4. Impact of the international financial crisis on the countries of the Francophone African Constituency of the International Monetary Fund and the World Bank[1]

Viewed initially as a temporary shock whose effects would be confined to a squeeze on bank liquidity, the financial crisis has heightened the risks of a major worldwide recession. Given the gravity and complexity of the crisis, the leaders of the main industrialised and emerging countries have sought concerted solutions to overcome it and restore the conditions needed for sustainable growth. These efforts have been accompanied by discussions about how to reform the global financial system, an issue made even more pressing by the complexity of financial instruments and the global scale of the problems.

The Francophone African Constituency of International Monetary Fund (IMF) and the World Bank (WB) carried out a study on the international crisis, with coordination provided by the Central Bank of West African States (BCEAO). The study, a summary of which appears here, seeks to analyse the transmission channels of the crisis to the economies in the constituency, identify zones of vulnerability in the real and financial sectors, and sketch out possible ways forward in terms of reforming the global financial system. It also proposes recommendations and appropriate measures to mitigate the impact of the crisis on constituency economies.

4.1. The financial crisis: origins and recent developments

The origins of the international financial crisis can be traced back to the early 2000s in the United States. At that time, interest rates were significantly reduced to facilitate access to credit in a recessionary context, and the US government introduced an economic stimulus policy, one of whose pillars was to promote home ownership. Banks and financial intermediaries then engaged in aggressive distribution of variable rate mortgage loans with substantial risk premiums, or "subprime" loans. Many of these loans were extended to households that could not get conventional loans because of their low income and lack of collateral.

Falling house prices in the USA from 2006, coupled with a gradual rise in interest rates, caused large numbers of borrowers to default on their loans, which in turn resulted in failures by mortgage lenders. The major US banks that either financed these institutions or were shareholders in them, also suffered losses and asset impairment. Consequently, the problems on the mortgage lending market swiftly turned into a global financial and stock market crisis. The crisis spread to other regions of the world and other banking systems because of the massive securitisation of subprime loans, which became extremely popular owing to their high rates of return.

Uncertainties about banks' exposure to securities backed by subprime loans triggered a crisis of confidence that made banks reticent to lend to each other. This caused bank liquidity to dry up, and credit standards were tightened. Mounting uncertainty also caused the value of financial assets to fall on world stock markets. To prevent markets from seizing up, the main central banks undertook a series of massive coordinated interventions to provide liquidity to interbank markets, cut interest rates and restore banks' trust in each other. However, the cascade of failures by institutions that had previously been considered to be sound and, above all, the announcement by US and European governments of huge bail-out plans to clear or guarantee distressed loan portfolios and banking-system deposits, underscored the true depth of the crisis.

[1] This summary of the report entitled "Impact de la crise financière sur les pays du groupe Afrique francophone au FMI et à la Banque mondiale", written in December 2008, was prepared by the Research and International Relations Directorate of the **Central Bank of West African States (BCEAO).**

Despite the steps that have already been taken, financial pressures may persist. Market participants facing huge losses, particularly hedge funds, are deleveraging, which is exacerbating the decline in asset prices. Risk aversion has pushed spreads over risk-free rates to high levels. Meanwhile, the main stock market indices lost 25-30% in the month of October 2008 alone. As the financial crisis has deepened, economic activity has been stymied by the loss of confidence among households and enterprises.

4.2. Analysing the vulnerability to the financial crisis of the financial system of constituency countries

The financial systems of constituency countries share common traits. Each is dominated by the banking sector. Where financial markets exist, they are underdeveloped and weakly interconnected with international markets.

Capital movements, particularly external placements and investments, are subject to currency controls in all constituency countries except Democratic Republic of Congo.

4.2.1. Banking sector

The banking sector commands over 90% of financial assets in constituency countries. Credit institutions are mainly retail banks that gather most of their funds on the local market. Interbank markets are shallow and also led by local players.

4.2.1.1. Institutional and regulatory relations with the outside world

The banking environment in African countries is dominated by the subsidiaries of international credit institutions, which typically hold a majority stake in the share capital and/or act as technical partners for certain credit institutions. Thus, for international trade transactions, banks in constituency countries have to hold deposits with correspondents, notably in Europe and the United States. These relations are generally governed by prudential arrangements based on Basel I principles, which seek to protect banks against asset impairment, and by currency controls, which restrict outgoing placements and investments in order to control capital outflows.

A persistent liquidity and solvency crisis, notably among European banks, could create the following risks:

- the parent companies of banks based in constituency countries might call in funds by redeeming financial assistance early, drawing on shareholder loans, repatriating dividends and borrowing cash from subsidiaries;
- European- and US-based parent companies and correspondents could terminate credit lines or raise interest rates;
- banks in constituency countries dealing with foreign banks engaged in restructuring might be forced to suddenly look for new correspondents.

4.2.1.2. Balance sheet structure of banks in constituency countries and degree of exposure to risks arising from the current financial crisis

Generally speaking, the low dependency of banks in constituency countries on the outside world for both assets and liabilities shields them – for now – from the harshest effects of the crisis.

***Liabilities*:**

The liabilities of banks in constituency countries are essentially made up of shareholders' equity and deposits. For example, residents' deposits account for around 70% of total liabilities in WAEMU and 80% of total deposits in Guinea.

Borrowing is generally done on the local market, by means of issues of negotiable debt securities and money market operations, through interbank financing and central bank refinancing. Interbank market operations are, for the most part, unsecured, and those on the central money market are carried out on the basis of securities issued by governments, central banks and local companies, with loans from foreign banks remaining relatively low. Since deposits are the main source of bank financing, dependence on funds from international financial markets is relatively low overall.

Assets:

Currency controls prevent banks from undertaking foreign placements and investments without prior authorisation from the monetary authorities. Consequently, banks' assets are chiefly made up of loans to local counterparties.

In most countries, banks' external assets are made up of guarantee deposits with their foreign correspondents, to be used mainly to finance foreign trade transactions. By and large, these funds were not used to acquire complex products, such as securitised assets, on foreign markets. Domestic assets are typically made up of loans to the private sector, investments in Treasury notes and interbank cash transactions. On average, loans to the private sector are banks' main asset item in constituency countries, with the notable exception of Guinea, where they make up just 20% of total assets. As an illustration, in WAEMU, lending to domestic customers accounts for approximately 84% of assets. However, the heavy concentration of lending to internationally-exposed companies, particularly those operating in the mining, food export, textile and tourism sectors, signals the risk of a deterioration in the quality of banks' loan portfolios.

4.2.2. Central banks

The foreign reserves managed by central banks are invested in top-quality market instruments, including notes issued by European and North American Treasuries, and by international central banks and financial institutions. Franc Area countries hold a portion of their foreign reserves in an operations account with the French Treasury, which pays interest at market rates. From an operational perspective, some central banks have entrusted fund managers with reserve management duties, giving them very specific instructions on which investments are considered to be appropriate.

Central banks are facing a decline in the return on their foreign-reserve investments, plus counterparty risks on the assets that they hold and pressure on foreign reserves. Central banks in countries with a flexible exchange rate regime additionally have to contend with pressure on exchange rates.

And indeed, the risks of deflation in the main advanced economies have prompted central banks to start cutting their interest rates, which usually provide a benchmark for the return on official reserves.

This trend points to a decline in both the return on reserves and income from managing foreign currency assets. In addition, the expected fall in commodity prices, the decline in migrant remittances and the repatriation of funds by the parent companies of struggling banks, in conjunction with a withdrawal of portfolio investments, could reduce the pace of consolidation of foreign reserves. For countries with flexible exchange rates, these developments could lead to volatility in the nominal exchange rate.

4.2.3. Exchanges

The international financial crisis has had a major impact on the main financial markets, whose benchmark indices have posted record falls. Where stock exchanges exist in constituency countries, they are still in their infancy and, with the exception of the Mauritius exchange, very weakly connected to international markets. As an example, foreign investors hold just 14% of the assets listed on the BRVM regional securities exchange, or around 6% of market capitalisation.

An analysis of the recent situation on the Mauritius Stock Exchange and WAEMU's BRVM, for which data are available, reveals that the benchmark indices have fallen steeply since September 2008. The exchanges' composite indices, the SEMDEX and the BRVM composite index, lost 26.4% and 18.3% respectively over the final three months of the year. The trend has been driven by, among other things, the loss in value of the assets of companies operating in the sectors most exposed to a reversal in global economic conditions, i.e. agro-industry, textile and tourism, owing to fears about softening international demand. In view of these developments, close attention should be paid to the trends emerging on these markets.

4.2.4. Other financial institutions

The analysis of other financial institutions considered the microfinance and insurance sectors.

4.2.4.1. Microfinance

Microfinance allows people in constituency countries who are excluded from the traditional banking system to obtain financial services that are tailored to their needs. The sector is constantly growing its contribution to economic financing. Based on available data, microfinance institutions are unlikely to be affected in the short term, particularly because of their size and ownership structure. Further out, however, they could be hurt by the impact of tighter bank credit, assuming that the situation of banks deteriorates, that foreign aid flows shrink and that migrant remittances go down.

4.2.4.2. Insurance

The insurance penetration rate in constituency countries, i.e. the ratio of policyholders to total population, remains relatively low, at 0.03% overall for CEMAC and WAEMU countries in 2006, compared with 10.84% for South Africa. In most countries, funds gathered by this sector are mainly deposited with domestic banks, invested in property assets and, to a lesser extent, in domestic financial instruments, especially government securities. The insurance codes in force in most of the countries restrict holdings of financial instruments other than domestic securities.

Overall, the global financial crisis has had a relatively mild impact on the financial systems of constituency countries, chiefly because the countries' capital accounts are not very open.

4.3. Macroeconomic risk factors

The financial crisis has increased uncertainty about the future path of global economic conditions. Risks of deflation and the sudden cooling of growth in emerging economies are the main sources of concern for constituency countries.

4.3.1. Transmission Channels of the crisis to constituency economies

4.3.1.1. Trade in goods and services

A short list of low value-added products dominates the foreign trade – exports particularly – of constituency countries. This accentuates the vulnerability of the economies to external shocks, especially the abrupt slowdown in global growth. In many countries, export-focussed sectors are the main engines of economic growth and provide governments with a substantial portion of their fiscal revenues. Mining, agriculture and forestry products make up the bulk of traded goods. In the CEMAC region, crude oil and timber accounted for 82.0% and 6.1% respectively of external sales in 2007. Iron ore and oil accounted for 40% and 23% respectively of the total exports of Mauritania, while basic products make up 90% of the external sales of Democratic Republic of Congo. In Guinea, the mining sector is responsible for 90% of exports. In WAEMU countries, over 55% of exports are in crude oil, gold, cocoa and cotton. In Madagascar and Mauritius, textiles represent over 35% of export volumes.

Mining projects in constituency countries, as well as forestry products and agricultural industries are suffering because of the collapse in export prices following the drastic decline in world demand in the property and automotive sectors within the advanced economies and in the textile sector of emerging countries. The current account balance of constituency countries could seriously deteriorate as a result, wiping out the surplus of recent years.

In some constituency countries, such as Cape Verde and Mauritius, where tourism is one of the main economic growth drivers, accounting for 10% to 15% of GDP, contracting household incomes in industrialised countries point to a slowdown, or even a decline, in tourism-related flows, leading to a deterioration in the services balance and hence in the current account balance.

4.3.1.2. Financial flows with the rest of the world

Government and private transfers and foreign direct investments, which play an important role in correcting external imbalances and strengthening the foreign reserves of constituency countries, are showing the effects of liquidity constraints and falling revenues due to the financial crisis in the home countries. This may be a source of risk for external sustainability.

Government transfers

These are chiefly made up of Official Development Assistance (ODA) grants, which accounted for 5.8% of gross national income in Sub-Saharan African countries and 13.9% of goods and services imports in 2006. Low-income countries in the constituency, such as Rwanda, Madagascar, Comoros, Burkina and Sao Tomé and Principe, are vitally dependent on ODA. Measures already taken or planned by industrialised countries to support their own financial systems are likely to increase fiscal constraints, making it harder for them to meet ODA commitments. Multilateral development assistance institutions might also find their resources under strain in the face of mounting requests for assistance. As a result, financial flows under ODA to constituency countries could fall in the short term, undermining the balance of payments position and public finances.

Remittances

Remittances by migrant workers have been identified as a major potential channel of transmission of the financial crisis to constituency countries, and account for a substantial portion of GDP in some cases. In Comoros, they account for 23% of GDP, making them the largest item of the balance of payments. In Cape Verde, Mauritius and in WAEMU countries, they make up 11.9%, 3.4% and 3.0% of GDP respectively.

The economic recession in developed countries could have an adverse impact on the volume of remittances, insofar as job losses in these countries primarily concern the unskilled jobs typically held by migrants. According to World Bank estimates, remittances to developing countries could equal 1.8% of GDP in 2008, compared with 2.0% of GDP in 2007. In 2009, these flows are forecast to contract by between 0.9% and 6.0% overall, after a 7.0% increase in 2008. Remittances to Sub-Saharan African countries could fall in 2009 by between 1.3% and 6.8%, after climbing by 14.4% in 2007 and 6.3% in 2008. It is thought that Sub-Saharan Africa will be the second hardest hit region by the crisis-related downturn in remittances, after the North Africa and Middle East zone.

Foreign investment

Constituency economies have enjoyed substantial inflows of foreign investment in recent years. Between 2002 and 2007, the average annual growth rate of foreign direct investment (FDI) to constituency countries was estimated at 21%, compared with 29% for the continent as a whole[2]. These investments

[2] Sources: UNCTAD, IMF, BCEAO

were mainly directed towards mining (oil, gold, uranium, bauxite, iron), in response to the high prices for these products. Oil-exporting constituency countries, particularly those of the CEMAC, Côte d'Ivoire and Mauritania, were the principal recipients of these inward flows, with shares of 60% and 6% respectively. The telecommunications sector, particularly the mobile telephony segment, also attracted major foreign investment as part of privatisation and start-up deals. Foreign investment in constituency countries is likely to slow as a result of the crisis, with a corresponding deterioration in the international investment position and lost points of economic growth.

4.3.2. Macroeconomic consequences

In view of the above developments, the external accounts, public finances, economic growth and inflation of constituency countries are likely to be deeply affected by the effects of the global economic and financial crisis.

4.3.2.1. Impact on public finance

The impact on the fiscal positions of constituency economies will take the shape of a decline in government revenues, in connection with the forecast decrease in the tax base, particularly in terms of income relating to exported-commodity prices. Oil-exporting countries, including those of the CEMAC zone, where oil-related revenues accounted for 71% of total government resources in 2008, will probably experience a larger contraction in fiscal resources. The region's budget surplus (commitment-basis, excluding grants) could fall from 10.8% of GDP in 2008 to 6.3% in 2009, compared with initial projections of 14.0% and 13.1% respectively. This situation would be worsened by a drastic slowdown in aid flows caused by fiscal constraints in donor countries. The impact will be much greater in constituency economies where such assistance makes up a significant portion of the government's financial resources. Strain on public treasuries, which is already perceptible in some countries following measures to cope with the effects of energy and food crises, could worsen and cause a build-up of payment arrears. Use of external loans, at less advantageous terms owing to the international liquidity shortage, could affect the sustainability of the external debt.

These developments point to the risks of a new run-up in debt by constituency countries to meet their major infrastructure financing requirements, which could reduce or even wipe out the recent gains in debt sustainability achieved in connection with the Heavily Indebted Poor Countries (HIPC) Initiative and the Multilateral Debt Relief Initiative (MDRI).

4.3.2.2. Impact on economic growth

The international crisis is likely to cause economic activity to slow in constituency countries. Assessments conducted in a number of constituency countries, based on IMF projections, suggest a slower pace of economic expansion. In WAEMU countries, it is estimated that the crisis could shave between 0.7 and 1.2 percentage points off growth in 2009. In the CEMAC region, economic growth is expected to decline to 5.3% and 3.2% in 2008 and 2009, compared with initial forecasts of 5.8% and 4.4%, reflecting the direct impact of softening activity in the oil and non-oil sectors, including forestry, as well as indirect effects on other sectors of the economy (port activities, transport). Other constituency countries are likely to be affected by a similar decline in activity, particularly those whose growth has been sustained in recent years by vibrant property and tourism sectors.

4.3.2.3. Impact on inflation

The impact of the international crisis on global demand will probably accentuate the slowdown in inflation worldwide. For most constituency countries, the imported component of inflation should fall markedly, which will support price moderation. Available estimates for the CEMAC and WAEMU regions suggest that the crisis could cause inflation to fall by between 1.0 and 1.5 percentage points in 2009. However, inflation rates remain relatively high in some countries, despite the recent trend towards lower consumer prices.

4.4. Reforming the international financial and trade system

The current financial crisis has highlighted the need for more effective regulation of certain segments of the global financial markets. This need is made more pressing by the acceleration of financial innovation and the worldwide scope of the disruption. With this in mind, the summit meeting between the main industrialised and emerging countries (G20) on 15 November 2008 in Washington provided the opportunity to lay the foundations for reforms and appropriate measures to prevent such a crisis from happening again, notably by strengthening the international financial system. A consensus has already taken shape around some of the principles that should underpin this reform, which include:

- increasing the transparency and accountability of financial institutions and markets, notably with a view to curbing risk-taking;
- improving the regulation of financial markets to take account of innovation in the products and services traded on those markets;
- strengthening international cooperation in regulating, preventing, managing and resolving crises, particularly through increased collaboration between domestic and regional regulators and supervisors;
- accelerating the reform of the international financial institutions, with a view to increasing their legitimacy and effectiveness in the light of global economic developments.

4.5. Recommendations

Conducting the following initiatives in constituency countries should make it possible to mitigate the impact of the crisis on the financial system and macroeconomic framework and also strengthen the case for reforming the international financial architecture and restarting global trade.

4.5.1. Financial sector

Mitigating the effects of the crisis on the financial system requires a concerted approach by all sector participants. In addition to consolidating financial regulation and supervision systems, they must also pursue efforts to ensure that the domestic financial sector makes a bigger contribution to financing the economy, given the dearth of external resources. Accordingly, action could be taken in the following areas:

- step up coordination and cooperation by the regulatory and oversight authorities of the various segments of the financial system (banks, microfinance institutions, financial markets, insurance, pension and welfare systems), and establish frameworks for information sharing by regional supervisors. As part of this, a continent-wide financial stability forum could be set up, with coordination provided by central banks;
- improve the banking sector's supervision, regulation and governance framework, with particular emphasis on:
  - improving the solvency of the banking system, by raising minimum capital requirements and aligning solvency ratios with best international practices;
  - assessing systems for measuring and supervising bank liquidity;
  - developing appropriate, reliable systems for assessing, detecting and monitoring risks;
  - strengthening an appropriate internal control system;
  - introducing a regulatory framework for securitisation that builds in the lessons of the current financial crisis;

- promoting good governance in banking.

- strengthen supervision and regulation systems for insurance, financial markets and microfinance as well as for pension and welfare funds. It would be appropriate to extend the regulations governing the solvency and liquidity management of these institutions;
- accelerate reforms that will help to diversify the banking and financial environment and deepen capital markets, including:
  - promoting, within the limits of regulation, the development of appropriate investment instruments for liquidity holders who are hesitating to make funds available to potential investors;
  - strengthening legal frameworks and judicial systems and adjusting them to suit the needs of the banking and financial sector in order to improve business certainty and encourage credit institutions to relax collateral requirements;
  - introducing legal and tax mechanisms to support an increased role for private equity institutions, which are able to take greater risks than conventional banks, in order to promote financing for small and mid-sized businesses.
- where appropriate review insurance codes to enable this sector, which has substantial long-term resources, to place these funds on local financial markets, with a view to meeting the long-term financing requirements of constituency economies;
- deepen the microfinance sector to enable it to play an even bigger role in combating poverty. The accent could be placed on enabling microfinance structures to raise funds suited to their financing requirements from development banks and development partners;
- bolster the independence of overseers and supervisors in assessing compliance with standards and imposing penalties;
- establish principles for bank bail-outs during crises that set out the responsibilities of all parties, namely governments, central banks and shareholders. Key goals include:
  - establishing a deposit guarantee mechanism;
  - determining the scope of the government's contribution (creation of bail-out funds);
  - creating a framework for managing bank failures in countries that do not have one.
- strengthen control of counterparty, concentration and currency risk, notably through measures to prevent excessive risk-taking;
- upgrade information systems to enhance the quality and transparency of financial reporting and reduce disclosure times;
- introduce a continent-wide framework for promoting, regulating and supervising rating agencies;
- bolster the resources of sub-regional institutions (AfDB, WADB, BIDC, CASDB, etc.) to make it easier for African commercial banks to access credit lines to finance development;
- introduce a reliable bank loan collection mechanism;
- maintain an optimal level of liquidity within the banking system;
- conduct a prudent and flexible monetary policy, within a framework of enhanced cooperation with fiscal authorities;
- provide guarantees for international trade transactions by strengthening the role and resources of Afreximbank.

4.5.2. Macroeconomic measures

The crisis has sharpened the economic challenges facing constituency countries, particularly issues such as macroeconomic stabilisation and poverty reduction. Accordingly, measures taken to mitigate the impact of the crisis on constituency economies should focus on pursuing economic policies already engaged by governments to stimulate growth and alleviate poverty and on mobilising additional resources to finance these policies in the face of the financial strain resulting from the crisis.

Priority should thus be given to pursuing implementation of reform programmes designed to:

- boost agricultural output. In this regard, initiatives taken recently in certain constituency countries to raise food production following the rise in food prices should be pursued, notwithstanding the downtrend in international prices. Similarly, developing agricultural infrastructure should be another key focus;
- ensure a more balanced financial position and improve the competitiveness of agricultural export industries, which could weaken further with the decline in international prices. Measures should concentrate on boosting yields and cutting production costs, notably through adequate supply of inputs, regulation and enhancement of producers' technical capabilities, plus improved quality for export products;
- make constituency economies more attractive by improving the business environment, notably by reducing red tape and amending investment codes. Moreover, given that declining profitability in investment sectors could affect the financial position of companies, specific measures, in the shape of temporary, targeted tax incentives, might be necessary to support initiatives by private investors;
- deepen regional integration as a way to cushion external shocks. Steps should be taken to accelerate or strengthen the development of domestic and regional markets and to implement sector action plans, particularly in the areas of infrastructure and energy. Tapping into the opportunities offered by regional integration could help to enhance penetration of developed-country markets;
- enhance the resilience and external sustainability of constituency economies, chiefly through increased export diversification and promotion of the primary processing industry.

Implementing these policies will require alternative financing and optimal use of resources amid an international liquidity shortage. The governments of constituency countries should thus explore all possible domestic and international financing options and resources. With this in mind, an instrument should be established for raising funds to finance infrastructure projects.

Domestically, initiatives could cover the following areas:

- creating a fiscal space by expanding the tax base and raising revenue collection rates and by controlling spending. This would require greater rationalisation of current spending, notably by redirecting spending to social expenditures and investment in sectors that will support long-term growth;
- mobilising savings more effectively by deepening or creating capital markets. In this respect, governments should step up financial-sector reforms and where necessary offer incentives to diversify the banking and financial environment;
- strengthening competition between wire transfer structures, enhancing communication and information for migrants on the costs and opportunities offered by participants, and having banks provide products geared to the needs of migrants, to encourage continued remittances.

At the level of the international community, governments should stress the following in their dealings with partners:

- insist on compliance with commitments made as part of the Monterrey Consensus by maintaining or strengthening ODA. The financial crisis must not be allowed to overshadow concerns about achieving the Millennium Development Goals (MDGs), which have increased as a result of the various crises;
- multilateral institutions should allocate additional resources to the least developed countries, particularly those in the constituency, providing more flexible conditionalities to enable countries to absorb the impact of shocks to their economies and thus mitigate the financial pressures caused by the crisis. In this respect, constituency countries should approach the IMF to gain access to higher levels of resources under the revised Exogenous Shocks Facility (ESF), to offset revenue loss resulting from falling prices for export products. Medium-income countries coping with shocks might be able to access resources within the framework of stand-by arrangements under the IMF's emergency lending programme;
- take account of the development financing needs of African countries and the profitability of each project when conducting debt sustainability analyses, in accordance with the Nouakchott Declaration made following the meeting of the African governors of the IMF and the World Bank on 1 August 2008, which was devoted to development financing in Africa;
- strengthen relations with non-traditional partners, notably within the framework of a South/South partnership, with a view to making the investments vital to ensure food security and the quality of basic infrastructure, which can help raise the potential growth of constituency countries.

4.5.3. Reforming the international financial and trade system

In terms of reforming the international financial and trade system, constituency countries could recommend:

- creating a new international financial architecture;
- strengthening regulation and international standards by adjusting these standards to reflect financial innovation while accommodating the specific features of countries' financial systems.
- deepening the central role of the IMF. To this end, the following steps should be taken:
  - increase the IMF's legitimacy and encourage all Member States to take on its recommendations by improving representation in governance and decision-making structures;
  - tailor IMF and World Bank facilities, including those for low-income countries (Poverty Reduction and Growth Facility (PRGF), revised ESF, etc.) to the specific problems of these countries;
  - increase IMF resources to ensure an adequate response to demand from Member States, through a larger contribution from the main advanced countries and from countries holding large reserves;
  - have the IMF, in collaboration with the World Bank, introduce greater flexibility when determining loan conditionality to take account of the profitability of financed projects, so as to accommodate spending on productive investments;
- promote fair and equitable international trade, notably by pursuing negotiations aimed at reaching new Economic Partnership Agreements (EPAs) based on efforts to identify mutual benefits. Steps should also be taken to increase the resources needed to reduce the structural constraints that affect certain export sectors, particularly the agricultural sectors of African countries.

Conclusion

The financial crisis has exposed deficiencies in the domestic and international systems in place to regulate and supervise financial systems. The international community has a duty to respond to the new challenges, notably those linked to establishing a global financial architecture that is capable of ensuring macrofinancial stability. To achieve this, close relationship between the Francophone and Anglophone African Constituencies of the IMF and the World Bank could be established to enable them to share analyses and agree on common positions that could be advocated during discussions on overhauling the global financial and monetary system.

At home, the key task for constituency countries is to redouble efforts to implement the structural reforms that will enable them not only to harness existing potential, but also, and more importantly, tap into new sources of economic growth.

Provided the conditions for macroeconomic stability are in place and significant headway is made in improving the business climate, the financial sector of constituency countries, which has adequate resources overall, can play a part to initiatives to support economic activity.