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The New Normal and Need for Paradigm Shift in Africa's Economic Development: Lessons From the Challenges of the 2008 Global Financial and Economic Crisis

Honest Prosper. Ngowi
Mzumbe University Business School

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1. Introduction

The 2008 global financial and economic crisis (GFEC) started to manifest itself officially on 15th of September 2008 in the United States of America (USA). Since then it has spread not only to the financial sector but also to the real sectors of the economy. Geographically, it has spread to many parts of the world especially in Europe and Asia where the first round effects were rapidly experienced. In Africa in general, the crisis has been mainly seen in form of second round effects (bounce-on effects) in the real economy.

The 2008 crisis is also termed the credit crunch, economic turmoil, economic downswings, global downturn, and financial meltdown. For the purpose of this work, the term economic crisis will be used. The crisis has been termed 'the current' to distinguish it from a similar crisis that was experienced in the 1930s that resulted into the Great Depression. The 2008 crisis manifested itself in form of severe credit, banking, currency, and trade crisis

The crisis has many and closely linked causes, impacts and responses as well as many results of the responses. Within less than three years after the crisis, there have been many, far-reaching and closely linked impacts of the crisis at individual, household, community, country, sub-region, region and global levels. There have also been many and far-reaching responses to the crisis. The responses have aimed at halting the crisis, reducing its negative impacts, preventing a new crisis in the future and even exploiting opportunities that have unfolded from it.

The crisis has been among the leading current and contemporary global discourse issues since it saw the light of the day. This is so in the academia, policy and decision making, among practitioners as well as the general public.

According to Eghan (2010), economic crises usually refer to a long-term economic state characterised by slow growth or setback in economic activity; rising unemployment; low prices; and low levels of trade and investment.

2. Causes of the crisis

There are many and closely related causes of the 2008 GFEC. Moyo (2010), outlines some of the underlying factors that set the stage for the 2008 crisis. These include but are not limited to prolonged economic boom for two decades preceding the crisis accompanied by surging house prices at a rate which was unsustainable especially in United States of America; rapid expansion of credit leading to accumulation of debt several times the size of Gross Domestic Product (GDP)[1] with significant proportion of the credit owed by marginal, doubtful and barely credit worthy clients (sub-prime borrowers) in the U.S; and emergence of new, innovative types of financial instruments and over-expansion of predatory lending practices such as adjustable rate mortgage that tended to obscure the true position of lenders and capacity of borrowers to service their liabilities.

Moyo (ibid) further outlines that the crisis was also caused by the rapid expansion of securitization whereby loans (mainly to none credit worth borrowers) were bundled together and sold to other lenders. Then the resulting paper transaction was used as a basis for further lending thereby making the financial markets highly leveraged. Inter alia, sub-prime mortgages were bundled into mortgage-backed securities or collateralized debt obligations and sold to investors.

Weak regulatory mechanisms and oversight is another cause of the crisis that has been correctly outlined by Moyo (ibid). This cause has also been captured by Ngowi (2009 and 2010) and Adei (2010). The key argument is that the monetary authorities (The Federal Reserve Bank of USA) did not catch up with things till it was too late. This was made more difficult because balance sheets of the financial institutions had become more complex as the companies exploited earlier American legislation to hide the true state of the companies

Similar to other scholars, such as Adei (ibid) and Ngowi (ibid) Sikod (2009) attributes the crisis to asset price bubble. This interacted with new kinds of financial innovations that masked risk with companies that failed to follow their own risk management procedures and with regulators and supervisors such as the Federal Reserve Bank (the Fed) that failed to restrain excessive risk taking.
Rwegasira (2010) citing the Bank of Tanzania – BoT – (2008) captures very well the fact that the turmoil in global financial markets has resulted in lack of confidence in financial markets that

[1] In the U.S. for example, GDP of U$14.2 trillion was supporting a total debt of U$49.9 trillion in March 2009 (*Pianim, 2009*)

has severely curtailed credit in global markets (the credit crunch). The source of the crisis was sub-prime mortgages offered by financial institutions in the United States. The effects of those mortgages quickly spread across the West and other parts of the world.

According to Oke (2009), the global economic crisis is also called the Great Depression II of 2009 and it is several times more severe than the Great Depression of 1929. This cannot be perfectly correct because the crisis began in 2008 and not in 2009. Oke (ibid) correctly argues that the crisis was triggered by the failure of sub-prime mortgage loans in the United States and it became prominently visible in September 2008. As alluded to by many other authors, this author captures well the fact that the crisis began with failure of large financial institutions in the United States of America. It then rapidly escalated into a global credit crisis. As a result there was a number of US and European banks failures. Also there were declines in various stock indices.

Mutahi (2009), argues that the crisis began in July 2007 when a loss of confidence by investors in the value of securitized mortgages and banks in the United States started. However, this is not exactly the case. This was just among the signs of the crisis and not the beginning of the crisis itself.

Akbar (2008) correctly argues that the crisis has been a major financial crisis. It became prominently visible in September 2008 with the failure, merger or conservatorship of several large United States-based financial firms including but not limited to Goldman Sachs, Morgan Stanley, J.P. Morgan, Bank of America, Merrill Lynch, Citigroup, Wells Fargo, Bank of New York Mellon and State Street.

According to Akbar (ibid), Evans-Pritchard (2007) and The Economist (15th May and 22nd May, 2008), the underlying causes leading to the crisis had been reported for many months before September 2008, with commentary about the financial stability of leading U.S. and European investment banks, insurance firms and mortgage banks consequent to the sub-prime mortgage crisis.. The failures of large financial institutions in the United States rapidly evolved into a global crisis resulting in a number of European bank failures and declines in various stock indexes, and large reductions in the market value of stock (Norris: 2008) and commodities worldwide (Evans-Pritchard, ibid).

The authoritative and official work on the causes of the crisis in USA is the one done USA (2011). This is the official government edition on the "Financial Crisis Inquiry Report: Final Report of the National Commission on the Causes of the Financial and Economic Crisis in the United States". The commission produced its 662 paged report in January 2011. Among its key conclusions on the causes of the crisis are summarized in figure number two below.

Figure 2: A Summary of the Causes of the 2008 Crisis in USA

• The crisis was the result of human action and inaction, not of Mother Nature or computer models gone haywire. The captains of finance and the public stewards of the financial system ignored warnings and failed to question, understand, and manage evolving risks. Theirs was a big miss, not a stumble.

• Widespread failures in financial regulation and supervision proved devastating to the stability of the nation's financial markets. The sentries were not at their posts, in no small part due to the widely accepted faith in the self-correcting nature of the markets and the ability of financial institutions to effectively police themselves. More than 30 years of deregulation and reliance on self-regulation by financial institutions had stripped away key safeguards, which could have helped avoid catastrophe. This approach had
opened up gaps in oversight of critical areas with trillions of dollars at risk, such as
the shadow banking system and over-the-counter derivatives markets.

•Dramatic failures of corporate governance and risk management at many systemically important financial institutions were a key cause of this crisis. Too many of these institutions acted recklessly, taking on too much risk, with too little capital, and with too much dependence on short-term funding. They took on enormous exposures in acquiring and supporting subprime lenders and creating, packaging, repackaging, and selling trillions of dollars in mortgage-related securities, including synthetic financial products.

• A combination of excessive borrowing, risky investments, and lack of transparency put the financial system on a collision course with crisis. This vulnerability was related to failures of corporate governance and regulation. In the years leading up to the crisis, too many financial institutions, as well as too many households, borrowed to the hilt, leaving them vulnerable to financial distress or ruin if the value of their investments declined even modestly. Major investment banks like Bear Stearns, Goldman Sachs, Lehman Brothers, Merrill Lynch, and Morgan Stanley were operating with extraordinarily thin capital.

• The government was ill prepared for the crisis. Its inconsistent response added to the uncertainty and panic in the financial markets. Key policy makers - the Treasury Department, the Federal Reserve Board, and the Federal Reserve Bank of New York - who were best positioned to watch over markets were ill prepared.

• There was a systemic breakdown in accountability and ethics. There was erosion of standards of responsibility and ethics that exacerbated the financial crisis. This was not universal, but these breaches stretched from the ground level to the corporate suites. They resulted not only in significant financial consequences but also in damage to the trust of investors, businesses, and the public in the financial system.

• Collapsing mortgage-lending standards and the mortgage securitization pipeline lit and spread the flame of contagion and crisis. When housing prices fell and mortgage borrowers defaulted, the lights began to dim on Wall Street. The corrosion of mortgage lending standards and the securitization pipeline transported toxic mortgages from neighborhoods across America to investors around the globe. Many mortgage lenders set the bar so low that lenders simply took eager borrowers' qualifications on faith, often with a willful disregard for a borrower's ability to pay.

• Over-the-counter derivatives contributed significantly to the crisis. The enactment of legislation in 2000 to ban the regulation by both the federal and state governments of over-the-counter (OTC) derivatives was a key turning point in the march toward the financial crisis. From financial firms to corporations, to farmers, and to investors, derivatives have been used to hedge against, or speculate on, changes in prices, rates, or indices or even on events such as the potential defaults on debts. Yet, without any oversight, OTC derivatives rapidly spiraled out of control and out of sight. Uncontrolled leverage; lack of transparency, capital, and collateral requirements; speculation; interconnections among firms; and concentrations of risk in the financial market contributed to the emergence of the crisis.

• The failures of credit rating agencies were essential cogs in the wheel of financial destruction. Three credit rating agencies were key enablers of the financial meltdown. The mortgage-related securities at the heart of the crisis could not have been marketed and sold without their seal of approval. Investors relied on them, often blindly. In some cases, they were obligated to use them, or regulatory capital standards were hinged on them. This crisis could not have happened without the rating agencies. Their ratings helped the market soar and their downgrades through 2007 and 2008 wreaked havoc across markets and firms.

Source: Extracted from USA (2011)

3. Impacts of the Crisis

The crisis has and is having many and far-reaching direct and indirect and short-term and long-term impacts across the globe. Given the source and nature of the crisis, it is the developed countries that have been more affected than the developing ones. However, the impacts of the crisis are continuously unfolding.

Some literature on the various impacts of the crisis have emerged in less than three years after the onset of the crisis. The literature include but are not limited to Ngowi (2009a) on employment and official development assistance (ODA); Ngowi (2009b) on investments in human capital; Ngowi (2009c) on the climate; Ngowi (2009d) on Tanzania and Ngowi (2009e) on Africa.

Other scholars who have laboured on the impacts of the crisis include Biekpe (2009) on foreign aid in Africa; Myburgh (2009) on correlations between Sub Saharan Africa (SSA) currencies during the 2008 financial crisis; Kiptoo (2009) on African economies and International Monetary Fund – IMF – (2009) on Africa.

Adei (2010) dwelt on the impacts of the crisis on developing economies while Turysingura (2009) worked on impact of the crisis on foreign capital flows in Africa. Other works on the impacts of the crisis are those of Nabaho (2009) on employment and labour markets in Africa; Moyo (2010) on mining, industry and trade sectors; Lee (2009) and Park (2009) on Korea; Oyavbaire (2009) on Nigerian public administration system; Rwegasira (2010) on Tanzania and Ssonko (2009) on Uganda.

The general and common factor among the cited works on the impacts of the crisis include liquidity problem and the de-leveraging of financial institutions especially in the United States and Europe, which further accelerated the liquidity crisis. It is causing fears and declining consumers and investors sentiments in the market thereby reducing aggregate demand. Other impacts include currency crisis with investors transferring vast capital resources into relatively stronger currencies. This in turn is leading many emergent economies to seek aid from the International Monetary Fund. (Landler, 2008 and Fackler, 2008, quoted on Ngowi, 2009a).
Other general impacts of the crisis include reduced aggregate demand of goods and services across the globe. This is due to limited liquidity and related problems such as all-times low consumer sentiments that are emanating from the crisis. The reduced aggregate demand in turn is leading to reduced production of goods and services with the necessary result of reducing demand for and employment of factors of production including labour. The implications of reduced employment of factor inputs include reduced incomes to the factors and their owners in general and reduced standard of living and possibility of vulnerability to poverty for labour in particular.

In some countries, migrant workers, (foreign labour) are likely to suffer more by being the first to be laid-off. This will have many and far-reaching implications on the countries and individuals dependent on transfers from migrant workers in form of remittances. The crisis is culminating into a worrisome meltdown in the economies of most developed countries.

The actual extent of impacts of the crisis will depend on a number of issues. The issues include but are not limited to the degree to which a particular country is integrated into the dynamics of global investment flows, expanded trade, information technology and vibrant financial security arrangements. It will also depend on the extent to which a country is marginalized from the dynamic processes above. The kinds of policies that will be put in place by individual governments independently and in collaboration with the global community to solve and mitigate the impacts of the downturn will determine inter alia, the severity and length of the crisis.

Some specific impacts of the crisis in selected countries are presented in the figure below. The main source of the information in the box is grey literature recorded by the researcher from various sources.

Figure 2: Selected impacts of the crisis on selected countries

China

China lowered its forecasted economic growth to 8% from the 9% that was achieved in 2008 and double digit figures attained in previous years. Its export in January 2009 declined by 17%, share prices declined by 23% since May 2008.

Japan

In Japan, unemployment reached 4% by December 2008 and export declined by 45% while industrial production declined by 10% in January 2009. This is the highest for the past forty (40) years. House holding spending in Japan declined by 4.6% in the last quarter of 2008, share prices declined by 19% since May 2009.

Korea

In Korea economic growth was forecasted to be below 1% in 2009 due to the crisis.

USA

The US economy contracted by 3.8% in the fourth quarter of 2008, share prices declined by 12% since May 2008 due to the crisis.

Australia

In Australia mines closed due to declining prices and reduced demand from it main importer which is China.

United Kingdom (UK)

In United Kingdom the number of people who lost houses due to foreclosures increased by 50% in January 2009.

Russia, Spain, Ireland, Scotland and Greece

There were mass jobs cuts, protests and riots in Russia, Spain, Ireland, Scotland, Iceland and Greece among other countries.

Selected African countries

According to Kiptoo (2009: 16), stock markets elsewhere in Africa declined substantially in 2008. The declines in selected countries are as follows: Egypt (64.45%), Mauritius (50.53%), Zambia (43.7%), Kenya (42.28%), Morocco (27.58%), South Africa (27.49%), Botswana (18.32%) and Uganda (17.09%).

In Nigeria, the Nigerian Stock Exchange (NSE) lost more than 649 billion Naira in November 2008 and decline by 62.11%.

Source: Collected by the author from various media

The relatively few and brief impacts listed in the figure above help to elaborate the fact that the crisis impacted different countries differently. This is also true for Tanzania. The country has been affected differently by the crisis. However, there are a number of specific impacts of the crisis on Tanzania that have been recorded. These are presented and discussed in what follows.

It is to be noted that generally, the impacts of the crisis in Tanzania emanated from the reduced aggregate demand both at global and local levels. The crisis resulted into liquidity problems and all-times low consumers' and investors' sentiments in the world market. Foreigners' appetite for goods and services produced in and exported from Tanzania declined on account of the crisis, inter alia. Some of the actual impacts of the crisis that have been observed and recorded in Tanzania are presented here. Unless otherwise stated, the facts and figures presented here are from URT (2009).

According to Mtango (2008), the effects of the global financial crisis forced Tanzania to reduce its growth forecast to from 7.8% to 7.5%. More recent figures on the impact of the crisis on economic growth are available in URT (2009). It is documented among other things that the crisis has resulted into reduced growth forecast from 7.4% in 2008 to 5% in 2009 in Tanzania Mainland and from 5.4% in 2008 to 4.5% in Zanzibar.

The reduced growth forecast had a lot of connected impacts through the multiplier process. These include reduced employment, real and nominal incomes and standards of living. On real incomes for example, it was announced by Tanzania's President on 1st May 2009 (Workers' Day) that the government would not be able to increase wages due to the crisis. It is the researcher's interpretation that the crisis has hindered the growth of the national cake, from which increased incomes could have come from. Essentially 2009 was a lost year in economic growth terms.

The crisis has helped in reducing inflationary pressure from 25.3% in October 2008 in Zanzibar to 12.2% in April 2009. In the mainland, inflation had reached 13.3% in February 2009 but the pressure somehow eased due to the crisis. The July 2009 inflation was approximately 10%. Reduced oil prices from about USD140 per barrel before the crisis to figures below USD 50 per barrel after the crisis take some credit for the prospects of reduced inflation.

In the financial markets especially foreign exchange, the Tanzanian shilling declined in value compared to such vehicle currencies as the UD Dollar. Exchange rate between the shilling and USD in September 2008 was about 1 USD to 1,162.9 Tshs. By June 2009 it had moved to about 1 USD to over 1,340 in some bureau de change. On average the Shilling declined by about 13.7% between September 2008 and March 2009.

Export earning were likely to decline by USD 31 million from USD 2,891 million in 2008/09 to USD 2,860 million in 2009/10. This reduction was a result of several processes including reduced export volumes of goods and services and prices of the same.

Although attribution and causality may be difficulty to establish and ascertain, statistics show that over 48,000 people had lost jobs directly in Tanzania by April 2009 due to the crisis. A rule of thumb has it that for every one job that is lost directly, there are about three others lost indirectly as a result of a negative multiplier effect. New direct employments to the tunes of 70,000 and 210,000 indirect ones did not materialize. This is due to the crisis which made it impossible for the USD 4 billion Nickel and Aluminum projects to start in Tanzania due to the prospective investors' inability to secure the needed investment capital from the credit-crunched global capital market.

Internal revenue forecasts in Tanzania for the period July 2008 to March 2009 were missed by 9.5% and by 10% by the end of the 2008/09 financial year. About 472.9 billion Shillings that were budgeted could no be realized. This is a direct effect of declining tax revenues and import duties due to decline in economic activities triggered off by the crisis. None tax revenues by Ministries, Departments and Agencies (MDAs) for the period July 2008 to March 2009 were short of the estimates by 32.4% compared to 24.1% in the same period in the fiscal year 2007/08.
The realized aid and loans for development projects in Tanzania for the period July 2008 to March 2009 were about 56% only of the estimates for 2008/09. This indicates that donors and lenders were unable to deliver as per Tanzania's expectations because they have been negatively affected by the crisis.

The 2008/09 budget was negatively affected by the crisis. The expected internal revenue to finance the budget was 4,728,595,000,000 Tshs. This was actualized by 90% only (4,248,858,000,000 Tshs).

Tanzania Investment Centre (TIC) reported that Foreign Direct Investments (FDIs) flow into Tanzania would be less than $675million instead of the $750 predicted earlier in 2008. This is a reduction of 10%.

According to URT (2009), the country had a plan to finance infrastructure projects in 2009/10 by funds raised from sovereign bonds. Due to the crisis however, the cost of borrowing from the international financial markets for this purpose was too high and the plan had to stop. Lack of capital made it necessary to either cancel or postpone huge investment projects in mining, energy and industries. Among the projects that have been affected include the USD 300 million electricity joint venture project between Artumas and Barrick Gold and Artumas' USD 7 million Mtwara electricity project.

The crisis has caused Artumas share prices to drop from 55 Kroner to 1.9 Kroner in Oslo Stock Exchange. Other affected projects include a joint venture between the National Development Corporation (NDC) and a foreign investor to revive Kilimanjaro Machine Tools industry. Cement production project in Mtwara stopped because shareholders had been badly affected by the crisis. The nickel project to the tunes of USD 165 million was postponed and mineral exploration investments dropped by 50% from USD 90 million to 40 million annually.

The reduced FDI inflows has a lot of implications due to the benefits of such investments in most developing countries in general and Tanzania in particular. According to Ngowi (2009f), benefits of FDI in the development of host economies is widely acknowledged. See for example, Dunning (1994), Blomstrøm and Kokko (1997), Røvik and Frøyen (1997), Ayiku (1995) and Ngowi (2001a, 2001c).

The roles cited by the authors above include but are not limited to capital formation; contribution in gross domestic product (GDP); increased government revenue from, among other things taxation of FDI projects; employment creation; increased output; increased export and therefore foreign exchange earnings; import reduction for market-seeking FDIs; introduction of modern, up to date, advanced and state-of-the art technologies; linkages with the rest of the economy – for example linkage between plantation agriculture and agro-processing, packaging and transport industry; better and superior management, organization, marketing and production skills. When FDIs shy away from Tanzania due to the crisis then it implies that these and other benefits that the country could benefit will not be forthcoming.

The crisis has affected various sectors of the economies in many countries. In Tanzanian economy for example, the crisis has affected various sectors differently as partly documented in what follows.

Tourism Sector

Has experienced reduced tourist visits of about 10% in Mainland and 10.4% in Zanzibar. Tourism income in the mainland was reduced in the first quarter of 2009 (USD 241.7 million) compared to USD 283.3 million in the same period in 2008. Tourist's number was expected to drop by between 15% and 50% in Zanzibar in the 2009/10 season.

The Guardian (Sunday, January 4th, 2009: 1 – 2), reports a decline by 30% in tourism due to the crisis. The implications of the decline include reduced foreign currency earning and other kinds of incomes in the various nodes of the sector. The nodes include the aviation industry, foreign exchange bureau, transport industry, hotel and related industries among others.

Agriculture Sector

Export of agricultural products declined. About 124,344 bails of cotton remained unsold by April 2009, with cotton price declining from between 400 and 540 Tshs per kilogram to 370 Tshs; coffee production in 2008/09 season was over 60,000 tones. Only 10,000 tones could be sold with price of Arabica coffee declining from 140 to 104.21 USD by kilogram and Robusta price from USD 91 to 64 per bag. Export of horticultural products has declined by about 25%.

Mining Sector

Prices of such minerals as diamond, tanzanite, copper, nickel and aluminum declined, with tanzanite price declining by about 50% to USD200 per carat. The decline in mineral prices (except gold) negatively affected investments in the sector and associated employments and incomes.

Industrial Sector

Textile industries that depend on export markets were severely affected by being unable to export. These include Sun Flag, 21st Century, Tabora Textile, Mbeya Textile and Kilitex. Tannery industries were affected by declining skin and hides price from USD 1,500 to USD 500 per tone for salt-dried skin and from USD 1,100 to USD 350 per tone for raw skin.

Cotton sub-sector

According to The Guardian (ibid), revenues in various sectors have been reported to be highly affected by the crisis. These include a decline of exports by 44% in the cotton industry due to over 120,000 bales of cotton that could not be exported from mainly the lake Victoria regions of Mwanza, Shinyanga and Tabora. The inability to export was directly attributed to reduced demand abroad. The reduced revenues were also attributed to the declined price of cotton amidst shrinking global demand of the commodity.

Coffee, Nile Perch and Food Sub-sectors

The Guardian (ibid) reports a further decline by 32% in the coffee industry; a decline by 50% in the Nile Perch industry and 22% in food prices in Tanzania. Taking into account the inter-sectoral linkages and multiplier effects, the negative impacts reported above should have many, far-reaching and profound negative implications to many other sectors, people and institutions involved in them directly and indirectly in the context of commodity chain, among others.

Financial Sector

Banks that had advanced loans to various investors suffered from borrowers' inability to repay. Some cooperative unions and about 24 companies borrowed from CRDB bank and were unable to repay. Two cooperative union Shinyanga Regional Cooperative Union (SHIRECU) and Nyanza Cooperative Union (NCU) borrowed some 6.6 billion Tshs to purchase cotton but were unable to pay 4.6 billion (70%) out of the sum. Out of the 24 companies that borrowed from CRDB only 4 (16%) ere credit-worth after borrowing.

The researcher is of the opinion that if the crisis continued for a couple of years, Tanzania and other African countries could experience a third round effect of the crisis. This round would be similar to the first round of the crisis where the transmission mechanism was the financial sector. This opinion is based on the fact that there is likely to be very limited liquidity with which to bail out banks whose clients would be unable to repay loans.

Stressed banks and other financial institutions would sooner rather than later be unable to continue with business as usual if advanced credits are not paid. The long term implication of this is a collapse of the financial sector in these countries as was the case in the first round effect in developed countries. That is why the need for banks to conduct stress test and countries' monetary authority to monitor and regulate actors in the financial sector should not be ignored.

Adei (2010) correctly noted that financial sectors in sub-Saharan Africa are vulnerable to several risks that could still unfold from the crisis. Unlike in developed economies, there has been no systemic banking crisis in sub- Saharan Africa. Commercial banks and other financial institutions in this part of the world remained largely sound. IMF (2009) correctly points out that cross-border banking system linkages are minimal in Africa. There is less exposure to complex financial products. Financial systems in the continent are generally not well integrated with other global financial markets.

According to IMF (ibid), with continuous crisis, risks could grow because a protracted economic slowdown elevates credit risk. Financial sector is vulnerable to a substantial weakening in client incomes and debt servicing capabilities. Banks could also incur losses on other financial assets such as deposits with troubled correspondent banks.

Due to declines in the prices of most commodities, major industries, such as timber, mineral and cotton have been hard hit by the crisis as has been the case to tourism and other sectors. Problems in these sectors could quickly affect the banking sector due to interconnectedness and multiplier effect.

Due to the crisis, parent banks investing in Africa could withdraw funds from subsidiaries and local banks and negatively affect the sector in Africa. Besides the possible withdrawal, there can be stopping of investing local profits in local subsidiaries. This calls for among other things, monitoring of the sector vigilantly in order to minimize vulnerabilities and mitigate risks.

According to Ssonko (2009), the crisis has affected among other sector, the financial one in Uganda. Citing Ssewanyana et al (2000), he argues that as a result of the crisis, Uganda's financial sector has been affected by the drop in demand for government securities, as investors retreat to safer destinations. For example the Bank of Uganda (BoU) had to suspend a number of Treasury bill auctions in the first quarter of 2009. Citing BoU (2009), the author informs that in order to encourage lending the BoU cut its lending rate to the commercial banks by 3.4 percentage points, from 19.3% to 15.8%.

The author points out that the structure of Uganda's banking sector raises concern because about 80% of the banking business is foreign owned (mainly by banks from South Africa, the UK, Nigeria and Kenya). This is seen as posing potential risks to the economy since the local banks could face difficulties if due to the crisis their parent companies abroad withdrew funds to support their operations at home as documented in IMF (2009).

According to the BoU (ibid) however, the banking sector was sound and stable. Its capital adequacy ratios were said to be well above the regulatory requirements. BoU admitted that Uganda is a home to subsidiaries in international banks. However, it was of the view that the local subsidiaries have no exposures to the subprime products of other toxic debts. While some banks such as Citi Bank International and Barclays Bank (Uganda) Ltd have their own capital base and no exposure to the toxic assets, the two subsidiaries have a stand-alone capital requirements and are decoupled from the parents. Nevertheless, while solvency is not an issue, the global banking system has not wholly escaped being affected by the global financial crisis.

Ssoko (ibid) citing BoU (ibid) informs further that the abrupt decline in capital inflows has contributed to the reduction of liquidity in the banking system in Uganda. There is also some anecdotal evidence that some large local companies access to credit abroad was curtailed causing an increase in domestic demand for credit. This is further reflected by the nominal average interest rates which peaked at 23.2% in August 2008, but declined subsequently to 18.9% in January 2009.

However, the rates increased to 20.9%. in March 2009. According the MFPED (2009), this increase to the corporate demand for locally loanable funds went up following a switch by companies which were previously borrowing from abroad to the domestic banking system.

The impacts in the financial sector partly forms the major area of focus in this study. It is expounded further in the detailed literature review part of this work.

4. Responses to the Crisis

The impacts of the crisis necessarily called for a number of responses at the individual, household, community, national, sub-regional, regional and global levels. Whereas some responses have aimed at stopping the spread of the crisis and its many negative impacts, others have aimed at reducing possibilities of a future crisis and at best prevent one all together. Other responses have taken the form of exploiting the opportunities that unfolded from the crisis.

At the global level, responses have included several meetings, resolutions and interventions to address the crisis by the United Nations (UN) and its various agencies/organizations, the World Bank (WB), the International Monetary Fund (IMF), the group of eight richest countries (G8) and the group of richest twenty countries (G20). There have also been a number of responses at continental and sub-regional levels. At continental level, inter alia, the Association of African Public Administration and Management (AAPAM) held a round table conference on the crisis in Nairobi Kenya (21st to 25th September 2009). At the East African Community (EAC) level inter alia, the East African Business Council (EABC) held a workshop on the crisis in 2009.

At national level, responses have included various policy measures including use of fiscal and monetary policies and their instruments. Part of policy responses have included issuing of stimulus packages that have aimed at stimulating economic activities through increased aggregate demand. Stimulus packages have aimed at, inter alia, raising aggregate demand through creating and maintaining jobs and incomes.

Stimulus packages have been seen both in developed, emerging and developing economies. In the developed economies, stimulus packages have been seen in such countries as USA, Germany and Japan. In the emerging markets the greatest stimulus packages have arguably been those in China. In developing economies, a stimulus package has been seen in inter alia Tanzania where a total of 1.7 trillion Tanzanian Shillings were set aside as stimulus package in the 2009/2010 national budget.

There have also been policy responses in form of bail out plans for specific and strategic sectors, industries and firms. The focus has mainly been on those firms that are too large to fail due to their systemic importance. These are firms that play crucial roles in national and even global economy whose collapse due to the crisis would trigger collapse in many other related and linked economic activities. Bail outs have been mainly seen in the developed world including USA, Japan and in West European countries where the motor industry has been among the targets for bail out plans.

At the firm level, responses have included various cost-reducing measures like reducing and even stopping production, seeking for bankruptcy protection, foreclosures, laying off employees and even taking advantages of the opportunities unfolding from the crisis. At household and individual levels, responses have included change in life style and various cost-reduction measures.

Works that have dwelled on responses to the crisis include those of the ILO (2008) on a global policy package to address the global crisis; ILO (2009a) on tackling the global job crisis and recovery through descent work policies; ILO (2009b) on the financial and economic crisis: a descent work response; AfDB (2009) on response to the economic impact of the financial crisis; and Aryeetey (2009) on the global financial crisis and domestic resource mobilization in Africa.

Other works on responses to the crisis include IMF (2009) on world economic outlook: crisis and recovery; Krugman (2008) on bad anti-stimulus arguments; Ngowi (2010b) on the current global financial crisis: its impacts and solutions in Tanzania; Ngowi (2009d) on whether the 2009/10 Tanzanian budget could offer recovery from the crisis; UN (2008) on calling for decisive action to lessen impacts of the global economic crisis; and Soji-Eze (2009) on six measures identified by the ILO to address crisis.

The work of Fagbohun (2009) dwelt on global financial crisis and corporate environmental governance with a focus on rethinking rationalizations. Barrell et al (2009) worked on fiscal stimulus to address the effects of the global financial crisis on Sub-Sahara Africa while Tumusiime-Mutebire (2009) looked at the global financial crisis and its impact on Uganda and policy response. Walsh (2008) worked on responses to the crisis through going green and asks whether the environment will lose out to the economy or not.

5. Need for Paradigm Shift in Africa's Economic Development: Lessons From GFEC

The 2008 GFEC has resulted into a new normal. The normal is characterized by a number of abnormal economic conditions across the globe. These include but are not limited to extra hard economic hardships across countries; huge fiscal deficits in developed countries of North America and Europe in General and Euro zone in particular; sovereign debts in Europe in General and Euro zone in particular; austerity measures and protests against the same in the more developed world in general and England and Euro zone in particular and reduced investment flows.

All these conditions call for radical paradigm shifts in Africa's economic development efforts. Among the needed paradigm shifts in the context of the lessons of the 2008 GFEC include paradigm shifts in external markets dependence; donor dependence; dependence on investment and trade flows from developed world; need to look East; and state interventions in the markets. Some of these needed paradigm shifts in Africa's development thinking are discussed here.

External Markets Dependence

Among the factors that have held back Africa's economic development is the continent's huge dependence on external markets. The continent's countries have focused much in exporting most of their raw products to Europe, North America and Asia. African countries have been exporting unprocessed minerals, agricultural commodities, timber and fish without substantial value-addition through processing. This implies export of value addition/processing jobs and associated incomto the raw materials importing countries

The 2008 GFEC should have shown African countries that external markets dependency is not necessarily a good developmental strategy. The crisis has substantially reduced demand of goods and services from Africa. For example, demand for commodities like cotton, coffee and horticultural products from Tanzania and Kenya; copper from Zambia and Democratic Republic of Congo (DRC); diamond from Botswana inter alia were all times low at the peak of the 2008 GFEC. The decline in demand for the commodities from Africa affected incomes and employments in the African countries. It is only gold that did not experience decline in demand. This is due to its historical position in the international monetary system.

Part of responses to the crisis by some countries took the form of protectionism. Countries introduced protectionist measures to stimulate their own economies by arguing consumers to buy 'home made' godos and services. Such slogans as 'buy American' are part of elaborations of protectionism. The iimplication here is that godos and services from Africa would get extra challenges in entering these external markets that are protected as part of responses to the crisis.

The challenges posed by the 2008 GFEC on countries depending much on American and European external markets imply the need for paradigm shifts towards more domestic and sub-regional and regional markets. Domestic markets development strategies would include increasing the size and purchasing power of domestic consumers and most importantly processing domestically the raw materials that have been exported unprocessed. For example, instead of exporting raw cotton and importing finished textile material these could be processed and sold domestically as final products.

Paradigm shifts from American and European markets to African sub-regional and regional markets implies developing of more powerful, vibrant, dynamic and functioning regional trading blocks (RTBs). These range from preferential trade area (PTA), custom unión, common markets and common monetary unions. More development of such RTBs implies more beneficial inter-regional trade among African countries. There is therefore a need to develop more the existing RTBs in Africa. These include but are not limited to the Economic Community for West African States (ECOWAS), the East African Community (EAC) and Southern African Development Community (SADC). It is acknowledged that it is not everything that can be traded within the African internal markets. Where commodities have to be sold outside the African markets and indeed even when selling within the African market, domestic value addition is extremely important for better developmental outcomes.

Donor dependence

Most African countries have been highly donor-dependent in their development efforts. They have traditionally dependent substantially from mainly their former colonial masters and other so called development partners (DPs) for aid. The aid has been bilateral, multilateral and even from individuals and the corporate world. Some countries including Tanzania have been factoring-in substantial amount (up to over 30%) of donor aid in their budgets in general and development expendititure in particular. In the new normal, the DPs are severely affected by the 2008 GFEC and responses for the same.

The new normal is one of contracted economies, contracted business activities, reduced government incomes, reduced Gross Domestic Products (GDP) across countries, generous stimulus packages and bailing out expenditures by government, high sovereign debts, controvetrsial and unpopular austerity measures and needs to bail out and beeing bailed out especially in the Euro zone. In such a new normal which is abnormal, traditional donors should be finding it hard to extend aid to aid-dependent African countries. Even where aid still flows, the promissed amounts and time of delivery are likely to be frustrated by the impacts of the GFEC and response of the same. Generally countries do give between zero and 1% of their GDP as Official Development Assistance (ODA). Even if the same percentages are given, the absolute amounts will be reduced in a new normal characterized by contracted GDPs.

Countries that are in need of aid due to the GFEC have increased substanially. This can be seen by looking at all those Euro zone counties that had to be bailed out. They include Portugal, Ireland, Italy, Greece and Spain (the PIIGS group of countries) and even the strong French economy. There have been several attempts by the European Union (EU) under Germany leadership and the International Monetary Fund (IMF) to bail out these depressed economies.

All these imply that there is a need for Africa's paradigm shift from donor dependence in its development strategies to more self sufficience. There is also a need of depending more on trade than aid for the development of Africa. Aid should help Africa to aid itself in its sustainable development endeavours. This is as important for countries as is for Civil Society Organizations (CSOs) that have been highly dependent on donor funding for their development. Knowing that donor funds may not be as forthcoming as hitherto the 2008 GFEC, African countries should see this as an opportunity to strengthen domestic revenue collection and practice extra prudence and care in the expenditure of the same.

The author of this paper has written a news paper article on budget donor dependence in Tanzania in his weekly newspaper column in The Citizen on Saturday. Part of the article is presented in the box below.

Box 3: Challenges of budget donor-dependence in current global economic situation

Issues dominating the 20111/12 Tanzanian budget discussions include but are not limited to the sources of budgetary funds and the allocation of the same to various expenditure posts. Among the issues in relation to budgetary sources of funds include the rather high donor dependence in financing budgets. Tanzania has experienced budget donor dependence to the tunes of over 30%. Given the current global economic situation in general and in the donor community in particular, budget donor-dependence deserves a discussion.

The current global economic situation

The current global economic situation is one in which the donors are still in huge troubles. They are still in the aftermath of the global financial and economic crisis and responses to the same. The scars and in some places the wounds of crisis the year 2008 are still visible and felt. The Euro zone which contains among the Tanzania's major donors is in crisis as it struggles to bail out its 'sinful' peripheral economies of Greece, Ireland and now Portugal and may be soon Spain! This is due to huge fiscal deficits suffered by these peripheral Euro-zone economies leading to colossal sovereign debts. The debts in turn are worrying the markets that are in fear of default by these troubled economies.

The fiscal deficits are emanating from the stimulus packages and bail out expenditures when the crisis was at its climax. Euro zone countries and United Kingdom are embracing austerity economics as part of fighting fiscal deficits. Austerity economics is not good for the global economy. It is all about cutting costs including costs of official development assistance in forms of, inter alia, General Budget Support (GBS).

Can Tanzania kiss goodbye donor dependence?

Much as one would have wanted Tanzania to kiss it goodbye d, donor dependence seems to be here to stay for a while. It will be a very tall order to reduce donor dependence for the Tanzanian-type economy. This is because the fiscal health of the economy does not seem to be good enough to support own sources of funds. Internal revenue collection does not seem to be adequate to meet the needed budgetary financial resources. The tax base is rather narrow, collection mechanisms are inefficient and tax evasion and avoidance as well as exemptions seem to be too many.

Alternative solutions for Tanzania

Some alternative ways to fund the budget should donor funds and domestic revenue not be forthcoming, are outlined here. One is likely to see borrowing from internal and external sources. This may come from such money market segments as commercial and development banks. Should this necessary evil be subscribed to, borrowing from domestic development banks for development expenditure would be a lesser evil than borrowing from external commercial financial houses. The so called development partners withdrew their massive funds at the eleventh hour of the 2010/11 budgetary process. Tanzania chose an evil which is not the lesser one, by borrowing from domestic commercial banks. Had there been strong and capable domestic commercial banks this would have been the lesser evil.

External sources of funding the budget (donor funding excluded) include borrowing from the international money market in form of issuing Eurobond. This is however a tall order and lengthy procedure. Rating agencies like Moodys, Fitch and Standard and Poors will have to rank the country based on rather strict and objective criteria. The country has therefore to put its house in order before the rating agencies come here.

Source: Ngowi (2011)

Dependence of investments from the West

African countries depend greatly on foreign direct investments (FDIs) inflows from the tradional FDI triad sources of North America, Europe and Asia especially Japan. These are mainly resource – seeking, marketing-seeking and efficiency-seeking. They enter the continent through various entry modes as documented in Ngowi (2002, 2011b). The entry modes include Meagre and Aquisitions (M&As), greenfield investments and browfield investments.

The GFEC has affected FDI inflows due to inter alia, dryining out of investment funds from investment banks, loss of investment appetite due to high risks in such times as these of the new normal which is abnormal as well as due to decline in aggregate demand emanating from all-times low consumers sentiments.

FDIs have been described as engines of economic growth and development in host economies including those in Africa. Some of the potential benefits that FDIs can bring in host economies have been documented in the literature. The literature include Ngowi (2000, 2001, 2003, 2004, 2007); Ayiku (1995); Blomstrøm and Kokko (1994 and 1997); Bos et al (1974); Dunning et al (1994); Eriksson (1990); ILO (1981); Kaira and Ogolen (1993); Marton (1986); Motta, Fosfuri and Rønde (1999); OECD (1999) and Saltz (1992). Generally the potential roles include creation of direct and indirect employment, source of investment capital, source of government revenues, source of technology transfer, provision of markets access, provision of various social corporate responsibilities including community development projects and much more.

In the new normal created by the 2008 GFEC, one expects less FDI inflows to Africa from the North America and Europe. By extension, the benefits associated with these inflows will also be less. The implication for African countries that have been depending on these FDI sources for their development is that they need a paradigm shift. Among other things, there is need to promote and develop local investors within countries and look for regional (Africa) sources of FDIs. The other paradigm shift in this context is to diversify sources of FDIs by looking into and attracting investors from unorthodox FDI sources including the East (China and India in particular), Turkey and South America including such giants as Brazil and Argentina. It is recognized however that FDIs from China for example have been criticized for the good governance, democracy and human rights questions that are normally not asked by Beijing when investing in Africa.

Dependence on remittances from the West

African countries such as Nigeria, Ghana and Kenya have been depending on remittances from its sons and daughters in the Diaspora as part of its foreign exchange earning. In some countries for example Kenya, remittances are said to have been more than ODAs and other countries more than FDI inflows in monetary magnitude terms. The remittances have been essential sources of foreign exchange earnings thereby improving Balance of Payment (BoP) accounts of the recepient countries. Remittances also help in improving foreign reserve positions of recepient countries thereby increasing number of months of import coverage of these countries. At micro-level, remittances in some countries are important at household and individual levels. They help to finance various services including education and health as well as in various investments including in busineses and residential housing.

The new normal is characterized by contracting businesses and general economic activities, reduction in governments expenditures due to austerity measures in some countries mainly in England and the Euro zone, and loss and reduction of employment and associated incomes. The lost and reduced jobs and associated incomes imply less remittances from the African Diasporians to their various mother countries. By extensión it implies less foreign exchange in flows into the continent, less foreign exchange in governments coffers, disturbed BoP accounts in form of widening déficits, reduced foreign exchange reserves and resultant reduction in the number of months of import support.

The need for paradigm shift in the African countries that rely heavily on remitatnces in such times as these of the new normal cannot be overemphasized. With the remittance source of foreign exchange challenged by the 2008 GFEC, African countries need to rethink and diversify their sources of foreign exchange earnings. Inter alia, these countries need to improve their export quantities and qualities of goods and services, increase incoming tourists and other sources of foreign exchange earnings. There is also a need for extra careful use of the available foreign exchange in supporting imports. Only the necessary goods and services should be imported in the bid to save foreign currencies in the new normal of very limited foreign currency earnings in African countries.

Need to look East

Most African countries have been looking to the West (North America and Europe) in their various development efforts. These include aid, investments and trade. As outlined earlier in this paper, the new normal brought about by the 2008 GFEC has affected aid, investments and trade emanating from the West and destined to Africa. This calls for the continent to look not only to the West but also to the East. There is a need to diversify sources of aid, trade and investments so as to include Eastern countries like China, India, the Gulf and South Korea. They should also look to South America including Brazil and Argentine.

Governments' interventions in markets

As part of responses to the 2008 GFEC, many governments intervened in the markets after the market failures. Countries, even those in the capitalist stronghold borrowed from the school of thought of Lord John Maynard Keynes. This was also done in the earlier crises including the Great Depression of the 1930s. The role of the government to correct market failures has been seen in many countries since the crisis saw the light of the day. There have been many instances of paradigm shift from the Anglo – Saxon school of thought and entry of Keynesian economics school of thought. There have been many instances of paradigm shift from the free interplay of market forces of supply and demand to interventionist states. There has been exits of the Wall

Street and entry of the White House in the market place. The concept of self-regulating markets has been proved wrong and capitalism has been severely tested. All this implies that a blind subscription to and copy and paste of the market economy ruled by free interplay of market forces of supply and demand should not be a recipe for Africa's development. The long arm of the government should be more seen in the economic development strategies in Africa.

6. Conclusions

The 2008 GFEC has radically changed the world economy. It has affected a number of economic variables at macro and micro level. Among other things, it has affected the aid (ODA) and remittances industries. It has also affected trade and investments as well as the extent of governments interventions in the market. All these imply that countries in general and those in Africa in particular have to shift their development paradigms so as to reflect the new situation on the ground. The new normal created by the 2008 GFEC necessarily call for African countries to shift their development paradigms in all the areas that have been affected by the crisis. These areas include but are not limited to official development assistance (ODA), trade, investments and remittances from the Diaspora.

7. Policy implications

A number of policy implications emanate from this paper. The key ones include the need of the African countries to rethink their development strategies in the areas of trade, investments, aid, tourism and remittances based on the lessons of the 2008 GFEC.

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