GSDRC Governance and Social Development Resource Centre

Helpdesk Research Report: Economic Crisis and Sub-Saharan Africa
Date: 09.04.09

Query: Please identify literature on the impact of the global economic crisis on Sub-Saharan Africa. Please aim to highlight from within the available literature any information on most affected countries/regions; humanitarian and development concerns; and implications for social and political stability.

Enquirer: AusAID

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1. Overview

Sub-Saharan Africa was largely insulated from the initial stages of the financial crisis as the majority of the countries in the region are de-linked from the international financial markets. Emerging markets (e.g. South Africa, Nigeria, Ghana and Kenya) were affected, however, through their stock exchanges and financial links with other regions in the world. This, in turn, affected smaller neighbouring countries that are reliant on these stronger economies for trade and remittances.

With the worsening of the global financial and economic crisis, the region as a whole has now been exposed to the downturn, and growth estimates have been continually lowered. The main channels through which Sub-Saharan Africa is being affected are:

- Decline in prices of commodity exports. The most affected countries are oil and metal exporters.
- Decline in demand for services (e.g. financial, tourism, air travel and real estate services).
- Decline in workers' remittances.
- Decline in foreign direct investment.
- Possible decline in overseas development assistance.

The countries most affected by these changes are documented throughout this research report. Those whose economies are highly specialised in the affected industries are particularly vulnerable, especially when combined with pre-existing poor governance and weak state institutions.

There are numerous humanitarian and development concerns for Sub-Saharan Africa stemming from this crisis. The drop in commodity export prices has resulted in a loss of foreign exchange, deteriorating current account balances, declining reserves and a reduction in government revenues. Countries that already suffered from low reserves and fiscal deficits will be hit especially hard as governments become unable to cope with the growing needs of their

populations. There are grave concerns that governments facing intense fiscal pressures will be unable to provide the necessary social safety nets, and may also cut back on spending on social services and infrastructure. In addition, countries that are suffering from low reserves, such as the DRC, may soon be unable to import basic necessities – food, fuel and medicine.

The declining demand for commodity exports and services – as well as the decline in foreign direct investment in commodity export and service industries - has also resulted in the deferral or cancellation of projects, the closure of mines and cutbacks in other industries, and resultant rise in unemployment. In Zambia and the DRC, for example, mine closures have resulted in the loss of a vast number of jobs (estimates of 10,000 in Zambia and 350,000 in the DRC).

The combination of drops in real wages, unemployment and decelerating remittances (that have been integral to poverty reduction at the household level) are putting severe strain on poor households. There are already reports of inadequate income for food and other necessities, increasing malnutrition and susceptibility to illness and disease. Women have been bearing the brunt of the decline in food resources by eating least and last. The potential for infant deaths from malnutrition and inadequate health care is also deemed to have increased. There are also reports of increased school absenteeism as children are too weak to travel to school or parents can no longer afford education fees. It may be, that in some cases, children are pulled out of school to contribute to incomes.

There are longer term development implications as well. Experiences from past economic crises indicate that often children who drop out do not return to school after the crisis is over. There are also concerns that with sustained low incomes, households may be forced to sell assets, including ones upon which their livelihoods are based. The future productivity of individuals and households, and the economy as a whole, can suffer as a result. There are also concerns that the current reorientation away from productive export sectors – due to the decline in export prices – and towards lower productivity sectors (e.g. in Rwanda) will negatively impact future growth prospects and poverty reduction. In addition, investment in infrastructure, necessary for development and economic growth, also appears to be slowing due to the decline in foreign direct investment and constraints in government spending. Lessons from the Asian crisis indicate that declines in infrastructure investment can lead to costly rehabilitation and hinder economic recovery.

There are also concerns for social and political stability. A potential decline in service provision and the failure of governments to refinance companies to keep them afloat, resulting in closures and unemployment, may result in a loss of confidence in government. Countries that already suffer from poor governance and weak state institutions, and/or have been emerging from conflict, are at particular risk of instability (e.g. Burundi, DRC, Guinea Bissau, Kenya and Liberia).

There have been reports of rising social tensions in some cases as well. In Nairobi, for example, tensions have emerged between Christians and Muslims because of exclusionary feeding programmes in mosques. There has been greater awareness of socio-economic differences along religions and ethnic-cultural lines. More generally in Kenya, crime rates have risen (e.g. theft, mugging, drug-related crimes). Of particular concern are increasing crime rates among youth – there are reports of children robbing each other at school for food, and more disturbingly, of children trading sex for food. These incidents have broader development implications for human security, drug use and HIV/AIDS.

2. Key Documents

General

Note: The documents in this section discuss developing countries, in general. However, the summaries aim to highlight information contained within them that pertains to Sub-Saharan Africa.

World Bank, 2009, 'Swimming Against the Tide: How Developing Countries Are Coping with the Financial Crisis', Background Paper prepared by for the G20 Finance Ministers and Central Bank Governors Meeting, 13-14 March, Horsham, UK
http://siteresources.worldbank.org/NEWS/Resources/swimmingagainstthetide-march2009.pdf

This report discusses the impact of the financial crisis on developing countries, and in particular low-income countries (LICs). It notes that most LICs, for example in Sub-Saharan Africa, were not directly affected by the sudden decline in private capital market flows as they have lesser access to such flows. Banks in Sub-Saharan Africa are largely financed domestically or regionally and do not rely much on external borrowing. However, the crisis is affecting LICs indirectly through various different channels. The key ones are:

- Drop in commodity prices: commodity prices have declined due to the contraction in global demand. Many LIC governments rely disproportionately on revenue from commodity exports. In Africa, for example, oil generates more than half of all revenues for Congo, Equatorial Guinea, Gabon and Nigeria. This has resulted in much fiscal pressure, as well as concerns that affected governments will cut back on spending on social services and infrastructure.
- Decline in foreign direct investment, particularly in natural resource sectors (e.g. mining and oil): this is expected to impact three-quarters of LICs, particularly those in Sub-Saharan Africa and Central Asia. As commodity prices drop, projects are being cancelled, delayed or are at risk of being delayed. This shortage of financing will negatively affect employment and infrastructure spending, which the report stresses is critical for longer-term growth.
- Decline in remittances: remittances represent a large source of foreign exchange for many LICs and are an important income support for many households. According to the report, Sub-Saharan Africa experienced a step deceleration in remittances in 2008. This can have far reaching effects as workers' remittances have traditionally helped to finance consumption and investment in small and medium enterprises in recipient countries.

The report also highlights the short and medium term impacts that can turn into longer term development concerns. These include:

- Falling real wages and employment, declining remittance flows, and possibly reduced public services due to government fiscal pressures, will hinder households' ability to provide adequate food and necessities to their members. In such an environment, households may suffer from inadequate healthcare and diet, may be forced to sell assets on which their livelihoods depend, and/or may pull their children out of school. These have long term consequences in terms of learning gaps, decline in nutritional and health status of children; and loss of livelihoods.
- Due to declining export prices, workers are increasingly shifting from export-oriented sectors into lower productivity activities, for example in Rwanda, which can jeopardise recent progress made in growth and poverty reduction.
- The decline in investment in infrastructure can also adversely affect growth. The report stresses that one of the key lessons from the Asian crisis is that "responding to immediate fiscal pressures by putting off maintenance of existing infrastructure essential for economic development can lead to costly rehabilitation over the longer term and also hold back economic recovery" (p. 10).

The report also discusses the various ways in which the World Bank is responding to the crisis. This includes increasing financial assistance to its clients; proposing the creation of an umbrella Vulnerability Fund that channels resources from developed countries through the Bank, the UN or other multilateral development banks to fund investments in three key areas: infrastructure projects, safety net programmes, and financing for small and medium-sized businesses and microfinance institutions.

ODI, 2009, 'A Development Charter for the G-20', Background Paper, Overseas Development Institute, London
http://www.odi.org.uk/resources/projects/background-papers/2009/03/g20-development-charter-global-recession.pdf

This paper outlines the ways in which households in developing countries will be negatively affected by the financial crisis and provides some brief country specific descriptions. It states that by the end of 2009, developing countries in Sub-Saharan Africa are expected to lose incomes of at least US $50 billion. Commodity exporters such as Kenya (tea), Nigeria (oil), Uganda (coffee) and Zambia (copper) have already faced declines in export revenues, resulting in declining government revenues and loss of jobs. In Zambia, for example, copper mines are closing and approximately 8,100 people have lost their jobs (27% of the mining workforce). In Kenya, the decline in the stock market has resulted in difficulties in borrowing from the capital market and shortage of funds. Combined with the 60% decline in Kenyan tea exports, growth rates are expected to be much reduced.

The paper stresses that the crisis will create much hardship for those already poor and vulnerable: "UNESCO's Education for All Global Monitoring Report team estimates that reduced growth in 2009 will cost 390 million people in Sub-Saharan African living in extreme poverty around $18 million, representing 20% of the per capita income of Africa's poor. Poor people spend between 50% and 70% of their income on food – this has important human development implications. The findings also highlight wider human development impacts, including the prospect of an increase of between 200,000 and 400,000 in the number of annual infant deaths" (p. 6)

The paper notes that the poverty impacts of the crisis are still difficult to determine as the impact has not been fully transmitted through the real economy to poor people and the relevant data is not readily available on a monthly or quarterly basis. It highlights, however, that based on how past financial crises have affected poor people, it is possible to predict that negative impacts will be transmitted through the following five channels:

- Taxes and transfers: this includes both private and public transfers, including remittances. Slowdown in remittances will affect the level of expenditures on nutrition and education, which are the most common uses for this type of transfer.
- Prices: lower demand in global markets is pushing prices of commodities down.
- Employment: reduction of employment in both formal and informal sectors will reduce income levels of individuals and households.
- Assets: these can be social, physical, natural or financial and are used by households or individuals to cope with a shock. In the 1995 recession in Mexico, the poorest children dropped out of school and never returned – which undermines their ability to participate in productive growth.
- Access to goods and services: the fiscal pressures faced by governments due to declining export revenues may result in shrinkages in social budgets.

The paper emphasises that attention must be paid to these social implications and cautions that the current focus on stabilisation may be at the expense of social protection.

Cord, L. et al., 2009, 'The Global Economic Crisis: Assessing Vulnerability with a Poverty Lens', World Bank, Washington, DC
http://siteresources.worldbank.org/NEWS/Resources/WBGVulnerableCountriesBrief.pdf

This policy note seeks to highlight the countries most vulnerable to the global economic crisis. It states that households in almost all developing countries are at increased risk of poverty and hardship: "Almost 40 percent of developing countries are highly exposed to the poverty effects of the crisis (with both declining growth rates and high poverty levels) and an additional 56 percent of countries are moderately exposed (they face either decelerating growth or high poverty levels), while less than 10 percent face little risk" (p. 1). Among the 'highly exposed' to poverty risks are many countries in Sub-Saharan Africa: Angola, Botswana, Burkina Faso, Central African Republic, Chad, Comoros, Congo DR, Ethiopia, Equatorial Guinea, Gambia, Ghana, Lesotho, Mali, Mauritania, Mozambique, Namibia, Niger, Nigeria, Rwanda, Sierra Leone, South Africa, Sudan, Swaziland, Tanzania, Togo and Zambia.

The note states that it is crucial for exposed countries to finance job creation, the delivery of essential services and infrastructure, and safety net programmes for vulnerable groups. Three quarters of these countries, however, cannot raise the necessary funds (domestically or internationally) to finance such programmes. One quarter of the exposed countries also lacked the institutional capacity to expand spending to protect vulnerable groups. The note urges financial support in the form of grants and low or zero interest loans for these countries.

Hossain, N. and Eyben, R., 2009, 'Accounts of Crisis: Poor People's Experiences of the Food, Fuel and Financial Crises in Five Countries', Institute of Development Studies, Brighton
http://www.ids.ac.uk/download.cfm?objectid=7BE94835-9BC2-DD93-0A16851C3CFE4738

This study looks at the impacts of the food, fuel and financial crisis in Bangladesh, Indonesia, Jamaica, Kenya and Zambia. It is based on people's accounts in ten communities and reports on what was happening as recent as February 2009. Where possible, efforts have been made to verify accounts with reference to other date and within a broader national context. This summary will focus on findings in relation to Kenya and Zambia.

Both Kenya and Zambia are considered to be highly vulnerable to food shocks, fuel shocks and finance shocks. In Zambia, for example, revenue from copper exports has declined due to the recent financial crisis. This negatively affects both government revenue and employment. It was estimated that 10,000 of a total of 23,000 registered miners would be out of work by end of March 2009. In addition, the government has had to shelve the introduction of a new mineral tax due to pressure from mining companies affected by the downturn. While the decline in oil prices has been a positive factor in many non-oil exporting countries, the study finds that food prices have yet to decline to the same degree. The persistence of high food prices has been attributed to climate conditions and natural disasters (Kenya and Zambia) and political instability (Kenya).

The study finds that households have been coping with the various crises by spending a greater share of income on food, buying lower cost items, reducing the quality and diversity of food, gathering wild foods, eating less or going hungry. Conditions were found to be worst in Kenya. Food intake in communities in Kenya was reported to have declined in quantity and in quality.

The crises have also produced various social impacts. This study focuses on three: intra-household impacts; inter-group relations' and crime, violence and security:

Intra-household impacts are evident in that the gender- and age- inequities in the distribution of household resources are worsening: "Women were bearing the brunt in many households by eating least and last, but in other cases couples were sharing the sacrifice to ensure their children

could eat well" (pp. 11-12). This, in turn, has lead to greater reports of malnutrition, including weakness and vulnerability of disease, among women. Children as well remain vulnerable to hunger and malnutrition, which has also had negative effects on schooling. Hunger was reported to be deterring children in Zambia, Kenya and Bangladesh from attending school, from travelling long distances and to school, and was also affecting their learning. School dropout was also widely reported in these countries either because parents could no longer afford the costs or because children went into paid employment.

Inter-group relations have also been strained: "deprivation has heightened awareness of socioeconomic differences along religious or ethnic-cultural lines, creating social tensions" (p. 72). In Nairobi, for example, there were signs of emerging social tensions with respect to majority Christian disapproval of feeding programmes for practising Muslims.

Increase in crime level is also a key issue, in particular the criminalisation of youth: "This is an issue of grave moral concern, because there does appear to be a new generation for whom the crisis has had profoundly negative effects. In some contexts, there were stories of children robbing each other of food in schools, in others, there were accounts of anxiety and strain at home, and there were widespread fears among children that their school days may be cut short. Most serious of all were accounts of children trading sex for snacks. These are all distressing indications of how the crisis has already affected children. From a policy perspective, there may also be more instrumental concerns relating to the potential links with security, drugs and HIV/AIDS" (p. 15).

Africa

Note: The documents in this section cover countries across the African continent. The summaries provided aim to highlight information contained within them that pertains to Sub-Saharan Africa..

AFDB, 2009, 'Meeting of the Committee of Finance Ministers and Central Bank Governors', Draft Report, 16 January, Cape Town

This report provides a brief overview of the key and inter-related problems faced by African economies due to the financial crisis. These include:

- Massive capital outflows: private capital inflows are declining, including foreign direct investment and remittances. Some countries have attempted to raise funds through bond issues but failed (e.g. South Africa). Others have had to delay the issue of sovereign bonds on the international markets due to unfavourable conditions (e.g., Kenya). As a result, governments and the private sector are facing difficulty in raising funds for long-term investment projects, especially infrastructure. Trade financing is also decreasing, further undermining Africa's trade-driven growth.
- Decline in global demand in the sectors that have been the main drivers of Africa's recent growth performance (e.g. mining, tourism and air travel). This decline has reduced project development and foreign exchange earnings, and has resulted in large job losses. The resultant drop in domestic demand due to unemployment will have further negative impacts on domestic economies.
- Fiscal pressures: many African countries are experiencing mounting fiscal pressures as government revenues decline, making it difficult to keep expenditures at the levels required to achieve adequate growth rates and meet development goals.
- External balances are deteriorating as export revenues decline, resulting in wider trade deficits. This leads to the risk of accumulating more external debt in order to finance current account deficits.

The report stresses that countries in Africa lack the means to produce stimulus packages such as those introduced in developed countries. As such, external financing is greatly needed to assist

governments and the private sector in Africa to access funds to assist with immediate needs and for long term investment.

AFDB, 2009, '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 crisis, African Development Bank, Tunis-Belvedère (March)
http://www.afdb.org/fileadmin/uploads/afdb/Documents/Generic-Documents/impact%20of%20the%20crisis%20and%20recommendations%20to%20the%20G20%20-%20March%2021.pdf

This note highlights the severe impact of the crisis on African countries. It states that the growth outlook for Africa has deteriorated severely, largely due to expected shortfalls in export revenues (with oil exporters suffering the largest losses) and declining capital inflows (including working remittances and tourism). Diversified economies will be less impacted than highly specialised economies, such as Libya and Algeria (oil-dependent countries). Although some countries in Africa will benefit from the decline in oil prices, they are still experiencing difficulties due to the drop in demand and prices for their commodity exports. Governments and the private sector alike (e.g. in South Africa, Ghana, Kenya, Nigeria, Tanzania and Uganda) have had difficulties in raising long-term finance, which has resulted in costly delays and suspensions in the implementation of planned public infrastructure programmes. In some cases, the African Development Bank has stepped in to provide additional funding.

Although the LICs as a group are forecast to grow faster than middle income and oil-exporting countries in 2009, the note stresses that their populations will be severely affected by the crisis because of their already relatively lower pre-crisis living standards. The slowing down of regional 'engines of growth' (e.g. South Africa, Egypt and Nigeria) due to the decline in financial markets and exports has had 'knock-on effects' on smaller neighbouring economies through trade linkages and worker remittances. The flow of remittances to the DRC, for example, is declining due to the slowdown in South Africa.

The note stresses that countries most vulnerable to the downturn in commodity prices are mineral resource dependent countries with poor governance and weak state institutions: "This is the case for the DRC and the Central African Republic. Lower demand and prices for commodities are compounded by high economic and political uncertainty. Risk aversion has induced investors to relocate to lower risk countries, resulting in sharp decline in foreign direct investment (FDI). The combination of falling export revenues, weak governance capacity, and a prolonged retrenchment in investment aggravates already widespread poverty and threatens the stability of these fragile states. In the Democratic Republic of Congo, 100,000 jobs have been lost due to smelter closures. Foreign reserves are down to about one week of imports; the country will soon be unable to purchase imported essentials such as food, fuel, and medication. In the Central African Republic exports of wood and diamonds have collapsed, causing large losses of employment. The Société d'Exploitation Forestière en Centrafrique (SEFCA) has laid off half of its employees as its orders were cut by half. The economy is basically on life support. Regional neighbours have contributed CFA 8 billion (more than USD15m) as the government was unable to pay the salaries of civil servants. Debt arrears are accumulating, further undermining the country's capacity to mobilize external resources. This situation is clearly threatening the stability of a country that is just coming out of conflict" (p. 4).

African governments have introduced a number of initiatives to mitigate the impact of financial and trade shocks. Their resources are limited, however, and the note stresses the need for significant additional external financing.

AFDB, 2009, 'Impact of the Global and Financial Crisis on Africa', African Development Bank, Office of the Chief Economist, Tunis-Belvedère (February)
http://www.afdb.org/fileadmin/uploads/afdb/Documents/Knowledge/Financial%20crisis_Impacts%20on%20Africa.pdf

This document focuses on the decline in export growth rates, which will mean that some countries in Africa will face a twin deficit (current account and budget deficit) in 2009. The key affected sectors in Africa include:

- Tourism: tourism has suffered a big hit, and this has negatively impacted on government revenues and growth. The services sector had become a key engine of growth in Kenya, for example. As a result of the crisis, however, the country has reported a 25-30% decline in tourist arrivals and Kenya Airways has reported a 62.7% drop in profit.
- Mining: several projects in extractive industries were cancelled or postponed in DRC, Zambia, South Africa, CAR and Cameroon. In the DRC, many mining companies have closed. Other countries in Sub Saharan Africa reliant on mining (Gabon, Mauritania, Senegal, Niger and Guinea) have also suffered from the fall in mining prices – resulting in cuts in production and lower export earnings.
- Textiles: labour-intensive sectors, such as textiles (and tourism) are particularly vulnerable. Several textile factories were closed in Madagascar and Lesotho due to a decline in external textile demand from South Africa and the US.

AFDB, 2009, 'An Update on the Impact of the Financial Crisis on African Economies', Issues paper prepared for the C10 Meeting in Dar es-Salaam, Tanzania, African Development Bank Group, Tunis-Belvedère
http://www.afdb.org/fileadmin/uploads/afdb/Documents/Generic-Documents/C10%20%20Impact%20of%20the%20Financial%20Crisis%20March%2005%202009.pdf

This brief update looks at the latest key features of the financial crisis since the African Development Bank Group's last meeting in January 2009. These include:

- "A slowdown in the downward trend of commodity prices […]
- A continued fall of most African stock markets and depreciation of most currencies.
- Rising unemployment and activity shutdowns. The collapse of commodity prices has forced a number of international mining companies to close. The worst case may be in the Democratic Republic of Congo where more than 350,000 jobs are estimated to have been lost in the Katanga Province.
- Worsening of fiscal and current account balances of most African countries.
- [An estimated growth rate] of 2.8 percent in 2009, down from 5.7 percent in 2008 and 6.1 percent in 2007" (pp. 1-2).

The document outlines briefly the AFDB's proposed initiatives to address the crisis by providing funding to regional member countries: the Emergency Liquidity Facility (ELF), the Trade Financing Facility (TFF) and accelerated transfers to African Development Fund (ADF) countries.

See also:

AFDB, 2009, 'The African Development Bank Group Response to the Economic Impact of the Financial Crisis', African Development Bank Group, Tunis-Belvedère (March)
http://www.afdb.org/fileadmin/uploads/afdb/Documents/Policy-Documents/AfDB%20Response%20to%20the%20Crisis%20_%20web.pdf

This document discusses in greater detail the Emergency Liquidity Facility (ELF), the Trade Financing Facility (TFF) and accelerated transfers to African Development Fund (ADF) countries. It outlines eligibility, the terms and conditions, and the various phases.

Sub Saharan Africa

Massa, I. and Willem te Velde, D., 2008, 'The Global Financial Crisis: Will Successful African Countries Be Affected?', Overseas Development Institute, London
http://www.odi.org.uk/resources/projects/background-papers/2008/12/financial-crisis-african-countries-poverty-development.pdf

This paper looks at how Sub-Saharan Africa is affected by the financial crisis and focuses on the impact on eight countries that are considered to be have been successful in recent years: Ghana, Kenya, Mali, Mozambique, Rwanda, Senegal, Tanzania and Uganda.

Countries in Sub-Saharan Africa have been or are at risk of being affected by the financial crisis through the following channels:

Direct Financial Channels

- Portfolio inflows: there are currently 16 stock exchanges in Sub-Saharan Africa. Some, such as those in Ghana, Uganda, Kenya, Nigeria and Mauritius, have attracted a large share of portfolio inflows in recent years. There is now a risk that portfolio inflows in the region will be reduced. The countries most affected are South Africa, Nigeria and Kenya.
- Banking system: international banking activity in Sub-Saharan Africa is limited, which has insulated the region from much of the direct financial affects of the crisis. The region could still be affected, however, through foreign ownership of banks. Parent banks may withdraw funds from African subsidiaries to offset losses in home countries, which would result in regional banking turmoil. Countries that are most exposed, with high shares of foreign owned banks, are Mali, Tanzania, Rwanda, Uganda and Mozambique.
- Foreign direct investment (FDI): inflows have been high in the last few years and have largely been directed to services sectors such as telecommunication and commodity exports. The financial crisis has resulted in drops in FDI – and there are already reports of mining investments (e.g. in Zambia and South Africa) being reviewed or put on hold.

Indirect Real Channels

- Trade in goods and terms of trade: the financial crisis and the decline in global growth have led to reduced demand and prices for exports from Sub-Saharan Africa. Oil exporters have been most affected, as well as commodity exporters (e.g. Ghana and Zambia). Oil importers, however, such as Rwanda, Ghana and Kenya could benefit from lower prices.
- Services: improved services (e.g. financial, tourism and real estate services) have contributed tremendously to more than half of growth in Africa the last decade. Real estate and tourism, however, are now under pressure.
- Workers' remittances: remittance flows to Sub-Saharan Africa have grown significantly in recent years and have been a "powerful poverty reduction mechanism in the region". Such flows are expected to decline, however – the degree determined by the extent to which Europe and the US go into a deep recession. Countries most affected include Kenya, Lesotho, Sierra Leone, Cape Verde, Senegal, Togo, Guinea-Bissau, and Uganda – which all have a high dependency on remittances (more than 7% of GDP).
- Effects of China and India: China and India have emerged in recent years as important aid donors and investors Sub-Saharan Africa. How these two countries fare during this financial crisis could affect its involvement in the region.
- Official development assistance: ODA flows are difficult to predict; there are concerns, however, that recession in donor countries could lead to a reduction of aid flows to Sub-Saharan Africa. Tanzania, Rwanda and other highly aid dependent countries would be most affected.

While reserves in the region as a whole appear healthy, the report stresses that the situation varies significantly for middle-income, low-income and fragile countries. Countries that have built up large reserves (e.g. oil exporters and those with natural resources) may be better able to withstand the crisis. However, the sharp correction in oil and commodities prices will reduce their current account surpluses – and ability to withstand the crisis. Countries most vulnerable are ones with not only low reserves and external current account deficits, but also fiscal deficits and high external debts. This could limit "the ability of local governments to implement correcting measures to reduce the impact of the financial crisis on the economy. Indeed, governments that gained from the previous prices boom have enough reserves and fiscal surpluses to enable a series of contingent measures to foster economic growth through public spending and to protect the poorest segments of society by means of a series of safety nets funded by their savings and surpluses. On the other hand, governments with huge external debts and fiscal deficits are unable to cope with the needs of their people and, even worse, the tightened liquidity limits their ability to obtain cash in order to face their obligations" (p. 11).

The report provides more detailed country case studies of the eight countries noted, highlighting possible impacts and vulnerabilities. It finds that: "some countries are seriously at risk of being affected by the current global financial crisis either through real contagion or financial contagion. Ghana, Mali, Mozambique and Tanzania are more at risk than the other countries considered since they have a significant share of foreign owned banks and their economies strongly rely on foreign direct investment. Uganda has a high remittances dependency that makes it exposed to the current crisis; the turnover at its nascent stockmarket has already been more than halved. Kenya's indicators (remittances down by 40%, tourism by 30%, stock prices down by 40%) suggest it has already been affected in a major way. The policy space for responding to the impact of the financial turmoil varies across SSA countries. In particular, the effects might be stronger in Ghana as it has both a large current account and a large fiscal deficit, and the level of its reserves was below 3 months of imports of goods and services. In other countries this crisis is yet another set back. Kenya was already under political pressures and the current bad news will make the situation only more precarious" (see abstract and p. 17).

IMF, 2009, 'The Impact of the Global Financial Crisis on Sub-Saharan Africa', International Monetary Fund, African Department, Washington, DC
http://www.imf.org/external/pubs/ft/books/2009/afrglobfin/ssaglobalfin.pdf

This report provides an overview of the situation and outlook for Sub-Saharan Africa. It notes that in Africa, frontier and emerging markets (South Africa, Nigeria, Ghana and Kenya) were hit first due to their financial links with other regions in the world. They suffered from falling equity markets, capital flow reversals and pressures on exchange rates. Other countries in Sub-Saharan Africa have since also been affected by the global downturn that has lowered commodity prices, negatively affecting export earnings and the external current account, fiscal revenues, and household incomes. In January 2009, the IMF projected that growth in Sub-Saharan Africa will slow from just over 5% in 2008 to 3.25% in 2009 (over 3 percentage points less than forecast one year ago). Fiscal balances are expected to deteriorate as tax revenues (particularly those that are commodity-related) decline and pressures for social spending increase as well as current account deficits -- with oil and metal exporters being hit the hardest. Tourism and transportation services are also expected to suffer; and foreign inflows to the region (remittances, and possibly external aid) could slow down. The report notes that although Sub-Saharan Africa has thus far been insulated from a systemic banking crisis, it could face financial risks as the crisis continues.

The report highlights as a separate category within Sub-Saharan Africa 'fragile states whose political and social situation is inherently vulnerable'. Among this group are countries such as Burundi, Guinea-Bissau, and Liberia. They are dependent on very concessional financing that is also at risk of being affected.

The report outlines the various IMF initiatives to assist in the crisis. They include increased financial support to African countries; increased access to the Poverty Reduction and Growth Facility for a number of countries; continued technical assistance to strengthen public sector capacity in Africa; and the modification of the Exogenous Shocks Facility in September 2008 to provide assistance more quickly and in larger amounts to low-income countries dealing with exogenous shocks (Malawi was the first country to benefit from this facility, and since then Comoros, Senegal, and most recently Ethiopia have accessed the facility).

Osakwe, P. N., 2008, 'Sub-Saharan Africa and the Global Financial Crisis', Trade Negotiations Insights, vol. 7, no. 10
http://ictsd.net/i/news/tni/36937/

This brief article outlines the short-term and medium-term effects of the financial crisis on Sub-Saharan Africa. It states that in the short-run, the region will be largely insulated from crisis since most countries in the region are de-linked from the international financial system. The bigger economies, however, such as South Africa and Nigeria, have been and will continue to be affected as their stock markets are exposed to the international financial system.

In the medium term, the article states that the degree to which Sub-Saharan Africa will be impacted depends on the extent to which the crisis leads to a severe and prolonged recession in the US and Europe. This would have 'contagion' effects on African countries through likely corresponding declines in international trade; foreign direct investment; remittances; and possibly official development assistance: "such action will further reduce the fiscal space available to African countries to cushion the impact of the crisis. In the past, ODA flows have been pro-cyclical rather than counter-cyclical giving African policymakers good reason to worry".

Humphrey, J., 2009, 'Are Exporters in Africa Facing Reduced Availability of Trade Finance?', Institute of Development Studies, Brighton, UK

This study examines the state of trade finance in Sub-Saharan Africa during the global financial crisis, focusing on horticulture and garments. These are two sectors that have been "at the forefront of Africa's drive to increase exports of high-value agricultural products and manufactures" (p. 8). The study finds that in both sectors, most of the African exporters had not (at least up to February-March 2009) experienced significant cutbacks in trade finance, either from customers, the international banking system or domestic banks. Nonetheless, there are still other areas of concern:

- Exchange rate volatility: the use of differing currencies for contracts and inputs in the garment and flower industries has resulted in increased domestic costs relative to export revenues. As a result, firms have been laying off workers and have been holding back on new investments.
- Demand: customers have been ordering less and pushing for lower prices in the garment and flower sales.
- Distribution: while trade finance has not affected big local buyers, some smaller buyers have been finding it difficult to borrow the cash they need to buy supplies at the farm gate or from cooperatives. This has distributional and poverty consequences.

The study also discusses policy responses. In the short term, it notes that trade finance needs to be targeted to be effective, and attention must be paid to smaller firms. In the longer term, there are "further implications for development policy. Firms that have done well from linking into dynamic global value chains, such as producers of fresh vegetables for UK supermarkets, are particularly vulnerable to adverse global conditions. Export-oriented production has linked these firms to powerful customers. In the crisis, the powerful customers are able to transfer the risks and consequences of turbulence and unpredictable markets to their suppliers" (p. 12).

Holmqvist, G., 2009, 'Africa and the Global Recession', Nordic Africa Institute, Uppsala, Sweden

This brief document discusses the key transmission mechanisms through which Africa is connected to the global economy and outlines key figures related to such financial flows:

"Foreign Direct Investment: Amounts to some 15 billion USD (net inflow to SSA 2006). Time series data reveals it to be a highly volatile flow. It is unevenly distributed across the continent, with South Africa receiving more than a third. South Africa is also an important investor on the African continent. A sharp drop in FDIs has already been registered.

Official Development Assistance (ODA): Amounts to approximately 40 billion USD (net flow 2006). The ODA flow declined during the 1990s and has increased since 2000. The (undesirable) pro-cyclical nature of the ODA flow is debated. […] How much the recession will impact on aggregate ODA flows is a political guess work. Donors have so far stayed firm on their commitment to increase aid flows, and reconfirmed it once again at the Doha conference on financing for development in December 2008. However, the critical moment is not here yet; it will come as large donor countries have to go through fiscal adjustment to deal with the record deficits now building up.

Workers' remittances: African diasporas send back some 15 billion USD per year to Africa, hence the same amount as FDIs. Africa depends less on remittances than Latin America or Asia, but remittances have increased steadily. As a flow it appears to be less volatile. However it is likely to be affected if there is a drastic worsening of European (and South African) labor markets. Their importance varies considerably across the continent. Examples of countries with a high dependency on remittances (measured in percent of export earnings) are Lesotho (60%), Uganda (40%), Senegal Guinea-Bissau, Togo, Benin, Burkina Faso (15-25%).

Exports, imports and terms of trade: Exports amounts to approximately a third of Sub-Saharan GDP. On average Africa has benefitted from improved terms of trade over the last years. Oil and mineral exporters in particular have benefitted greatly from booming prices. Net importers of oil and food have been on the loosing side, and they constitute the majority of African countries. Prior to the full outbreak of the crisis IMF signaled out 18 countries of particular concern as they were the hardest hit by rising oil and food prices (Liberia, Guinea-Bissau, Eritrea, Togo, Comoros, Malawi, Guinea, Gambia, Sierra Leone, Madagascar, Burundi, Ethiopia, Burkina Faso, Central African Republic, Benin, Mali, Zimbabwe, Congo DemRep). Global recession is likely to mean worsening terms of trade for Africa on average, but maybe some reversal of the present trend when it comes to winners and losers on the continent. Oil and mineral exporters are already registering decreasing export revenues. Countries depending on tourism have also been subject to an early impact. Of concern to food importers is that food prices, even if decreasing, seem to stay at historically high levels despite the global recession.

The China/India factor: Chinese and Indian trade and investments have increased sharply in Africa. However, when forecasting the impact of global recession it should be kept in mind that that their share of the cake remains limited: It is estimated that 13% of African exports go to China and India (86% of it oil). Asian FDIs are estimated to make up less than 10% of FDI in Africa. So even if China and India were to be unaffected by a recession in the West, which nothing indicates, that factor would still not provide Africa with much of a cushion".

Barrell, R. Holland, D. and Willem te Velde, D., 2009, 'Fiscal Stimulus for sub Saharan Africa', Overseas Development Institute, London
http://www.odi.org.uk/resources/projects/reports/2009/04/fiscal-stimulus-africa-financial-crisis.pdf

This paper examines the effects of providing an aid financed fiscal stimulus in Sub-Saharan Africa. It discusses and models various policy scenarios and outlines the impact on growth in the world, in developed countries, and sub-Saharan Africa.

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