

**Impact of Global Economic Crisis on African Countries:
Policy Responses and Options**

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Abstract

African countries have not been isolated from the impact of the downturn in global growth. What are the major channels through which the global financial and economic crisis could spread to African countries and how are the effects being felt in African countries? Which African countries will be able to withstand the crisis created by the downturn in developed economies, and which are most at risk? What are the impacts of the crisis on human development and poverty? What are the policy responses at individual country level, regional level and international level? What are the ways out of the crisis and to mitigate its impact in African countries? The mechanisms through which the crisis is affecting Africa include a contraction in global trade and a related collapse in primary commodity exports, on which many countries are dependent. Foreign investment and migrant worker remittances are also expected to decrease significantly, and some analysts predict cuts in foreign aid in the medium term if the crisis persists. Africa's most powerful economies have proven particularly vulnerable to the downturn. Risks are rising and it is uncertain how long the crisis will last. African economies did not contribute to the cause of the economic decline but, as casualties of the crisis, African countries can do very little in a direct sense to solve the problem. The latter will depend on efforts in the major industrialized countries to restore the financial system and increase aggregate demand. Should this fail, the economic regression will deepen and be prolonged. Policy makers must walk a tightrope between not aggravating the shock in aggregate demand on the one hand, while protecting hard-won gains in economic fundamentals on the other. Any policy response must also take into account the impact on the poor and seek to incorporate social safety nets.

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Background

The global financial crisis was triggered by the bursting of the United States housing bubble in 2007 and the reverberations of this are now being felt throughout the world. It is causing a considerable slowdown in most developed countries and the world trade volumes plummeted and industrial production fell drastically. The global economy is teetering on the brink of recession. World growth in 2009 is expected to decline to its lowest rate in 60 years. In the developing world the knock-on effects from the financial instability and uncertainty in industrialised nations are starting to take hold. The crisis was greatly exacerbated by the behaviour of banks, which has inevitably made the position of any country that has borrowed money worse off. The Sub-Saharan Africa (henceforth, "Africa") was largely insulated from the initial stages of the financial crisis as the majority of the countries in the region are de-linked from the international financial markets. However, with the worsening of the global financial and economic crisis, the region as a whole has now been exposed to the downturn, and growth estimates have been continually lowered from 5 percent in 2008 to 1.7 percent in April 2009 (IMF, 2009a). The sharp fall in commodity prices that has accompanied the slowdown is particularly concerning for

African economies, many of which are heavily dependent on commodity exports as their primary source of export revenue. By the end of 2009, developing countries may have lost incomes of at least \$750 billion – more than \$50 billion in sub-Saharan Africa. The human consequences include rising unemployment, poverty and hunger, and an additional 50 million people trapped in absolute poverty, with the number expected to rise to 90 million by December 2010 (DFID, 2009). The additional revenue streams such as tourism and remittances from African workers abroad are also expected to fall, and foreign aid is predicted to decrease, particularly if the crisis persists.

Most African states are “highly exposed and vulnerable to the effects of the crisis” (Africa Progress Panel, 2009). The average economic growth in Africa will slow from an average of over 6% per year over the past five years - a historic high - to 1.5% in 2009 (IMF, 2009a). The crisis is expected to dampen prospects for reducing African poverty, as at least 7% annual growth is generally considered necessary for outpacing population growth and making significant progress in alleviating the toll of hunger, unemployment, and disease (AfDB, 2009). The anticipated negative growth in some countries, including in Africa’s largest economy by far, South Africa, may have further ripple effects for smaller neighbouring economies who depend on regional powerhouses for trade, remittances, and employment. Unemployment - already high in all African countries – is expected to rise, with potential implications for political stability as well.

African economies in particular can be regarded as very vulnerable to the global economic crisis. This becomes clear if the nature of the transmission mechanism of the crisis from the developed world to African economies is considered. The transmission mechanism is determined by two essential characteristics of African economies. Although even a superficial overview of African economies will reveal the heterogeneity of African economies it is possible to highlight two features. The first concerns the export-oriented nature of economic activity, as revealed by their high per capita export/GDP ratios. The exposure to exports is reflected in the ratio of per capita exports to per capita GDP. The ratios for the average values (expressed in US dollars) of exports and GDP for the period 2000-3 reveals that the per capita exports to GDP is 33.4 per cent for 10 countries of Southern Africa, 40.6 per cent for 15 West African countries and 44.6 per cent for Central Africa (AfDB, 2005). Adding imports to exports (foreign trade), the trade/GDP ratio reveals African economies to be relatively open. In 2006 the average trade/GDP ratio in African came to 60.8 per cent, which was significantly higher than the 44.1 per cent for the world’s low-income countries (World Bank, 2008).

Many African economies depend on the export of primary commodities - both minerals and agricultural products - as revealed in high levels of export concentration. In 2005 no less than 14 of 52 African economies depended on one export commodity for more than 75 per cent of total exports, while in a further 22 economies two to five commodities were responsible for more than 75 per cent of exports. Of the 14 economies that depend on a single commodity for more than 75 per cent of export earnings, crude oil is the dominant export commodity in seven countries (AfDB, 2007). In those cases where manufactured exports are significant, export goods tend to be concentrated in labour intensive goods (usually in textiles and garment production as is the case in Lesotho) that depend on preferential market access to the world’s major markets. The African Growth and Opportunity Act (AGOA), which provides for preferential access to the US

market, is an example of such preferential access. The second characteristic is that African economies depend on foreign savings to maintain macroeconomic stability and development programmes. Most African economies fall in the low and lower-middle income category. In fact, no fewer than 33 of the 50 countries classified by the United Nations as least developed countries (LDCs) are African economies. They have weak and narrow tax bases, which explain their high propensity to levy trade taxes, a high need for government spending on social services and development, and investment spending that exceeds the domestic savings capacity.

With above backdrop, an attempt has been made to answer the following questions: What are the major channels through which the global financial and economic crisis could spread to African countries and how are the effects being felt in African countries? Which African countries will be able to withstand the crisis created by the downturn in developed economies, and which are most at risk? What are the impacts of the crisis on human development and poverty? What are the policy responses at individual country level, regional level and international level? and What are the ways out of the crisis and to mitigate its impact in African countries?

Major channels of transmission of the financial crisis

Many African countries are dependent on foreign finance inflows and are even more dependent on commodity based export growth (Naude, 2009), which exposed them to shocks. Although Africa is the least integrated region, it could actually be the worst hit. Given that Africa is already the most conflict ridden continent in the world, an exacerbation of resource scarcity could increase conflict across the continent. Emerging markets (e.g. South Africa, Nigeria, Ghana and Kenya) were hit first through their stock exchanges and financial links with other regions in the world. The crisis has now affected the region's lower income countries (LICs) through indirect channels because they are reliant on the stronger regional economies for trade and remittances. In addition to financial shocks, Africa is also reeling from the food and fuel price shocks of 2007-08. The combination of high food prices and high oil prices has meant that, while the current account of oil and food importers was in balance by 2003, it was in deficit by 4% in 2007. Inflation has also doubled. Many African countries are, therefore, in a bad position to face yet another crisis. The terms of trade shock tend to be highest in small importing countries such as Fiji, Dominica and Swaziland. However, African countries such as Kenya, Malawi and Tanzania are projected to have faced terms of trade shocks of greater than 5% of GDP. Many countries in Africa are already making unsatisfactory progress in their efforts to achieve the Millennium Development Goals (MDGs). This "triple jeopardy" has thrown millions of households into poverty and will further hinder progress (World Bank, 2009). te Velde et al (2009a) and Massa and Velde (2008) found that the main channels through which Sub-Saharan Africa is being affected are: declining private financial flows (portfolio investment flows; foreign direct investment and bond issuances); declining values of trade; decline in workers_ remittances, which are down in nearly all countries; and possible declines in overseas development assistance (ODA).

i. Economic growth

In Africa, GDP growth rates ranged from 5.9 percent to 8.1 percent for about 65 percent of Africa's population during 1997-2007. Although economic growth is not a perfect development indicator, there is a fair consensus that economic growth is necessary for development. In the case of Africa, it has been estimated that an annual average growth rate of 7 per cent should be maintained in order for the continent to achieve at least MDG number one, which is to halve the number of people living on less than \$1 per day. As a result of the financial and economic crises, Africa's expected growth rate for 2009 and 2010 has been substantially revised downwards for 2009 down from 5 per cent in October 2008, to 3.5 per cent in January 2009, and to 1.7 per cent in April 2009. The consequences of such a reduction in growth in Africa are likely to be higher unemployment and poverty; increases in infant mortality; and adverse coping with long-lasting effects such as higher school drop-out rates, reductions in health care, environmental degradation and a rise in conflict (Kwasi and Naude, 2009).

The growth in the African region is likely to decelerate from 5.7% estimated for 2008 to 2.8% in 2009 (AfDB, OECD and ECA, 2009). This is a major setback given that the Africa region has had an average impressive growth rate of real economic output of above 5 per cent since 2000. There is variation in the extent to which the different African countries will be affected by the crisis because of the differences in the economies of the countries. For example, the decline in economic growth in 2009 is expected to be more severe in Angola, Botswana, South Africa, Equatorial Guinea and the Sudan, which are expected to lose more than 4 percentage points in growth. In Egypt, Kenya, Cape Verde, Nigeria, Ethiopia, Tunisia, Namibia, Mozambique, Sierra Leone, Lesotho, Ghana and the Democratic Republic of the Congo, growth is expected to decline by between 2 and 3 percentage points in 2009 (ECA, 2009). Countries that have limited economic diversification and are heavily dependent on external finance for their development could be hit hardest by the crisis.

ii. Export revenues

African countries are most susceptible to shocks affecting their exports, which is mainly due to a low export base, concentrated in a few commodities and great reliance on export revenue for debt servicing and government expenditure. Exports amount to approximately a third of Sub-Saharan GDP. Oil and mineral exporters in particular have benefited greatly from booming prices. The global slowdown is particularly pronounced in countries dependent on commodity exports. While Africa accounts for less than 2% of global trade, many African economies depend on trade in commodity exports, whose prices on the world market have declined drastically due to the global crisis. The price slump in oil and many mineral commodities, combined with decreased external demand, dealt a severe blow to the region: oil and other mineral fuels represented 68% of African exports to the world by value in 2008; ores, slag and ash about 14%; and precious stones about 4%. African countries are thus exporting less on average, and at lower prices, than a year ago. Investor perceptions of risk have exacerbated the impact of falling commodity prices for resource-rich African countries that are also fragile or post-conflict states.

Several other countries depend in part on international tourist arrivals, which declined worldwide by about 8% in the first four months of 2009 compared to 2008 (U.N. World Tourism Organization, 2009). Overall, African countries' export exposure to advanced economies - the

degree to which economic shifts in developed countries may impact African economies through decreased demand for African exports - has increased in recent years. On average, a 1-percentage-point decline in world growth (trade-weighted) is associated with a roughly 0.5-percentage-point drop in GDP growth in Africa (Drummond and Ramirez, 2009). Global trade could drop even further if countries react to the economic crisis by enacting additional trade barriers. African economies face the further risk that the global recession will spark new attempts by developed countries to restrict imports and protect local producers.

Despite trade's potential to serve as a tool for recovery, the use of protectionist measures is on the rise (Siddiqi, 2009). Some analysts fear that policies aimed at encouraging trade with Africa could be threatened by political pressures to become more isolationists (Moss, 2009). The tightening of international credit markets is also expected to render it more difficult for African countries to access trade finance (Dorsey, 2009). In prior financial crises, a drop in the availability of trade finance negatively impacted the operations of private firms in developing countries. However, it is unclear whether the current crisis will have a similar impact (Humphrey, 2009).

In terms of export performance in individual countries, the trade picture for Africa is not without its bright spots. Some countries are experiencing export growth despite the economic downturn, particularly those that have made recent significant investments in infrastructure and resource development. For example, Burkina Faso's export performance is expected to expand rapidly in 2009-2010 due to a recovery in the country's cotton sector, combined with a surge in gold exports as four new mines begin full production. Djibouti, a major cargo transportation hub, is also expected to see rapid growth in export volumes as a new shipping terminal in Doraleh (about 4 miles south of Djibouti's existing port) comes online. In Liberia, revitalization of mineral, timber, rubber, and palm oil production is forecasted to drive export growth, with increased exports of coffee and cocoa also contributing. Export growth in Malawi is expected to be boosted by the expansion of a uranium mine in Kayelekera.

The decreased exports due to fall in commodity prices and reduced demand for African exports thus leading to lower export revenues. The most affected commodities include crude oil; minerals such as copper; and agricultural products such as coffee, cotton and sugar. For example, in Burundi, coffee earnings fell by 36 per cent between October and November 2008 whilst in Angola, Cape Verde, Côte d'Ivoire, agricultural export earnings are expected to decline in 2009 when compared to 2008 (ECA, 2009). In some countries, while export receipts from agricultural products are rising, they are falling short of pre-crisis targets. In Ethiopia, coffee exports in March 2009 were half the target (USD 221 million compared to a target of USD 446.7 million) mainly due to the decline in world prices (AfDB, 2009). Due to the decline in global demand, copper production in the Democratic Republic of Congo (DRC) declined from 34,215 tons in June 2008 to 23,562 tons in October 2008. A similar trend is observed for cobalt and diamonds. As a result, 40 companies in the DRC extractive sector closed at the end of 2008 and over 300,000 jobs were lost (AfDB, 2009).

iii. Terms of trade

Drastic worsening of terms of trade for oil and mineral exporters is already apparent, as is a sharp decline in foreign direct investments (also oil and mineral related to a large extent). During the second half of 2008 oil prices declined by 69% and non-energy commodity prices by 38%. According to some estimates Sub-Saharan export revenues are expected to decline by approximately 40% in 2009 (Ali, 2009). African oil and mineral exporters will hence receive the most immediate impact of the crisis in the form of reduced export revenues and foreign direct investments. The expected loss in growth rates in 2009 as compared to 2008 are particularly severe in previously booming economies such as Angola (-18,5%), Equatorial Guinea (-16,7%), Botswana (-13,3%), and Niger (-6,5%). In South Africa, the most important economy on the continent, negative growth is now projected for 2009. (IMF, 2009b)

Oil prices fell from their peak of US\$147 per barrel in June 2008 to a recent low of US\$ 40.50 a barrel. The price of copper fell from about US\$ 4.10 per pound to under US\$1.40 per pound, and cobalt fell from US\$53 per pound to about US\$13. For oil and mineral importing countries, this is good news as the import bill will be cut down. However, for oil and mineral exporting countries, the sharp decline of prices has had a ripple effect on external reserves, a depreciating currency, declining capital inflows, shrinking export markets and declining export-import trade financing. Zambia, for example, enjoyed increase of prices of copper for some years. In the third quarter of 2008, total copper export earnings dropped 32.6% to US\$758 million, compared with US\$1.2 billion the previous year. Botswana's economy remains over-reliant on minerals - especially diamonds - which account for about half of government revenues, one-third of GDP and more than 70% of export revenues. Diamond revenues are expected to decline by half in 2009, with prices estimated to slump by 15% and production by 35%. Because of higher commodity prices before the crisis, some of the exporting countries had already initiated major operations to increase supply, with the economic downturn and the resultant contraction in demand, there have been closures of mining operations, the suspension or cancellation of projects in sectors hardest-hit. Both the labour market and the government fiscal position have been negatively affected by such responses. As for countries which do not have a heavy reliance on oil and mineral exports, the terms of trade shock is not as big, but the contraction of exports is also apparent. In all regions exports contracted faster than GDP. It is forecasted that world trade will contract by 9% in 2009. Therefore, they may also face balance of payment problems as the crisis deepens.

iv. Capital flows

Capital flows which include foreign direct investment (FDI), portfolio investment flows, worker remittances, private charity, and foreign aid - are thought to have helped fuel Africa's recent economic growth. Between 2000 and 2007, private capital flows were the most important source of external finance for the region, growing from an estimated \$8.9 billion in 2000 to \$54.8 billion in 2007 or 6.5 times global foreign aid of \$8.5 billion.

a. Foreign direct investment

The demand for African commodities drove an investment surge in many countries, with foreign direct investment (FDI) stocks nearly doubling between 2003 and 2007 (Gamberoni and Newfarmer, 2009). Net private capital flows - including FDI, remittances, portfolio flows, and

other sources - are thought to have quadrupled between 2000 and 2008 (Auboin, and Moritz, 2008). These changes followed decades of post-independence economic stagnation and backsliding in development indicators. The decreased FDI flows due to tightening of liquidity in global financial markets, could constrain economic growth. FDI flows had increased from \$53 billion in 2007 to \$61.9 billion in 2008. However, FDI flows into Africa are expected to decline in 2009 because of the global economic slowdown. FDI plans in mining exploration in Tanzania were halted with potential long-term consequences. At the same time, flows of FDI and portfolio investment are clustered among Africa's oil-exporting economies and South Africa, and may have little impact in many African countries.

The contraction of capital flows to Africa has been sharp. FDI in Africa will drop by roughly 26.7% in 2009, compared to 2008. Between the second quarter of 2008 and year's end, Africa saw the sharpest contraction in cross-border lending of all emerging regions - over 50% - compared with less than 20% for emerging market countries in other regions (Khan, 2009). Portfolio investment flows were initially the most impacted by the crisis, reversing from inflows of \$18.7 billion in 2006 to outflows of \$16.7 billion in 2008. These outflows have hit Africa's "frontier economies" the hardest as foreign investors fled the region's stock markets for safer, more liquid investments at home. Overall, FDI remains the largest share of inward capital flows for the region as a whole, and is expected to be a key driver of future growth.

b. Stock markets and banks

The stock market volatility has increased since the onset of the crisis and wealth losses have been observed in the major stock exchanges. In Egypt and Nigeria, the stock market indices declined by about 67 per cent between March 2008 and March 2009. Significant losses have also been observed in Kenya, Mauritius, Zambia and Botswana. The turmoil in African stock markets is beginning to have significant negative effects on the financial sector and on aggregate demand. For example, there is growing evidence that it has a negative effect on bank balance sheets and, if present trends continue, non-performing loans in the banking sector would likely increase, with dire consequences for financial stability in the region. In Ghana, the ratio of non-performing loans to gross loans increased from 7.9 per cent to 8.7 per cent between 2006 and the third quarter of 2008. In Lesotho, it increased from 2 per cent to 3.5 per cent over the same period (IMF, 2009a).

So far, bank failures have been rare in the region, largely because most African banks do not have any significant exposure to the sub-prime mortgage market and asset-backed securities. They are, however, vulnerable to contagion effects arising from the high rate of foreign ownership of banks in several countries in the region. To the extent that foreign-owned banks reduce their support of local banks or sell their assets, it will have serious negative consequences for the financial sector in Africa. The countries that are highly susceptible to contagion from this source include Botswana, Cape Verde, Central African Republic, Chad, Côte d'Ivoire, Equatorial Guinea, Lesotho and Zambia. In these countries foreign ownership of banks is quite high.

c. Exchange rates

The depreciation in foreign exchange rates of many African countries has been taking place. In the first quarter of 2009, the Ghanaian cedi depreciated against the United States dollar by 14 per cent, while the Nigerian naira declined by 10 per cent and the Zambian kwacha declined by 13 per cent (ECA, 2009). Significant depreciations over 2009 are expected in Ghana (21 per cent), Uganda (22 per cent), Democratic Republic of the Congo (23 per cent), South Africa (27 per cent), Nigeria (27 per cent), Zambia (43 per cent), the Comoros (45 per cent), and Seychelles (84 per cent) (ECA, 2009). Exchange rate depreciation against the US dollar will impact negatively on debt-service burdens for countries that have high external debts. Depreciation also results in increased costs of imported intermediate inputs, with consequences for production, output and employment. Several of these countries have high foreign debt, such that the expected depreciation of their currencies against the dollar will impose serious debt-service burdens on the region. It will also increase the cost of imported intermediate inputs, with consequences for production, output and employment. Furthermore, since several countries in the region are net importers of food, which is a major component of the consumer price index, the expected depreciation of currencies in the region will increase domestic prices of consumer goods and reduce access to food by vulnerable groups. Exchange-rate depreciation will also increase exchange-rate risks faced by domestic firms and increase the likelihood that they will default on loans owed to domestic banks, thereby increasing the vulnerability of these banks.

d. Fall in remittances

Of all forms of international capital flows, remittances or monies sent home by foreign workers overseas are thought to be the most stable, reacting least to international politics or events (Ratha, 2003). While Africa receives the smallest amount of remittances of any region, their impact is thought to be relatively large compared to the size of African economies and the fact that Africa's extractive industries often provide little economic trickle-down into the local economy. Recorded remittances to Africa totaled \$18.59 billion in 2007; the actual amount is likely higher, however, since the region receives a large share through informal transfers and unofficial mechanisms and networks. Within the region, remittances are thought to account for 3.7% of GDP on average, although there is significant variation among countries. Remittances in Lesotho, for example, were reported to be 29% of GDP in 2007, according to the World Bank. By total recorded flows, Nigeria and Kenya receive the highest value of remittances.

Global remittance levels are, however, expected to fall 5-8% in 2009, from an estimated \$305 billion in 2008. Remittance inflows to sub-Saharan Africa had increased from \$4.6 billion in 2000 to \$20 billion in 2008. The financial crisis will reduce remittance inflows to sub-Saharan Africa by between \$1 billion and \$2 billion dollars in 2009 relative to 2008 (ECA, 2009). Around 80% of remittances to developing countries come from high-income countries, making this often vital source of household income vulnerable to economic crises. Such remittances reached a record \$251 billion in 2007, but have fallen in many of the countries studied. Remittances to Kenya, largely from the US, fell by 12% in the first six months of 2009 compared to the same period in 2008. Overall, remittances to developing countries are set to fall by between \$25 and \$66 billion in 2009 (Cali and Dell'Erba, 2009). In Africa, remittance levels are projected to fall by 4.4% in 2009; while significant, this is a slightly smaller drop in percentage terms than the worldwide average for low- and middle-income countries (Ratha and Mohapatra, 2009). Remittance levels could fall further if continuing economic troubles cause destination

countries to tighten immigration restrictions. The long-term implications are difficult to assess, as they depend on complex factors such as the share of unskilled jobs in destination countries and the relative value of local currencies compared to currencies in which remittances are earned (EIU, 2009).

The small and economically open states are particularly vulnerable to the crisis. They are experiencing falling remittances and FDI, especially in sectors that fuelled their earlier economic growth: tourism, financial services and real estate (te Velde et al., 2009b). In St Lucia, where many people depend on tourism, hotels were 80% empty during the peak tourist period in late 2008 and early 2009. Remittances to Tonga fell by 15% between June 2008 and June 2009 (Matanga Tonga Online, 2009); Jamaica experienced a drop of 14% in the first two months of 2009 (Jamaica Observer, 2009).

e. Foreign aid and official development assistance

While only a small handful of donors including Italy, France, and Iceland have reduced bilateral foreign assistance due to the crisis, the global flow of foreign aid could suffer in the medium term if the global downturn continues. A more significant decline in aid flows, if it occurs, is expected to be delayed due to the long-term planning process in donor countries. Most observers believe that while most aid levels will not be impacted by the crisis in 2009 and 2010, they may drop in 2011 and 2012 as developed countries experience continued fiscal strains and political pressures to balance budgets. Nonetheless, African governments have requested donors to increase aid flows in order to help offset the impact of the crisis on their domestic economies (AfDB/CAFMCBGs, 2009). Analysts continue to debate whether foreign aid has helped or hindered Africa's socioeconomic development in the long run (Sachs, 2006). Many African economies are vulnerable to a downturn in foreign aid flows, particularly those that are not natural resource exporters, and many rely on donors for budget support.

Historically, aid has fallen when donor countries have been hit by recession (e.g. the Scandinavian countries in the early 1990s). Donors increased aid to Africa in 2008 but are already \$20 billion short of the commitments made in Gleneagles in 2005 and a number of donors now appear to be renegeing on their commitments. For example, a recent analysis by Action Aid suggests that Italy could halve its aid in 2009, bringing it to 0.1 percent of GNP. In contrast, DFID is honouring its aid commitments and has committed half of its bilateral aid to fragile states. However, the falling value of the pound against the dollar and euro means that the actual value of aid has dropped when compared to 2008 values (Bertoli & Sanfilippo, 2009). ODA flows to Africa had increased from \$21 billion in 2002 to \$38.7 billion in 2007. However, there is concern that the economic crisis has created downward pressure on donor aid budgets that may force developed countries to cut down on ODA flows to Africa. 23 African countries are highly vulnerable to reductions in ODA flows since ODA accounted for more than 10 per cent of gross national income over the period 2000-2007. Liberia, Burundi, Guinea-Bissau, Sierra Leone and Eritrea are particularly vulnerable with extremely high ratios of ODA to gross national income.

v. Social and Human impacts

Africa is the region where progress on the Millennium Development Goals (MDGs) has been the slowest. The rate in Africa of those living on less than \$1.25 per day has hovered around 50% since 1981, while the number of poor people, in absolute terms, has nearly doubled, from 200 million in 1981 to 380 million in 2005 (UN, 2007; 2009). The region, on average, also displays “the worst rankings in business environment, governance, logistics, and other trade facilitation indicators” (Alberto and Wilson, 2008) Labour productivity is the lowest, on average, of any world region (UN, 2009; WEF, 2009). Due to low levels of regional integration, Africa has consistently had considerably lower rates of intraregional trade than other world regions (UNCTAD, 2009). In addition, African economies continue to be affected by the lingering impact of the 2008 food crisis. In 2008, already rising global food prices spiked to record heights, partly due to high oil prices but also to other complex factors (FAO, 2008). Those most affected by the crisis were impoverished populations, many of whom already suffer from chronic hunger. The crisis strained household budgets and compromised individual resilience to further economic hardship. While African oil exporters benefited from higher oil prices, most oil importers ran fiscal deficits as governments subsidized food imports, fertilizer, and other agricultural inputs. The crisis fed high inflation and sparked food riots and political unrest in several countries. The fiscal costs of African policy responses to the crisis doubled between 2007 and 2008, to an average of 1% of GDP, according to the IMF.

a. Unemployment

The financial crisis will also have an indirect effect on poverty through its impact on unemployment. Unemployment rates in sub-Saharan Africa were on a downward path before the crisis. This is true for both males and females, although the rate is generally higher for females. The unemployment rate fell from 8.5 per cent in 2003 to 7.9 percent in 2008. There are concerns, however, that the crisis will increase the unemployment rate in 2009, as firms reduce production or shut down factories. The decreased demand for African export commodities has resulted in significant loss of jobs especially in mineral dependent countries. In Zambia for example, two major mines have closed operations while others have scaled down significantly due to declining demand for copper. This has resulted in the loss of many jobs. In DRC, where artisanal mining was commonly used as an anti-poverty measure; small scale miners have relapsed into poverty because of non-existent demand for their ores. In South Africa, the mining sector has experienced some job losses especially the platinum sector. The volume of rubber exports from Liberia declined from 135,000 tonnes in 2007 to 88,000 tonnes in 2008 and this decline was accompanied by loss of jobs. The evident impact of the global financial crisis on the employment situation in Africa heightens the need for governments and development stakeholders to design mitigation strategies that can assure decent jobs to prevent many from falling into absolute poverty. Although precise estimates for African countries are not yet known, at the start of the crisis around 81 per cent of African men and 64 per cent of African women were engaged in unstable, insecure jobs, with 55 per cent being working poor (ILO, 2008).

The ILO have predicted that the number of working poor in Sub-Saharan Africa could decrease by 36 million between 2007 and 2009 as a direct result of the crisis. There have been numerous

reports in the media on the closure of mines, many a direct result of price collapses in cobalt, copper and other minerals. Prime examples include: mining closures in the DRC, which have resulted in the culling of over 200,000 jobs and an estimated 23,000 registered miners out of work in Zambia. Similarly, the closure of Mittel owned mines and problems in the rubber industry have contributed to a possible 80 percent unemployment in Liberia. The collapse in prices also has longer-term implications: it has halted new mineral prospecting that had been beginning to reveal valuable hidden sub-soil assets and may well have led to the future generation of jobs (UNIRIN, 2009). Social effects of the crisis will be particularly hard felt in Africa because there are little or no mechanisms to cushion the effect on ordinary people such as unemployment benefits or social security arrangements.

b. Poverty

More households will fall into poverty than would otherwise have been the case – as many as 233,000 in Uganda and 230,000 in Ghana (1% of the entire population) (te Velde et al., 2009a). The number of those employed as a result of FDI in Ghana, for example, dropped by around one third between the last quarter of 2007 and the last quarter of 2008. In Kenya, the labour-intensive horticultural industry has suffered a 35% drop in exports of flowers, with inevitable knock-on effects on its workers, and in Zambia, nearly one in four of the workers in the mining sector lost their jobs in 2008 (te Velde et al., 2009a). The evidence from previous financial crises (including from Cote d'Ivoire, Ethiopia, Malawi, Tanzania, and Zimbabwe) shows that the number of poor people and the incidence of poverty increases dramatically. In the poorest developing countries, health and education outcomes deteriorate which in turn can have a detrimental impact upon psychological well-being and community and intra-household conflict (Ravillion, 2008). It is crucial for exposed countries to finance job creation, the delivery of essential services and infrastructure, and safety net programmes for vulnerable groups (Cord et al., 2009). The irony here is that the most fragile and weakest states will not be able to raise the necessary funds.

c. Food security

The declining growth combined with pre-existing levels of state fragility and household poverty will leave many vulnerable and exposed to the food, fuel and financial shocks. Low economic growth in Sub-Saharan Africa is likely to result in lower agricultural investment and productivity and increases in the prices of the major cereals, which has further implications for food security and malnutrition. IFPRI projections, for example, predict that per capita calorie consumption in Sub-Saharan Africa will be 10 percent lower in 2020. Globally, 16 million more children will be malnourished in 2020 with Sub-Saharan Africa's share of malnourished children increasing from one fifth in 2005 to one fourth in 2020 (Braun, 2008). Evidence from five countries, including Kenya and Zambia, shows that households have been coping with the crises by spending a greater share of income on food, buying lower cost items, reducing the quality and diversity of food, gathering wild foods, eating less or going hungry. Food intake in communities in Kenya was reported to have declined in quantity and in quality with women eating last and least. Children are particularly vulnerable to hunger and malnutrition and this is affecting their ability to learn and/or hindering them from attending school altogether (Hossain & Eyben, 2009).

d. Wellbeing of children

Many household coping strategies are ineffective and the longer-term consequences on human development are a particular concern. For example, it is not uncommon for households to reduce food intake or pull their children out from school and into paid employment so that they can contribute to household incomes. There have been reports of increased school absenteeism in Kenya and Zambia as children are too weak to travel to school or parents can no longer afford education fees (Hossain & Eyben, 2009; Haider, 2009). Infant and child mortality rates are likely to increase as a result of the crises. World Bank projections predict that child mortality rates in Africa could rise by about 28 per thousand, which translates to over 700,000 additional babies dying before their first birthday. Household coping strategies in response to reduced income and lower public spending can be particularly harmful to children; the inability to access essential health and welfare services contribute to foetal and infant malnourishment, which increases the risk of chronic infections and diseases later in life. In addition to limiting food consumption, households may spend less on other essential health and welfare services such as clean water and sanitation. There are also concerns that with sustained low incomes, households may be forced to sell assets, including ones upon which their livelihoods are based. The future productivity of individuals and households, and the economy as a whole, can suffer as a result.

e. Violence and social unrest

Across Sub-Saharan Africa, violence and social unrest could lead to a further eroding of confidence in already weak governments, putting into place a vicious cycle of instability and public unrest. In Sierra Leone, 60 percent of youths are unemployed and some experts argue that this is enough on its own to threaten stability. The rising unemployment in already fragile states can exacerbate conflict due to comparatively better income opportunities for young men in rebel groups as opposed to labour markets (Collier, 2007). Increases in crime levels are related to unemployment and increasing living costs are a key issue, particularly for young people who are vulnerable to the compound affects of the food, fuel and financial crises. Instances of children robbing each other of food in schools have been reported as have instances of children trading sex for snacks in Kenya and Zambia (Hossain and Eyben, 2009). Braun (2008) found that food insecurity has become a source of conflict in many countries with people turning to the streets in protest with many instances of the political unrest becoming highly violent. Governments on a number of occasions have dealt with public protest using excessive force and many who were claiming their right to an adequate standard of living have been killed and injured. Amnesty International (2009) for example, report that demonstrations against the sharp rise in living costs have taken place in Benin, Burkina Faso, Cameroon, Côte d'Ivoire, Guinea, Mali, Mozambique, Senegal, Somalia and Zimbabwe. Arbache and Page (2007) argue that institutions in poor countries tend to be so strained that ethnic tensions and confrontational politics can get worse when competition for scarce resources increases. There have been some signs of increasing unrest due to socio-economic cleavages amongst religions and ethnic groups. In Nairobi for example, tensions have emerged between Christian and Muslim groups because of exclusionary feeding programmes in mosques (Hossain and Eyban, 2009). Fiscal pressures will mean that many governments are unable to provide necessary social safety nets, services and infrastructure and countries that are suffering from low reserves may be soon unable to import food, fuel and medicine. A major concern is if governments are unable to pay their civil service and security

forces; this leaves a power vacuum that is all too frequently filled by an agent of instability, either a transnational terrorist group or criminal activity such as drug trafficking (Jackson, 2009).

Efforts to address the impact of the crisis

African governments established a Committee of Ten African Finance Ministers and Central and Regional Bank Governors (C-10) at an AfDB-organized meeting in Tunis in November 2008. Finance ministers and central bank governors have met several times since then to discuss the impact of the crisis and possible policy responses. Some countries have set up economic monitoring units and deployed limited fiscal and monetary resources. Steps taken by some African governments have reportedly included fiscal stimulus packages (e.g. Mauritius, South Africa), targeted assistance to certain sectors (Nigeria, Uganda), expansionary monetary policy (Botswana, Namibia, South Africa), and bond financing of public expenditures (Cape Verde, Kenya). Nevertheless, most African governments have little capacity to fund policy interventions to address the crisis. Effective economic governance continues to be lacking in many countries, and responses are projected to be restrained by the relative unavailability of foreign reserves, insufficient budgetary margins for enacting fiscal stimulus packages, and restrictions on incurring further external debt in countries that have benefited from international debt relief. While multilateral institutions have urged African governments to focus spending on social security nets and infrastructure projects - which have the potential to stimulate the economy while addressing some of the long-term obstacles to economic growth - regional expenditures on infrastructure fell far short of World Bank recommendations even before the crisis hit. Some believe high levels of corruption could additionally impede the effectiveness of government responses to the crisis.

a. Country-specific responses

African countries have taken several steps to mitigate the impact of the financial crisis on their economies, including interest rate reductions, recapitalization of financial institutions, increasing liquidity to banks and firms, fiscal stimulus packages, trade policy changes, and regulatory reforms. The measures adopted differ from country to country, depending on available counter-cyclical policies because they accumulated huge foreign reserves during the recent oil price hikes. In the non-oil economies, however, the ability to adopt counter-cyclical policies is severely limited and so the use of fiscal stimulus measures is not widespread in these economies. In addition to the above measures, some countries have set up task forces or committees to monitor the financial crisis and advise the Government on how to respond. Rwanda, Kenya, Nigeria and the Democratic Republic of the Congo are examples of countries that have adopted this approach.

- Since the onset of the crisis, 18 countries in the region have made interest rate changes in response to the crisis. For example, in Botswana, the central bank reduced interest rates by 50 basis points in December 2008. This was followed by a percentage point reduction on 27 February 2009. In Egypt, the central bank cut its overnight and lending rates by 50 basis points on 26 March 2009. The Central Bank of Nigeria also cut its interest rate from 10.25 per cent to 9.25 per cent. Other countries that reduced interest rates include Kenya, Mauritius, and countries that fall under the ambit of the Bank of Central African States,

Namibia, South Africa, Swaziland and Tunisia. It is interesting to note that while most countries responded to the crisis by reducing interest rates, the Democratic Republic of the Congo responded by raising its policy rate. In fact, the central bank has raised its policy rate four times since December 2008 in an attempt to fight inflation.

- Some countries have taken actions to increase liquidity in the banking system and to domestic firms. For example, in Benin, Burkina Faso, Côte d'Ivoire, Guinea-Bissau, Mali, the Niger and Togo, the common central bank (BCEAO) injects liquidity on a weekly basis in the regional money market. In Cameroon and Liberia, a support or guarantee fund has been created for firms. In Tunisia, the central bank has set up new deposit and credit facilities to improve flow of credit and increase liquidity in the banking system. Recapitalization of banks and regulatory changes
- Some countries have taken specific measures to recapitalize domestic banks. In Mali, the Government has decided to recapitalize the Banque de l'Habitat du Mali in order to increase and improve finance for housing. In Tunisia, the central bank doubled the capital for the financing of small and medium-sized enterprises in order to boost domestic investments. The Algerian Credit and Monetary Council has also issued instructions to commercial banks to increase their capital from 2.5 billion Algerian dinars to a minimum of 10 billion Algerian dinars (\$142 million) within 12 months. The council has also put in place a series of banking reforms to strengthen the financial system. The Government of Kenya has also enacted legislation that would increase the minimum capital requirement for banks from 250 million shillings to 1 billion shillings by 2012.
- Fiscal stimulus packages have also been unveiled in a number of countries with a view to cushioning the effects of the crisis and boosting growth. In Cape Verde, the 2009 budget projects a 17 per cent rise in public spending to provide fiscal stimulus to the economy. In Egypt, a fiscal stimulus package of 15 billion Egyptian pounds was announced by the Government. Gabon, Morocco, Namibia, Nigeria, Sao Tome and Principe, South Africa and Tunisia have also adopted fiscal stimulus measures. In most of these packages, infrastructure development has been emphasized. It is interesting to note that unlike the other countries, Namibia has adopted fiscal measures that involve a 24 per cent public-sector pay raise. The South African stimulus plan, announced in February 2009, is quite broad and has four aspects: a \$69.4 million three-year public investment programme; expansion of public sector employment opportunities; increase in social spending; and assistance to the private sector. The stimulus plan adopted by Morocco includes measures to improve access to credit, tax incentives, vocational training for workers, and reducing red tape and corruption.
- Fiscal restraint has also been exercised by several African countries in response to the crisis. For example, the Government of Kenya plans to cut expenditure to the tune of 25 billion shillings. In Benin, the Government plans to cut subsidies on food and oil imports to free up financial resources. In Botswana, restrictions have been imposed on travel budgets, vehicle purchases and the creation of new posts. In Angola, the Government plans to revise its budget downward to take account of the anticipated decline in oil revenue.

- Boosting economic growth through trade has been an important component of the response plans in several countries. Cameroon has reduced or waived import taxes on equipment, tools and goods required for research and oil exploration. In Liberia, the President has announced plans to reduce trade tariffs as well as the trade levy of the Economic Community of West African States. Tunisia has increased allotments for export business travels and Mali has introduced measures to refund to gold mining companies the value added tax and import duty due on their 2006/2007 operations. In Madagascar, the central bank has devalued the local currency to restore export competitiveness. The Government has also launched a drive to boost exports. Improving domestic resource mobilization
- Some African countries have used the current crisis as an opportunity to introduce reforms aimed at boosting domestic resource mobilization. In Burkina Faso, the Government intends to undertake a comprehensive reform of its tax policy in 2009 so as to increase the tax base and boost revenue collection. Cape Verde, Senegal and South Africa have also taken measures to boost tax revenue. The Government of Kenya intends to privatize some State-owned firms. It has also launched an 18.5 billion shillings infrastructure bond in the local capital market.

b. Regional responses

African ministers of finance and planning and governors of central banks met in Tunis, Tunisia, on 12 November 2008 to discuss the implications of the financial crisis for Africa and to identify appropriate policy responses to cushion its impact in the region. The meeting was jointly organized by the Economic Commission for Africa, the African Development Bank, and the African Union Commission. The communiqué issued at the end of the meeting emphasized the need for bold and decisive actions to mitigate the effect of the crisis on African economies. The following are some key policy responses that were stressed by African policymakers at the meeting:

- Countries need to undertake a comprehensive review of their regulatory and supervisory regimes with the view of identifying areas for further improvement. In particular, all sectors of the financial industry should be subjected to proper regulation and oversight, to avoid excessive risk-taking by financial institutions.
- Macroeconomic policy and structural reforms implemented in Africa over the last two decades have served African countries well. However, there is a need to deepen economic reforms further. This would help minimize the effects of the crisis and lay the foundation for sustainable growth in the region.
- While measures aimed at restoring growth and financial stability are important, they must be accompanied by measures to minimize the potential negative social impact of the crisis in poor countries. Giving priority to social protection and pro-poor expenditure is important in this regard.

- Official development assistance can also play an important role in augmenting shrinking domestic resource bases arising from falling exports, remittances and tourist receipts. In this regard, donors must increase aid to Africa in accordance with their Monterrey and G-8 Summit commitments.
- Strengthening developing countries' voice and representation by reforming the governance of international financial institutions is also crucially important. This has become imperative especially in the light of the increasing globalization of financial markets.
- These recommendations were presented and discussed by African Heads of State and Government at their Summit in Addis Ababa in January 2009. At their Tunis meeting, African ministers and governors of central banks also set up the Committee of Ten Ministers and Governors of Central Banks to monitor developments, provide regular follow-up, advise ministers and governors on proposals, and contribute to the international discourse in relation to the economic impact of the financial crisis and mitigating measures. The committee held its first coordination meeting in Cape Town, South Africa on 16 January 2009 and its second meeting in Dar es Salaam, Tanzania, on 11 March 2009. These meetings have helped to build an African consensus on the crisis and on how the international community could assist countries in the region to respond to it.

c. Developed Countries

- At the Group of 20 (G-20) summit in London in April 2009, members agreed to inject \$1 trillion into the world economy in order to combat the effects of the global crisis. This included a commitment to support growth in emerging market and developing countries. For example, members committed to increase lending resources available to the IMF by \$250 billion through immediate contributions from some IMF member countries, and to use additional resources from agreed sales of IMF gold to provide \$6 billion in additional financing (including concessional lending) for poor countries over the next two to three years. At the same time, some observers contend that “the legitimate concerns of LICs in general, and Africa in particular, have not featured prominently in international rescue efforts” (Africa Progress Panel, 2009).
- At the July 2009 G-8 summit in L'Aquila, Italy, members declared that they were “determined to assist developing countries in coping with the impact of the [economic] crisis” and committed to fulfilling the Gleneagles commitments on aid (discussed earlier) and improving aid effectiveness, and strengthening global initiatives to achieve the MDGs and other anti-poverty goals (G-8 Declaration, 2009). The G-8 agreed to mobilize \$20 billion over the next three years for agricultural development assistance, in addition to prior commitments of emergency and humanitarian food aid. As part of this commitment, the United States committed to doubling U.S. agricultural development assistance to more than \$1 billion in 2010, providing at least \$3.5 billion over the next three years. Significant portions of any increase in agricultural assistance may be directed

toward African countries. However, some observers view these pledges as unlikely to be fully upheld.

d. International Financial Institutions

- The World Bank, African Development Bank (AfDB), and the IMF have all stepped up lending to the region since the onset of the financial crisis. These institutions have also reformed several of their existing loan and assistance programmes, or created new facilities, to target their efforts to aspects of the current crisis. These include, for example, the IMF's Exogenous Shocks Facility, the World Bank's new Financial Crisis Response Fast-Track Facility and Infrastructure Crisis Facility, and the AfDB's new Emergency Liquidity Facility and Trade Finance Initiative. These are aimed at offsetting budget shortfalls, increasing liquidity, and providing financing for infrastructure and trade finance, all of which are considered by many analysts to be crucial to Africa's eventual economic recovery.
- The World Bank and the AfDB share a development focus, and provide financing for projects as wide-ranging as heavy infrastructure, education and health policies, financial sector development, and natural resource management. World Bank lending to Africa in its 2009 fiscal year (July 1, 2008-June 30, 2009) was \$9.9 billion, up 36% from \$7.3 billion in FY2008 (World Bank, 2009). The AfDB, according to its president Donald Kabaruka, is on target to commit \$11 billion in 2009, doubling its 2008 commitments (Reuters, 2009). Much of this assistance is at highly discounted interest rates.
- AfDB announced four new crisis-response initiatives in March 2009: a \$1.5 billion Emergency Liquidity Facility (ELF); a \$1 billion Trade Finance Initiative (TFI); a framework for accelerated transfer of African Development Fund resources to eligible countries; and enhanced policy advisory support. The newly created ELF aims to provide financing to eligible African beneficiaries to support a broad range of obligations, including underpinning a fiscal stimulus and supporting public-private partnerships at risk. The ELF has a fast-tracked application process, with proposals considered by the AfDB Board within 10 working days. The TFI plans to launch a new line of credit of \$500 million designed to enable commercial banks and development institutions in Africa to use Bank resources to support trade financing. Accelerated African Development Fund transfers—concessional loans and grants—are expected to provide budget support and infrastructure financing.
- In addition to various ongoing and new projects addressing infrastructure, governance, macroeconomic policy, skills development, humanitarian relief, and other areas, the AfDB has approved several loans in recent months designed primarily to offset the impact of the global economic crisis. The Bank reportedly saw its lending nearly double to \$11 billion between mid-2008 and mid-2009, with funds going largely to budgetary support, trade finance, and infrastructure projects (notably ports and airports in Tunisia, Senegal, and Djibouti, where investors had withdrawn). Recent loans explicitly linked to

fallout from the crisis include a \$1.5 billion loan for Botswana designed to help address a budget deficit estimated at 13.5% of GDP, the first such loan to Botswana from the AfDB in 17 years (June 2009); and a \$97.18 million grant to the Democratic Republic of Congo to finance the country's Emergency Program to Mitigate the Impacts of the International Financial Crisis (May 2009).

- In Africa, new IMF lending commitments from January to mid-July 2009 were \$2.7 billion, an increase from \$1.1 billion in 2008.⁸⁶ The amount of IMF credit available to the region fell sharply following implementation of the Multilateral Debt Relief Initiative (MDRI) agreed on at the June 2005 G-8 summit in Gleneagles, Scotland; the total amount of IMF credit available to African countries totals about \$4.7 billion, \$2 billion of which remains undrawn. Cote D'Ivoire (\$581 million) and Zambia (\$342 million) have the largest loan programmes in the region. With the exception of one loan (to Gabon), all IMF financial assistance to Africa is provided through the IMF's concessional lending facilities, the Poverty Reduction and Growth Facility (PRGF) and the Exogenous Shocks Facility (ESF).
- The IMF has also accelerated long-standing efforts to revamp its lending and policy support programs for African borrowers and other low-income countries. Among recent reforms, the creation of \$250 billion worth of IMF special drawing rights (SDRs) and their equi-proportional (all countries receive an amount relative to their IMF quota share) allocation to all member countries is of particular interest, as is the approval of a second SDR allocation (around \$33.9 billion) specifically for under-represented countries, many in Africa. African countries are expected to receive around \$11 billion in SDRs from the two allocations, which will be helpful for countries in the region that have seen their foreign exchange reserves drop sharply in an effort to avoid defaulting on their foreign financial obligations.

The way forward

African countries have taken important steps at the national level to mitigate the impact of the financial crisis on their economies. However, finance constraints limit the range of policy measures that countries in the region could adopt in response to the crisis. In this regard, the international community needs to provide appropriate assistance to the region to prevent the financial crisis from turning into a regional humanitarian crisis. The main areas where international action is needed to help Africa deal with the crisis are outlined below:

- How much Africa is at risk from the crisis will depend on how vulnerable its countries are and also how resilient they are. Vulnerability in this case depends on how exposed countries are to adverse changes in global finance and trade. This may be largely, at least over the short-term, outside of their control. Resilience refers to the capacity to cope with adverse shocks, and may depend on a country's macroeconomic management, institutions and leadership: aspects which are primarily under a country's control. Minimizing the risk of the global economic crisis therefore means addressing both vulnerability and resilience. The global community as well as African countries will need to act in this regard, specifically in terms of mitigating the impact of the shocks (here the international

community should assume a larger responsibility); coping with the effects of the crisis (here African countries will have to bear the brunt); and reducing risk by instituting proper measures to limit vulnerability and build resilience over the longer-term (with both countries and the international community playing a role).

- Mitigation measures, to be undertaken by both the international community and African countries, include: (a) monitoring the impact of the crisis; (b) restoring confidence in, and continuing to monitor and regulate banks; (c) expanding trade (also through aid for- trade programmes) and avoiding creeping protectionism; and (d) expanding trade finance.
- Of the foregoing measures, the expansion of trade is perhaps the most crucial, as much of the adverse shock to Africa is due to a decline in exports. Expanding trade is, however, largely dependent on the international community. Here, first of all, efforts undertaken to restore growth in the advanced economies are vital. The sooner industrialized countries recover the better for Africa. Moreover, this needs to be done without resorting to protectionism, now identified as a hazard to global trade. Efforts to expand trade finance through regional multilateral financial institutions such as the African Development Bank, for instance, could complement trade for- aid programmes by donors and enable preferential trade access for African products. The role of African governments in mitigation would be to (a) monitor the impact of the crisis; (b) monitor and regulate their own banking systems and check for early signs of bank difficulties; (c) maintain or promote a positive stance towards trade liberalization and open markets; (d) lobby for a satisfactory conclusion of a more appropriate, development oriented Doha Round; (e) work towards improving the supply capacity of African countries, for instance through public works programmes targeted towards infrastructure and transport services; and (f) maintain competitive real exchange rates and encourage further regional integration and regional trade facilitation measures.
- Coping actions, largely the responsibility of individual countries but supported by assistance from donors, would include (a) expanding domestic demand through fiscal and monetary stimuli, where possible, in a manner that does not lead to unsustainable debt accumulation; (b) absorbing financial losses through establishing foreign reserves in countries with means and competitive exchange rates; (c) supporting the vulnerable through appropriate social safety nets with the help of aid; (d) expanding self-employment, for example, by making the business environment more accessible and through public works programmes; (e) utilizing technical assistance in the design and implementation of programmes, and (f) expanding peacekeeping operations where needed, given the potential for escalating conflict in times of economic hardship.
- The international community's role in mitigation measures is to facilitate the demand for Africa's exports, which is a general and cross-cutting task. Whereas, in measures designed to help countries cope with the effects of the crisis, the international community needs to be more alert to country-level differences. This is where it is important to be able to identify countries most at risk, and to ensure that assistance is tailored to specific circumstances. Such assistance would be two fold (a) assisting African governments with financial resources so as to alleviate poverty and maximize the level of such aid's

effectiveness (ascertaining that aid is appropriately utilized and that it does not divert local production); and (b) providing technical assistance or even peacekeeping operations, if necessary. African governments, in turn, should take care that expansionary policies do not lead to unsustainable budget deficits or debt burdens, and that the appeal of private sector activity is improved.

- Finally, African countries need to reduce risk; it is not enough to merely mitigate risk or cope with risk. Given the nature of the crisis, this implies that what is required is diversification of economies, improvement of the environment to enable successful business, and reform of the global financial and aid architecture. There is an important role for the international community here as well. Many African economies currently face a major problem with diversification, in part because their manufacturing capacity is being eroded by cheap imports, mainly from other developing countries. African countries must, of course, improve their competitiveness through infrastructure improvement, inter alia. In the meantime, however, they should also be allowed policy space under the World Trade Organization (WTO) to temporarily limit such imports. In all of these recommendations, the strengthening of governance is a prerequisite. Many countries in Africa have over the past decade, on average, improved governance through institutional reform, but it is also true that many others are still lagging behind. An important concern for a number of these countries is that such reform can be fraught with potential political disorder, requiring appropriate support to be given in order to reduce the likelihood of conflict. Conversely, we must also be cognizant of the need to preserve the achievements of the countries that have succeeded with reforms. This requires appropriate support to reduce the potential for political opportunism during crises, which could reverse the success achieved to date. Some of Africa's high-risk countries fall into this category. Finally, stronger domestic governance in Africa will go a long way towards complementing improved international governance of the global economic and financial systems. This complementarity, in turn, will contribute to longer-term economic development.

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