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THE IMPACTS OF THE INTERNATIONAL FINANCIAL CRISIS ON WEST AFRICA

Information on the impact of the international financial crisis fluctuates between optimism and fear. Authorities in the Franc zone avow that their banking system is safe. On the other hand, the Nigeria's two parliament houses met urgently for a marathon debate and the World Bank announced that if the banking systems should be affected at all, it would be much more their capital flows. What is your analysis?

It is true that the prevailing opinion is that the African economies are not very exposed and are thus “protected” from the after-effects. But no one anywhere is safe from the effects of a crisis of this scope. There are no isolated circumstances in such a serious situation.

The more modern and globalised the banking system, the more it is affected. The banking systems of South Africa, Egypt, Nigeria and, less so, the Maghreb countries, will be the most affected because they are the most exposed to the outside world. The banks of these countries depend very much on short-term capital. The more dynamic an economy, the more it depends on short-term capital.

In West Africa, Nigeria's banking system is the least immune. The country very recently completed a serious and courageous restructuring of its banking system at the urging of the Central Bank. Twenty-five small banks created five large groups better adapted to the size and dynamism of the national economy. Nigeria's banks should correspond to the size of the economy. It is not normal that the fifty biggest banks on the continent are almost all South African. The crisis comes at a time of recent merges which are still shaky. The Nigerian banks could face difficulties in mobilising short-term capital needed to be injected into the stock market and finance the economy. Therein lays the injustice. This country, as it were, is going to pay the price for modernising its banking sector and its economy. Ghana is practically in the same position. The more dynamic an economy is, the more it is incorporated into globalisation, the more it consumes short-term working capital and thus the more it is exposed to the crisis.

Conversely, the countries in the Franc zone are protected by their “antiquated” banking system. Their economies are much less banked than those of Ghana and Nigeria and the big Anglo-Saxon banks have little influence there. Moreover, the banks there deal in working capital, mostly in Central Africa. This excess liquidity, which is normally a failing, becomes a protection.

We can thus fear that there will be, at least in the Maghreb, Nigeria and Ghana, short-term difficulties to finance business?

Generally, all the activities that need to be financed by short-term borrowed liquidity could suffer over time. This is currently the case in maritime transport. Banks have abolished many short-term credits which ship-owners constantly need. A sharp drop in freight rates will be a fear over the coming weeks. This could have an impact on the prices of raw materials.

In addition to the banking crisis, could the anticipated recession in Europe and North America threaten West African growth?

Don't forget China, India and other rapidly emerging economies. In the medium-term, these are the economies which will carry world growth, even if Europe and the United States are entering into a recession. If the Chinese growth rate goes from 10 to 6-8%, it is still a lot. The demand for raw materials will continue to increase but less rapidly. In Africa, growth should also continue but at a slower pace than foreseen.

It is frustrating. These external events will hinder economies from developing although the internal, intrinsic fundamentals are good. In my country, Benin, the IMF forecasted good economic growth prior to the crisis. Today, these forecasts have been revised with a decline. The economy of Benin will continue to grow but less rapidly. Foreign Direct Investment will be less important, as will emigrants' remittances.

One of the visible consequences of the crisis is the collapse of raw material prices, notably agricultural. This is good news if we remember the "food riots". Are food prices going to drop?

It is true that world prices have dropped enormously. This is explained by the exceptional global cereal harvest as much as the hedge fund debacle which greatly relied on these products. But fundamentally I see that West African agriculture, helped by the good climatic conditions – has risen to this challenge which it was facing with the sharp rise of prices. Much more was produced in 2008 than in 2007. Supply's flexibility has been established; much more corn and less cotton were produced.

However, I believe that this will not change anything in the basic trends. There will not be a lasting lull. Experts think that the prices related to agricultural products are going to continue to increase. Pure speculation in determining these prices will be less important and the pendulum swings less extreme, but fundamentally, do not forget that China, India and other emerging countries are going to continue to express growing demand.

And what about the psychological and political effects? Frustration and bitterness is felt in Africa regarding the fact that "you made us privatize everything and you nationalise your banks!" Many comparisons are made between the thousands of billions of dollars or Euros made available in several days to save the Northern banks and the difficulties to increase several billions of development aid.

It is irritating to have been given decades of lessons, to have had forced liberalisation beyond that which developing countries impose on themselves. We cannot dispute the frustration that you are talking about. But we should not exaggerate by advocating going back to "total State intervention." The structural adjustments led to exceptional economic progress in some areas.

In telecommunications, privatisation enabled unprecedented growth thanks to private investment which no State could have provided.

On the other hand, in agriculture, we have certainly gone too far. Thus, we see African States returning more to State intervention because pure market liberalisation has not enabled a balanced growth. Agricultural policies are back on the agenda. Regulation is vital. It is true that from now on, the “North” will have a more difficult time than before convincing Africa otherwise.



Presentation

Born in Paris in 1954 to a Beninois father and a French mother, Lionel Zinsou was 17 years old when the Republic of Dahomey became the People’s Republic of Benin. He was estranged from his homeland for 20 years while leading a successful career in France after receiving his degree from the École Normale Supérieure in Paris. Involved in economic science, economic history and economic development, he has taught, consulted for the United Nations Development Program (UNDP, as well as headed the mission for two French Economic Ministers (Laurent Fabius and Pierre Dreyfus). He has also been involved in the private sector as the Development Director for Danone, mergers/acquisitions expert for the Rothschild Bank and since 1 June 2008, co-Director General of Paribas Affaires Industrielles. He is a member of the Board of Directors of the French newspaper, Libération. In Benin, Lionel Zinsou is an economic operator – through the CSEB (a company providing Benin businesses with industrial cleaning, security, and computer services) – and a cultural operator – through the Fondation Zinsou, which organises artistic events. For several months, Lionel Zinsou has also been the special advisor to the President of Benin, Yayi Boni.