AFRICAN DEVELOPMENT BANK

Africa and the Global Economic Crisis: Strategies for Preserving the Foundations of Long-term Growth

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1. Introduction

The global economic crisis has definitely caused a *growth crisis* in African economies. Growth rates have plummeted, some countries even experiencing contraction. The crisis is hitting the key drivers of growth, especially trade flows, capital inflows, natural resource sectors (oil and minerals) and agricultural exports. And the worst may be yet to come. Even the growth rate of 2.8 percent projected for 2009 in February[1] appears to have been optimistic. The revised forecasts put Africa's growth at 2.3 percent for 2009 (Table1).[2] This implies that for the first time since 1994, per capita income will contract in 2009 in several countries and for the continent as a whole. Indeed a *growth crisis* has set in.

The biggest concern is that the growth crisis may degenerate into a *development crisis* as the recession deepens. The crisis constitutes a major threat to the continent's poverty reduction agenda. For many African countries, especially those that started with weak macroeconomic and structural conditions, the recovery may be painful and prolonged. The global attention to the crisis thus far has focused on minimizing its impact. For African countries to avoid a protracted recession and a long and painful recovery, it is imperative now to strike a balance between short-tem crisis response strategies and measures to address structural constraints to long-term growth. There is a risk that resources may be shifted towards crisis response to the detriment of long-term development programs. Effective crisis response requires a scaling up of resources in addition to delivery of planned development aid.

This paper reviews the evidence on the impact of the crisis on the continent, with an emphasis on the differential effects across sectors and countries. It especially highlights the plight of the poor and the set back on the progress towards the MDGs. It examines strategies for positioning the continent favorably to take advantage of global economic recovery in the medium term. It closes with a discussion of the implied role for the Bank and other development partners.

2. Rapid deterioration of financial and macroeconomic conditions

Major losses in export revenue

As a result of the fall in global demand, export revenues are declining sharply, resulting in the deterioration of current account balances, erosion of foreign exchange reserves, and heavy losses in trade tax revenue. Exports from the continent are expected to fall by more than USD 250 billion in 2009. Oil and mineral exports will suffer the largest losses. Nigeria and Angola alone could experience a combined shortfall of USD 76.8 billion in

[1] AfDB, OECD, UNECA, *African Economic Outlook* 2008/09.
[2] On 24 April 2009, the IMF revised its growth forecasts downward to 1.5% in 2009 and to just under 4% in 2010 (IMF Regional Economic Outlook 2009). The growth rate will be just under 1.5% in 2009 for both oil exporters and oil importers. This implies a decline of 5.5 percentage point for the first group and 3 percentage point loss for the latter.

exports receipts. Mineral exporters Zambia and the DRC together could lose about USD 6 billion in 2009.

Already in the first quarter of the year, some countries have recorded major declines in key commodity exports. In Uganda, the second leading coffee grower after Ethiopia, coffee robusta exports were 34 percent lower in March this year than last year (USD 23.9 million compared to USD 36.3 million). The impact on commodity exports is felt through both quantity and prices of commodities. For example, forecasts show that Nigeria may experience a 34 percent fall in oil export revenue in 2009 relative to 2007, arising from a 5 percent decline in production and a 31 percent decline in oil price (Table 2).

Large losses in trade tax revenue

As a result of the declining trade flows, trade taxes will fall dramatically. In 2009, the continent will suffer a shortfall in trade tax to the tune of USD 15 billion, representing 1 percent of GDP and 4.6 percent of government revenue (Figure 1). Oil exporters will suffer the largest losses in absolute terms: a projected loss in revenue of USD 4.6 billion for Algeria and Nigeria combined. Trade tax revenue losses for Oil exporters as a group will amount USD 8.2 billion (4 percent of government revenue), compared to USD 6.8 billion for non-oil exporters (5 percent of government revenue). These trade tax shortfalls may grow larger as the crisis deepens.

Declining financial inflows, but remittances show some degree of resilience

The crisis threatens to reverse the continent's recent progress in attracting public and private capital inflows. While private financial flows held their ground in 2008, the continent will see a substantial decline in 2009 due to economic downturn in developed and emerging economies and deteriorating risk perception in regard to African markets.

The one relatively bright spot in this gloomy picture is that remittances appear to be relatively more resilient to the economic downturn. This is partly due to the fact that remittances make up a relatively small portion of migrants' income; so migrants tend to keep sending money home even when their income takes a hit. While remittances are expected to decline in 2009, they should rebound in 2010 with the economic recovery. This is true for both Sub-Saharan Africa and North Africa (Figure 2).

The relative resilience of remittances and their direct impact on household incomes, calls for increased attention to this form of external financing by policy makers. The focus should be on policies to reduce transactions costs for remittances transfers, and strategies to intermediate these resources through the formal financial system and channel them into productive investment. Remittances can contribute to increasing the pool of long term finance, notably by channeling them into *infrastructure bonds* and *Diaspora bonds*.

Nonetheless, African countries will not benefit equally from any resumption of capital inflows after the crisis. Indeed capital inflows – ODA, FDI, and remittances – have been traditionally skewed, with a small number of countries accounting for a high share of total inflows into the continent. The top 10 countries account for 46 percentof FDI, 32 percent of ODA and 34 percent of Remittances (Figure 3). North African countries have received the bulk of the remittances, while middle-income and natural resource-rich countries take the lion share of FDI.

Reserves are running below targets and "twin deficits" are widening

The fall in commodity prices is causing a drastic fall in foreign exchange earnings for exporters of oil, minerals, and some agricultural products. In Nigeria, reserves declined from a peak of USD 61.9 billion in September 2008 to USD 50 billion in January 2009 (a 19 percent fall), mainly due to the decline in the oil price. Exporters of minerals and agricultural commodities are experiencing similar declines in reserves. This creates severe shortages of imported products, including inputs for import-dependent activities such as the construction sector.

The crisis threatens to undermine macroeconomic stability due to widening current account and budget deficits. In February, the Bank projected a budget deficit of 5.4 percent of GDP for 2009 for the continent as whole, which has now slightly deteriorated to -5.8 percent, down from a surplus of 2.8 percent of GDP in 2008. The current account balance will deteriorate from a surplus of 2.7 percent of GDP in 2008 to a deficit of 4.3 percent of GDP in 2009 per February forecasts and -5.3 percent according to the May projections. The widening "twin deficits" severely limit the ability of African governments to undertake needed crisis response initiatives and to sustain their development programs.

The crisis threatens to undermine gains in reduction of the debt burden

Before the crisis, most African countries had made impressive progress in stabilizing their external debt conditions. Many low-income countries had benefited from debt relief, resulting in substantial reduction of their debt burden. This is the case for countries that benefited from the HIPC initiative whose debt/GDP ratio declined from 117.6 percent in 2000 to 35.6 percent in 2008 (Figure 4). Some resource-rich countries had used the export windfalls to pay off substantial portions of their foreign liabilities. A noteworthy example in this regard is Nigeria. It is also worth noting that the domestic debt situation had also greatly improved before the crisis.

The crisis now threatens to reverse these gains. Many countries will be forced to borrow to cover the widening current account deficits and to finance government interventions to support crisis response, as well as new development initiatives. While low-income countries are the most exposed to this risk due to their limited fiscal space, middle-income countries will also be affected through the higher costs of borrowing as they are ineligible for cheap concessional lending. The share of concessional debt in total debt is only 26 percent for MICs compared to 99 percent for LICs. MICs' debt carry an average interest rate of 4.7 percent compared to 1.7 percent for LICs. Hence, all country groups face a genuine threat of debt build up and potential debt sustainability. Therefore, the promised scaling up of external resources to developing countries, which involves a large share of loans, is a mixed blessing.

3. Sectoral impact: Key growth drivers and employment creation are severely affected

Losses in asset values and impact on the banking sector

Stock markets have been severely affected by the crisis, recording large losses since the second half of 2008. In fact, African markets have experienced much larger losses than those in developed economies. From the end of July 2008 (before the crisis) to April 17th 2009, the All Share Index on the Nigerian stock exchange lost 62.2 percent of its value; the Cairo CASE 30 Index lost 46.2 percent and Johannesburg All Share Index lost 24.4 percent of its value during the same period. By comparison, the Dow Jones Industrial lost 28.5 percent and the Paris CAC 40 Index lost 29.6 percent during the same period.

Behind the stock market losses are massive losses in asset value at the company level, thus a deterioration of investors' wealth. Company market values have plummeted drastically since the beginning of the crisis. Although still topping the list of the largest companies on the continent, Anglo America's market value of USD 23.4 billion in March 2009 was less than a third of its value in 2008 (USD 72 billion).[3] This year, a market capitalization of USD 300 million was sufficient to get Heliopolis Housing (Egypt) on the list of the 200 largest firms on the continent; in 2008 the bar was at USD 670 million.

While the banking sector had been spared of the first-round effects of the financial crisis, it is now experiencing second-round effects through a surge in non-performing loans resulting in profit losses. Between 2007 and 2008, the credit loss ratio – bad loans/total credit – rose from 0.8 percent to 1.55 percent for Standard Bank, Africa's biggest bank in terms of asset value.[4] For ABSA, the ratio more than doubled from 0.74 percent to 1.68 percent. Nedbank, South Africa's fourth biggest lender is forecasting a decline of 10 percent in earnings in 2009, compounding a 2.8 percent decline in 2008.

These second-round effects on the banking sector will amplify the impact of the crisis on the corporate sector and industry through contraction of credit supply. Efforts by central banks to ease the cost of credit and refuel banking sector liquidity are much welcome in this respect. However, the scope is much limited as the central banks must also contend with lingering inflationary pressures arising from shortages in food and imported goods.

The oil sector

The oil sector is severely hit by the decline in the price and demand for oil. This affects particularly those countries highly dependent on oil revenues such as Nigeria (oil accounts for 80.3 percent of government revenues). Oil exporters feel the impact through decreasing government revenues and foreign reserves, national currency devaluations and

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[3] Source: *African Business*, no. 352, April 2009.
[4] Source: "South Africa: Banking sector faces lean times", *Oxford Analytica*, April 16, 2009.

cuts in public expenditure. At the beginning of 2009, government revenues were already 24 percent and 25 percent lower in Angola and Nigeria, respectively, than in 2008. In the short term, the impacts could be worsened as OPEC production quotas are being cut. Foreign exchange inflows declined by 68 percent in Nigeria in February 2009 compared to October 2008.

Non-oil sectors, such as construction, manufacturing and services which are heavily dependent on public sector demand and the developments in the oil sector are also expected to slow down considerably. As a result, some of the oil producers will be particularly impacted.

The mining sector

The decline in the price and demand for major mineral products has dealt a severe blow to mineral exporters, resulting in large revenue losses, mounting pressures on budget and current accounts, and a decline in reserves. Mining companies are cutting both production and exploration of new mines. 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. Foreign reserves are running below the macroeconomic framework targets (down to about one week of imports). This leaves the government with very little room to meet even basic imported essentials such as food, fuel, and medication.

Tourism is also badly hit

Tourism has been an important growth driver for African economies such as Cape Verde, Mauritius, Kenya, Uganda and Morocco. While the full effects of the financial crisis on African tourism remain to be seen in 2009, hotel operators and travel companies are already registering losses due to travel cancellations.

According to the UNWTO (World Tourism Barometer - January 2009) international arrivals to Sub-Saharan Africa grew by 4.2 percent in 2008 compared to 7.5 percent in 2007. 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. 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.

North African countries may benefit from the competitiveness of their market. The impact may be less pronounced compared to Sub-Saharan African countries which usually offer high-end tourism packages (such as safaris). In Tunisia, tourism receipts grew by 3.1 percent in March 2009.

Several countries have taken a series of measures to boost the tourism industry. In Mauritius, for example, the budget of the Mauritius Tourism promotion Authority was increased by Rs100 million (USD 3 million), all airlines will be exempted from the contribution to the Mauritius Ile Durable fund (aimed at reducing the island dependency on fossil fuel) and hotels will pay the Environment Protection Fee only if they make a profit.

Impact on agriculture

The impact of the financial and food crises are being felt in agriculture based economies. As prices for a range of agricultural commodities continue to fall, export revenues are shrinking. The hardest hit is the agriculture dependant economies. For example cotton and livestock make up 75 percent to 80 percent of Mali's annual exports; in Burundi coffee and tea represent 70 percent of exports. International prices of these commodities have declined substantially: by 25 percent for cotton and 19 percent for coffee between the first quarter of 2008 and January 2009. The decline in prices is nevertheless compensated by an increase in production due to good climatic conditions in some countries such as in Burundi. 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.

At the producer level, with lower commodity prices and reduced access to credit, farmers will be unable to buy fertilizers and seeds. This leads to reduced productivity and lower food production, potentially leading to a second-round effect of the food crisis. In some countries, farmers are already cutting back on the cultivated area, as a result of rising fertilizer and fuel prices. Few farmers have been able to take advantage of the higher food prices by raising production. Nevertheless, the food price shocks in conjunction with the financial crisis should be an opportunity to put agriculture back on the development agenda. It is worth noting that agricultural commodity prices have declined less than those of oil and mineral exports. Thus exporters of agricultural commodities should not suffer as severely as the latter.

4. Setback on the progress towards the MDGs

Amplification of the impact of the food crisis – rising numbers of food insecure people

The financial crisis has amplified the impact of the food crisis, especially on the urban poor and the rural population. For food importing countries the financial crisis has further weakened current account and fiscal balances, and accelerated the depreciation of currencies. Countries which rely heavily on imports to meet their food requirements (67 percent for Lesotho, 82 percent for Gambia, 32 percent for Mauritania, 31 percent for Malawi) have suffered negative effects on their current accounts. Attempts by governments to cushion the food crisis through food subsidies have been costly.

The financial crisis has worsened food insecurity due to falling government revenues and foreign exchange reserves, falling household incomes (notably due to rising unemployment) and a decline in remittances. In Kenya, the decline in remittances in conjunction with crop failures has generated hundreds of thousands of additional food insecure people. In some areas, this has compounded the effects of post-election violence. A total of 3.5 million people were identified as potential WFP beneficiaries for 2009 in rural areas, and the government identified an additional 4 million food insecure people in urban areas.

In addition, food insecurity is amplified by the decline in food aid. Out of the USD 12.3 billion that was pledged in June 2008, only USD 1 billion was disbursed by the donors by February 2009 according to MSF & ACF International.

The plight of the poor households is amplified by rising prices of food, including staple domestically produced food. In Ethiopia the average price for maize in January 2009 was 31 percent higher than a year earlier. In Sudan wheat prices were 18 percent higher in December 2008 on a year-to-year basis. Even traditional domestically produced cereals are impacted. In Burkina Faso, millet was 25 percent more expensive in January 2009 compared to January 2008.

The Combined effects of the financial and the food crises will undermine gains in poverty reduction. In Rwanda it is estimated that poverty would have decreased from its 2005 level of 53 percent to 33 percent in 2015 if food prices had changed at the same pace as the CPI.

Another potentially perverse effect of the financial and food crises is the increased interest by foreign investors for industrial agricultural export-oriented production and land acquisition. In several countries, foreign governments and private investors are purchasing land, pushing up land prices. Investments in African land in foreign countries are pursued to secure the supply of food imports. Such investments could theoretically be beneficial to African economies and rural populations as large parts of agricultural land are not exploited. In this sense foreign investments could benefit local farmers by giving them access to technology, irrigation, and developing marketing opportunities. There are, however, growing concerns that such investments could be detrimental to Africa's' efforts toward poverty and hunger alleviation and could have negative effects on the environment.

Employment: 28 million additional vulnerable jobs

Unemployment is rising due to declining production and reduced investments, aid, and credit opportunities. According to the ILO, the unemployment rate in Sub-Saharan Africa could increase to 8.5 percent in 2009, representing an additional 3 million of unemployed. Furthermore, the proportion of vulnerable jobs could increase from 77.4 percent in 2007 to 82.6 percent in 2009, implying an additional 28 million vulnerable jobs in Africa.

The extractive industry has been the hardest hit. In the DRC, the closure of 40 mines led to the loss of 300,000 jobs in the province of Katanga alone. In Zambia, 3,000 jobs have been lost since December 2008 as copper mines and smelters ceased operation. In Swaziland unemployment is expected to increase due to retrenchments of mineworkers in South African gold and platinum mines. In the Central African Republic, about 1,300 employees lost their jobs due to the closing of transformation units in the timber sector.

The manufacturing, construction and service sectors are also hit. In Madagascar, a local textile firm with 4,000 employees closed recently. In South Africa, Volkswagen had announced plans to halt all production in February 2009 and to retrench some 400 employees through a voluntary separation process. Zain Kenya, a mobile service operator, laid off about 140 employees to increase its efficiency.

Jobs are also being lost due to postponement and cancellation of investments. In Madagascar, two mining projects (ilmenite and nickel) may postpone their investment. Similarly in Zambia, a USD 500 million project had to be postponed. In Nigeria exploration activities in the oil sector are being downsized.

Poverty: 27 million new poor in Africa in 2009!

The crisis threatens to reverse the gains earned from the enormous efforts by African countries and their development partners over the last seven years in meeting the UN Millennium Development Goals.

The World Bank estimates that an additional 53 million people in developing countries will fall into poverty on top of the 130-155 million generated by the impact of the food and oil crisis in 2008. The number of poor living on less than USD 2 per day will increase to over 1.5 billion globally. The percentage of workers earning less than USD 2 per day will increase from 82.2 percent in 2007 to 86.6 percent in 2009 in Africa (UNESCO). This would represent 27 million new poor people in 2009. The reduced growth in sub-Saharan African countries in 2009 will cost the 390 million people living in extreme poverty about 20 percent of their per capita income (or USD 46 per person) according to UNESCO.

Growth deceleration could lead to an increase in poverty and would severely slow down progress toward reaching the MDGs. Poor people will be disproportionately affected: a) because they hold vulnerable employments (3 out of 5 Sub Saharan African workers are considered “extreme working poor”); b) because they rely on primary sectors which have been deeply affected by the fall of commodity prices; and c) due to the fall in aid and remittances inflows.

With decreasing incomes and soaring food prices, the poor are forced to allocate more income to food and reduce expenditures on health and education. Poor children will be particularly affected. According to UNESCO, child malnutrition and infant mortality may increase dramatically in 2009, by between 200,000 and 400,000 additional deaths. Low-income African countries which have made efforts to improve universal primary education will suffer setbacks as governments are unable to finance subsidized educational programs, while the poor households are not in a position to pay for school fees.

5. Government crisis-response initiatives and their limitations

African governments are doing their best to minimize the impact of the crisis on their economies through targeted interventions to support markets and the private sector. The Position Paper submitted by the Committee of African Finance Ministers and Governors to the G20 spells out in detail the key initiatives in this area[5].

However, the scope for implementing sizeable crisis intervention packages is very limited in almost all African countries. The key constraints include declining government revenues, shrinking capital inflows, including remittances. This makes it difficult for governments to meet rising demands for public investment including in social sectors. African countries are increasingly unable to finance the widening current account deficits as foreign exchange reserves continue to decline. The chronic investment-saving gaps are worsened by the crisis. The Bank estimates that just to achieve the pre-crisis growth rates, African countries would need USD 50 billion to finance the investment-saving gap. To achieve the 7 percent growth rate that is deemed required to achieve the MDGs, the financing gap rises to USD 117 billion. Clearly African governments need strong support from their development partners to fill these financing gaps and support national crisis intervention strategies while also pursuing their national long-term development plans. It is also clear that fulfilling the preexisting aid pledges is not enough to meet the rising demands from African countries; aid needs to be scaled up substantially and predictably.

6. Preserving the foundations of growth in Africa

While African governments must pursue efforts to minimize the impact of the crisis, they also need, with the support of their development partners, to undertake measures to address structural problems and preserve the foundation of long-term growth so as to position the continent for a speedy recovery. The key areas of focus are described below.

Preserving and strengthening endogenous growth drivers

Structural reforms have been critical in improving macroeconomic conditions and the investment climate. This has boosted domestic investment and contributed to attracting foreign private capital. The debt relief and debt cancellation initiatives as well as efforts to increase public investment in infrastructure and the social sector have helped in consolidating the gains from structural reforms.

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[5] "Impact of the Crisis on African Economies – Sustaining Growth and Poverty Reduction: African Perspectives and Recommendations to the G20." A report from the Committee of African Finance Ministers and Central Bank Governors established to monitor the financial crisis, March 21, 2009.

It is imperative that African countries consolidate these gains. In particular, they must resist sliding back on economic reforms and avoid the buildup of unsustainable debt. The challenge is that they must do so while at the same time avoiding drastic cuts in public expenditures. Hence, development partners must scale up aid and concessional lending to Africa to help the continent preserve its foundations for long-term development.

Promote growth based on domestic investment and consumption

Unlike developed countries, Africa still has opportunities to continue growing. However, this requires promoting growth driven by domestic investment and consumption. The policy focus should be on: i) sustaining adequate levels of public spending; ii) pursuing efforts to improve the business environment to encourage domestic and foreign private investments; iii) increasing domestic resource mobilization, notably by promoting the development of domestic and regional bond markets; iv) alleviate supply side bottlenecks, especially by increasing investment in infrastructure (new infrastructure and maintenance of existing stocks) and increasing access to credit for the domestic private sector; v) fostering regional economic integration through a greater role of regional actors, including pan-African institutions and regional financial institutions.

Strengthening banking sector regulation and pursuing prudent capital flow management

African countries need to pursue measures to strengthen the banking sector through better risk assessment and monitoring, and adequate capital adequacy requirements. This will facilitate savings mobilization and encourage private sector lending while minimizing credit risk. 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.

In addition, 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. Moreover, African countries should design measures that encourage diversification of the allocation of foreign capital across sectors, especially promoting those activities with the highest potential for employment creation and export diversification.

ICT – an opportunity for leap-fogging

ICT offers great opportunities for not only connecting Africa to global markets but also to accelerate regional integration and increase competitiveness. Substantial progress has been achieved in increasing access to ICT services. For example, Africa is the only region in the world where free mobile phone roaming services are already offered (in 12 countries). Inland broadband access is also increasing at a reasonable pace. However, there is a need to increase investments in ICT to help African economies speed up technological innovation, facilitate access to markets regionally and globally, improve competitiveness, and indeed leap-frog towards higher productivity and greater integration in the global economy.

Consolidating political stability and improving governance

Improved political stability around the continent has played a key role in building the domestic engines of growth. Regional cooperation on governance in the framework of NEPAD and the African Peer Review Mechanism has contributed to improvement in political and corporate governance. These gains need to be consolidated to allow Africa to position itself as a prime destination for private investment and a credible and reliable partner in the global development debate.

Harnessing new development partnerships

The rise of emerging economies, especially China and India, as trade and development partners offers great opportunities for Africa to diversify its export markets as well as its sources of development financing and private capital inflows. However, these opportunities must be tailored to supporting a clear national development strategy. In particular, the focus on infrastructure investment seems to be an *incentive-compatible strategy for* African countries and China. It is a win-win strategy for Africa and China.

Harnessing opportunities from renewed commitment by IFIs and DFIs

The renewed commitment by International Finance Institutions (IFIs) and Development Finance Institutions (DFIs) to act to preempt the crisis from worsening, and prevent further negative impacts on Africa, is a vital opportunity for positioning the continent for a speedy recovery. These commitments were reiterated at the Roundtable that the African Development Bank (AfDB) co-hosted with the IFC in Tunis on April 14th. At this Roundtable, the AfDB and other DFIs/IFIs active in Africa agreed that there is an absolute and urgent need to collaborate and coordinate initiatives to mitigate the impact of the global economic crisis on Africa. A Joint Action Plan identifying key areas of joint action was prepared, and its key elements were spelt out in a Joint Communiqué by the AfDB and other DFIs/IFIs at the
AfDB's Annual Meetings on 11 May 2009 in Dakar, Senegal. A joint statement issued in Tunis on 14 April 2009 by the institutions is presented in **Box 1**.

Donors and the AfDB – not just honoring pledges but scaling up aid

Donors in general and the AfDB in particular will have to play a major role in supporting this agenda of strengthening Africa's position for a speedy post-crisis recovery. They must not only honor the pre-existing aid commitments but also scale up aid to meet the rising demands. In particular, it is critical to fill the large infrastructure gap, estimated by the AICD[6] at a staggering USD 93 billion per year (of which one third is for maintenance). The AfDB's estimates put the savings-investment gap at USD 50 billion for just preserving the pre-crisis growth rates. For Africa to reach the 7 percent growth

[6] See the World Bank's « African Infrastructure Country Diagnostics » report, forthcoming.

rate deemed necessary to meet the MDGs the gap rises to USD 117 billion. The recent pledges by the AfDB to scale up funding for infrastructure and regional development would not have come at a better time. Donors and shareholders must step up to the plate and provide adequate resources for the Bank to meet this expanded infrastructure program as well as rising RMC demands in other areas as a result of the financial crisis.

BOX 1: JOINT STATEMENT OF THE AfDB AND OTHER DFIs/IFIs OPERATING IN AFRICA, APRIL 14 2009

Following a round table co-hosted by the AfDB, the IFC on April 14th in Tunis, the two institutions and other DFI/IFIs operating in Africa issued the following statement:

Coordinating Initiatives to Alleviate the Impact of the Economic Crisis on Africa

The African Development Bank (AfDB), the International Finance Corporation (IFC), and other International finance institutions and development finance institutions active in Africa agree that there is an absolute and urgent need to collaborate and coordinate initiatives to mitigate the impact of the global economic crisis on Africa.

From the discussions we conclude that:

- Strong partnerships are crucial to address the challenges of the crisis
- International finance institutions (IFIs) and development finance institutions (DFIs) need to act to preempt the crisis from worsening and prevent further negative impact
- IFIs and DFIs must coordinate and streamline activities to be proactive, speedy, and flexible
- DFIs and IFIs need to step in with targeted interventions to prevent the crisis from becoming a development crisis
- We must utilize the current momentum to begin implementing practical measures to sustain long-term economic growth
- There is increased urgency to act as people are losing jobs and poverty is increasing

We agree to:

- Use the African Financing Partnership (AFP) as the steering committee to implement a Joint IFI Action Plan as a crisis response program to support Africa's private sector and support to the real economy. The steering committee will
  - Coordinate a joint communiqué to outline our action plan at the AfDB's annual meetings in May
  - Drive immediate implementation of the action plan to address the impact of the financial crisis in Africa
- Cooperate to immediately implement:
  - The Global Trade Liquidity Program to provide liquidity for trade with Africa
  - Initiatives to finance infrastructure projects
  - Measures to inject emergency liquidity into projects where financing has dried up
  - Financing to help further capitalize banks
- Further discuss measures to:
  - Increase investments and advisory services for the agribusiness sector

o Support the microfinance industry and small and medium enterprises

Table 1: February and May 2009 forecasts for growth and other indicators for Africa, 2007-2010

	2007	2008(e)	2009(p)		2010(p)	
			February	*May*	*February*	*May*
GDP Growth Rate in percentage						
Central Africa	4.0	5.0	2.8	2.0	3.6	3.2
Eastern Africa	8.8	7.3	5.5	5.1	5.7	5.5
Northern Africa	5.3	5.8	3.3	3.5	4.1	4.1
Southern Africa	7.0	5.2	0.2	-1.0	4.6	3.6
Western Africa	5.4	5.4	4.2	3.3	4.6	3.4
AFRICA	**6.1**	**5.7**	**2.8**	**2.3**	**4.5**	**4.0**
Memorandum items						
Sub-Saharan Africa	*6.4*	*5.5*	*2.4*	*1.4*	*4.7*	*3.8*
Oil-exporting countries	*6.8*	*6.6*	*2.4*	*2.5*	*4.5*	*4.1*
Oil importing countries	*5.4*	*4.6*	*3.3*	*2.1*	*4.5*	*3.8*
Consumer Prices (inflation in percentage)						
Central Africa	2.9	8.8	7.2	6.6	6.5	6.2
Eastern Africa	10.1	17.8	10.1	10.2	8.0	8.0
Northern Africa	6.8	8.1	7.7	8.1	5.3	5.4
Southern Africa	9.6	15.2	7.6	8.4	6.6	7.2
Western Africa	5.4	10.6	8.6	8.5	8.0	7.9
AFRICA	**7.5**	**11.6**	**8.1**	**8.4**	**6.5**	**6.7**
Memorandum items						
Sub-Saharan Africa	*7.9*	*13.8*	*8.3*	*8.6*	*7.2*	*7.5*
Oil-exporting countries		*10.0*	*9.1*	*9.5*	*7.1*	*7.2*
Oil importing countries	*7.9*	*13.5*	*6.9*	*7.1*	*5.8*	*6.1*
Overall Fiscal Balance (including grants) in percentage of GDP						
Central Africa	7.4	11.6	3.3	2.8	4.2	3.7
Eastern Africa	-3.6	-2.2	-4.8	-4.9	-5.2	-5.3
Northern Africa	3.6	5.3	-5.6	-5.5	-5.1	-5.3
Southern Africa	2.3	1.9	-4.6	-5.7	-3.6	-5.9
Western Africa	-0.4	-0.3	-8.6	-9.4	-9.2	-10.8
AFRICA	**1.9**	**2.8**	**-5.4**	**-5.8**	**-5.0**	**-6.1**
Memorandum items						
Sub-Saharan Africa	*1.4*	*1.5*	*-4.9*	*-5.7*	*-4.6*	*-6.2*
Oil-exporting countries	*3.9*	*6.1*	*-7.5*	*-8.1*	*-7.1*	*-8.2*
Oil importing countries	*-0.3*	*-1.8*	*-2.7*	*-2.9*	*-2.3*	*-3.2*

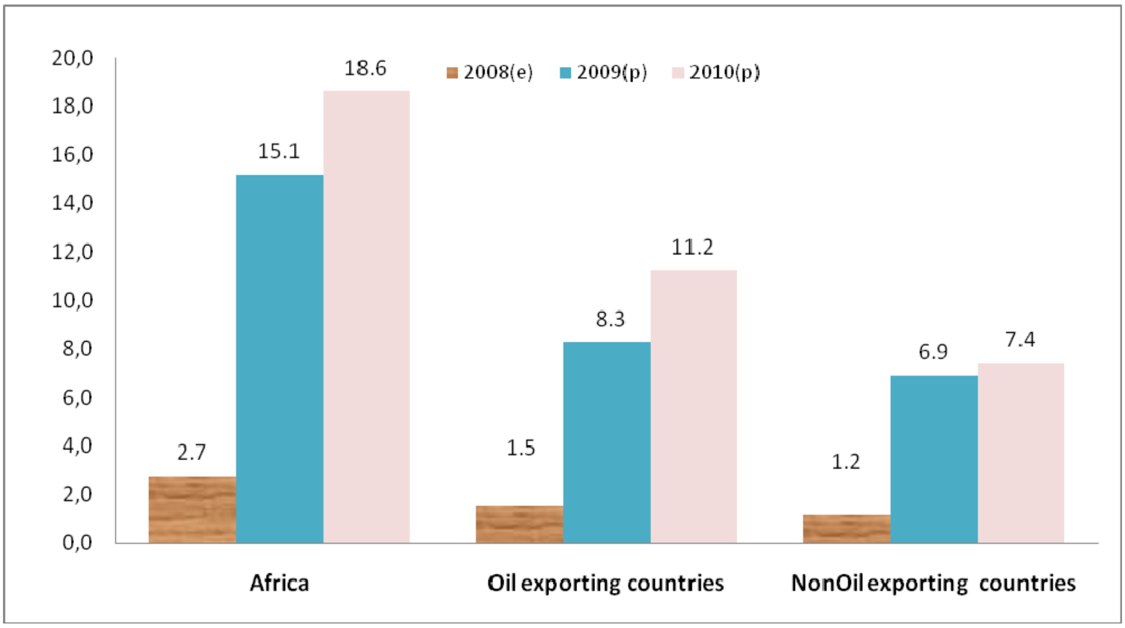
External Current Account (including grants) in percentage of GDP						
Central Africa	-0.5	9.0	-5.4	-4.1	-3.0	-3.1
Eastern Africa	-9.3	-6.3	-7.6	-7.7	-8.3	-8.4
Northern Africa	12.1	11.5	0.7	1.2	1.1	0.8
Southern Africa	-3.3	-2.0	-6.8	-9.7	-7.4	-10.0
Western Africa	-0.2	0.0	-8.4	-9.6	-7.0	-9.2
AFRICA	**2.2**	**3.3**	**-4.4**	**-5.3**	**-4.1**	**-5.4**
Memorandum items						
Sub-Saharan Africa	*-2.3*	*-1.0*	*-6.9*	*-8.6*	*-6.5*	*-8.4*
Oil-exporting countries	*8.8*	*10.7*	*-3.5*	*-4.2*	*-2.4*	*-4.3*
Oil importing countries	*-5.4*	*-7.1*	*-5.5*	*-6.7*	*-6.4*	*-6.9*

Source: African Economic Outlook 2008/2009
(e) Estimates; (p) Projections

Table 2: Quantity and price effects of the crisis on some export commodities

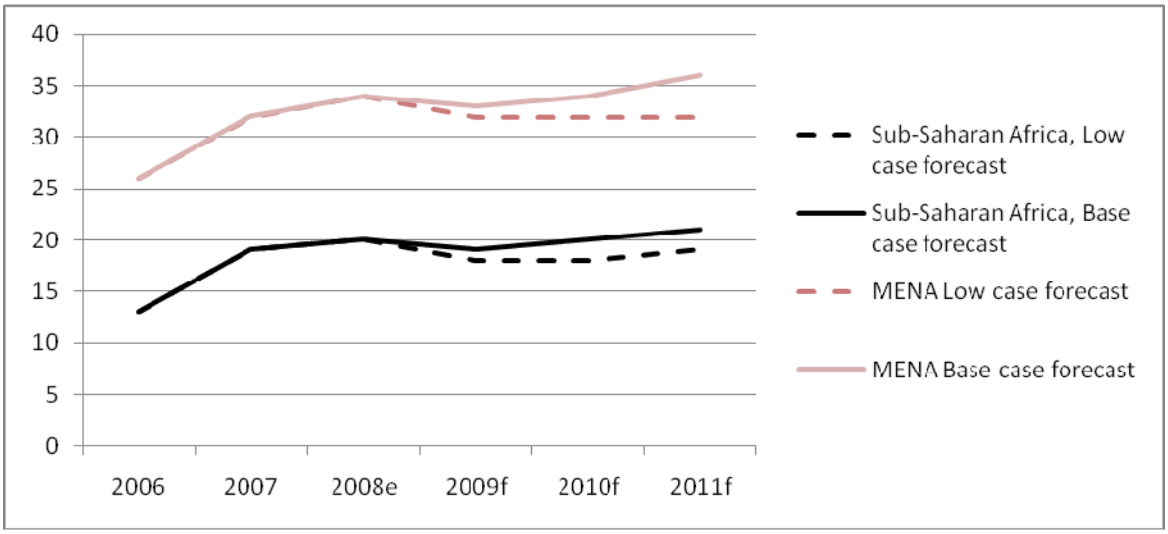
Country	Product	Unit	2007	After Crisis 2008(e)	2009(p)	2010(p)	Change 2007-2009 (%)
Nigeria	Oil	Volume (million of Bbl)	790.59	720.51	747.88	786.21	-5.4
		World Price (USD per bbl)	72.52	99.33	50.00	55.00	-31.1
		Value in billion USD	**57.33**	**71.57**	**37.39**	**43.24**	-34.8
Central Africa Republic	Diamond	Volume (millions carat)	0.42	0.36	0.32	0.33	-23.5
		World price (billion USD per millions carat)	0.15	0.15	0.16	0.16	5.7
		Value in million USD	**62.07**	**54.65**	**50.17**	**51.18**	-19.2
Ghana	Gold	Volume (million fine onces)	2.53	2.86	3.09	3.74	22.1
		World Price (thousand of US dollars per ounce)	686.50	807.26	732.91	632.43	6.8
		Value in billion USD	**1.73**	**2.31**	**2.26**	**2.37**	30.4
Côte d'Ivoire	Cocoa	Volume (tons)	803.88	811.92	828.16	861.29	3.0
		World Price (USD per kg)	1.78	2.36	1.83	1.74	2.4
		Value in billion USD	**1.43**	**1.91**	**1.51**	**1.50**	5.5
Kenya	Tea	Volume (millions kg)	370.24	328.41	338.26	343.33	-8.6
		World Price (USD per kg)	1.88	2.23	1.92	1.94	2.1
		Value in million USD	**694.53**	**732.48**	**648.08**	**664.38**	-6.7
Burundi	Coffee	Volume (kg)	18.21	17.88	18.42	18.14	1.1
		World Price (USD per kg)	0.25	0.28	0.27	0.27	9.6
		Value in million USD	**4.59**	**5.13**	**5.09**	**5.01**	10.8

Figure 1: Shortfall in trade taxes (USD billion)



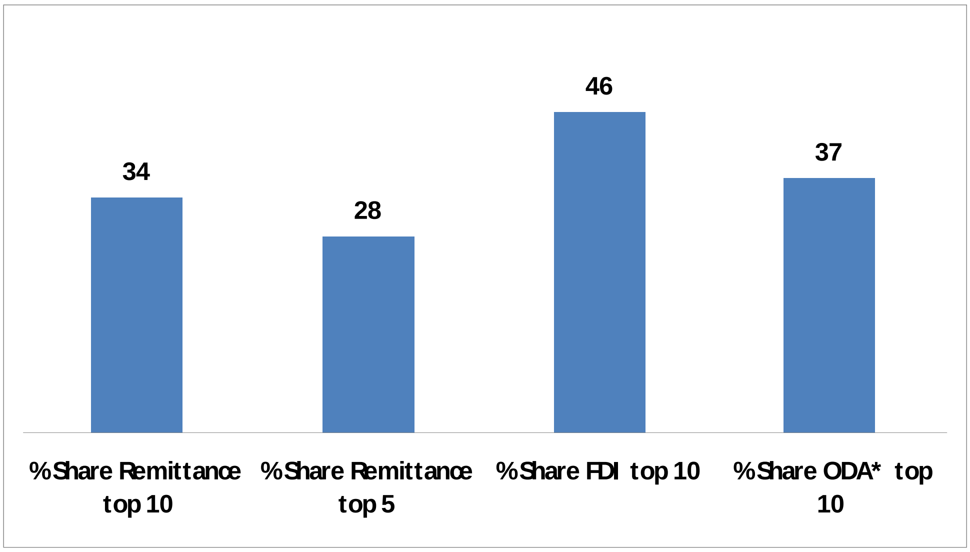
Source: AfDB Statistics Database

Figure 2: Remittances in Billion USD : Base case forecast and low case forecast for Sub-Saharian Africa and MENA region



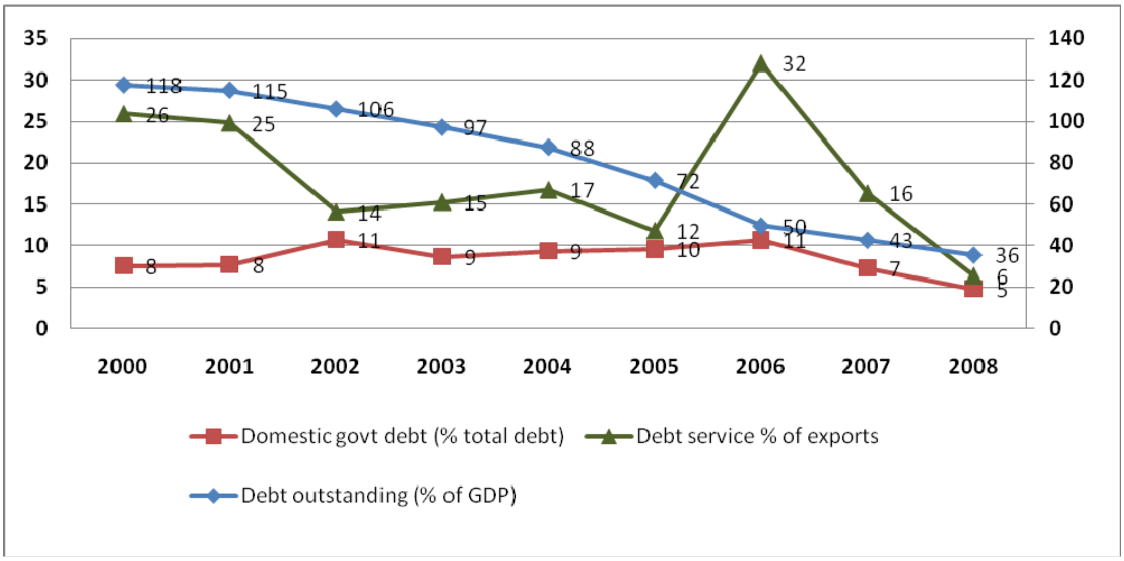
Source: AfDB Statistics Database; World Bank's remittances forecasts

Figure 3: Share of top largest recipients of FDI, ODA, and remittances (% of total), 2008



Source: AfDB Statistics database

Figure 4: Debt trends among HIPC countries, 2000-2008



Source: AfDB Statistics database; World Bank