While the world economic crisis brought a period of relatively high economic growth in Africa to an abrupt end. Average economic growth plummeted from an average of 6 per cent between 2006 and 2008 to 2.5 per cent in 2009 with Gross Domestic Product (GDP) growth coming to a near standstill (OECD, 2010).

Prior to the crisis, Africa was among the fastest-growing regions in the world, with an average annual growth rate of 5.2 per cent between 2000 and 2008. This growth which was higher than the global average by 2 percentage points was also broad-based, with 40 per cent of African countries (representing 70 per cent of Africa’s population) growing on average by 5 per cent or more between 2000 and 2008 (OECD, 2010).

The global crisis had its strongest effect in Southern Africa, where growth fell by almost 8 percentage points to negative growth of around 1 per cent. On the other hand, East and North Africa proved to be the most resilient regions. While in most of the continent’s economies GDP sustained its growth in 2009, output fell in 10 countries with per capita GDP either stagnating or falling in half of the African countries.

The crisis was mainly felt through the collapse of commodity prices and the fall of export volumes. In 2009, the continent’s export volumes declined by 2.5 per cent and import volumes by about 8 per cent (ECA and AU, 2009). The fall in commodity prices led to sharp declines in export values (higher than the decline in import values), leading to a deterioration in Africa’s terms of trade and current account balances.

The region’s economies face a major challenge overcoming the economic contraction that resulted from the global contraction. While the continent is already on the path to recovery, aided by strengthened global trade and the rebound of commodity prices, there is a risk that growth will not be sufficient to significantly reduce unemployment and poverty.

Africa must, therefore, overcome the numerous obstacles, which had, even before the crisis, lowered its growth potential and increased inequality. This can however, not be achieved without putting in place a multifaceted capacity development strategy.
1 Transmission Channels and Impact of the Crisis in Africa

Of the various channels through which the global economic crisis was transmitted to Africa, the two major ones are:

i) Collapse of Commodity Prices and Fall of Export Volumes

In 2008, before the financial crisis had started affecting the real sectors, the value of Africa’s trade exceeded USD 1 trillion. Due to favorable commodity prices, the region’s exports reached USD 557.8 billion, which enabled the continent to support an import bill of USD 465.6 billion (OECD, 2010). However, given the lack of diversification of the export products and destinations, the collapse in commodity prices in late 2008 and early 2009 led to the contraction of the African trade volume.

Approximately 80 per cent of the region’s exports are oil, minerals and agricultural products, with all these exports being negatively affected by the economic crisis. The continent’s preference for US and European markets, which account for 60 per cent of its exports, contributed to a small measure to the strong effect of the crisis through the trade channel. Intra-regional trade, which could have absorbed part of the shock resulting from the crisis, accounts for a paltry 10 per cent of total African trade (World Bank, 2009b).

ii) Decline of Worker’s Remittances

Worker’s remittances are an important source of income for many African countries. With labour markets deteriorating everywhere, many workers were forced to scale down the transfers to their families. This had a debilitating impact on household income and consumption and also on government revenue (through lower consumption and import taxes). The World Bank estimates that remittances-to-GDP ratios prior to the crisis were in the range of 8 – 11 per cent in Nigeria, Sierra Leone, Togo, Guinea-Bissau, Senegal, Cape Verde and Morocco.

In absolute terms, Nigeria and Egypt are among the world’s highest recipients of remittances, with inflows of USD 10 billion and 9 billion respectively in 2008. Remittances to African countries declined by 6.6 per cent from USD 41 billion in 2008 to USD 38 billion in 2009. While the decline was 20 per cent in Egypt and Morocco, it stood at 8.5 per cent in Kenya for the same period (see World Bank, 2009a).

The African economy appears to have been more resilient to the global crisis than other emerging economies, with the exception of China and India. The impact of the crisis, though less severe than in most other continents, was nonetheless significant. Although between 2006 and 2008 Africa had achieved an average annual growth of around 6 per cent, the figure plummeted to 2.5 per cent in 2009 (ECA and AU, 2010).

This deterioration in the economy was most pronounced in the mining and industrial sectors, which recorded negative growth in several countries. These sectors were particularly affected by the decline in commodity prices and world trade. The agriculture and service sectors were however, more resilient in mitigating the economic downturn. While agriculture benefitted from good harvests thanks to...
favorable weather conditions, domestic services (including real estate and telecommunications) continued to contribute to growth.

On the demand side, both falling export demand and a decline in domestic demand led the downturn in the main. While private consumption benefitted from lower food and energy prices, declining labour markets and lower workers’ remittances reduced purchasing power. Business investment declined in most African countries as a result of worsening capacity utilization in mining and manufacturing, as well as deteriorating foreign direct investment (FDI).

During previous economic crisis in Africa, such as the commodity price busts of the late 1980s, the response of many African governments had been to introduce direct controls and untargeted subsidies. This time around however, policy responses were quite different, with governments generally refraining from direct controls. Many countries were able to continue their major public spending programs because of fiscal prudence; generally better macroeconomic fundamentals in the years prior to the crisis; as well as the earlier debt relief. They thus, avoided a pro-cyclical policy, which would have aggravated the downturn.

A number of countries, including Egypt and South Africa went further by adopting stimulus packages and targeted programs to mitigate the downturn’s effect on poverty. However, faced with deteriorating current accounts and depreciating exchange rates, some countries (e.g. Angola, Ethiopia, Sudan and the DR Congo) were forced to pursue tight fiscal policies in a bid to contain the fiscal and current account deficits and to protect their foreign reserves.

The weakening of the economies coupled with stimulus packages caused fiscal balance in the continent to deteriorate from an average of 2.2 per cent of GDP in 2008 to 6.5 per cent in 2009. Most African countries embraced quantitative easing via reductions in key policy interest rates, with the fall in inflationary pressures due to lower energy and food prices facilitating this expansionary monetary policy. The median inflation rate declined from 10.5 per cent in 2008 to 5.9 per cent in 2009.

Another factor that helped African countries to fare better than their counterparts is the fact that donor countries generally maintained their aid flow to Africa, despite substantial fiscal pressures at home. Further, debt relief under the Heavily Indebted Poor Countries initiative by the IMF and the World Bank has reduced debt service costs. This coupled with additional loans by the African Development Bank, IMF and the World Bank helped African countries to better cope with the crisis (see Development Research Group, 2008).

2 Prospects and Risks for African Economies in 2011 and Beyond

A gradual recovery of the continent’s economies is expected with average growth reaching 5.2 per cent in 2011. All African regions are expected to achieve higher growth although the effects of the recession will remain. The southern African region, which was the most affected in 2009, is likely to recover more slowly than the
other regions. Its average growth is expected to stand at about 4 per cent during 2011. In central Africa, growth is likely to be slightly above 4 per cent during the same period. North and West Africa are projected to have a growth performance of about 5 per cent. East Africa, which has best weathered the crisis, is predicted to achieve a growth rate in excess of 6 per cent in 2011 (OECD, 2011).

The above forecast for African performance in 2011 is predicated on the assumption that the global economy and trade will recover at a moderate speed, and that commodity prices will remain close to their 2010 levels. After falling by 2.5 per cent in 2009, export volumes of the continent’s countries are expected to increase on average by 5 per cent in 2011. Investment activity will recover only moderately, and private consumption will remain weak in many countries as employment, wages and remittances are only gradually picking up and, as in some countries, households remain highly indebted. Special factors will boost growth in several countries including new investment and new production of oil and gas in Chad and Ghana, and of uranium in Namibia. While the growth projection of 5.2 per cent in 2011 is a clear improvement from the sluggish growth of the previous two years, growth remains lower than in years prior to the global crisis.

However, there are both upside and downside risks to this forecast. On the upside, the global growth could be very strong, thus, boosting Africa’s growth. With stronger global growth, commodity prices would rise, thus, benefiting African commodity producers, while reducing growth in oil-importing African countries. Further, higher oil price would make bio-fuel production more profitable and thus, reduce food supply. This would lead to higher food prices with the resulting inflationary pressures. On the downside, uncertainties persist regarding the chronic unemployment in the US as well as the debt crises in Europe. There is the risk that a couple of European countries may default on their debt, thus, constraining global recovery. There is also the risk of when and how fiscal and monetary authorities would exit from current expansionary policies as the recovery proceeds. Exiting too early could result in double-dip recession, whereas, sustaining them for too long could lead to credibility problems and promote inflation.

Risks also abound within Africa itself. There is the risk of unfavorable weather conditions which could have serious impact on the region’s economies with substantial agricultural sectors. There is also the risk that social and political crises might be sustained in some countries, thus, depressing growth. The continent’s governments must therefore ensure stability and further improve framework conditions for economic and social progress, especially given the inherent uncertainties and the relatively slow recovery. Structural problems that predate the crisis, especially those that have to do with capacity development must be urgently and comprehensively addressed.

These risks point to a multi-pronged approach if Africa is to prevent the economic crisis from degenerating into a crisis of development. In the first place, prudent macroeconomic management is indispensable, not only for countries that were unable to implement expansionary policies, but also for those that were sufficiently buoyant to undertake fiscal stimulus. This is so be-
cause of the need to ensure that the exceptional counter-cyclical measures are not converted into permanent policies comparable to those in the pre-reform era. Effective fiscal stimulus packages must contain discretionary measures that are timely, targeted, and temporary, with clear exit strategies. This is particularly necessary because there is evidence that while the effects of a fiscal stimulus tend to be positive, they remain modest, especially for small, open and import-dependent economies.

The second requirement is the need to coordinate Africa’s efforts. This is particularly the case with domestic measures, which need to be well coordinated with policies at the international level. This is because global economic recovery is a prerequisite for the continent’s own recovery from the crisis. Further, as in many emerging market economies, cooperation in the areas of financial supervision and crisis prevention between foreign parent banks and their domestic subsidiaries are critically important in African middle-income countries. Coordination among African countries is also required if the voice of the continent is to be heard at international forums where issues related to the crisis, its impact, and possible solutions are discussed.

Finally, Africa must maintain its focus on key structural reforms if they are to be effectively implemented. These include enhancing competition in the financial sector; streamlining labor market regulations; developing financial markets and strengthening governance; promoting private sector development; and promoting economic diversification. These reforms must be accompanied by measures aimed at establishing social safety nets for the most vulnerable segments of the population.

3 Capacity Development Response: A Must

Given the above requirements, a multifaceted capacity development strategy is imperative if efforts are to yield expected results. The strategy should have the following objectives:

- To enhance capacity for policy analysis and management and to deepen reforms. This would entail the reinforcement of statistics and policy centers to ensure that policy makers have access to quality data. They should also be able to analyze the data and to generate policy recommendations that are tailored to country-specific circumstances;
- To strengthen the capacity of Regional Economic Communities whose importance cannot be underestimated, especially given the need for African countries to undertake coordinated initiatives;
- To reinforce Africa’s capacity for effective advocacy and negotiation at international arenas. This is particularly crucial since most of the international response to the crisis is discussed in international forums where the continent has vested interests to defend.

These objectives are mutually reinforcing given that advocacy can only be effective when backed by strong policy analysis and research. It would also be more likely to succeed if it were coordinated at the regional level. Similarly, regionally coordinated initiatives will be more successful if they

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1 See North, 2005
are supported by strong advocacy capacity and in-depth policy analysis and research. National capacity development programs should be multidimensional if they are to be appropriate and effective in responding to crisis of this nature. They should address human, institutional and financial capacity gaps at individual, organizational, and societal levels at the same time. Thus, with respect to the objective of strengthening capacity for policy analysis and research, the strategy should focus on making people able to analyze the crisis; its causes and consequences; and to design, implement, monitor, and evaluate the appropriate policy and reform responses.

Further, the strategy should focus on reinforcing policy analysis centers by improving their skills mix; increasing their budgets; and strengthening their organizational arrangements such as structure, process, networking, and systems. Finally, the strategy should focus on aligning the system of incentives, rules, regulatory and supervisory frameworks, policies, and laws pertaining to policy analysis and research to the new requirements of the crisis. This will generate an enabling environment that is effectively supportive of quality policy analysis and research.

4 Conclusion

Africa is slowly emerging from the impact of the world’s deepest and most widespread economic crisis in half a century, with almost all the region’s countries expected to experience higher growth in 2011 compared to the preceding two years. Indeed, if the global economy and world trade continue to recover, and commodity prices remain close to their 2010 levels, the continent’s outlook in 2011 is optimistic.

However, even though commodity prices and recovery of the global economy remain important, it is now evident that domestic factors and, in particular, prudent macroeconomic management, governance reforms and capacity development, continue to be crucial for the continent’s resilience and eventual return to pre-crisis rates.

The case is made stronger by the fact that even with the plummeting of commodity prices in 2009 and the collapse of world trade, the continent has weathered the storm impressively. Even more significant is the fact that reversals of earlier economic reforms were avoided. Rather, most African governments have maintained fiscal prudence.

Another significant factor in the generally bright economic prospects in the short term is the increasingly important role that development partners are playing in the continent. This trend is expected to be sustained and could even be reinforced if structural bottlenecks are addressed, business environment is further improved, and capacity gaps are filled.

References


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