IMPACT OF THE CRISIS ON AFRICAN ECONOMIES – SUSTAINING GROWTH AND POVERTY REDUCTION

African Perspectives and Recommendations to the G20

A report from the Committee of African Finance Ministers and Central Bank Governors established to monitor the crisis.

March 21, 2009

Executive Summary

Although most African countries are not on track to meet the Millennium Development Goals, Africa had made steady progress over the last decade, building the foundations for higher growth and poverty reduction. This more optimistic picture is now being undermined by factors outside its control. While the initial effects of the financial crisis were slow to materialize in Africa, the impact is now becoming clear. It is sweeping away firms, mines, jobs, revenues, and livelihoods; it is in short a full blown development crisis. For the first time in a decade there will be zero growth per capita. This note provides evidence of the effects, and suggests action needed. For Africa no less than elsewhere time is of essence; decisive remedial action is needed now.

The growth outlook has deteriorated severely. Macroeconomic balances have worsened, with many countries facing widening current account and budget deficits. The crisis is reducing trade, the mainstay of recent strong growth in Africa. The expected shortfall in export revenues amounts to USD251 billion in 2009 and USD277 billion in 2010 for the continent as whole, with oil exporters suffering the largest losses.

In addition to exports, capital inflows are also declining, including worker remittances and tourism receipts. The stocks of foreign reserves are running dangerously low, with some countries down to only a few weeks of import cover (for example, the DRC). This severely jeopardizes the capacity to import even basic commodities such as food, medical supplies, and agricultural inputs. The poor are the most affected. The private sector has been affected by shortage of liquidity in international markets, with adverse impact on trade and investment. International banks have failed to issue lines of credit or even confirm pre-committed ones. Projects have been delayed, and some have already been cancelled.

African governments have undertaken measures to minimize the impacts of the crisis. These include: setting up special monitoring units, providing fiscal stimulus packages, revising budget expenditures, targeting assistance on key sectors, strengthening the regulation of the banking sector and financial markets, expansionary monetary policy, and foreign exchange controls to protect the exchange rate. The key concern is the deceleration of growth, which will disproportionately affect the poor. It is critically important to preserve the foundations of growth erected through steady policy reforms and improvements in the investment climate; this will allow the continent to resume growth after the crisis.

To achieve this goal, it is critical to sustain adequate levels of investment, especially in infrastructure. However, Africa's ability to do so is severely limited. Pre-existing resource constraints are being exacerbated by a widening saving-investment gap. We estimate that just to sustain pre-crisis levels of growth in Africa would require an additional USD50 billion in 2009 and USD56 billion in 2010. Increasing investment to the level needed to achieve higher, MDGs-consistent, growth rates, would require an additional USD117 billion in 2009 and USD 130 billion in 2010.

Previous, repeated, commitments to increase aid to Africa must be delivered quickly: speed of access is vital. But that alone will not be enough if Africa is to be able to restore a level of growth

sufficient to reduce the levels of poverty. New and additional resources must be unlocked. Africa must be part of the global response to the crisis.
Our key recommendations to the G20 are:

Demonstrate political will and take action now
- The severity of the crisis calls for the same sense of urgency as shown in rescue plans for banks and corporations in advanced economies.
- Delivering quickly on existing commitments is key to donors' credibility as committed development partners for the continent.
- Protect the poor and the vulnerable by ensuring essential public investment programmes in health, education, nutrition, and sanitation can be maintained.
- Support social safety nets to protect the poor, the unemployed and the socially marginalized.

Provide additional resources
- Commit 0.7 percent of developed economies own stimulus packages to assist poorer countries, ensuring new initiatives are truly additional to existing aid plans.
- Augmenting the concessional resources available to the IMF and ease access.
- Increase and sustain investment in infrastructure at national and regional level: stimulus packages must primarily target infrastructure projects.
- Increase the resource envelope for regional development banks; in particular agree on an early review of capital adequacy of the African Development Bank.
- Increase trade financing by injecting new resources for specialized facilities, including through regional development banks.

Increase policy space and flexibility, and reduce conditionality
- Focusing on results, rather than prescribing rigid policies and actions, allowing countries space to respond according to their particular needs and circumstances.
- Provide more predictable flows of aid, with more fast disbursing and front loaded assistance, consistent with African priorities.
- Increase flexibility in macroeconomic frameworks to allow more scope to balance macroeconomic stability and the need to stimulate domestic demand.
- Review debt sustainability criteria to allow access to credit to countries with adequate potential to borrow.
- Reform procedures in order to promote more rapid and less conditional aid delivery.

Promote trade
- Conclude an ambitious and development focused Doha Round, provide Aid for Trade, and technical assistance.

Increase transparency, accountability, and equitable representation
- Provide adequate voice and voting rights to African countries in IFIs and major global governing bodies.
- Tackle tax havens and assist in the recovery of Africa's stolen wealth; enforce transparency in financial transactions in banking systems in advanced economies to deter illegal transfers of funds from African countries.

1. Introduction

1.1 The crisis has come at a time when Africa was turning the corner, steadily building the foundations for higher growth and poverty reduction. But still, most African countries were lagging behind relative to their MDGs targets. The optimistic growth outlook is now undermined by factors outside Africa's control. While the initial effects of the crisis were slow to materialize, the tide of the "Tsunami" is moving fast, sweeping away firms, mines, jobs, revenues, and livelihoods. Time is of essence, decisive action can wait no longer.

1.2 This note documents the severity of the impact of the crisis on African economies. It attempts to portray the magnitude of the financing gaps that must be bridged in order to not only stem off the crisis, but most importantly to preserve the basis for high growth and poverty reduction. The note demonstrates that while it is important for donors to deliver on pre-committed pledges, those alone will not be sufficient to bridge the widening financing gaps and maintain the growth momentum in the continent. It especially argues for additionality of aid, flexibility in aid allocations and faster delivery mechanisms to improve responsiveness and alignment with country-specific needs and circumstances. It concludes with a set of concrete recommendations for the G20, the donor community at large, and African governments.

2. Impact

Overall assessment

2.1 Africa has been hit severely by the crisis, with its growth rate forecasted to dip below 3 percent in 2009 (2.8 percent) for the first time since 2002 (Table 1). Sub-Saharan Africa is expected to grow at a meager 2.5 percent. Middle income countries have been hit severely due to their relatively higher integration into the global economy.

2.2 The slowdown in growth is primarily due to declining trade flows. The expected short fall in export revenues is immense: USD 251 billion in 2009 and USD277 billion in 2010. Oil exporters will take the biggest hit, with a shortfall of USD 200 billion in 2009 and USD220 in 2010 (Table 2). With exports declining faster than imports, the trade balance will deteriorate in most countries. Exports for 2009 and 2010 have been revised downwards by 40 percent. As a result, from a comfortable overall current account surplus of 2.7 percent of GDP for both 2008 and 2007, the continent will record an overall deficit of 4.3 percent of GDP in 2009.

2.3 Capital inflows, which have been another important driver of recent growth, are also declining. Similarly, most countries are experiencing a slow down in migrant remittances as a result of the weakening economies in the West and in African advanced economies. For example, in Kenya, remittances have been steadily falling since October 2008 from USD 61 million to USD 39 million in January 2009. Tourism receipts were down 13 percent in the 4th quarter of 2008 compared to 2007, further undermining the country's efforts to build up its foreign exchange reserve base.

2.4 The stocks of foreign exchange reserves are deteriorating. In the DRC, reserves are down to only a few weeks of import cover. At this pace, many countries will not be able to afford even basic commodity imports such as food, medical supplies, and agricultural inputs.

2.5 Government revenues are also expected to decline. Diversified economies will be less impacted than others. For example the 2009 forecasted government revenues for Tunisia and South Africa have been revised downwards by 1.2 and 0.4 percentage points, respectively. On the other hand, highly specialized economies such as Libya and Algeria (oil-dependant countries) will see government revenues declining sharply by 17 and 16 percentage points, respectively in 2009.

2.6 Overall budget balances will worsen for the continent as a whole, going from a global budgetary surplus of 2.8 percent of GDP in 2008 to a deficit of 5.4 percent of GDP in 2009. The impact on the budget is even worse for net oil-importing countries and those with substantial food imports because of the carry-over effects of the high oil and food prices of the past year. Oil exporters on their part are experiencing major declines in revenues, and this is expected to persist through 2010. The crisis has underscored the perils of the excessive concentration in production and exports in African economies.

2.7 Although low-income countries (LICs) are benefiting from the decline in oil prices, they are experiencing difficulties due to falling prices and demand for their commodity exports. Current account deficits are worsening. In addition FDI and remittances are declining. While LICs as a group are forecast to grow faster than middle income and oil-exporting countries in 2009, their populations will be severely affected by the crisis due to their already relatively lower pre-crisis living standards.

2.8 The drying up of liquidity in international financial markets has hit the private sector as well as governments. For governments, attempts to raise long-term finance through sovereign bond issue have failed (South Africa), been canceled (Ghana Telecom bond issue for USD300 million) or delayed (Eurobond issues for Kenya, Nigeria, Tanzania and Uganda). This has caused costly delays in the implementation of planned public infrastructure programs.

2.9 A number of private sector projects across Africa have been suspended or delayed because some investors withdrew and the funding conditions became more constraining due to higher spread and lower debt-to-equity exposure (Table 3). A gas project in North Africa was suspended after its approval by the Bank in October 2008 because the financing could not be closed. Moreover, seven infrastructure projects, where the AfDB has been approached to provide funding, are currently delayed because of the crisis. The financial crisis has led to an increase in the demand for AfDB's funding for private sector operations. The AfDB has been asked to step in several projects, some of which where it was already involved, to provide additional funding. The Bank has recently granted two loans extensions of EUR 70 million and USD 48.75 million, and a proposal for another UA 229 million loan extension will be considered soon.

Specificity of the severity of the crisis at the country level[1]

Regional engines of growth were the first affected

2.10 Expectedly, the large, financially developed and open economies were the first to be hit by the crisis through financial markets (South Africa, Egypt) and exports (oil for Algeria and Nigeria, the mining sector for South Africa).

2.11 In South Africa the financial sector experienced a collapse of asset prices, dramatic increases in the cost of capital, and a severe contraction in lending. This has led to sharp downturns in the retail and manufacturing sectors. Between May 2008 and March 2009, South Africa's JALSH index has fallen by about 46 percent and the Rand depreciated by 23 percent against the US dollar. Furthermore, the mining sector is experiencing a large fall in output and employment, driven by lower world demand for commodities.

2.12 Nigeria's investment, output and government revenues have fallen significantly due to declining prices for hydrocarbons (oil and gas). Oil and gas extraction account for 30 percent of the economy's GDP, over 90 percent of its exports and a large share of government revenues. While no major bank is under immediate threat in Nigeria, the banking sector may be exposed to rising default risk of its clients operating in the export-oriented sectors, including oil. A resulting slow down in bank lending will amplify the effects of weak performance of the oil and gas sector on growth. While food price inflation is declining, this could be reversed by the significant depreciation of its currency. The decline in foreign exchange reserves due to lower exports is exacerbated by falling remittance inflows since the beginning of the crisis.

2.13 As the regional engines of growth weaken, this is expected to have significant knock-on effects on smaller neighboring economies through trade linkages and worker remittances. For example, remittances flows to the Democratic Republic of Congo (DRC) are falling due to the slowdown in South Africa, further exacerbating the impact of the decline in mineral exports.

Pre-crisis success stories are not spared.

2.14 The crisis is also affecting the countries that had been experiencing several years of sustained growth built upon improved economic fundamentals and prudent fiscal policies. Botswana and Tunisia provide two instructive examples.

2.15 Botswana has experienced a sharp decline in industrial production, export and government revenues. It has proved to be highly vulnerable to shocks due to its high dependence on diamond exports (representing 35 to 50 percent of government revenues).

[1] The African Development Bank greatly appreciates the support from African Central Banks and Ministries of Finance, and regional Banks (BCEAO and BEAC) in providing country-level information on the impact of the crisis and policy responses.

Its foreign reserves are falling rapidly, and the fall in mineral revenues is expected to be prolonged, limiting the government's ability to finance economic recovery plans. Its growth rate is expected to remain below 3 percent in 2009 and 2010. The crisis has underscored the critical role of export diversification in reinforcing the resilience of economies to external shocks.

2.16 Tunisia has one of the most diversified economies in Africa. Nevertheless, it has experienced the full spectrum of the economic downturn from contraction in industrial production and exports to sharp declines in government revenues and foreign reserves. Key sectors of the economy have been affected, from manufacturing to tourism. As a result, its growth projections for 2009 have been revised downwards by 1.5 percentage points between November 2008 and February 2009.

Mineral resource dependent and fragile states

2.17 Excessive specialization in minerals has proven to be even more disastrous for countries with poor governance and weak state institutions. This is the case for the DRC and the Central African Republic. Lower demand and prices for commodities are compounded by high economic and political uncertainty. Risk aversion has induced investors to relocate to lower risk countries, resulting in sharp decline in foreign direct investment (FDI). The combination of falling export revenues, weak governance capacity, and a prolonged retrenchment in investment aggravates already widespread poverty and threatens the stability of these fragile states.

2.18 In the Democratic Republic of Congo, 100,000 jobs have been lost due to smelter closures. Foreign reserves are down to about one week of imports; the country will soon be unable to purchase imported essentials such as food, fuel, and medication.

2.19 In the Central African Republic exports of wood and diamonds have collapsed, causing large losses of employment. The Société d'Exploitation Forestière en Centrafrique (SEFCA) has laid off half of its employees as its orders were cut by half. The economy is basically on life support. Regional neighbors have contributed CFA 8 billion (more than USD15m) as the government was unable to pay the salaries of civil servants. Debt arrears are accumulating, further undermining the country's capacity to mobilize external resources. This situation is clearly threatening the stability of a country that is just coming out of conflict.

Oil-producing countries face declining fiscal revenues

2.20 Several oil-producing countries have been forced to severely curtail their public expenditure plans, including public infrastructure investment, due to lower fiscal revenues. In Angola, government revenue for 2009 is expected to be 24 percent lower compared to 2008. The non-oil sectors, such as construction, manufacturing and services, are heavily dependent on public sector demand and are also expected to slow down considerably. The Angolan economy is expected to contract by 7 percent in 2009, following a double digit growth rate in 2008 (15.8 percent), a reversal of almost -23 percent.

Agriculture dependent economies

2.21 The financial crisis has amplified the impacts of the food crisis. The depreciation of national currencies against major reserve currencies has raised the cost of food imports. This impact will be particularly harder on economies that have large deficits in food trade. Urban populations have been particularly affected as job opportunities shrink. Attempts to subsidize food and oil prices are unsustainable due to low government revenues and falling foreign exchange reserves. Ethiopia, for example, has been steadily losing its reserves in the past few months. In turn, credit to the private sector has declined considerably since the third quarter of 2008 as the government increased its domestic borrowing to finance the oil subsidy bill. In just six months (August 2008 to February 2009) Kenya's total usable reserves (official plus commercial banks holding) fell from USD 5,287 million in to USD 4,726 million. Over the same period Kenyan Central Bank's reserves holding declined from 4.1 months of imports to 3.1 months (below the statutory requirement of 4 months). By end February 2009, the Kenyan shilling had depreciated by 15.7 percent against the US dollar relative to September 1, 2008.

3. Africa is trying, but the scope to do more is very limited

3.1 African governments have taken a number of initiatives to mitigate the impact of financial and trade shocks. However its limited resources are inadequate in relation to the scale of the impact. Many governments have set up special monitoring units to identify the advance of the crisis and to formulate targeted responses. In addition, governments have introduced a range of policy measures including fiscal stimulus packages, targeted assistance to sectors, capital and exchange controls; new regulations in the banking sectors, and expansionary monetary policies (see Table 4).

Fiscal stimulus packages

3.2 Emulating the example of developed and emerging economies, some African governments have implemented fiscal stimulus plans. This includes increases in public investment expenditures as well as tax reductions. However, in some countries, the severity of the crisis has forced the governments to retrench and undertake a contractionary fiscal policy.

3.3 In Mauritius the Government announced in January 2009 a stimulus package to boost domestic demand and increase job creation. This package is worth 10.4 billion of Mauritian Rupees (USD 0.3 billion), or approximately 3 percent of Mauritius GDP. In Nigeria, the Government is contemplating using its USD 52 billion external reserves to shore up the economy through a stimulus package.

3.4 The Liberian Government undertook a comprehensive revision of its Revenue Code, proposing a 10 percent reduction in corporate and income tax rates in a bid to stimulate private sector activity. In addition, the Government is planning to cut regional trade tariffs by one quarter of a percentage point with a view of fostering trade within ECOWAS. The South African government has proposed an adjustments to personal income tax that should provide middle and lower income earners with R13.6 billion (USD 1.35 billion) in tax relief.

3.5 In Senegal the government lowered budgetary expenditure by 4 percent of GDP and priority expenditure by 0.6 percent of the GDP. Similar actions were taken in Cape Verde, Sudan and Uganda. In Tunisia, the 2009 budget includes a significant increase in public investments in line with its plan to increase external competitiveness and employment and strengthen social protection. Similarly, in South Africa, the government increased funding for public investment projects with allocation of R 690 billion (about USD 80 billion) over the next three years.

Targeted assistance to sectors

3.6 Many countries have implemented targeted sectoral assistance plans to support sectors that are considered as key growth drivers. These measures are intended to reduce job destruction and the loss of sector specific capital and know-how. In Nigeria, the Government injected N70 billion into the severely weakened textile industry. The Rwandan Government announced plans to reduce the quantity of its tea sold through auctioning at Mombasa and improve direct sales to reach a target of USD 54 million tea sales in 2009. In Uganda, the Government provided assistance to the transportation sector by writing off public loans to companies.

Banking regulation and capital account controls

3.7 Prudential capital controls in most African banking systems have helped to minimize contagion effects on African banks. These controls also reduced capital outflows during the crisis. In addition, some governments have introduced deposit insurance schemes.

3.8 In Tanzania, profit repatriation has been regulated to minimize contagion, as bank subsidiaries cannot automatically transfer funds to compensate for losses in parent banks. The Egyptian government has established a deposit insurance fund to boost public confidence in banking sector.

3.9 In response to the large depreciation of their national currencies, governments have undertaken a variety of measures to defend their currency or to boost competitive. Some have attempted to defend a managed exchange rate. In some countries with fixed exchange rate regimes, governments have devaluated their currencies to boost competitiveness.

3.10 The Nigerian Central Bank had aggressively intervened in the foreign exchange markets to stem the slide of the Naira. However, defending the Naira has proven unsustainable in the context of declining export revenues. Other central banks have also attempted to defend the national currency but have run out of reserves.

Expansionary monetary policy

3.11 Several countries have eased their monetary policy by cutting interest rates to stimulate consumption and encourage borrowing. Examples include Botswana where the Central Bank has cut its bank rate by 50 basis points to 15 percent in December 2008. Similarly the Egyptian Central Bank has cut its benchmark interest rate for the first time since April 2006. The Namibia's Central Bank and the South African Reserve Bank also reduced their repurchase rate to stimulate borrowing and boost private investment and consumption.

Bond financing of public expenditure

3.12 Some countries have financed counter-cycle expenditures via the emission of treasury bills and bonds. In Cape Verde, the Central Bank introduced Treasury bills to encourage private saving to remain in the national financial system. The Kenyan government issued an infrastructure bond that amounted to 18.5 billion shilling (USD 232.6 million) with 12-year maturity in February 2009. The bond was oversubscribed, a testimony to the existence of a substantial untapped domestic saving capacity.

4. Africa is facing a large and growing financing gap

4.1 Notwithstanding all these laudable initiatives, it is clear that African governments do not have adequate financing capacity to cushion populations against the impact of the crisis and protect the gains recorded in the past years in terms of growth and poverty reduction. The resources needed are immense and the savings are limited. Conservative estimates demonstrate that even full delivery of pledged external assistance will not be sufficient to bridge Africa's growing financing gap.

4.2 The most important risk is that the shortage of financing will depress investment, with damaging effects on growth, severely undermining the continent's ability to achieve the MDGs. Although African countries were growing faster before the crisis, the growth rates were still not sufficient to achieve the MDGs. However, at the moment, even preserving the pre-crisis growth rates seems untenable for many countries due to shortage of financing.

4.3 We have estimated that for the continent to maintain its growth momentum of 2007, an infusion of large amounts of external financing will be needed to bridge the investment-saving gap. Under the conservative scenario of maintaining growth at the pre-crisis level, the resource gap amounts to USD50 billion for 2009 and USD56 billion for 2010. But of course, maintaining the growth rates at the pre-crisis levels will not allow African countries to make substantial progress in reducing poverty. To raise growth rates to the 7 percent minimum deemed necessary to achieve the MDGs, the continent would need an infusion of about USD117 billion in 2009 and USD130 billion in 2010 to bridge the investment-savings gap. The bulk of the investment would naturally go into infrastructure. The Africa Infrastructure Country Diagnostic study[2] estimated Africa's infrastructure needs at USD75.5 billion per year for the next 10 years, including capital expenditure (USD38.1 billion) and operations and maintenance (USD37.4 billion) (see also Figure A1 and Table A1).

4.4 Our estimates of the financing gap are in the same range as the ones generated by sister institutions but much higher than the sums pledged by the development assistance community before the crisis (Figure 1). The 2005 Gleneagles Summit committed to raising aid to Africa by USD25 billion per year until 2010. This is virtually half the amounts needed to only allow African countries to maintain their pre-crisis growth rates, which is definitely not sufficient to bring the continent anywhere closer to meeting the MDGs.

4.5 Therefore, new assistance initiatives must bring additional resources. Delivery of pre-committed aid will not make a dent into the hardships experienced by the continent as a result of the crisis. At least USD117 billion are needed to propel the continent on a higher growth path to give it a chance to reach the MDGs.

5. Recommendations

5.1 *Urgency of action:* The severity of the crisis calls for swift action, with the sense of urgency as demonstrated in the rapid setup and delivery of bailout plans for banks and corporations in advanced economies.

5.2 *Scaling up resources:* The early initiatives to stem off the impact of the crisis have typically involved a reallocation of existing resources. This is vastly inadequate to address the impact of the crisis. Therefore, the following is recommended:

- New initiatives must involve "additionality" of aid over and above pre-committed pledges. Donors should pledge to provide 0.7 percent of their domestic stimulus packages to assist poorer countries, using existing multilateral channels.
- Donors must agree to increase the resource envelopes of the Bretton Woods Institutions and major regional development banks to scale up support for countries. Resources available to the IMF, and in particular through the ESF and PRGF, should be increased.
- The IFIs have accepted that they must play a counter cyclical role. But they will need the resources to do so. Shareholders must move quickly to increase the capital of major regional banks to allow them to help fill the growing financing gaps faced by member states. In particular we want to see an early review of capital adequacy of the African Development Bank.
- Shareholders and donors must quickly agree to streamline aid delivery processes in BWIs and major regional banks to increase the speed and effectiveness of crisis response initiatives.

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[2] The study covered Benin, Burkina Faso, Cape Verde, Cameroon, Chad, Congo (RDC), Cote d'Ivoire, Ethiopia, Ghana, Kenya, Madagascar, Malawi, Mali, Mozambique, Namibia, Niger, Nigeria, Rwanda, Senegal, South Africa, Sudan, Tanzania, Uganda and Zambia.

- The Debt Sustainability Framework should be reviewed in the context of the crisis, and the closure of access to credit. Those countries able to service the payments should be permitted to access less or non concessional resources.

5.3 *Increase and sustain investment in infrastructure at national and regional levels*. Africa already faces a fundamental infrastructure gap at both national and regional level. Without filling that gap and promoting economic integration, Africa will not be able to benefit from the eventual global recovery. To achieve this goal:

- Donors must commit to increasing funding for public infrastructure in Africa.
- Fiscal/macroeconomic policy frameworks need to be more flexible to provide African governments with adequate policy space for increasing budgetary allocations to public infrastructure.
- The private sector must take a leading role in infrastructure investment and management of infrastructure services, including through public-private partnerships.
- Governments must explore and encourage management arrangements that accelerate cost recovery, including fee-for-service schemes in public goods.

5.4 *Trade financing and trade facilitation* must be at the center of the short-term and long-term action plan. In particular, the following is needed:

- The G20 should resist taking protectionist measures in response to the crisis, and any that are put in place must be strictly time limited.
- They should commit to an early conclusion of an ambitious and development oriented Doha Round.
- Shareholders need to agree to increase financing capacity of the BWIs and regional development banks to provide trade finance facilities.
- The G20 must provide technical, financial and political support to the Aid for Trade Initiative.
- The donor community should establish a special *Trade Facilitation Training Fund* (TFTF) for technical assistance to African countries to improve their preparedness for trade negotiations.

5.5 *Protecting the poor and the vulnerable:* It is critical to preserve the modest gains in poverty reduction and access to basic social services achieved before the crisis. In this respect, donors and governments are called to:

- Maintain adequate levels of public spending on health, education (including special programs such as school feeding programs), nutrition, and sanitation.
- Ensure adequate and stable funding for global initiatives such as the Global Fund for the fight against HIV/AIDS, malaria, and tuberculosis, thereby avoiding large numbers of preventable deaths.
- Provide financial support for *social safety nets* to protect the poor, the unemployed and the socially marginalized. Such safety nets should be designed to allow easy countercyclical adjustment to cushion the poor against the impact of shocks.

5.6 *Increasing policy space and flexibility, speeding up aid delivery.* In addition to scaling up aid, donors need to support reforms in the aid delivery processes so as to:

- Increase flexibility and tailor aid allocations and delivery processes to recipient country's circumstances, including fragility, narrow fiscal space, and limited technical and institutional capacity.
- Review the current performance based aid allocation models used to better reflect the diversity of needs and circumstances, in particular the position of fragile states, and the fundamental need to promote economic integration in Africa.
- Increase predictability of aid to facilitate planning and implementation of development programs. Delivery should be frontloaded and more provided in fast disbursing program rather than project support.
- Increase policy space by greater focus on results and less on prior conditionality, and promoting country ownership of programs through greater participation of recipients in dialogue and consultation.

5.7 The crisis provides an opportunity to improve *global governance* for more transparency, accountability, and equitable representation. In particular:

- Africa and other developing regions must be given adequate voice and representation in order to advance their development interests;
- Voting weights at the IFIs, which are currently based on shareholdings, must be revisited to remove the bias in favor of rich countries and to recognize the importance of the IFIs to achievement of the development plans of its members.
- Due attention should be given to the role of the regional institutions as representative of their regional member countries.

5.8 *The role of the state*

- Advanced and emerging countries, as well as African countries are urged to strengthen the regulation of financial systems to increase efficiency while minimizing risk;
- Any efficiency gains from liberalization of financial systems and other markets must be balanced against the social benefits of regulation in terms of financial stability and equitable participation in the market economy;
- Donors and multilateral institutions must increase assistance for capacity building in African countries, notably through targeted technical assistance programs.

5.9 *Recovery of Africa's stolen wealth:* Billions of dollars of stolen wealth from the continent, including funds smuggled through embezzlement of borrowed money, are banked in Western financial institutions and tax havens. The ability of poorer countries to develop a sound revenue base and provide basic services is thereby compromised. In addition to enhanced action in Africa to counter corruption we recommend:

- Governments in advanced economies must enforce transparency in financial transactions in their banking systems to stem off illegal transfers of funds from the continent.
- The international community invests coordinated financial intelligence and resolute political will, as it has in the war against terrorism, in the efforts to prevent the smuggling of African assets, to track down and recover stolen wealth.

- In this respect, the G20 is urged to support the UN Stolen Assets Recovery initiative and other similar initiatives aimed at preventing money laundering, tax evasion, and capital flight.

5.10 *Climate Change:* The present financial crisis adds to the increasing burden in Africa of coping with the changes brought about by global warming; again an external shock not of Africa's own making. It reduces resources for adaptation and mitigation programs in African countries. It is critical that adequate new resources should be made available to support adaptation and that these are additional to existing development programs.

5.11 *The political will* of Africa's development partners will be severely tested in these moments of economic crisis. Advanced economies were able to mobilize massive amounts of funds for fiscal stimulus and bailout packages to rescue banks and corporations in the wake of the crisis. With much less resources than these rescue packages, the donor community can preserve its credibility as a committed development partner for Africa.

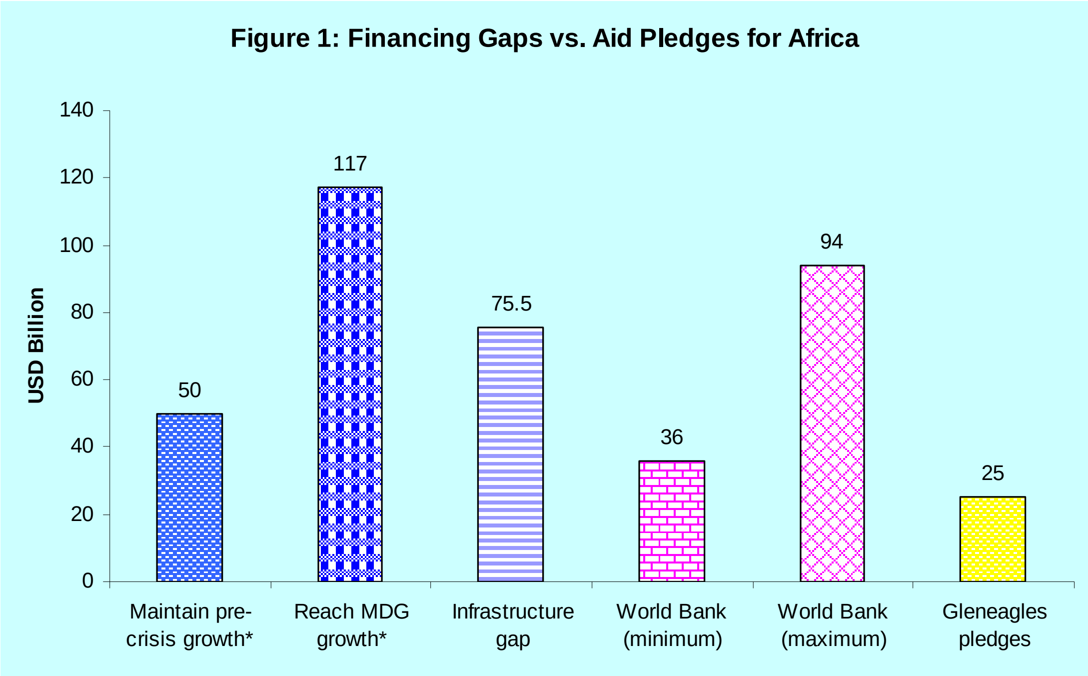


Figure 1: Financing Gaps vs. Aid Pledges for Africa
USD Billion
140
120
100
80
60
40
20
0
50
117
75.5
36
94
25
Maintain pre-crisis growth*
Reach MDG growth*
Infrastructure gap
World Bank (minimum)
World Bank (maximum)
Gleneagles pledges

Table 1: Real GDP Growth (%): Data before and after Crisis

	Real GDP growth				GDP change
	Before crisis		After crisis		After crisis
	2008 (e)	2009 (p)	2008 (e)	2009 (p)	2008-2009
Algeria	4.8	4.8	3.3	0.2	-3.1
Angola	11.5	5.1	15.8	-7.2	-23.0
Benin	4.9	5.3	5.0	5.3	0.3
Botswana	5.3	5.2	3.9	2.6	-1.3
Burkina Faso	4.7	5.8	4.2	6.0	1.8
Burundi	5.8	5.6	3.2	2.9	-0.3
Cameroon	4.8	4.6	4.1	3.1	-1.0
Cape Verde	7.6	7.0	6.1	3.6	-2.5
Central African Rep.	4.0	4.5	2.6	3.2	0.7
Chad	3.2	-0.7	0.2	-0.7	-0.9
Comoros	4.5	4.5	0.5	0.8	0.3
Congo, Republic of	6.4	6.4	7.0	7.7	0.8
Congo, Dem. Rep. of	6.6	7.1	5.7	-0.6	-6.3
Côte d'Ivoire	2.8	3.8	2.3	3.8	1.5
Djibouti	5.6	5.6	5.9	6.5	0.6
Egypt	6.8	6.7	7.2	4.3	-2.9
Equatorial Guinea	5.8	4.1	9.9	3.7	-6.2
Eritrea	1.3	1.1	1.2	1.6	0.4
Ethiopia	7.5	7.4	11.6	6.5	-5.1
Gabon	4.2	4.1	5.5	4.0	-1.5
Gambia, The	6.0	6.0	5.7	5.0	-0.7
Ghana	6.0	6.3	6.4	5.8	-0.6
Guinea	5.0	5.0	4.7	3.8	-1.0
Guinea-Bissau	2.1	2.2	3.2	3.1	-0.1
Kenya	4.0	6.5	2.6	5.0	2.4
Lesotho	5.2	5.4	4.2	3.8	-0.3
Liberia	9.2	11.0	7.3	10.8	3.5
Libya	8.0	7.8	6.5	3.4	-3.1
Madagascar	6.5	6.7	7.0	4.8	-2.2
Malawi	5.1	5.5	8.4	6.5	-1.9
Mali	4.7	4.8	3.6	4.2	0.6
Mauritania	5.0	5.0	5.2	3.4	-1.8
Mauritius	5.0	4.9	4.8	3.0	-1.8

Morocco	6.0	6.1	5.7	5.4	-0.2
Mozambique	7.0	6.8	6.2	4.0	-2.2
Namibia	4.4	3.3	3.4	2.7	-0.7
Niger	4.7	4.5	4.8	1.8	-3.0
Nigeria	6.2	6.1	6.1	4.0	-2.2
Rwanda	4.0	5.6	8.5	6.6	-1.9
São Tomé & Príncipe	6.0	6.0	5.8	6	0.2
Senegal	4.9	4.6	3.7	3.5	-0.2
Seychelles	5.9	4.2	1.5	-0.4	-1.9
Sierra Leone	6.5	6.5	5.4	6.3	0.9
Somalia	…	…	…	…	…
South Africa	4.0	4.9	3.1	1.1	-2.0
Sudan	10.7	11.0	8.4	5.0	-3.4
Swaziland	1.0	1.0	2.6	2.5	-0.2
Tanzania	6.5	6.7	6.8	6.1	-0.7
Togo	3.5	3.9	0.8	3.9	3.1
Tunisia	5.5	5.6	5.1	4.1	-1.0
Uganda	6.2	6.3	7.0	5.6	-1.3
Zambia	6.3	6.4	5.5	2.8	-2.7
Zimbabwe	-4.5	-4.0	-5.2	-5.6	-0.4
AFRICA	**5.9**	**5.9**	**5.7**	**2.8**	**-2.9**

Source: AEO 2009 Projections. World economic outlook Database, October 2008 and FAO
Note: (p) Projections; (e) Estimation

Table 2: Export revenues and Current Account Balance: Data before and after Crisis

	Exports of Goods (USD Billion)						Current Account Balance (As % of GDP)			
	Before crisis		After Crisis		Estimated Shortfall		Before crisis		After Crisis	
	2009(p)	2010(p)	2009(p)	2010(p)	2009(p)	2010(p)	2009(p)	2010(p)	2009(p)	2010(p)
Algeria	84.42	86.35	43.62	46.87	40.79	39.48	19.84	18.01	5.60	7.00
Angola	78.63	90.52	40.43	45.91	38.19	44.61	15.91	16.44	-8.13	-7.00
Benin	0.45	0.51	0.33	0.34	0.12	0.17	-8.14	-6.86	-7.82	-8.32
Botswana	5.31	5.45	4.77	4.77	0.54	0.68	7.61	6.34	11.54	10.14
Burkina Faso	0.90	1.03	0.74	0.78	0.17	0.25	-12.13	-10.23	-8.69	-8.96
Burundi	0.06	0.07	0.06	0.06	0.01	0.01	-14.83	-13.27	-8.36	-12.38
Cameroon	4.75	4.60	4.09	4.35	0.66	0.25	-1.10	-2.40	0.22	0.24
Cape Verde	0.12	0.12	0.08	0.08	0.04	0.04	-10.87	-10.73	-9.62	-6.63
Central African Rep.	0.24	0.26	0.15	0.15	0.10	0.11	-5.91	-5.62	-7.38	-8.09
Chad	4.53	4.38	2.00	2.24	2.54	2.13	-1.84	0.89	-3.75	1.44
Comoros	…	…	…	…	…	…	-9.55	-9.12	-9.55	-9.12
Congo, Dem. Rep. of	7.23	9.26	4.33	4.76	2.91	4.51	-12.58	-5.29	-27.40	-22.59
Congo, Republic of	14.57	16.69	7.28	8.10	7.30	8.59	21.41	25.27	-2.95	-2.24
Côte d'Ivoire	11.45	12.16	7.85	8.38	3.60	3.78	-0.58	-0.95	-0.33	-1.33
Djibouti	0.11	0.13	0.09	0.09	0.02	0.04	-32.86	-27.50	-20.69	-19.23
Egypt	35.03	37.90	24.36	25.21	10.68	12.69	-0.86	-1.67	-1.24	-1.78
Equatorial Guinea	15.22	14.77	7.71	8.57	7.51	6.21	2.78	0.87	-0.03	1.06
Eritrea	0.03	0.12	…	…	…	…	-2.15	-0.27	-2.15	-0.27
Ethiopia	1.68	1.78	1.22	1.37	0.46	0.41	-5.25	-4.73	-5.04	-3.74
Gabon	11.19	11.14	6.49	7.11	4.71	4.02	18.09	16.02	-3.54	3.36
Gambia, The	0.11	0.11	0.07	0.08	0.03	0.04	-12.50	-11.98	-8.84	-9.96
Ghana	5.66	5.92	4.72	4.84	0.94	1.08	-13.17	-12.68	-13.15	-17.86
Guinea	1.63	1.78	1.18	1.27	0.45	0.51	-6.73	-5.51	-1.63	-1.20
Guinea-Bissau	0.12	0.13	…	…	…	…	-11.56	-10.55	-11.56	-10.55
Kenya	5.64	6.32	5.03	5.08	0.61	1.25	-4.49	-4.85	-0.39	0.08
Lesotho	0.91	1.04	0.69	0.75	0.22	0.28	-1.41	-2.86	8.94	1.39
Liberia	0.73	1.18	0.37	0.41	0.36	0.77	-43.91	-29.27	-5.70	6.98
Libya	67.90	78.13	30.80	34.30	37.10	43.83	29.45	28.33	3.31	6.52
Madagascar	1.78	2.87	1.05	1.24	0.73	1.63	-21.15	-9.68	-21.03	-22.90
Malawi	1.00	1.11	0.69	0.72	0.31	0.39	-5.40	-6.42	-2.82	-5.88
Mali	1.76	1.78	1.81	1.73	-0.06	0.05	-6.92	-6.59	-0.95	-3.67
Mauritania	2.17	2.08	1.50	1.49	0.66	0.59	-2.97	-11.23	-13.18	-14.52
Mauritius	2.72	2.85	2.30	2.38	0.42	0.48	-6.58	-5.72	-6.14	-6.37

Morocco	21.52	22.71	17.11	19.13	4.41	3.58	-0.34	-0.79	-1.97	-3.15
Mozambique	2.93	3.05	2.39	2.94	0.55	0.11	-13.27	-13.05	-14.02	-11.22
Namibia	3.58	3.65	2.32	2.49	1.25	1.16	12.41	10.20	2.69	1.42
Niger	1.03	1.19	0.54	0.58	0.49	0.61	-20.56	-22.52	-15.40	-16.30
Nigeria	89.08	99.47	50.40	55.31	38.68	44.16	0.61	-0.50	-9.05	-6.44
Rwanda	0.26	0.29	0.22	0.25	0.05	0.04	-12.43	-11.47	-5.87	-6.23
São Tomé & Príncipe	0.00	0.00	0.00	0.00	0.00	0.00	-34.49	-33.44	-34.49	-33.44
Senegal	2.83	2.97	1.67	1.71	1.17	1.26	-11.44	-12.10	-8.72	-9.76
Seychelles	0.41	0.42	0.39	0.40	0.02	0.02	-35.11	-38.40	-21.54	-20.03
Sierra Leone	0.40	0.45	0.44	0.48	-0.04	-0.03	-4.18	-4.29	-4.37	-4.55
Somalia	…	…	…	…	…	…	…	…	…	…
South Africa	96.12	101.82	68.25	70.84	27.87	30.98	-8.15	-8.33	-6.36	-7.64
Sudan	13.15	15.23	7.64	8.82	5.51	6.41	-6.73	-6.80	-13.83	-15.86
Swaziland	1.74	1.80	1.53	1.64	0.21	0.17	-2.02	-2.64	15.38	7.94
Tanzania	2.77	3.10	2.21	2.23	0.56	0.87	-9.97	-9.74	-9.69	-10.43
Togo	0.96	1.05	0.77	0.80	0.20	0.25	-8.48	-7.13	-1.08	-2.19
Tunisia	22.02	24.55	16.99	18.60	5.03	5.95	-3.46	-3.29	-3.23	-2.53
Uganda	1.91	2.05	1.79	1.82	0.13	0.23	-5.83	-6.17	-7.30	-8.90
Zambia	5.76	5.62	2.73	3.00	3.04	2.62	-6.60	-7.00	-17.01	-17.28
Zimbabwe	…	…	…	…	…	…	…	…	…	…
AFRICA	**634.56**	**691.95**	**383.17**	**414.45**	**251.24**	**277.25**	**1.90**	**1.56**	**-4.37**	**-4.12**

Source: AEO 2009 Projections. World economic outlook Database, October 2008;
Notes: Data for Zimbabwe, Somalia, Sao Tome, Guinea Bissau, Eritrea and Comoros are not available.
Negative shortfall implies a surplus position. (p) Projections

Table 3: Selected projects expected to be cancelled or postponed

Country	***Detail on project***
Algeria	In December 2008 the Government postponed the date of submission of tenders for the modernization of Skikda and El Harrach refineries to 1Q 2009. These projects could be delayed.
Botswana	A USD 6 billion coal fired power project delayed.
Burkina Faso	Out of six mines scheduled to start in 2009, three mining companies are having difficulties mobilizing funds needed to begin operations.
Ethiopia	Non-sovereign financing of a large hydropower project of EUR 1.5 billion is lagging. A private investment bank had earlier expressed interest but has withdrawn due to the crisis impacting its appetite for emerging markets.
Ghana	Attempted sale of Volta Aluminum Company Limited (VALCO), an aluminum smelter, collapsed due to withdrawal of one party to the deal
Guinea	Investments delayed in mining projects
Kenya	- A renewable energy project for 300MW delayed
	- A Toll Road in Kenya of a total cost of around USD800 million delayed.
Senegal	- A Toll Road delayed
	- A new greenfield airport of EUR 400 million cost delayed.
Sierra Leone	Construction projects may be delayed
Sudan	Petronas decided to put its Port Sudan refinery project on hold.
Tanzania	Rio Tinto and Vodacom have postponed investments in mining projects
Tunisia	Gasfield development project being restructured (total project cost is USD1.2 billion)
	Transshipment deep sea port project likely to be delayed
Uganda	14 medium scale companies closed in 2008 and 15 more expected to close in 1Q 2009. The government will divert money from planned road projects to other sectors.
West Africa(regional project)	A telecommunication project in West Africa for USD240m: One of the potential shareholders may withdraw and cost of commercial debt has increased sharply.

Table 4: Crisis mitigation strategies in selected countries

Countries	***Mitigating Measures by Government***
Botswana	• The Central Bank cut its rate by 50 basis points to 15 percent in December 2008. • In the face of uncertainty as to the duration of the global economic slowdown, the cushion provided by the foreign exchange reserves may not be sufficient; some increase in borrowing is expected. • Reductions in spending targeting not only the development budget, but also some recurrent expenditure items, such as personnel emoluments and the cost of travel.
Cape Verde	• Dialogue with the IMF which adjusted the criteria of performance of the PSI • Careful management of the interest rates and the budget • Development of the Treasury bills to encourage the saving to remain in the national financial system.
Egypt	• Ministry of Trade & Industry EGP7 billion to boost exports and local production • Crisis package for tourism sector, including tax-exemption for charter flights, offering of free nights in hotels, etc. • Establishing deposit insurance fund (to boost confidence in banking sector) • Parliament approved legislation on integrated supervision of non-bank financial sector (i.e., capital market, insurance, mortgage finance, financial leasing, and factoring) in January 2009 • 2nd phase of the Financial Sector Reform Program, with expected joint ABD-World Bank financing, discussed between the Prime Minister, the Minister of Investment, and the Governor of the Central Bank in January 2009. Program at strengthening role of the financial sector by expanding the volume of bank lending, and enhancing SME's access to credit. • Egyptian Central Bank cut its benchmark interest rate for the first time since April 2006. The overnight deposit rate was lowered by 100 basis points to 10.5 percent, while the lending rate was cut by the same amount to 12.5 percent.
Kenya	• The Central Bank reduced the threshold for investments in Treasury Bills in the primary market from the current Kshs 1 million to Kshs 0.1 million from January 2009 to induce small investors. • The Kenyan government issued infrastructure bond that amounted to 18.5 billion shilling (USD 232.6 million) with 12-year maturity in February 2009.
Mauritius	• Government announced in January 2009 a stimulus package to bolster economic growth, increase jobs and boost purchasing power as a response to the global financial crisis. The package will provide Mauritian Rupees 10.4 billion, equivalent to about 3 percent of GDP.
Morocco	• In a bid to stimulate trade, the Moroccan government has taken a series of measures to re-energize the markets: • Allowing companies to buy back their own shares without a minimum set price in the event that their share prices drop below a certain level. • The possibility for insurance companies to hold up to 60 percent of their listed shares to cover their liabilities, as opposed to the previous ceiling 50 percent.
Nigeria	• The 2.8 trillion naira (22.6 billion dollar) 2009 budget submitted to the National Assembly is noticeably heavy on recurrent expenditure and light on capital spending and investment. The government is now mulling to use its USD 52 billion foreign exchange reserves to shore up the economy through a stimulus package. • Launch of a Presidential Steering Committee on the Global Economic Crisis in January 2009. The Committee is responsible for developing a framework to respond to the global crisis. • Government announced plan to suspend the 5 percent excise duty on some goods manufactured such as juices, instant noodles and non-alcoholic drinks, aiming to support its stressed industry and avert job losses. • Government decided to inject N70 billion into the textile industry through guarantees in February 2009.

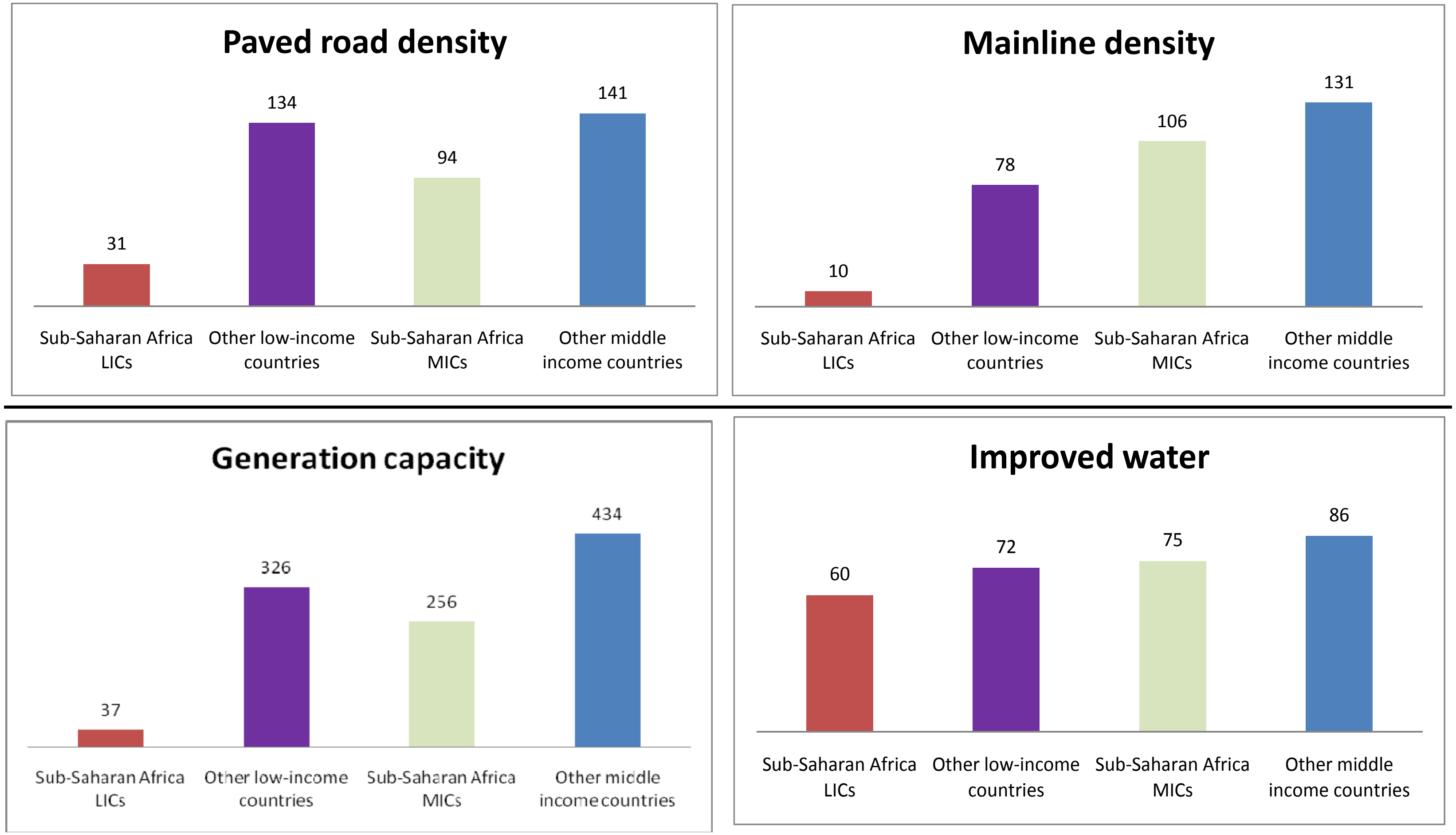
	• Nigerian government imposed foreign exchange controls to stem off the slide in the Naira. These measures include: • All foreign exchange purchases from the central bank window are only to be used for customers, and not on the interbank foreign exchange market. • The net open foreign exchange position of banks reduced to 1 percent of shareholders' funds, down from 20 percent in mid-December 2008.
South-Africa	The recent Presidential State of the Nation address (6th February, 2009) has taken note of the impact of the ongoing financial crisis to the economy. The government has flagged measures underway to avert the crisis that include: • Increased funding for public investment projects with allocation of R 690 billion (about USD 80 billion) over the next three years; • Intensification of public sector employment programs; • Adoption of industrial financing and incentive instruments to assist firms in distress, and lastly; • Sustained and expansion of government social expenditure. • Financing of these measures includes support from development finance institutions as well as partnership with the private sector • Proposed tax adjustments to personal income tax providing middle and lower income earners with R13.6 billion in tax relief. • The South African Reserve Bank cut the repurchase rate, its benchmark interest rate, by 100 basis points to 10.5 percent, the biggest reduction in more than five years.
Sudan	• The Regional Government of Southern Sudan has ordered a 10 percent salary cut for all senior government officials and a clampdown on the payment of hotel costs for officials who do not have their own housing.
Tunisia	• A Commission to ensure crisis surveillance has been established • 2009 budget includes a significant increase in public investments along with measures to increase external competitiveness and employment and strengthen social protection • Central Bank relaxing monetary policy stance, with Dinar money market rate falling from about 5.2 percent in December to 4.65 percent in January 2009 • Central Bank reduced its key interest rate by 75 basis points, from 5.25 percent to 4.50 percent in February 2009.
Uganda	• Government has assisted the troubled Uganda Transport Operators and Drivers Association (Utoda) by writing off nearly half of the accumulated Shs1.7 billion debt that it owes Kampala City Council (KCC).

Appendix Table A1:
Africa's Infrastructure lags other developing countries and gap widening over time

Normalized units*	**Sub-Saharan Africa LICs**	**Other low-income countries**	**Sub-Saharan Africa MICs**	**Other middle income countries**
Paved road density	31	134	94	141
Total road density	137	211	215	343
Mainline density	10	78	106	131
Mobile density	55	76	201	298
Internet density	2	3	5	8
Generation capacity	37	326	256	434
Electricity coverage	16	41	35	80
Improved water	60	72	75	86
Improved sanitation	34	51	48	74

Source: *Source: Preliminary results AICD 2008*
* Units: Road density is in kilometers per kilometer squared; telephone density is in lines per thousand population; generation capacity is in megawatts per million population; electricity, water and sanitation coverage are in percentage of population.

Appendix Figure A1:
Sub-Saharan Africa is lagging behind in infrastructure



Source: Preliminary results AICD 2008

* Units: Road density is in kilometers per kilometer squared; telephone density is in lines per thousand population; generation capacity is in megawatts per million population; electricity, water and sanitation coverage are in percentage of population.