African Perspectives of the global economic and financial crisis, including the impact on health

A. Introduction

The global financial and economic crisis is presenting significant economic and social development challenges for African countries. The current economic global slowdown, which began with the collapse of the housing market in the United States, has deepened causing many developed countries to enter into a recession. The impacts on African economies and of the other developing world were initially expected to be less severe, but they have now been estimated to be profound. Growth rates in African countries have plummeted, as the crisis is hitting the key drivers of growth, especially trade flows, capital inflows, natural resource sectors (oil and minerals) and agricultural exports. Household incomes are falling due to job losses and decreased remittances from family members working abroad. There are concerns that budget pressures in donor countries will reduce aid flows.

The biggest concern is that the crisis may degenerate into a *social development crisis* on the continent as the recession deepens (AfDB, 2009). This has major effects on people's enjoyment of their human rights. The crisis is likely to disrupt and in some instances reverse development gains, compromising progress toward the Millennium Development Goals (the MDGs), especially those aiming to reduce poverty, hunger, maternal and child mortality, and ensuring 'decent work for all'.

The predicted impact of the crisis on health outcomes is grim. Increasing unemployment and poverty will lead to less food security and quality of nutrition, leading to growing health inequities. Some African governments are cutting back on already insufficient HIV treatment and care programmes because of the crisis. Child malnutrition and infant mortality might increase by 200,000 and 400,000 additional deaths in 2009 (UNICEF, 2009). Women, children, the poor, and minority groups, are expected to suffer disproportionately from the health impacts of the crisis. Yet the right to health is non-negotiable.

Clearly, Africa faces a lot of challenges in attaining the health MDGs because of the crisis and there is need for finding ways of mobilizing more money to mitigate the impact and strengthen health systems. The African Ministers of Health in their 2007, 2008, and 2009 Ordinary sessions, pledged to implement the Africa Health Strategy in collaboration with the AU Commission, RECs, regional health organizations, UN Agencies, private sector, development partners and other international and civil society organizations. The Regional Health Strategy proposes strengthening of health systems with the goal of reducing disease burden through improved resources, systems, policies and management and to contribute to equity through a system that reaches the poor, the marginalized and displaced people. It is important that policy interventions prioritise protecting social spending, strengthening of social protection, and integration of health perspective into the stimulus packages.

This note/presentation reviews the evidence of the impact of the crisis on the continent, with an emphasis on social development and the health sector. It suggests the strategies to mitigate the impacts and suggests the role that regional organizations and development partners can play to strengthen mitigation. However the crisis presents some policy opportunities at the national, regional and international levels. At national it is putting pressure on African countries to consider pro-poor fiscal stimuli packages; protect human and social development of the most vulnerable; and on the medium term to diversify their economies. Regional level actors can provide fora for policy dialogue and consensus building on mitigating of the crisis on health and education, and a funding facility to mitigate the impact of the financial crisis on health. At the international level, the quality and quantity of aid need to be sustained. Innovative health financing schemes that tackle inefficient use of resources and fragmented and unpredictable health aid flows are required to reinforce equitable health systems and support government capacity.

B. Impact on economic development

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.

Major channels of transmission of the impact of the global economic and financial crisis on African economies include:

- 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).

- Increased stock market volatility that is beginning to have significant negative effects on the financial sector: for example the stock market indices have declined in Egypt, Nigeria, Kenya, Mauritius, Zambia and Botswana (ECA, 2009).

- Depreciation in foreign exchange rates of many African. 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.

- Reduced workers' remittances due to loss of jobs or reduced earnings of African migrant workers in Europe, North America and the Gulf States. Remittance inflows to sub-Saharan Africa had increased from $4.6 billion in

2000 to $20 billion in 2008. Recent data released by the World Bank indicate that the financial crisis will reduce remittance inflows to sub-Saharan Africa by between $1 billion and $2 billion dollars in 2009 relative to 2008 (quoted in ECA, 2009).

- Decreased Foreign Direct Investment (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.

- Potential decrease in Official development assistance (ODA) for the financing of government programmes. ODA flows to Africa since the Monterrey Consensus was adopted in 2002, 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 (ECA, 2009).

- Expected decrease in revenue from tourism will negatively affect economies that are dependent on tourism such as Cape Verde, Mauritius, Kenya, Uganda and Morocco. In Mauritius, where the tourism industry accounts for 15 percent of the GDP, tourist revenues were 15 percent lower during the last quarter of 2008 on a year-on-year basis and in Tanzania, where the tourism contributes 17.2 percent to GDP, safari companies reported up to 60 percent cancellation in November 2008 and the situation is expected to worsen as the crisis deepens (AfDB, 2009).

C. Impact of the crisis on social development including health in Africa

The impact of the global financial and economic crisis on social development including the health sector in Africa is through two major channels;

(a) **Supply-side effects -** directly affecting the operating environment for the health sector and other social development services by affecting the supply of health and social services (can be referred to as supply-side effects); The global financial and economic crisis is affecting the health sector directly by affecting the supply of health services, manifested mainly through government cutbacks in expenditure as a result of reduced revenues due to falling exports and as a result of potential reduction in ODA. This reduction in financing translates into reduced investment in health and availability of health services. The crisis thus threatens to reverse the gains that Africa had made on social development.

The financial and economic crisis through exchange rate devaluation is making it more expensive for countries to obtain imported equipment and drugs. Essential life medicines may become either unavailable or unaffordable (WHO, 2009).

Depreciation of currencies in the region will increase domestic prices of food in countries that are net importers of food and reduce access to food by vulnerable groups thereby affecting the nutrition and health outcomes of many.

(b) Demand side effects - directly affecting the health sector by affecting the household characteristics and its ability to demand health services (demand side effects). The global financial and economic crisis is affecting availability of income of the general population through loss of employment, and reduced remittances. Overall reduction in income will result in reduced consumption of health services due to lack of resources to pay to access health services, and reduced consumption of other basic goods such as education, food and nutrition security, that are essential for positive health outcomes.

What is the available evidence in Africa?
Africa has already been facing challenges in securing health for its population – the crisis will make the situation worse. Although information on the impact of the financial crisis on health is still patchy, this section presents the expected impact.

Progress toward achieving the 15% of national budgets to health is slow
African countries are constrained in their capacity to finance health as evidenced by the low levels of public sector health spending in many countries. Only 5 countries (Burkina Faso, Lesotho, Liberia, Rwanda and Malawi) had nominally achieved the Abuja target by 2005 and eight countries were within 3 percentage points of the target (AU, 2009). In per capita terms, more than half of the African countries are spending less than US$34 per capita on health – the level stipulated by WHO’s Commission on Macroeconomics and Health as necessary for a basic health package to achieve the health MDGs. The major challenges affecting public sector health financing include low domestic resource mobilization capacity, limited fiscal space, and constrained economic growth. Clearly, a significant gap remains between the current and needed financing for achieving

the health MDGs. The financial crisis is likely to worsen the availability of domestic public resources that are allocated. Yet public resources are important for addressing health inequities.

Donor funding plays a significant role in health sector financing in Africa

External resources account for a large proportion of health expenditures in Africa. The financial crisis is likely to negatively impact on ODA which would translate to lower levels of external resources available to support health in Africa. Yet Africa needs these resources in order to achieve the MDGs.

Loss of jobs and income

The impact of the economic crisis will increase further the number of people living under the poverty line and make the objective of achieving the MDGs even more challenging. 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).

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.

Poor progress has been made on the health MDGs

Although some progress has been made in the past decade on some aspects of health that include measles vaccination, access to improved water supply, and reductions in HIV prevalence rates in some countries, very limited headway has been made on achieving the health MDG. Available data suggest very little improvements in reducing infant, child and maternal mortality in many African countries. The financial crisis can aggravate the situation resulting in reduced progress towards achieving the goals.

Maternal mortality MDG 5- Although maternal mortality has been reduced from 250 per 100 000 live births in 1990 to 160 per 100 000 live births in 2005 in Northern Africa, maternal mortality remains unacceptably high in Sub Saharan Africa. The sub-region has an average MMR of 900 per 100 000 live births in 2005 (UN, 2008). Thirteen countries in Africa still have an MMR of more than 1000 per 100 000 live births. MDG 5 is thus lagging the furthest behind. The reduction in budgets for health that is likely to result from the financial crisis will make this goal is even farther to realize even though proven interventions exist. There is need to improve the functioning of the health system so that the system can deliver to women when women are ready to deliver (UNFPA, 2009). The health system should be fully staffed and equipped and be able to deliver to women before, during and after childbirth. Such a health system that can deliver to reduce maternal mortality, can also deliver to all segments of the population. It is also important to tackle the root causes of maternal mortality and morbidity, including gender inequality, low access to education – especially for girls – child marriage and adolescent pregnancy.

Widening of inequities in health - The poor and those who are losing their jobs due the financial crisis are most vulnerable to economic impacts

D. Africa reponses to the impact of the financial and economic crisis on health and economic development

Mitigation of the financial and economic crisis is essential in reducing poverty, promoting social development and contributing to the acceleration of the progress towards achieving the targets of the MDGs.

D.1. Short-term Responses

- **Protecting and increase pro-poor public spending on social sectors including health**

There is need to protect and increase domestic spending on health, education and other social sectors. The several reasons supporting this action include (based on WHO, UNFPA, AfDB):

- Health spending should be used more efficiently to address health inequities.
- Sustained spending on prevention is crucial for achieving positive health outcomes.

Protecting livelihoods and household income
Through strengthening of social protection strategies that have positive impact on health outcomes such as: national health insurance, social health insurance and community-based health insurance schemes; conditional and unconditional cash transfers; policies that improve food security; pensions; child support; provision of decent work and other policies that target vulnerable groups such as women, persons with disability, and others.

Improving domestic resource mobilization
It is important that African countries find ways of mobilizing resources. In Burkina Faso, Cape Verde, Senegal and South Africa are undertaking comprehensive reforms so as to boost revenue collection (ECA, 2009).

Fiscal policy measures
Like in the developed countries, some African countries have established fiscal stimulus packages to cushion the effects of the crisis and boost growth. Some of the examples of countries that have adopted fiscal stimulus packages include: Cape Verde, whose 2009 budget projects a 17 per cent rise in public spending to provide fiscal stimulus to the economy; Egypt where 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 who have also adopted fiscal stimulus measures that emphasize infrastructure development (ECA, 2009).

Strengthening the role of non-health sectors in promoting health
Countries should also promote health outcomes through improving the non-health sectors such as education, food security, employment, road infrastructure, water, and sanitation. These non-health sectors address the demand side factors of health and greatly contribute to the preventive aspects of health.

D.2. Medium term responses

Strengthening of health systems
Strengthening of health systems and scaling up of quality health services to deliver essential health package that can accelerate the achievement of the health MDGs. It is particularly important that this package should include a range of reproductive health services targeted at reducing maternal mortality comprising of family planning, skilled attendance at delivery and emergency obstetric and newborn care, ensuring linkages with HIV prevention and treatment (UNFPA, 2009).

Monitoring the impact of the crisis on health is crucial

It is important to collect data to monitor the impact of the crisis on health – in particular the impact on levels of financing for health ad the associated changes in costs and availability of health services; changes in employment, incomes and remittances and its impact on health consumption. The purpose of monitoring is to identify the most vulnerable countries and populations before people are exposed to risks that will affect their health (WHO, 2009). African countries need support and resources now more than ever to build up their capacity to monitor the situation.

Strengthening economic growth through trade

The current global and economic crisis has demonstrated the need for Africa to promote intra-African trade and regional integration in general to bolster economic growth and development by enlarging markets and reducing vulnerability to shocks. Clearly, promoting export diversification, maintaining competitiveness of Africa's exports, and investing in new technologies would be required to complement the current efforts by regional and international organisations. Cameroon has reduced or waived import taxes on equipment, tools and goods required for research and oil exploration, 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; and Madagascar has devalued the local currency to restore export competitiveness (ECA, 2009).

Promoting diversification in the drivers of economic growth

African countries should design measures that encourage diversification of the generators of economic growth from extractive sectors that are capital-intensive and have low impact on employment to promoting those activities with the highest potential for employment creation and export diversification.

Strengthening banking sector regulation, recapitalization of banks and pursuing prudent capital flow management

It is important that African countries pursue reforms that can strengthen their banking sector through better risk assessment and monitoring, and adequate capital adequacy requirements. Banking sector regulation needs to be strengthened by keeping pace with modern developments while at the same time giving priority to country specific development strategies and being cognizant of national capacity and institutional constraints (AfDB, 2009).

Some countries have taken specific measures to recapitalize domestic banks. Examples include: Malian Government that has decided to recapitalize the Banque de l'Habitat du Mali in order to increase and improve finance for housing; Tunisia's central bank that doubled the capital for the financing of small and medium-sized enterprises in order to boost domestic investments; and the Algerian Credit and Monetary Council that has 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 (ECA, 2009).

African countries need to pursue prudent capital control strategies to promote private capital inflows while minimizing the risk of abrupt capital reversals that are detrimental to currency stability (AfDB, 2009).

D. 3. Regional Support

Financing to help countries mitigate the impact of the financial crisis
The African Development Bank has been able to implement emergency assistance programmes by reallocating resources through the Emergency Liquidity Facility, the Trade Finance Initiative and other ways of support to low-income countries. There is need to scale up such financing as the impact of the crisis continues to unravel on the continent.

Regional organizations can provide
Support subregional organizations to help Member States in several areas: building capacity to generate and use disaggregated data for monitoring the impact of the financial and economic crisis on health; offer research support to identify the impact and the needed policy response; and development of effective inter-country mechanisms of sharing best practices or experiences on policies, strategies, data and other resources for mitigating the impact of financial and economic crisis on health.

They can also promoting policy dialogue and providing member States with guidance on how to reach consensus building.

D. 4. Protecting external funding on health
Sustaining funding for health is crucial. In particular countries that are receiving aid towards health financing need predictable and flexible funding that is aligned to national priorities (WHO, 2009). Increased efforts are needed to implement the Paris Declaration on Aids effectiveness (2005) and the Accra Agenda for Action adopted at the third high level forum on Aid Effectiveness (2008).

Development partners should continue to develop and support innovative financing mechanisms and gradually move from vertical funding to budgetary support to the health sectors that can build the overall health system. A number of innovative financing mechanisms that need establishing, support and expanding include (as reported by The Taskforce on Innovative International Financing for Health Systems):

- The International Financing Facility for Immunisation (IFFIm) launched in 2005;
- The International Health Partnership and Related Initiatives
- The mandatory solidarity levy on airline tickets;
- Explore the technical viability of other solidarity levies on tobacco and currency transactions;
- Catalytic funding for large-scale private giving initiatives such as the voluntary solidarity contributions and a proposed "De-Tax);
- Strengthen the capacity of governments to secure better performance and investment from private, faith-based, community, NGO and other non-state actors in the health sector.

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