IMPACT OF FINANCIAL CRISIS ON ECONOMIC GROWTH IN AFRICA

By

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Abstract

This presentation is on 'Impact of Financial Crisis on Economic Growth in Africa'. It was necessitated by many commentators' belief that the world's emerging economies, particularly those in Africa, would be destabilised by the effects of the crisis that originated from the most advanced industrialised economies. The impact of the global financial crisis is likely to vary across African countries depending on their exposure to the international financial system, their production and export structure, and their capacity to use policy tools to cushion its adverse effects. The most significant are the decline in export prices and volumes. Private capital flows to the region, mainly consisting of foreign direct investment (FDI), have slowed to a trickle, hindering economies that had been relying on these flows to finance much-needed infrastructure and natural resource access projects. The impact of the financial crisis has been transmitted to African economies not through the credit crunches and liquidity freezes that are currently strangling advanced and emerging economies, but rather through the global recession that followed. In light of these potentially debilitating effects, it is critical for African countries and their leaders to seek proactive economic policy measures and reforms to mitigate the effects of the crisis on African economies. These should include interventions to strengthen African markets and institutions, expand 'South-South' trade and economic cooperation, increase inter/intra-regional trade to lessen dependence on overseas markets, and implement expansionary monetary and fiscal policies to boost demand and employment. Furthermore, on a global level, African leaders must push for reform of the global financial architecture to include greater representation of African interests in the forum of international financial institutions. The only likely drawback that might disrupt the rising prosperity in Africa are **corruption, political instability and insecurity**, as these might pose risks to doing business in Africa.

Keywords: Contagion, Decoupling, Mitigate, Nascent

IMPACT OF FINANCIAL CRISES ON ECONOMIC GROWTH IN AFRICA

Africa's underdeveloped financial systems and relatively limited links to the global economy have not insulated the continent from the impacts of the financial crisis, as low commodity prices, depressed external demand, and declining remittances wreak havoc on the long awaited growth acceleration that characterized the last quinquennium. African economies will likely suffer about $578 billion in lost export earnings over the next two years, representing 18.4 percent of GDP and five times the aid to the region over the period. Oil exporters will suffer the largest losses, with a shortfall of $420 billion over the next two years. Capital inflows, tourism receipts and remittances are all declining in parallel, and trade financing is drying up. The effect of this massive external shock on growth and poverty is severe (Ali, 2009).

Channels of Transmission

The global financial crisis is impacting African economies in a variety of ways. The most significant are the decline in export prices and volumes. Largely as a result of falling prices and demand for their commodities, many countries have experienced sharp drops in primary commodity exports. During the second half of 2008, non-energy commodity prices plunged 38 percent. Oil prices fell 69 percent between July and December 2008. The expected decline in exports is huge: 42 percent in 2009 and 43 percent in 2010.

African countries that have been dependant on remittances for the last two decades, and have typically seen remittances grow rapidly, will face severe contractions in the flow of these funds. According to World Bank, remittances to Sub-Saharan Africa will drop between 5 to 8 percent in 2009. Declines in remittances contribute to foreign exchange shortages and increased poverty, as some of the most vulnerable and poorest populations lose a significant source of income.

Private capital flows to the region, mainly consisting of foreign direct investment (FDI), have slowed to a trickle, hindering economies that had been relying on these flows to finance much-needed infrastructure and natural resource access projects. In Mozambique, for example, FDI related to expansions of hydroelectric and mining projects has been delayed or suspended.

The inflow of portfolio capital has also been affected. For example, Ghana and Kenya have postponed sovereign bond issues worth about $800 million. The stocks of foreign exchange reserves are deteriorating. In the Democratic Republic of Congo, 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.

The Effect on Growth and Poverty

The financial crisis will reverse the recent achievements by African countries in raising growth rates. According to African Development Bank (AfDB), real GDP growth is expected to slow to 4.6 percent in 2009 from 6.2 percent in 2007. Southern Africa will be hit the hardest with its forecast growth rate slowing to 4.0 percent in 2009. Oil exporting countries will also be badly affected—for example, Angola's growth is projected to decline from 20.9 percent in 2007 to 7.6 percent in 2009. East Africa will grow at a rate of 6 percent in 2009, down from 8.4 percent in 2007.

Fiscal balances are also expected to deteriorate significantly as tax revenues, especially those that are tied to commodity sales, decline sharply. Fiscal balance in Sub-Saharan Africa will deteriorate by as much as 6 percentage points of GDP to a deficit of about 4 percent of GDP in 2009. Rising demand for social spending is compounding the stress on government budgets. With fewer resources, countries will be unable to reach their development goals of reducing poverty and investing in infrastructure.

Although some African countries were making significant progress toward their Millennium Development Goals before the crisis, the shortage of export revenues, foreign finance, and slower growth will certainly hamper these advances. Growth collapses are costly for human development outcomes, which can be irreversible, and which deteriorate more quickly during growth decelerations than they improve during growth accelerations. As just one point of reference, countries that suffered economic contractions of 10 percent or more between 1980 and 2004 experienced more than one million excess infant deaths. The average GDP growth rate of African countries is now projected to fall in 2009 to less than half the pre-crisis rate, as will growth in developing countries as a group. Unless reversed, this corresponds to a total of 1.4 to 2.8 million excess infant deaths during this period.

In contrast to the severe beating taken in many of the region's other sectors, the African financial sector has been hit relatively mildly by the global crisis. Changes in ownership structure and integration of African banks into the global financial market have been slow. Most African countries have little or no access to market flows of capital other than FDI. As a result, African banks' exposure to foreign capital markets has not been as deep as in other developing regions In the third quarter of 2007, international claims (claims denominated in foreign currency) to sub-Saharan Africa accounted for only 6 percent of their total.

Yet despite having weaker financial linkages to the rest of the world, African countries have not been immune to financial havoc. The Nigerian stock exchange all Share Index fell 37 percent this year, the steepest quarterly decline in more than a decade and the sharpest decline in the world. The Johannesburg Stock Exchange—the largest in the region—ended 2008 with a 25.7 percent loss.

Can the G20 Come to the Rescue?

On paper at least, leaders of G20 agreed to provide $250 billion in new trade credit guarantees, $100 billion for more lending by Multilateral Development Banks (including the African Development Bank), gold sales to support concessional finance for the poorest countries, and support for a new allocation of Special Drawing Rights of $250 billion, as well as recapitalization of the IMF to the tune of $500 billion. While some of these large sums (especially IMF contributions) are likely to materialize, it is unclear how much, and also how much will find their way into support for Africa.

The AfDB estimates that sustaining African growth in the face of today's crisis would require an injection of at least $50bn this year, and more next, on top of existing aid flows. To accelerate progress towards eradicating poverty to rates in line with the Millennium Development Goals would require more than twice that amount.

The G20 commitments, vague as they are, increase the likelihood that social protection measures will be enacted and that new investments will be targeted to encourage Africa trade. Still, in the best of circumstances, the impact of many of these measures will take time to bear results. Their speedy implementation should now be the top priority. In the meantime, attention should be directed towards protecting the poor through expanded safety nets to mitigate the human impact of the crisis.

Conclusion

The impact of the financial crisis has been transmitted to African economies not through the credit crunches and liquidity freezes that are currently strangling advanced and emerging economies, but rather through the global recession that followed.

The slowdown in growth will likely deepen the deprivation of the poor and of the large number of people clustered just above the poverty line, who are particularly vulnerable to economic volatility and temporary slowdowns. There is also a possibility that the real economy impacts may spill over into the financial markets, as weaker growth blunts new business and increases bad loans.

INTRODUCTION

On the back of the fallout from the current global financial crisis, world growth in 2009 is expected to decline to its lowest rate in 60 years. In 2008,the collapse in demand stemming from the financial crisis, coupled with synchronised falls in manufacturing and industrial production, trade credit financing problems and low consumer confidence, triggered a fall in world trade growth to just 4 percent. According to the United Nations Conference on Trade and Development (UNCTAD) Trade and Development Report 2008, the global economy is teetering on the brink of recession. Initially, many commentators believed that the world's emerging economies, particularly those in Africa, would be relatively 'decoupled' from the effects of the crisis that originated from the most advanced industrialised economies. However, in the developing world the knock-on effects from the financial instability and uncertainty in industrialised nations are starting to take hold. Emerging markets' access to trade and investment is likely to shrink. Indeed, UNCTAD estimates that exports from the developing world could decline by 9.2 percent in 2009. 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. Moreover, the market for trade finance has deteriorated severely in the past six months as the crisis has exacerbated a shortage of liquidity to finance trade credit. The emerging economies are also likely to suffer from direct financial contagion, notably in the form of capital flight and reduced capital flows.

Despite these potentially debilitating effects, predictions from the Group of 20 (G20) leaders' summit held in Washington in November 2008 suggested that more than 80 percent of the future growth of the global economy will depend on emerging market countries. Similarly, while the International Monetary Fund (IMF) has forecast that developing countries will grow by 3.3 percent in 2009, expectations are that the advanced economies will shrink by close to 2 percent.

GDP Growth by Country Group

Within this context, the extent of the impact of the crisis on African economies, and the availability and suitability of measures to mitigate the effects of the crisis on the continent, are critically important considerations for Africa's future growth prospects.

THE IMPACT OF THE CRISIS ON AFRICAN ECONOMIES

The impact of the global financial crisis is likely to vary across African countries depending on their exposure to the international financial system, their production and export structure, and their capacity to use policy tools to cushion its adverse effects. In general terms, the short-term effects on many African countries are likely to be mitigated by the fact that most countries on the continent are relatively de-linked from the global financial system. Moreover, the nascent banking systems in many African countries, typically characterised by simplistic structures, conservatism, prudent financial management regulations, controls on foreign exchange and very limited exposure to subprime loans and credit default swaps, have shielded the continent's financial structures from the full effects of the crisis. Indeed, Benedicte Christensen, deputy director of the IMF's African Department, went as far as to state in late 2008 that there is "no systemic risk that we can see in any African country in terms of banking".

This is not to say that Africa is immune from the effects of the crisis. It is in the medium to long-term that the full effects of the crisis on African economies will be realised. Slowing global growth linked to the crisis may push millions of Africans over the poverty line. This possibility was emphasised in the IMF'S World Economic Outlook report in April 2008, which stated that a fall in world growth of just one percent could result in a 0.5 percentage point decline in Africa's gross domestic product (GDP). Already,the IMF is predicting that growth in sub-Saharan Africa will slow from close to 5.25

percent in 2008 to approximately 3.25 percent in 2009. The slowdown in global growth, coupled with a sharp decline in global industrial production, has reduced demand for African exports, reflected most notably in the downward spiral of both prices and demand for commodity exports. This is most alarming given the fact that commodity exports represent the primary source of export receipts for the majority of African countries.

Furthermore, the fall in export revenues is likely to have negative spillover effects in terms of reducing government revenues, thereby worsening the already tenuous fiscal position in many African countries.

Commodity Prices for Sub-Saharan Africa

The tightening of global credit as a result of the crisis has also led to an enormous reduction in private investment flows and bank financing, resulting in reduced capital flows and a curtailing of the availability of trade finance. This is likely to be reflected in a substantial decline in international funding flows to African countries, most prominently in the form of reduced foreign direct investment, portfolio flows and remittances from the diasporas resident in the developed world. In terms of the latter, any long term reduction in remittances from Africans living abroad is likely to be particularly hard felt, given that these funding flows currently contribute an estimated $10 billion annually across the continent.

The effects of a decline in foreign investment in Africa for countries that are currently financing large current account deficits could be particularly devastating. For instance, South Africa is heavily reliant, at least in the short run, on private capital flows to finance its extremely large current account deficit – which amounts to approximately 8 percent of the country's total GDP. The predicted reduction in capital flows will mean that South Africa will have to contract its current account deficit appreciably.

Other African countries running relatively large current account deficits, such as Uganda and Tanzania, are likely to be similarly affected. These problems are likely to be compounded by the prospect of widening deficits brought about by the crisis itself. Indeed, the IMF has predicted that the current account deficit for the entire sub-Saharan African region will widen by more than 4 percent of GDP to reach 6.75 percent of GDP in 2009.

Sub-Saharan Africa: Current versus Pre-crisis Growth Forecasts,2009

The projected decline in private capital flows may also have a longer-term impact on infrastructure investment projects in African states, many of which may face shortfalls in financing. Given that many African capital markets are small in size, even comparatively limited withdrawals of foreign investment may have a potentially significant impact. Furthermore, African countries may face increasing pressure for debt repayment as international institutions and western banks not only tighten their lending policies but seek to shore up their reserves. Allied to this is the prospect that the global financial crisis will result in a slowdown in foreign aid and development funding to African countries due to the tightening of global credit.

AFRICAN RESPONSES TO THE FINANCIAL CRISIS

In light of these potentially debilitating effects, it is critical for both African and world leaders and policy makers to consider potential responses to mitigate the impact of the crisis on the continent.

One way of responding effectively to the crisis is to prioritise the building of African markets. Specifically, policies to strengthen African markets and institutions are necessary to encourage growth and ensure that African economies are more resilient to external shocks. In addition, there is a need for more stringent regulation of African financial markets. Moreover, creating a more conducive business environment by reducing the costs and constraints associated with doing business in African economies will raise their profile as less expensive, less risky and more profitable business destinations, thereby helping to attract greater foreign capital flows and investment in the context of a market for capital that has become considerably more risk-averse in the wake of the onset of the financial crisis. Reforms that encourage foreign direct investment and portfolio flows and measures that raise the level of trust in African financial systems are likely to have a similarly positive impact.

Expanding trade with other developing countries represents another potential means to soften the severity of the negative impact of the crisis on African economies. Global trade statistics suggest that trade between developing countries as a share of both total world trade and global commerce has already been on the increase for quite some time. Indeed, merchandise trade between developing countries grew at an average annual rate of 13 percent between 1995 and 2007 and, in 2007, accounted for one fifth of total world trade flows. It is critically important for the African continent to increase its share within this South-South trade nexus in order to offset some of the effects from the anticipated decline in demand for its commodity exports. Allied to this is the need to increase regional trade and intra-African trade flows in order to lessen the dependency of African economies on overseas markets.

Similarly, measures to improve South-South economic cooperation, particularly in terms of investment, financial flows and joint efforts to stabilise currency exchange rates and debt, should be investigated. Specifically, several South-South coping measures are potentially available to African countries to address the worst effects of the global financial crisis. First, increased financing from regional development banks would compensate for the anticipated slowdown in international aid and donor funding to African economies. Second, regional stimulus packages could be implemented to help to sustain markets and maintain economic growth. Similarly, regional arrangements could be employed that are specifically designed to mitigate the impact of financial shocks through, for example, the provision of international financial liquidity via swap arrangements. Finally, n African countries saddled with high levels of foreign debt, measures to diversify foreign-exchange reserves could be adopted whereby other developing countries 'purchase' that debt.

On a global level, according to the World Trade Organisation Director-General, Pascal Lamy, reaching a global trade deal would represent a relatively simple way to ease the effects of the crisis. The promise of such a 'global deal' is particularly compelling for African economies, which are perhaps amongst the most threatened by the prospect of increased protectionism stemming from the crisis. Specifically, new domestic protectionist measures, predominantly in the form of seemingly benign, crisis-linked policies such as government stimulus and bailout programmes, exchange rate devaluations, anti-dumping and countervailing duties and 'buy local' policies that discriminate against foreign firms and workers, may stifle Africa's export sectors even further. Consequently, it is critical for African policymakers to push for a global accord that maintains open markets and prevents an avalanche of new crisis-linked protectionist measures.

Furthermore, in the aftermath of the onset of the global financial crisis, it is clear that there is a pressing need to reform the multilateral financial architecture, particularly in terms of ensuring greater representation of African countries in international financial institutions. Even though the financial crisis did not originate in Africa, the continent has already been unduly exposed to its effects. This has sparked strident calls for a more inclusive approach to multilateral governance that affords a greater 'voice' to African countries in international financial institutions. It is important for developing countries, and African countries in particular, to play a more meaningful role in these institutions and in the management of economic shocks.

Domestic fiscal and monetary responses should also be explored by those African countries with the capacity to implement them. For instance, in African countries with relatively large foreign exchange reserves, it may be possible to utilise these reserves to cushion the worst effects of the crisis and finance any decline in capital flows. Alternatively, African countries operating under fixed exchange rate systems may have some scope to adopt more flexible exchange rate regimes in order to "allow the nominal exchange rate to absorb some of the impact of the external shock and reduce the real effects in the domestic economy." In terms of fiscal stimulus options, expansionary fiscal policies such as reducing taxes or increasing government expenditure may serve to boost demand and employment within African economies. The usual argument against expansionary fiscal policy – that it crowds out private sector investment – is unlikely to apply given the climate of declining credit and a drastically reduced appetite for risk among investors.

Finally, while Africa is undoubtedly feeling the effects of the global economic slowdown, the impact of which is likely to worsen even further, the tightening of credit in the world's most advanced economies may actually create opportunities in terms of movement of capital into emerging economies. For instance, sovereign wealth funds that previously targeted investment in the financial systems of the United States and Europe may now increasingly look to the developing world for possible locations for investment.

However, for this to occur in Africa, countries on the continent will need to implement measures to improve their investment risk ratings.

CONCLUSION

The fact that many African countries are relatively de-linked from the global financial system has cushioned the continent from some of the impact of the global financial crisis. Nevertheless, the initial view propounded by many commentators that Africa would be 'decoupled' from the effects of the financial crisis that originated in several of the world's advanced economies has proved to be unfounded. Prices and demand for African countries' commodity exports have declined significantly amid a sharp decrease in global industrial production. Furthermore, the climate of declining credit stemming from the crisis is likely to lead to a substantial decline in international funding flows to African countries, in the form of private investment and capital flows, trade credit, donor funding and remittances from Africans in the diaspora. These factors have prompted predictions of sharply plummeting growth within sub-Saharan Africa.

It is clear that African countries and their leaders must seek proactive economic policy measures and reforms to mitigate the effects of the crisis on African economies. These should include interventions to strengthen African markets and institutions, expand 'South-South' trade and economic cooperation, increase inter/intra-regional trade to lessen dependency on overseas markets, and implement expansionary monetary and fiscal policies to boost demand and employment. Furthermore, on a global level, African leaders must push for reform of the global financial architecture to include greater representation of African interests in the forum of international financial institutions. Moreover, it is critically important that the continent supports efforts to conclude a global trade accord that maintains open markets and safeguards against a proliferation of new crisis-linked protectionist measures.

EURO Crises Shift FDI from Europe to Nigeria, other African Countries

(*Africa's Golden Moment Has Come*)

African's economic performance over the past decade, especially since the Euro crises began, has outstripped any previous period, beating current forecasts.

The number of FDI projects in Africa grew at 27% since last year at the expense of European countries, and has grown at a compound rate of almost 20% since 2007, seeing strong growths in the number of new foreign direct investments FDI projects in African countries namely Nigeria, Ghana, Kenya and Angola in 2011, with project numbers almost up to levels last seen since 2008.

This, according to experts, is coming on the heels of growing optimism and confidence among international and African investors, and is leading to significant inward investment into Africa, while investments in most parts of Europe are now beginning to decline due to the contagion ravaging the eurozone.

The experts who spoke at the launch of the Ernst & Young's 2012 attractiveness survey in Lagos, titled "Building Bridges" noted that one of the reasons for the shift in FDI to Africa was the strong contagion in Europe, currently slowing investment in that region.

"Identifying this trend, investors who want their funds to work for them have begun taking alternative decisions, which has seen them pick Africa as the new hot-bed to channel their funds to."

Henry Egbiki, regional managing partner for West Africa, said the level of interest in Africa is rising because of the of emergence of stirling political liberalisation and regulatory reforms as well as disciplined economic management and sustained commodities boom which are blossoming in the region.

"Looking forward, economic growth prospects look positive, with sub-Sahara African set to average 4% to 5% growth over the next decade, the second-highest regional growth rate after "emerging Asia" according to Oxford Economics."

Egdeki, further said it was not surprising then, that the growth rates of many individual African countries have been impressive and sustained.

According to the research done by the Economist, six African countries have been amongst the fastest growing economies in the world, over the past decade; and seven African countries are foremost to be among the ten fastest growing economies over the next five years, namely Nigeria, Ethiopia, Mozambique, Angola, Rwanda and Chad.

The Economist has predicted that over the next five years, the average African economy will grow faster than its Asian counterpart.

Dayo Babatunde, partner at Ernst & Young, in his presentation, said given recent growth, it should perhaps not be surprising that returns on investment in Africa have been among the highest in the world. "This is the new trend currently gaining ground, as our survey shows growing optimism on the progress already made on the continent attractiveness as a place to invest and do business both now and in the future. This however means that between 2003-2011, especially the period in which the crises hit the eurozone, annual number of FDI projects into Africa, has more than redoubled from 339 in 2003 to 857 in 2011. Also intra African investment as a proportion of the total number of projects has more than doubled.

Funso Oke, head of research at BGL, ALSO SAID THERE IS NO GAIN SAYING Africa is benefitting from the crises hitting Europe, as there are currently a lot of pointers to that fact. Only recently the 17-nation eurozone's unemployment rate reached the highest level since the creation of the common currency 13 years ago, climbing to 11% in April, as employers slashed 110,000 jobs.

The unemployment rate in the boarder 27-nationarea that makes up the European Union rose to 10.3% in April, as employers trimmed 102,000 jobs from their payrolls. That was the highest EU unemployment rate on record that went back to 2000.

There were 24.7 million unemployment in the EU in April, of which 17.4 million were in the Eurozone. Both figures are far above the 12.7 million unemployment in the United States, which has a population of 6% less than the eurozone.

Following this development, the real sector is also grossly affected, as a lot of industries are either slashing jobs or closing down. Potential investors seeing this are also wary and looking for safe havens, where their funds can really work for them, translating into mega profit.

Currently the growth in Africa is being led by the respective regional power houses of Nigeria, Kenya and South Africa, all three of these African economies are ranked among the top 20 investors into the rest of the continent, between 2003-2011. Importantly too, in the last four years, all three of these African countries have been growing their investments substantially, ranking among the top five in terms of compound growth of new FDI projects.

An analyst, Bisi Sanda, lent credence to Funso's view, saying, "In recent times, growth rate in Africa has been huge, as now one can safely say Africa is now competing in a reshaped global economy, thanks to the contagion in the Eurozone, economic productivity and capital are now shifting into the continent, as the spotlight moves form developed to rapid growth economies. "I believe that Africans now have a unique opportunity to structural constraints that have long marginalised the continent.

"The only likely drawback that might come to disrupt the rising prosperity in Africa, which is set to open even more new markets are **corruption, political instability and insecurity**, as this might pose risks to doing business in Africa.

"Worthy of mention, is that, this is very good for Africa, particularly Nigeria and Kenya, as investment into this part has grown at a faster rate than from anywhere else in the world at 73.2%.

African Economies Remain at Risk of Contagion from Global Financial Crisis, Zoellick Says

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A return to healthy growth rates of the past decade is less likely without attention to jobs, governance, infrastructure, regional integration and small- and medium-sized business enterprises.

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ADDIS ABABA, February 2, 2010 – African economies remain in significant danger of contagion from the global financial crisis and will need to sustain reforms and receive increased funding support as they rebound from the triple crises that have reversed the robust economic growth of the last two decades, the World Bank's president said Tuesday.

“Africa’s perspectives will be improved by Africans themselves, not by foreigners, development partners or rich countries,” World Bank Group President Robert B. Zoellick told over 200 journalists in 22 African capitals via video conference from Addis Ababa.

The prerequisites for success abound. They include finding practical and efficient ways to provide jobs, especially to ex-combatants soon after peace deals are reached in post-conflict settings; initiatives to stem corruption and bureaucratic red tape; efforts to improve infrastructure and the investment climate; and efforts to boost support to small- and medium-size enterprises. Success will also be fuelled by a deepening of regional integration; an amelioration in the management of global public goods such as energy; and a better effort at tapping into the innovative and creative genius of Africans.

Zoellick said his institution has led by example, ensuring that African countries design and implement their own development programs; and ramping up donor support to mitigate the impact of the food, fuel and financial crises on a continent hardest-hit by a reversal of private capital flows, a tightening of public budgets, a fall in commodity prices, and a shrinking of revenue from tourism and remittances.

Last year, the World Bank provided a record US$88 billion in development financing, of which some US$7.8 billion—a 36 percent increase over the preceding year—was to Africa, including US$3.6 billion for infrastructure and a fourfold increase—to US$1.7 billion—in funding to agriculture.

“In the face of the crisis, we did more, not less,” Zoellick said, as he appealed for a robust replenishment of International Development Association (IDA), the soft-lending arm of the World Bank which provides grants and zero-interest loans to poor countries, half of them in Africa, and a recapitalization of the International Bank for Reconstruction and Development (IBRD).

The contagion from what started as a crisis in the United States’ subprime mortgage sector poses a real threat of rolling back gains in poverty alleviation in Africa that had been fuelled from 1997 to 2007 by healthy growth rates ranging from 5.9 percent to 8.1 percent for a group of countries accounting for about 65 percent of Africa’s population. Growth during that period was a break from a past marked by the economic collapse of the decade 1975-1985 and the stagnation experienced between 1985 and 1995.

World Bank funding has been directed at safety net programs, attending to the basic needs of the poor; helping to diversify agriculture; and has helped build or sustain partnerships with local banks in order to guarantee the flow of credit to small and medium-sized enterprises, which are the engines of growth, job and wealth creation.

The World Bank is funding initiatives by African governments to spend more on job-generating projects; on efforts to limit the opportunities for corruption, including through eGovernment projects; and on initiatives to deepen the transformational impact of ICTs (information and communications technologies) on education, health and service delivery.

Zoellick told reporters that the World Bank is also exploring ways of working with China to develop industrial zones across Africa. (RECOMMENDATION)

The World Bank president acknowledged that China is playing a significant role in developing Africa’s infrastructure, and stressed the importance of investments that create jobs locally, maintain debt at affordable levels, and engender inclusive development.(RECOMMENDATION)

Zoellick cited Australia and Canada as countries where mining had avoided the emergence of enclave economies such as those created by the oil, gas and mining sectors in most countries. He advised African governments to strive for similar performance by promoting transparency and accountability through the EITI process and by ensuring that maximum benefit flows to the majority of citizens.(RECOMMENDATION)

Zoellick praised the collaboration between the World Bank and the African Union, as well as sub-regional organizations such as ECOWAS and COMESA, and expressed the hope that Bank shareholders (member governments) would ultimately reach a decision on extending grant-funding to such organizations. (RECOMMENDATION)

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World Bank President Says African Poor Still Vulnerable to Crisis, Important to Create Basis for Future Growth

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Addis Ababa, February 2, 2010 –The effects of the global food, fuel and economic crisis would be felt by Africa's people for some time yet and it was important to persist with efforts to protect the most vulnerable while laying the foundations for future productivity and growth, World Bank Group President **Robert B. Zoellick** said Tuesday**.**

Ending an eight-day, three-nation trip to Africa, **Zoellick** said success would depend on making the continent a more attractive destination for investment, on donors providing adequate support, notably to countries emerging from conflict, and working with Africans to ensure that each dollar spent has an impact on overcoming poverty.

"We still face considerable risks in 2010 and must work to repair the damage to human lives from the global economic crisis," **Zoellick** said, as he ended a visit which took him to Sierra Leone, Cote d'Ivoire and Ethiopia. *"At the same time we must ensure that Africa's robust growth rates of the past two decades are not a one-off event and that the basis for future productivity and growth are put in place to help overcome poverty on the continent."*

Zoellick said the World Bank had helped countries, working with partners at the U.N. and elsewhere, with targeted social safety nets such as school feeding programs and cash for work programs. To address longer term challenges, he appealed for investments across Africa to expand its share of global and intra-African trade while fostering regional integration and building crucial infrastructure in energy, transport and irrigation needed to promote agriculture and manufacturing.

"I leave Africa impressed by the actions many governments have taken to cope with the global economic crisis but also aware that governments and their partners, like the World Bank Group and others, must work harder to expand opportunities and improve prospects for economic growth. The progress I have seen across the region, but also in fragile and post-conflict countries, has confirmed my belief in Africa's potential to become another source of growth for the world economy," **Zoellick** said.

During a breakfast forum hosted jointly on the sidelines of the AU summit by **Zoellick** and the African Development Bank President Donald Kaberuka, African leaders agreed on the need to do more not only to lift the many barriers to more private sector investment in the Information and Communications (ICTs) sector, but to expand the opportunities more generally for the private sector in their countries. The private sector has driven technological progress across the continent, investing about $60 billion from 1998-2008 in ICTs. Sixty-five percent of Africans have access to wireless voice networks and some 400 million mobile phones are now in use.

The World Bank signed a Memorandum of Understanding with Microsoft in Addis Ababa to help Africa keep pace with fast-changing technology systems, increase access by African small businesses to ICTs, and expand support for affordable remittance transfers to Africa.

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The global financial crisis may well have caused as many as 50,000 new infant deaths in Sub-Saharan Africa in 2009

Baby girls are more likely to die when poor countries face economic shocks

Nutrition programs addressing young children's needs may offer benefits that last a lifetime

April 7, 2010—Economic shocks are taking a toll on a population already facing high risks in low-income countries: children.

In Sub-Saharan Africa, as many as 50,000 infants likely lost their lives last year to the global financial crisis that began in the U.S., almost all of them girls, according to economists at the World Bank's Development Research Group. That worsens the region's struggle to reduce infant mortality: 3 million already die every year before reaching their first birthday.

In addition, children in poor countries—mostly Africa and parts of Asia—are put at risk by droughts, export decline and other economic setbacks. They often drop out of school or lose access to health care, according to a series of research papers by the Development Research Group exploring the impact of economic crises.

That in turn will put those children at a disadvantage, even long after the crises are over, according to economists who study past crises. That's because children suffering from malnutrition – especially from conception to two years old—are more likely to be shorter in height as adults, less educated and earn less income over their lifetimes.

"The GDP goes down a year and eventually recovers," said Harold Alderman, an economist who studied previous crises in countries such as Tanzania and Zimbabwe. "A young child with malnutrition is not likely to recover. A child who drops out of school is not likely to go back."

Lessons for Policy Makers

The research could offer valuable lessons for policy makers, relief organizations and others as they grapple with economic distress, earthquakes and other disasters. The Development Research Group recently estimated that extreme poverty in developing countries is declining in fits and starts, with the number of extreme poor in the developing world expected to total 920 million by 2015, compared with 1.4 billion in 2005. However, rising food and fuel prices since 2005, combined with the worldwide financial crisis that soon followed, likely pushed millions more into poverty than would have been without such shocks. The U.N., aiming to halve the proportion of people living in extreme poverty from 1990 to 2015, will convene a global summit in September to address the issue.

"For poor households, it's important to ensure food security, as well as critical health services, because we know crises can affect the welfare of children in the long term," said Jed Friedman, an economist who has studied the impact of economic crises in regions such as Indonesia and Africa. Indeed, infants die during economic crises because families, facing an income shortfall, tend to spend less on food, especially healthy food, Friedman said. Parents and other caretakers also are more likely to skip doctor visits when their children are sick, just so they can save on medical costs. In addition, some countries may see their public health system breaking down, making it harder for patients to get care.

Baby girls, in particular, are more likely to die during economic crises, a phenomenon found in many developing countries, including those in Sub-Saharan Africa and other regions not known for preferring boys, Friedman and his colleagues found.

"These patterns are very unlikely to have a ‘biological’ explanation," said Norbert Schady, an economist who has studied the impact of economic crises extensively. "Girls are generally sturdier than boys, and there are no significant or substantive changes in the boy-girl ratio at birth during crises. Rather, it seems, families appear to make greater efforts to protect boys than girls in dire economic times."

Crises Affect Countries Differently

To be sure, low-income countries aren’t the only ones being affected by global economic crises. But rich and middle-income countries have more resources to absorb economic shocks, and most recessions—except for those affecting at least 15% of a country’s general economy—often don’t drive up the number of infant deaths, Schady said.

In fact, in the U.S., child health and education improve during recessions. That’s because Americans, facing high unemployment rates, are often encouraged to get more education. They may also spend more time with their children and cut spending on products such as alcohol.

The picture is mixed with middle-income countries. Most countries in Latin America, such as Mexico and Peru, tend to see children’s health declining but school enrolment increasing during economic shocks. That may be because falling wages for child labour make education more desirable, the researchers said. During an economic crisis in the late 1980s, lower household incomes and a collapse in public-health spending in Peru were linked to a higher rate of infant mortality, which resulted in more than 17,000 additional infant deaths.

Still, economic downturns seem to be hitting children in poor countries the hardest, and researchers say the impact can last a lifetime. In Zimbabwe, for example, how children fared after a civil war and drought was affected by their height in early childhood, according to research by Alderman and his colleagues. Children whose growth was stunted because of malnutrition before age five tended to be shorter as young adults and receive less schooling.

Researchers say policy makers can and should address children’s needs during and after economic crises. "There are things that governments can do to help protect children in poor families from shocks," said **Martin Ravallion**, director of the Development Research Group. "Cash incentives, for example, can provide a degree of protection, particularly if they come with the condition that parents look after the health and nutrition of their children. The key, he said, is to design programs that fit a country's circumstances and improve them based on evaluations.

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African Economies Remain at Risk of Contagion from Global Financial Crisis, Zoellick Says

World Bank President Says African Poor Still Vulnerable to Crisis, Important to Create Basis for Future Growth

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Addis Ababa, February 2, 2010 –The effects of the global food, fuel and economic crisis would be felt by Africa's people for some time yet and it was important to persist with efforts to protect the most vulnerable while laying the foundations for future productivity and growth, World Bank Group President **Robert B. Zoellick** said Tuesday**.**

Ending an eight-day, three-nation trip to Africa, **Zoellick** said success would depend on making the continent a more attractive destination for investment, on donors providing adequate support, notably to countries emerging from conflict, and working with Africans to ensure that each dollar spent has an impact on overcoming poverty.

"We still face considerable risks in 2010 and must work to repair the damage to human lives from the global economic crisis," **Zoellick** said, as he ended a visit which took him to Sierra Leone, Cote d'Ivoire and

Ethiopia. *"At the same time we must ensure that Africa's robust growth rates of the past two decades are not a one-off event and that the basis for future productivity and growth are put in place to help overcome poverty on the continent."*

Zoellick said the World Bank had helped countries, working with partners at the U.N. and elsewhere, with targeted social safety nets such as school feeding programs and cash for work programs. To address longer term challenges, he appealed for investments across Africa to expand its share of global and intra-African trade while fostering regional integration and building crucial infrastructure in energy, transport and irrigation needed to promote agriculture and manufacturing.

"I leave Africa impressed by the actions many governments have taken to cope with the global economic crisis but also aware that governments and their partners, like the World Bank Group and others, must work harder to expand opportunities and improve prospects for economic growth. The progress I have seen across the region, but also in fragile and post-conflict countries, has confirmed my belief in Africa's potential to become another source of growth for the world economy," **Zoellick** said.

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Fighting Recessionary Trends: Mauritius Shows the Way

Ruth Kagia (left) and Vice-Prime Minister Sithanen exchange signed documents in Port Louis

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Africa Can End Poverty

PORT LOUIS, January 7, 2010—In 2006, the Government of Mauritius embarked on a bold set of reforms to mitigate the adverse effects of the then unfolding "triple shock," namely the erosion of trade preferences in sugar and textiles, and the negative effects of rising oil prices.

Fast forward to 2009, and the benefits of proactive actions are showing results, thanks to prudent macroeconomic policies and a willingness to go beyond the nettle of tough reforms.

At a signing ceremony for two loans held in Port Louis on December 3, 2009 -- the US$50 million Mauritius Infrastructure Project, and the $50 million Fourth Trade and Competitiveness Development Policy Loan -- the Honorable Dr. Ramakrishna Sithanen, GCSK, Vice-Prime Minister and Minister of Finance and Economic Empowerment, thanked the World Bank and Mauritius' development partners for their support, noting that the resources provided were being used for "wide-ranging economic, social and institutional reforms to improve public sector efficiency and the investment climate, build global competitiveness and broaden the circle of opportunities."

Mauritius, a small island state in the Indian Ocean, is particularly dependent on exports to industrialized nations that are hit severely by the global financial crisis. With support from the World Bank through a series of development policy loans, the Government of Mauritius has notched up some significant gains, including reducing unemployment from 9.5 percent in 2005 to 7.2 percent in 2008, and bringing the budget deficit to three percent during 2008/09, down from a high of 5.4 percent of GDP in 2005. Mauritius' forward-looking social policy has also helped poorer and vulnerable segments of the population to adapt to a transforming economy, cushioning them from the worst impacts of the global slowdown.

Speaking at the signing ceremony, Ruth Kagia, World Bank Country Director for Mauritius said: "The World Bank is proud of its partnership with the Government of Mauritius. The Government's achievements are real, with the positive benefits reaching the poorest segments of the population."

The Government of Mauritius-World Bank partnership began in 2007, and while young, it is growing steadily.

"The Government wanted to restore macroeconomic balance and diversify the economy into new growth sectors, and sought technical and financial assistance from the World Bank and other development partners," explained Constantine Chikosi, World Bank representative in Mauritius, speaking about the early days of the engagement. "Today, our robust partnership is growing from strength to strength."

The Government of Mauritius' is increasing its focus on improvement of infrastructures, including urban transport, clean energy development, and sustainable management of water resources, key sectors necessary for maintaining growth and resilience of the Mauritian economy.