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How do Africa's Poor Fare during a Global Economic Slowdown and Food Price Crisis?

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The regional perspective

These are indeed tumultuous times for most African countries. The global recession, preceded by the food price crisis and the perils of climate change, is driving a wedge between hopes of a return to the growth witnessed over the last five years and the spectre of a return of economic hardship typical of past decades.

Various studies indicate that the economic downturn resulting from the global recession could be deep and prolonged for Africa (AfDB 2009; IMF 2008). Plummeting prices of Africa's traditional exports, such as coffee, tea, and minerals, and shrinking remittances and declining capital flows, could send waves of macroeconomic shocks. These could impact the pace of poverty reduction and progress towards the

Millennium Development Goals. Even when there is recovery, it is possible that, for some groups of people, the shock could last longer due to the fragility of the safety-net infrastructure and very low income base.

The link between economic growth and poverty reduction is not always direct. It depends on several factors, among

Country case studies

Rwanda

The combination of the global economic crisis and food price pressure could significantly slow down the pace of poverty reduction in Rwanda, a country

that has otherwise recorded remarkable growth in the last five years (see Figure 1). Overall, the food crisis alone would take away from Rwanda close to 8



* E.g. see Ravallion (2001) and Bourguignon (2002, 2004) for analytical presentation, and Bigsten and Shimeles (2007) for empirical evidence on African countries.

them the level of economic development, initial income distribution, sources of economic growth, and the policy environment¹. Thus, the effect of the global economic crisis on poverty can be very diverse across African countries. Generalisations should therefore be made with care. More problematic is that economic expansion and contraction have different and asymmetric effects on poverty. While poverty responds only slowly to economic growth, it tends to increase drastically during economic contraction².

In the current crisis, a large number of African countries may experience slow per capita growth. A few may face shrinking per capita income. AfDB (2009) forecasts the outlook for 2009 for Africa to be a per capita growth of about 0.7 percent, down from previous forecast of about 3.6 percent. To get the order of the magnitude of the impact of such a slow growth on poverty, we computed growth elasticity of poverty for about 32 African countries³ based on income distribution data from household surveys that spanned twenty years, and extrapolated to an additional 15 African countries. The average elasticity of growth on poverty is close to -0.91. This is consistent with the findings of similar studies⁴. Thus, a one percent per capita growth in a typical African country would lead to a 0.91 percent reduction in the incidence of headcount poverty ratio, defined as the percentage of people living below the international poverty line of about US\$1 a day per person. The responsiveness of poverty to per capita growth varies widely by countries and sub-regions. For instance, the effect of growth on poverty is large in North African

countries (-1.2), while the average for sub-Saharan Africa (SSA) is lower (-0.83), mainly because of a low development level and a high initial inequality in the latter region.

Preliminary results show that the current slowdown in economic growth could lead to an increase in poverty by 2.27 percent in Africa every year. This is almost half the reduction required to meet the first goal of the MDGs by 2015 (4.5 percent). The loss is much more pronounced for North African countries. It is about 3.2 percent. For SSA, because of the low responsiveness of poverty to growth, it would, on

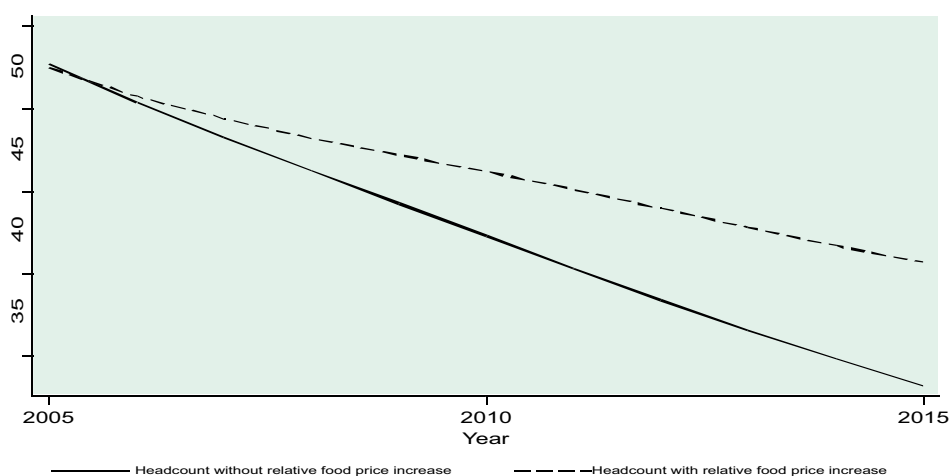
average, increase annually by about 1.79 percent due to the global economic crisis. This is still a substantial effect in light of the high incidence of poverty in the region. These aggregate computations only provide a snapshot of the broader picture on the link between global economic crisis and poverty. They do not account for the complexities underlying the transmission channels from the crisis to growth and from growth to poverty. Country case studies are better suited for sharper and deeper understanding of these linkages. They would provide a stronger basis for policy lessons to AfDB's engagement strategies.

Rwanda (continued from page 1)

percentage points in poverty reduction opportunities. Poverty would have declined from its 2005 level of about 53 percent to 33 percent in 2015 if food prices had changed at the same pace as the Consumer Price Index, with other macro-variables, such as sectoral GDP and employment growth, remaining the same in the two scenarios. The food

price index has grown at a faster rate than other commodities (by five percent) recently. If this trend continues, poverty will decline from 53 percent to 41 percent. These computations are based on household data. They have much greater accuracy in linking growth with poverty than results based on aggregate data.

Figure 1: Food price crisis and poverty reduction in Rwanda: 2005-2015



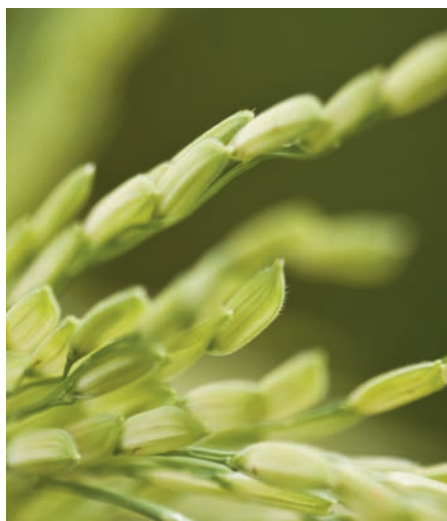
Source: Shimeles (2009)

² E.g Easterly (2002); Christansen, et al. (2001).

³ Original distribution data obtained from www.worldbank.povnet.org.

⁴ Hanmer and Naschold (1999, 2001).

Ethiopia



A recent study on Ethiopia has shown that not all social and economic groups would be affected by the food price crisis (rising by 50 percent) in the same manner and intensity. For instance, for the 2006-2008 period, the overall welfare loss in comparison to initial income was found to be significantly higher among rural households (experiencing a loss of about 16 percent of initial income) than those living in urban areas (about 11 percent). This was largely because wage responses offset the adverse effects of food price hikes in urban areas. But in rural areas, net grain sellers benefited from the food price increase (about 14 percent). The bulk of the welfare loss was borne by net buyers of grain, who tend to be poor farmers. In urban areas, the welfare loss was substantial among unskilled and poor households. Evidently therefore, the disproportionate effect that the food crisis and growth deceleration may have on different economic groups would be cause for policy concern. The situation would require a wide range of mitigating actions – from direct assistance to employment generation through small business development schemes, and labour-intensive public investment programmes.

⁵ See Loening et al. (2009)

Policy responses

At the regional level, it would be very useful to classify countries on the basis of their vulnerability to the global economic crisis and their ability to recover from it. This exercise would allow the AfDB to prioritise and coordinate its interventions in response to the crisis. Countries that have a large manufacturing base and depend on exports for their growth could be hit harder by the crisis than the others. But, they may also be much more resilient and emerge quickly out of the depression. Thus, interventions for this category of countries could be different from those that are more vulnerable – having weak initial conditions and low capacity to deal with the crisis. Such classification would also help the Bank's future engagement in the post-recovery period.

At country level, the macroeconomic policy environments in most African countries have improved considerably in

the last decade. There is a fair amount of good economic management in several countries. Sensitisation on shared growth or pro-poor growth has prompted a number of states to devise social protection programmes in anticipation of both internally created and externally transmitted shocks, that is, whether the economic shocks stem from adverse local weather conditions or policy reforms, or from a bad global economy. Strengthening social protection mechanisms could take countries a long way, not only in protecting households from falling into poverty, but also in allowing those that have already fallen to overcome poverty faster. The Bank could provide vital assistance by generating knowledge on how shocks propagate poverty in different countries. Sensitivity to specific circumstances is vital in dealing with the ripple effects of such global downturns.

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