

African Development Bank Group



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The Financial Crisis - Strategies for Mitigating its Impact in Africa

Remarks by Dr. Louis Kasekende

Chief Economist – African Development Bank Group

1. The impact of the financial crisis on African countries has turned out to be much more severe than anticipated in last year's African Economic Outlook and it has indeed turned into a global economic crisis. Back in June of last year, commodity prices were expected to remain high against the backdrop of strong growth in China and India. Also, Africa's macroeconomic environment was expected to remain stable given recent trends and the salutary effects of policy reforms. Finally, it was noted that Africa's low share in global trade and limited financial integration with the rest of the world would shield it from the slowdown in developed countries. Together, these factors were expected to result in steady growth, estimated at 5.9%.

2. This scenario has proved to be overly optimistic. Many African countries are experiencing serious macroeconomic challenges in the face of falling export revenues, weaker investment flows, and reduced remittances. As a result, we have now revised Africa's GDP growth projection for 2009 downwards from 5.9% to 2.3%. Reduced tax revenues, due to falling export prices and volumes, may force African governments to cut investment in infrastructure and social sectors. This, in turn, could undermine the business environment and exacerbate the job losses that some countries are already experiencing. Ultimately, progress in poverty reduction and the achievement of the Millennium Development Goals could be compromised or even reversed.

3. As the effects of the financial crisis in Africa have become more and more apparent, policy makers started discussing options **to mitigate the impact**. The African Development Bank and other international organizations have actively participated in this debate for the search of measures to support the economies in Africa during this challenging period. In particular, the

AfDB has been actively involved in bringing together African policy makers with the objective of sharing experiences and charting the way forward. Several events are noteworthy.

4. The November 2008 meeting of Finance Ministers and Central Bank Governors in Tunis reaffirmed Africa's commitment to strong macro-economic frameworks. At the same meeting, a call was made for greater flexibility in the debt sustainability and fiscal frameworks, as well as in the deployment of ODA tools. Furthermore, the Committee of Ministers and Governors (Committee of Ten) was constituted to prepare inputs to the global debate on responses to the crisis including the effective representation of Africa within the International Financial Architecture. The AfDB, the African Union Commission and the Economic Commission for Africa were requested to provide the necessary technical support to the Committee. A document containing an assessment of the impact and proposals on the necessary response to mitigate the impact of the crisis on Africa was presented to the G20 meeting in London. We welcome the broad thrust of the international response to the crisis and especially measures intended to benefit Africa. In particular, we welcome the support expressed at the London meeting for an early review of the General Capital Increase of the Multilateral Development Banks to better position them to play a counter-cyclical role, in support of both public and private sectors.

5.. The G20 meeting reflected the strong commitment by global leaders' to the need for a global solution to the financial crisis. The key question that we need to carefully reflect on in our discussions today is: ***How will Africa respond to the various recommendations and measures put in place given the realities on the ground?*** This meeting is thus faced with a critical challenge, a challenge for which I am totally convinced can be taken head-on as we meet

here today. I remain optimistic that the shock is temporary, and that Africa will emerge stronger, to the benefit of our generation and those after us.

6. As clearly noted at the Dar-es-Salaam Africa-IMF Conference, the scale and speed of disbursement of funds from multilateral aid institutions – and, especially, the conditionalities on which lending will be available – may disadvantage some countries despite the fact that the problems they face are not of their own making. In particular, the performance based criteria to accessing financial resources may be considered inappropriate.

7. Furthermore, at the 2009 Bank Group's Annual Meetings in Dakar, Senegal, the Governors reiterated that responding to the crisis requires strategies to cushion its impact, shorten the length of the downturn, while building and consolidating the foundations for long-term growth. This would require a two-pronged approach focusing on a short-term response strategy, and an agenda for alleviating structural constraints to long-term development. In the short-term, it is imperative to maintain spending in social services and sustain domestic aggregate demand; support trade financing; rationalize expenditures to provide more room for high-return investments especially in infrastructure; increase the role of regional development banks in counter-cyclical lending, especially in financing trade and infrastructure; and, for IFIs to review the macroeconomic targets, including debt sustainability criteria to allow countries with sufficient space to implement such crisis responses.

8. Beyond the crisis, African governments need to stay the course with their long-term development strategies. To this effect, they need to continue increasing investment in infrastructure; strengthening banking regulation to increase transparency and reduce risk; unlocking the potential of the private sector by improving logistics, removing regulatory

bottlenecks, and consistent improvement in the investment climate; raising the level of domestic investment and improve the quality of investment; and, strengthening the role of the state as a regulator and facilitator of business development and managing natural resources. Particular attention should be paid to the critical situation of Fragile states, which need a swift infusion of new resources in the form of grants and concessional funding to support increases in public spending, and build social safety nets. Strong support is critical for consolidating the gains in post-conflict reconstruction.

9. As such, we also need to look into what possibilities exist for the region's policy makers to continue past reforms aimed at strengthening regional and international integration, advancing competitiveness, and enhancing good governance on the continent.

10. In conclusion, let me emphasize that there is no denial of the challenges that we face as a continent. But it would be a tragedy if the economic slowdown would trigger policy reversals and undo what has been achieved over the past years in terms of improvements in governance, competitiveness, and international integration.

11. I thank you for your attention, and look forward to a constructive discussion.