

The Political Dimensions of the World Economic Crisis: An African Perspective¹

A year ago, African leaders and their partners were becoming increasingly concerned about the impact of the food and fuel crises and of climate change on the continent's people. These concerns persist, but they have been overshadowed by yet another, potentially more perilous threat. The global economic downturn has hit Africa particularly hard, not only through the direct effects of decreases in trade, foreign direct investment, remittances and aid levels, but also as a result of the response measures put together by the developed world. These have not only encouraged capital flight to the perceived safety of the West, but have also failed to address the specific situation and needs of the world's poorest countries and peoples. While many developed countries, including France, Germany and Japan, are already back on the road to recovery, African countries are facing the risk of a prolonged downturn if African leaders and their international partners fail to act.

The main responsibility to do so certainly rests with the continent's political leaders. They face the challenge of articulating and asserting Africa's needs and agenda on the global stage, drawing upon the values and standards enshrined in the Constitutive Act of the African Union and other landmark agreements as the basis for partnership and support from both the Global South and OECD countries. They cannot, however, do it alone. At a time when other financial flows are dropping, donors countries have an even greater responsibility to honour their international aid commitments and to ensure that global deals, whether on trade, climate change, intellectual property rights, illicit drugs, crime or migration are supportive of Africa's development needs.

Setting the context

Africa's story remains one of uneven but remarkable progress punctuated by setbacks and chronic problems. On the one hand, over the past decade many countries on the continent have been able to achieve real progress, whether in terms of economic growth and private sector development, primary education, women's rights or the fight against poverty and disease. On the other hand, there are still too many countries with authoritarian and corrupt leaders, too many contested election results and major problems persist such as the wars in Darfur, the Democratic Republic of Congo and Somalia, the surge of piracy off the horn of Africa, and recurring coups. The positive, longer-term trends towards less conflict, more democracy and greater development are nonetheless clear.

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These trends, however, are increasingly threatened by current dynamics. The financial crisis and the ensuing economic downturn have greatly compounded the policy challenges already facing the region as they begin to erode progress, reduce per capita growth and cause severe budgetary problems. With the World Bank warning that 43 out of Africa's 53 states are highly exposed and vulnerable to the effects of the crisis, the continent faces the real danger of malignant decoupling, derailment and abandonment. Efforts to achieve the Millennium Development Goals will be affected, success stories like the "Botswana boom" may have to be rewritten, and conflict resolution is becoming more complicated. The ability of African countries to support basic services like education and healthcare will be heavily impaired. The human, social and political consequences could be enormous.

Combined with the challenges of climate change, wide-spread poverty and economic marginalization, the global economic crisis now threatens Africa's development prospects and its peoples' lives. There is, however, also a positive aspect. The crisis could serve as a wake-up call for both Africans and their international partners. It may drive home the imperative of economic prudence and good governance to Africa's leaders and encourage them to use the resources of their countries more effectively and speed up the process of regional and continental integration. It may also encourage partners to recognize and make use of the continent's enormous potential and the vast scope for investment in its real economy. As such, it presents an opportunity to address some of the blockages that have been constraining Africa's growth and development for decades thus allowing the continent to contribute to global recovery.

The impact of the global economic crisis

When the global meltdown was viewed as primarily financial, many thought that Africa might be spared. But this failed to recognize what globalization means, and how the world's economies, countries and fortunes are interconnected. Africa is now on the front line. Its countries are already experiencing reduced trade and economic activity, withdrawal of investors and an acute scarcity of credit. Tourist bookings are evaporating and vital infrastructure projects are being postponed or cancelled altogether. Financial inflows are dropping, including levels of remittances and possibly international assistance as the budgets of partners and the Diaspora shrink and capital flees from the economic periphery to perceived safety in the West. In nearly all African countries, job losses are mounting, job creation is slowing and the number of working poor is increasing dramatically.

The forecasts paint an increasingly gloomy picture. As a result of the crisis, the IMF has reduced its growth forecast for Sub-Saharan Africa from 5.5 percent in 2008 to about 1 percent in 2009. It also forecasts that a continued decline in economic activity could result in more than 53 million people being added to those living on less than \$2 a day. At its recent meeting in Istanbul, the World Bank estimated that by the end of this year, the countries of

sub-Saharan Africa will have lost expected incomes of at least \$50 billion and the Institute of International Finance predicts an 82 percent decline of net capital flows to developing countries, from \$929 billion to \$165 billion, with Africa's share of this drop expected to be particularly severe. UNCTAD predicts that as a result of the anticipated poor performance of African economies, job creation will weaken, pushing unemployment rates higher and forcing more workers into the already large informal economy.

These are more than mere statistics. Every percentage fall in growth means a reduction in budget allocations for public services and reduced household incomes, with immediate social impacts – for example on nutrition levels, infant mortality and school attendance. Every person pushed back into poverty means another step away from achieving the Millennium Development Goals. Hard won gains in poverty alleviation, health, education and food security are now at risk of being reversed. At the same time, the recent riots in South Africa have shown that the risk for social unrest grows as governments become increasingly unable to maintain basic public services.

Naturally, the impact of the crisis, its symptoms and the ability to cope vary widely across the continent, its countries, regions and groups of populations. While the contraction in the volume of global trade, the dramatic shift in commodity prices and the drop in financial inflows have strong effects across most of Africa, some countries are hit harder than others. A country's degree of vulnerability thereby relates to its dependence on export revenues and degree of integration into world trade, its dependence on external financial flows and transfers, and its capacity to react, which in turn depends on the overall quality of governance and leadership, availability of external reserves, external debt and ability to adopt fiscal stimulus measures.

As with the impact of climate change, the most vulnerable countries are those both least responsible for the economic crisis and least able to withstand its effects. What is true for countries is also true for people. Many Africans were hit hard in 2008 by rising food and fuel prices. The economic crisis has now made the poorest of them even more vulnerable to sudden shocks, reduced the opportunities available to them, and frustrated their hopes. Their frustration could turn latent political divergences into acute strife and political contests into civil wars as parties fight for total power or access to resources.

Several African governments have already undertaken measures to minimize the impact of the crisis which range from setting up special monitoring units, providing fiscal stimulus packages, revising budget expenditures, targeting assistance on key sectors and strengthening the regulation of the banking sector and markets to expansionary monetary policy and foreign exchange controls to protect the exchange rate. The continent's Ministers of Finance and Central Bank Governors have held several meetings in order to discuss the impact of the crisis and articulate possible solutions for African countries. Their scope for an independent monetary and fiscal policy response is severely limited because of persistent inflationary

pressures, strained budgets, deteriorating external balances, the continuing effect of the surge in food and energy prices in 2008, and downward pressures on their exchange rates.

Whatever response measures African countries have put together, they have been overshadowed by unprecedented activism at the global stage ranging from the UN Commission of Experts on Reforms of the International Monetary and Financial System to the G20's gigantic \$1.1 trillion stimulus plan. While there have been occasional references to low income countries in summit documents and policy proposals, politicians in developed countries are understandably preoccupied with the protection of their own economies. As a result, the legitimate concerns of low income countries (LICs) in general, and Africa in particular, have not featured prominently in the international rescue efforts. Even though the IMF and the World Bank have begun to disperse some of the additional money that has been earmarked for them in the G20 decisions, most of it comes in the form of loans rather than grants and little has actually been used to mitigate the impact of the crisis on the poor.

This renewed marginalization of Africa marks a notable change from the last five years in which the continent has increasingly taken centre-stage at international policy gatherings like G8 summits. The consensus on the need for Africa's development which had been fostered at such meetings, whether at Gleneagles or Monterrey, now seems to have fallen victim to the second-round effects of the economic crisis. While media coverage, and indeed the communiqué, of this year's G8 summit in L'Aquila may suggest otherwise, developmental issues have lost much of their earlier prominence. Italy and Ireland have already reduced their ODA budgets and several other countries, including Germany, have indicated that statutory limits on national debt levels and domestic pressures will force them to follow suit once the worst of the crisis is over. This places growing pressure on African leaders to adapt their strategies for recovery and reprioritize their developmental needs accordingly as well as increase their efforts to use their countries' resources more effectively.

The drivers of change

Despite its enormous impact on the continent, the global economic crisis is far from the only driver of change in Africa. Its effects must be seen within the context of other crises such as the continuing lack of food and fuel security as well as important trends such as demographic shifts, changing climatic conditions, the spread of digital technologies, the increasing engagement of emerging economies such as China, Brazil and India, the growth of an entrepreneurial middle class and the increasing empowerment of women. Together these drivers provide the background against which the state of the continent, the impact of the global economic crisis and the respective responsibilities of African leaders and their international partners must be assessed.

Demographics

Often ignored within Africa itself, demographic trends are having a serious and undeniable impact on the economic, social and political development of the continent. While far from the only such trend of interest (others being rapid changes in the relative balance of religions, ethnicities and gender as well as accelerating urbanization), Africa's high rates of population growth are of particular concern. The continent's population has doubled over the last 28 years, and has quadrupled over the past 55 years. Such growth rates are by far exceeding national, regional and continental absorptive capacities in terms of basic needs such as food and water, labor, shelter, sanitation, infrastructure, public health and environmental sustainability. It is, however, not only the growth of Africa's population, but also its swiftly changing structure that is having an enormous impact on the continent's developmental outlook. Particularly the increasingly high percentage of young people (more than 40 percent of Africans are below 15 years of age) holds both, great risks and chances for Africa's states. If governments fail to articulate and act on strategies to provide sufficient education, employment opportunities and security to their populations, the resulting discontent is bound to overwhelm fragile societies and increase the risk of social tensions and political instability. If, on the other hand, the potential of this youth is harnessed and used productively, as was the case in South East Asia during its economic boom, it may prove the bedrock of growth and development.

Climate Change

The evidence is clear. Climate change is a reality that is already affecting the lives of millions of Africans by reducing agricultural production and food security, increasing water stress, facilitating the spread of diseases, increasing the risk of droughts, flooding and mass migration, as well as by eroding coastal habitats and valuable agricultural space through rising sea levels. This reality is threatening to overwhelm fragile communities and push millions of Africans even deeper into poverty as it jeopardizes countries' ability to generate sustained economic growth, create employment and achieve targets based on the Millennium Development Goals. With the

Copenhagen Climate Change Summit (COP15) only weeks away, time is running out for African leaders to push their common position and negotiation strategy in order to ensure that a fair deal is reached that takes into account their special needs and circumstances with respect to financing, technology development and transfer, as well as technical support required for climate change mitigation and adaptation. The world's response to climate change will determine to what extent African governments can tap into new financing sources and access improved technologies, including the Clean Development Mechanism (CDM), planned mechanisms for sector approaches as well as new climate change adaptation funds. It will also determine the level of private sector investment in the continent's vast potential for energy production from renewable sources. Almost all Sub-Saharan countries have sufficient renewable resources, exploitable with current technologies, to satisfy many times their current

energy demand. With the right long-term strategies and incentives, Africa could become a model of low-carbon growth and development.

The Spread of Technologies

The spread of technologies like the internet and mobile telephony is having a profound impact on the African continent. Not least due to the leapfrogging of traditional fixed-line telecommunications networks, the uptake of mobile telecommunications is proceeding at a breathtaking speed. Mobile phone penetration for example, has risen from 2 percent in 2000 to over 30 percent by 2008 and is expected to increase to over 50 percent by 2012, meaning that there will be more than 500 million subscribers. Whether by connecting people with each other or rural areas to the world, by spreading knowledge, improving health care delivery or by providing a basis for small businesses, the new technologies have changed the way Africa's people interact and its economies function. Farmers are increasingly using cell phone-based trading platforms for their agricultural products and in markets where transferring cash is expensive and exchange rates are volatile, prepaid minutes have become a form of currency. With the spread of new technologies bound to continue unabated, African leaders need to apply the developmental lessons learned by India and China who once were, and to a certain extent still are in a similar position with respect to the spread, regulation and targeted application of new technologies.

The Increasing Engagement of Emerging Economies

The importance of emerging economies like Brazil, China, Middle Eastern countries and India to Africa's development is growing by the day. As some of the continent's largest trading partners and sources of investment, they have been instrumental in boosting growth rates and spurring much needed infrastructure improvements in Africa for many years. Over the last years, their involvement has evolved from energy security to encompass a much broader agenda of cooperation, including the sharing of developmental experiences and the outsourcing of agricultural production to previously uncultivated lands in Africa. However, there is a real danger that many of the deals struck come at the expense of large segments of Africa's population.

The Growth of an Entrepreneurial Middle Class

A particularly promising development across the African continent is the emergence of an entrepreneurial middle class that is increasingly driving economic growth. In some countries, such as Botswana, Rwanda and South Africa, this middle class has been growing by double-digits per year for some time now and has led to fundamental shifts in economic and developmental dynamics. Middle class entrepreneurs provide innovation, help create jobs and foster the diversification of domestic and regional markets. However, in many other countries on the continent structural factors and bad governance are holding back the growth of this crucial segment of the population.

Women Empowerment

The empowerment of Africa's women has been progressing at pace over the last fifty years including some genuinely historic developments over the last half decade. The adoption by the African Union of the Solemn Declaration on Gender Equality in Africa in 2004, for example, has given a new prominence to the issue of women's rights. This has been reflected in new national laws on everything from tackling violence against women to equal pay. The election of Ellen Johnson Sirleaf as President of Liberia one year later has also been a clear sign of how Africa is changing and a remarkable step for women across the entire continent. The fact, too, that Rwanda's parliament was the first in the world in which women took over half the seats (56 percent including the speaker) is a source of pride. In many African countries, women are now driving economic growth and social progress. But as women everywhere on the continent know, this is not the full picture. Significant gender gaps persist in education, health, employment, wages and political participation. For every headline success, there are many more cases of women who find their talents and aspirations blocked by formal and informal barriers. In the race to harness the energy and skills of women, Africa – for reasons of history and culture – is in danger of being left behind.

The implications for African leaders and their partners

Africa's challenges seem as daunting as its opportunities appear enticing. Given the disparate nature and structure of the continent's 53 countries and their economies there is no single policy panacea – one size certainly does not fit all – to enable them to weather the storm, preserve the powerful momentum of recent years and use their potential to contribute to global recovery. There is, however, a broad consensus on the need for a combination of accountability, resources and leadership that will help African leaders to make the most out of their circumstances and allow for the optimal support of the international community.

Accountability

The crisis has clearly shown the need for accountability and effective governance systems at all political levels. At the national level, African countries must consolidate the trend towards improved political governance, including by tackling the key cross-cutting issues emerging from the UNECA Africa Governance Report and the African Peer Review Mechanism (APRM) process. Leaders must strive to improve the quality of elections, promote broad-based participation in the development process and strengthen institutional checks and balances to increase the accountability of the executive branch. At the same time, efforts should be redoubled to combat the spread of corruption. Underlying all of the above is the importance of making governance systems more accessible and responsive to the continent's rapidly increasing young population.

At the regional level, Africa needs to find cooperative ways to overcome the structural challenge of small market size. Sub-Sahara's total economy is equivalent to that of metropolitan Chicago, but spread over a vast area and fragmented into 48 separate countries. It will be important to accelerate three processes: The first is the rationalization of currently overlapping agreements; second is deepening the process of integration within sub-regions; and third is improving the process of coordination across the different sub-regions. While African governments and the African Union need to lead these processes, it is also important that the policies of development partners, for instance in trade and investment, incentivize their efforts. Unfortunately, there is a real danger that the fractured nature of political leadership at the continental level may prevent the harmonization of regional integration efforts.

At the global level, the financial crisis has triggered a re-examination of a range of wider systemic issues such as the effectiveness of international institutional arrangements for policy dialogue, coordination and action. Africa's leaders should make good use of this opportunity to push for a new multilateralism which anchors the continent more firmly in international decision-making processes and institutions, including the Bretton Woods Institutions and the United Nations. They have a strong case to argue. It is clear that Africa is profoundly affected by wider global developments such as climate change and the economic crisis. It is also clear that, as a continent of nearly a billion people, it is hugely under-represented in virtually all international fora that deal with such challenges. Unfortunately, where Africa does have adequate representation, it often lacks negotiation capacity; this also needs to be rectified.

Resources

At the same time, the current crisis will not be overcome by institutional reform alone. Faced with enormous funding shortfalls, African countries also need increased access to alternative resources. These include several categories, namely, emergency aid, support to sustain basic social services and economic activity, and development assistance to fund long-term growth-multipliers like infrastructure and agriculture. They should be accompanied by systemic changes to biased trade rules, bloated subsidy regimes, and other forms of market distortion currently restraining Africa's economic potential.

The private sector certainly also has an important role in mobilizing additional resources for Africa. For this reason, international institutions and the governments of source countries need to provide specific development-orientated financial tools such as lending facilities and risk guarantees in order to increase the incentives for private sector investment in the continent. African countries need to make every effort to attract private capital for the funding of vital development projects in the infrastructure and agriculture sector; regulatory and pricing reform, as well as monitoring mechanisms to prevent corruption will need to be ramped up to achieve this goal.

Leadership

Many of the measures outlined above – particularly those regarding institutional reform, climate change and economic responses to the crisis – require difficult decisions and compromises, some even substantial sacrifices, from Africa’s leaders and their international partners. Both must resist rising domestic pressures, maintain macroeconomic as well as fiscal prudence, and heed the mutual commitments they have entered into as part of the Monterrey Consensus. The economic and political effects of the current crisis put growing pressure on both sides to reconsider their commitments. In donor countries, development aid risks being de-prioritized as domestic concerns mount, public finances are becoming increasingly strained, and a rebranding as climate change adaptation and mitigation funding is considered more openly. In the short-term, strong political determination will be required to restructure budgetary expenditures in a way that ODA commitments can be reached and are not curtailed at a time when developing partners need this support most. In the longer term, ways need to be found and new coalitions to be built to maintain the political commitment around development aid that has characterized the past decade. On the African side, leader’s primary responsibility is to set and drive a national and regional development agenda that is responsive to peoples’ needs and aspirations, and for which leaders are then accountable. Without such leadership, opportunities to forge common national positions and promote economic growth will be squandered.

Conclusion

Individual success stories in Africa provide the evidence that even in the most difficult conditions, extraordinary advances are possible. Countries can recover from conflict, entrepreneurs can be incentivized to deliver goods and services that improve the lives of the poorest, impoverished lands can be regenerated, people living with HIV and TB can be helped to live productive lives, children from the remotest villages can become professors, and women can become Heads of State.

Many of Africa’s problems have been imported, including financial instability and climate change. Her partners share responsibility with Africa’s leaders for protecting people from the negative impact of the economic crisis, for promoting stability, growth and human development. At the same time, Africa can also contribute solutions to global problems. Her vast human and economic potential, natural resources and sources of clean energy offer highly attractive investment opportunities which can be utilized for the benefit not just of Africa, but the world. For this to be realized, Africa needs a stronger voice on the international stage, in the multilateral architecture and at key decision taking fora, whether the G8, G20, trade and climate change negotiations, to attract the political, financial and technical support required.

Progress in Africa depends upon partnership and mutual accountability between African leaders and their donor and business partners, whether governmental or corporate. Donors must honor their commitments; trading partners and corporations respect international human

rights, environmental and transparency standards; and African governments implement their own commitments to good governance.

Ultimately, responsibility for driving progress rests with Africa's leaders. Their task is not easy, given capacity constraints and the many challenges they face. But only they can provide the direction that can attract and retain the investment and support that Africa's people need and deserve, and ensure that revenues are used to achieve development results.