc. The AFC franc now has fixed parity with the Euro: AFCF 1000= 1.52449017 Euro.

The introduction of the Euro did not lead to any substantive changes as far as the arrangements in the franc zone are concerned. There is no monetary policy implemented at the national level as the CBWAS is responsible for issuing AFC francs and insuring stability.

Its responsibilities are set out in its articles of incorporation as follows; to implement the monetary policy guidelines defined by the WAEMU Council of Ministers; to transact exchange operations; to hold and administer member countries, exchange reserves; and to promote the proper functioning of the monetary union's system of payments. The CBWAS has the responsibility to issue money and manipulate money supply in order to influence different economic activities in the WAEMU and maintain the stability of prices and the general economic environment of member countries. There is no monetary policy set at a country level instead the WAEMU is responsible for supporting the monetary policy of each member country in the union by fixing objectives for the money supply and credit on an annual basis. These take into account the general financing needs of each member country's economy and the resources needed to meet them, as determined by each national credit committee. There are ceilings for advances to national treasuries, which are subject to an interest rate fixed by the CBWAS, with a penalty if their ceiling is exceeded by the monetary authorities. The long- term objective is gradually to guide states towards financial markets by issuing public securities. Maintaining common monetary policy calls for financial discipline on the part of each country belonging to the union, which retains its own decentralised economic policy. The WAEMU has established a convergence, stability, growth and stability pact, subject to multilateral monitoring since 2000. For the report written by the IMF (2003) and the WAEMU commission, Benin meets the eight convergence criteria, with an inflation rate below the threshold of 3 percent; a debt/GDP ratio below the limit of 70 percent, and at least 20 percent of government investment financed from domestic sources.

Foreign exchange transactions between the BCEAO and Benin's commercial banks are at a fixed rate, as are exchange operations by economic operators. In addition, the buying and selling rates for other currencies are determined on the basis of the rate for the euro on the foreign exchange market.

In Benin exchange transactions must be conducted through intermediaries authorised by the ministry of finance. Banks and post offices levy a commission of 0.25 per cent for transfer outside the WAEMU and this is transferred to the ministry of Finance.

Import exceeding AFCF 500000 (US$830) must be domiciled with an approved bank.

Payments and transfers of capital within the WAEMU are free. The main provisions of the common regulations governing foreign exchange with third countries are the following;

Sums needed to cover current transactions may be freely transferred subject to submission of supporting documentation,

The obligation to require earning from export to countries outside the WAEMU and their conversation into CFA francs within 120 days following the shipment of the goods,

Capital may enter freely from any country, and

Outflow of capital to countries outside the WAEMU is subject to verification based on the submission of supporting documentation.

Benin allows foreign investors to repatriate capital invested and the profits from their operations, as well as savings on salaries by expatriate staff. (IMF,2003b), Government of Benin (2002).

Benin cannot set its own monetary policy since it is the Central Bank of West African States who defines monetary policy and ensure price and economic stability of member countries. Another thing is that Central Bank of West African States must keep enough reserves in order to maintain the fixed exchange rate parity with the Euro.

Benin and Ghana, from previous literature have the similar economic structure since they all produce and export commodities and have the similar vulnerability due to the concentration of their export to few commodities and to the same market. The economies of those countries are both not diversified.

Concerning their macroeconomic management, the two countries have totally different monetary policy as an instrument used to cope with some shocks especially financial crisis. Ghana has an inflation target anchored and it is possible for him to set some monetary and fiscal policy to be resilient to internal and external shocks while Benin is a fixed parity with the Euro and cannot on itself set monetary policy to cope with financial crisis and other shocks.

4.3. Transmission channels of the financial crisis in Benin and Ghana

4.3.1. Transmission channels in Ghana.

a) Trade (export and import); Considering a decline in export due a decrease in demand in foreign countries, it will cause a decrease in foreign exchange earnings for the country like Ghana which depends mostly on export. In addition, this will decrease fiscal revenues from export and import and affect negatively the government budget. Another thing here is that the balance of payment of the country will deteriorate as a consequence.

b) Remittances; As we said before remittances is a source of income for recipient households. A decrease in remittances due to financial crisis is like a decrease in another source of income for households who are recipients. The cancellation or a reduction of remittance inflow could accelerate poverty among the poor people. Some households use remittances for investment which may be human capital investment or physical capital investment. A decrease in remittances also can cause the cancellation or postponement of some investment which has negative effects in the long-run.

c) F D I (Foreign Direct Investment); Economic growth of many African countries including Ghana is boosted by capital inflows. A decrease in FDI has an adverse impact on capital inflow because of liquidity dray up caused by the financial crisis and lead to the cancellation as well as the postponement of some investments. This has a direct effect on employment for those who were employed in such projects and limit job opportunities thereby amplifying poverty.

d) Aid; Most developing countries' development and economic growth are highly dependent on foreign aid. Financial crisis in developed countries is most of the time translated into decrease in budget devoted to aid for developing world. As a consequence, this reduces expenditure devoted to poverty reduction and the poor people revolve in vicious cycle of poverty. Another thing is that a decrease in aids amplifies the effects of other shocks and the situation becomes worse.

e) Other channels are like the fact that banks are no longer willing to give loans to those who are in need of them, in financial market lenders become more risk averse all of which negatively affect investment and economic growth of the country (Aryeetey, 2009).

4.3.2. Transmission channels in Benin

a) Capital flow; Given the fact that many developing countries depend mostly on foreign direct investment, a decrease in this flow has an adverse impact on investment which of course leads to fall in employment.

b) When individuals' employment decreases or stops the poverty increases and as consequence there is social crisis and persistence of poverty.

c) Aid; A decrease in bilateral aid due the financial crisis is responsible for a decrease in investment in a developing country like Benin whose budget deficit is financed by aid inflow.

   As a result, the government reduces expenditure devoted to poverty reduction and finally the poverty persists. In addition, a reduction in aid flow has at the same time an adverse impact on investment which accelerate unemployment and reduction in tax revenues.

d) Trade; Due to a decrease in demand in developed countries caused by the financial crisis, between the end of July and December 2008 the value of cotton (New York) dropped by 37,4% which is one of the causes of the deficit trade balance of Benin. Another thing is that the global financial crisis has negatively affected re-exporting activities which is the activity of importing different goods through the port of cotonou and export them to Nigeria. Due to the fact that Nigeria has suffered from a decrease in oil price on international market caused by the effect of the financial crisis, this has weakened re-exporting activities. As this is a source of income for many households in Benin engaged in this activity, it negatively affected their income and their lives.

e) Remittances; Benin is the country who has many immigrants in developed countries who transfer money to Benin. Most of those immigrants are said to be employed in non-qualified jobs.

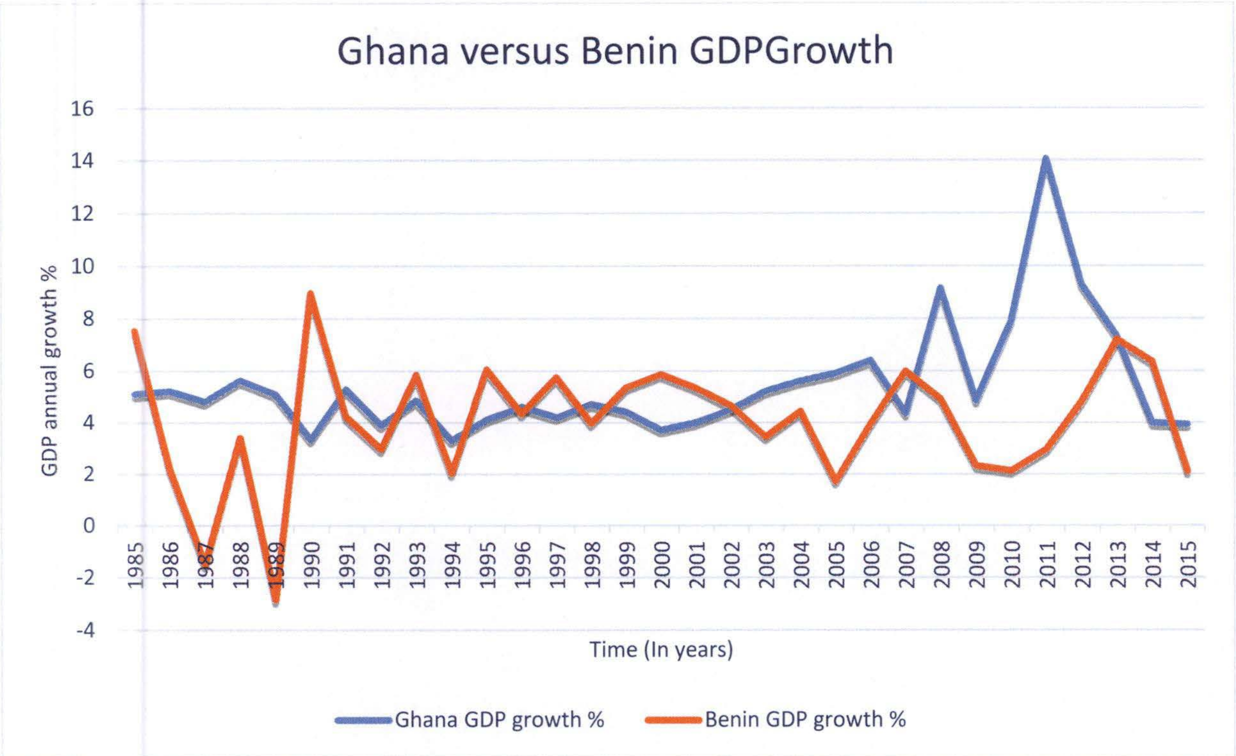
During the recession caused by the recent financial crisis, many of them have lost their jobs and directly impact inflows of remittances in Benin. This has an adverse impact on investment of Benin and reduction in income of recipient households.

f) Impact on economic growth; The 2007-2009 global financial crisis has had a negative impact on economic growth of Benin. This can be explained by the fact that the economic growth of Benin is much more dependent on the primary sector. Given that the cotton price has reduced on the international market, it has a direct negative effect on economic growth of Benin in general. Another thing is that the port activities which employs many individuals has reduced which also decreased tax revenues for the government which translated into budget deficit. This in turn affect negatively public expenditure investment and decrease expenditure devoted to poverty reduction.

g) Effect on poverty; Due to the effect of global financial crisis, many activities which employ poor people have reduced or even stopped. An example is the reduction in the price of cotton, which has had a direct negative effect on incomes of the poor and even deepen their poverty. Again, as we have said port activities have reduced while they are said to employ a high portion of poor people. The reduction of this activity has negatively affected income of poor individuals. All of these triggered a decrease in tax revenues of the government and reduce expenditure on public investment. Amoussounga (2009).

4.4. Comparison of the crisis effects between Benin and Ghana

Figure 1: GDP growth (annual %)



Source: World bank data (World Development Indicators)

As it can be seen from the graph, economic growth of Benin and Ghana are similar and their trends of growth are close overtime. During the global financial crisis of 2008-2009, both of the countries have known a decline in their GDP. However, Benin has known great decline in his GDP compared to the decrease in GDP for Ghana. It can be noted that for Benin this shock of decrease in GDP has persisted and the recovery from the recession has lasted for a long time. Unlikely to Ghana, the decrease in GDP is lower than that for Ghana, and the recovery has been quick and with no lag.

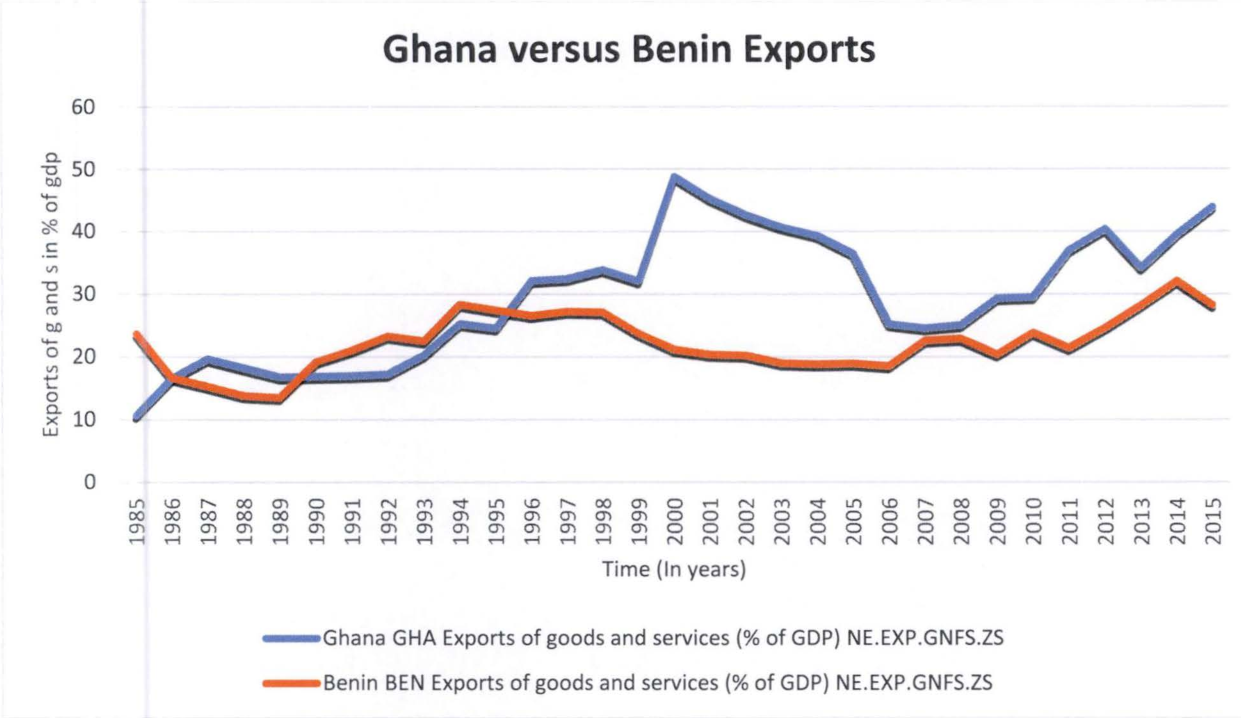
It is wise to note that this difference in the decrease in GDP is due to the fact that Benin and Ghana have different macroeconomic management policies, namely monetary policy which is the main tool used by the country to cope with external or internal shocks, which is in this case the global financial crisis.

On one hand Benin belongs to the West African Economic and Monetary Union (WAEMU) and have common monetary and exchange policies. This implies that there is no monetary policy implemented at the national level as the CBWAS is responsible for issuing AFC francs and insuring stability.

This could be the cause of delay for Benin to implement urgent monetary and exchange rate policies to cope with the shocks of the global financial crisis and explains the persistence of the shock during some years.

On the other hand, however, Ghana is an inflation target anchor which means that it can use monetary policy to cope with the global financial crisis or other internal and external shocks. From the previous graph, Ghana's GDP has decreased during the financial crisis but it has got out from the recession with no lag. This could be due to the ability of Ghana to use monetary policy to cope with the effects of external and internal economic shocks. So the quick resilience of Ghana to the global financial crisis compared to Benin has been due to its ability to use monetary policy compared to Benin to cope with the shock.

Figure 2: Export of goods and services (% of GDP)



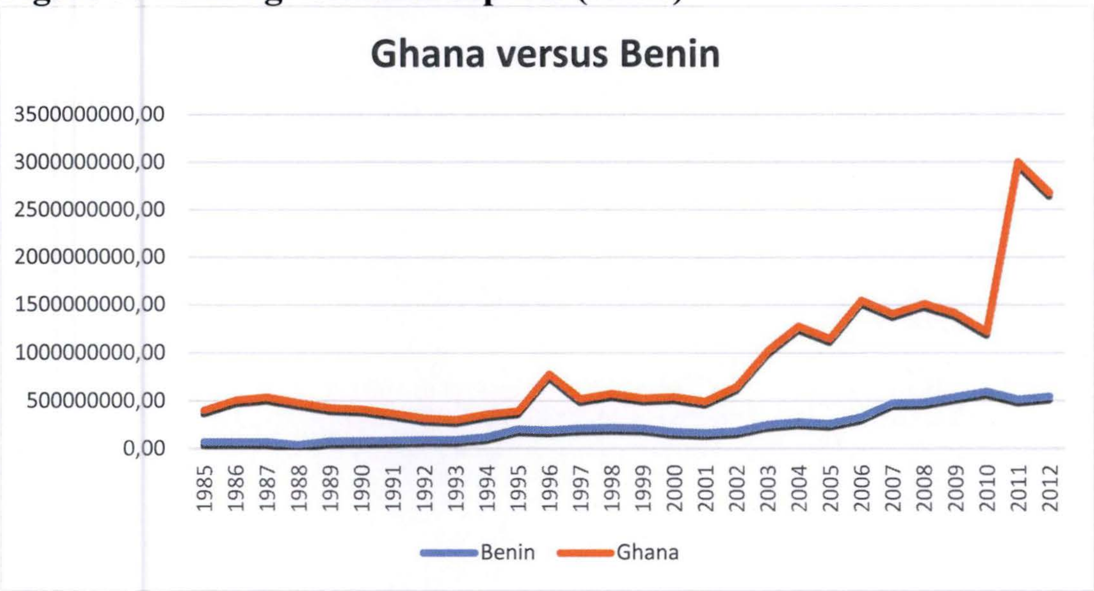
Source: World bank data (World Development Indicators)

It can be interpreted that Benin and Ghana have similar export of goods and services and their trends of export are more or less the same over time.

During the global financial crisis of 2008-2009 both countries have known a decrease in export of goods and services. Ghana has been resilient because after the short time its trend has continued to steeply increase again. For Benin, during the crisis its export of goods and services has been volatile for a couple of years and increases after but at a low level compared to Ghana.

Again this difference in resilience and recovery from the recession between Benin and Ghana can be explained by their differences in their macroeconomic management of their economies as we will see in subsequent sections. This is explained by the fact that Ghana is an inflation target anchor and it can use monetary policy to influence different economic activities and cope with the global financial crisis shocks. For Benin, this is Impossible or difficult to do the same quickly because as it has been said Benin belongs to the West African Economic and Monetary Union (WAEMU) and have common monetary and exchange policies. So it lags for Benin to set some policies like monetary policy to cope with those different shocks which causes their persistence and affect its economy negatively and for a long time.

Figure 3: Total agricultural exports (value)



Source: African Development Bank Group (Open data for Africa)

AFDB Socio-economic database

From the graph above, it is revealed that the value of agriculture export in Benin and Ghana has been stable over time. On the eve and during the financial crisis there have been changes in the value of total agriculture export in both countries but at different extent. This decrease in the value of agriculture export was due to a decrease in demand of agriculture products by developed countries which was due to the effect of the recession.

Overtime Ghana's value of agriculture exports has been above that of Benin. On the eve of the financial crisis, Ghana has known a slight and a dizzy increase in the value of agriculture export. It is at the beginning of 2008 when Ghana has known a significant decrease in the value of agriculture export which continued until the beginning of 2010. After this year, it is when the value of total agriculture export increased again without lag which could be correlated with Ghanaian government's several programmes and policies in relation to the food and fuel crisis and financial crisis.

For Benin, the value of total agriculture export has been below the one for Ghana but relatively more stable overtime. It is at the beginning of 2007 when Benin has known a slight increase in the value of the total agriculture export which slightly decreased again at the beginning of 2010. This decrease in the value of total agriculture export could also be correlated with the negative effect of the global financial crisis which decreased the price and the quantity demanded of agriculture exports.

So far, we have shown that Benin and Ghana rely more on agriculture exports. And due to the fact that most of their population are employed in agriculture sector, a decrease in the value of their exports decrease the income of many households employed in this sector. This situation amplifies extreme poverty and hunger among households who are employed in agriculture sector. Second, their agriculture production is not diversified, which means that any shocks which affect the price and the value of agriculture exports affect directly their incomes and consumptions since they have no other alternatives to shift to.

From the graph also, we should note that concerning the total agriculture export value, Ghana has been more affected by the financial crisis in absolute terms compared to Benin. This may be correlated to the fact that Ghana is more dependent and more open in terms of agriculture exports.

4.5. Policy Instruments used by Benin and Ghana to cope with global financial crisis

4.5.1. Policy instruments in Ghana

Some efforts have been made by the government in order to maintain and even improve the level of social protection and poverty reduction expenditure in Ghana. To be able to achieve that, the government of Ghana has put in place fiscal and monetary policies. For fiscal policies, the government used money transfer, for example, where the government has earmarked out of the 2009 budget for education and health care like the provision of textbooks and uniforms for school children. Rationalize the government expenditure by cutting down on wasteful expenditures including those on official foreign travel, workshops and conference. Consolidation of 27 ministries in 24 in order to rationalise government expenditure. To review petroleum taxes, with the aim of reducing domestic petroleum prices. As one of monetary policy, the government reviewed mining, oil and forestry firm's agreements to curb excessive repatriation. This probably aimed at stabilising the local currency. To be able to keep its expansionary fiscal policies, the government also intends to increase total revenue from GH Cedi 4.80 billion in 2008 to Cedi 5.94 billion in 2009, 24% above the 2008 outturn (Godfred et al, 2009).

4.5.2. Policy instruments in Benin

The government of Benin put in place a set of policies to stimulate and increase the contribution of the agriculture sector to GDP and policies to increase fiscal revenues by widening the tax base (Dirk Willem et al, 2009).

Whether Ghana or Benin can mitigate the effects of the crisis depends on the ability to use monetary and fiscal policy to avoid being pro-cyclical and to cushion the effects of the crisis.

CHAP V. CONLUSION

The global financial crisis which started in the summer of 2007 in the USA has been due to difficulties in the U.S. sub-prime mortgage market, and rapidly spilled over, first to financial market, and then to the real economy. This has influenced a decline in investment and lowered economic activities and then unemployment increased thereby a sharp decline in potential consumer demand in United State of America and in Europe.

The crisis has been transmitted to African countries, especially sub- Saharan Africa through different channels; namely trade, remittances, foreign aids, and Foreign Direct Investment (FDI) among others. The global financial crisis has affected (and may continue to affect) sub-Saharan African countries differently due to the fact that different countries have different macroeconomic management of their economies which determine their resilience to external or internal shocks and different structural characteristics which determine their exposure to internal and external shocks.

Concerning our case study of Benin and Ghana, both countries have the same structural characteristics and different macroeconomic management. In the assessment about their vulnerability to the global financial crisis and basing on their different macroeconomic management, both countries have been affected by the crisis but differently. Ghana's GDP and export of goods and services has declined due to the effects of the crisis but it has got out of the recession with no lag and this is due to its ability to manipulate money supply and cope with the global financial crisis. Unlikely to Benin, it is difficult even impossible to manipulate money supply to cope with external shocks and the effects of the financial crisis have been deep and persistent at some extents. This is the reason why Ghana has been less affected and more resilient to the global financial crisis compared to Benin which has been more affected and more or less persistently with delayed recovery from the recession. It is also wise to note that we cannot attribute the trends of figures that we have seen above to the effects of the 2007-2009 global financial crisis because other factors other than the crisis might have contributed to these changes. We have seen like political instability, natural disasters, inadequate institutions and other factors which are likely to have adverse impact to economic growth.

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