



The Global Economic Crisis: Impact on Sub-Saharan Africa and Global Policy Responses

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Summary

Many analysts were initially optimistic that the impact of the global financial crisis on Sub-Saharan Africa would be negligible. Many African economies are among the least exposed to the global financial system, and African banks hold few of the “toxic assets” that helped spark the crisis. However, as the financial crisis has deepened into a global recession, most agree that Africa will be strongly affected. The International Monetary Fund (IMF) estimates that average economic growth in Africa will slow from an average of over 6% per year over the past five years to 1.5% in 2009. As a region, Sub-Saharan Africa is not projected to undergo a recession in 2009. However, most African countries are thought to require high rates of economic growth in order to outpace population growth and make progress in alleviating poverty.

The mechanisms through which the crisis is affecting Africa include a contraction in global trade and a related collapse in primary commodity exports, on which many countries are dependent. Foreign investment and migrant worker remittances are also expected to decrease significantly, and some analysts predict cuts in foreign aid in the medium term if the crisis persists. Africa’s most powerful economies have proven particularly vulnerable to the downturn: South Africa is experiencing a recession for the first time in nearly two decades, and Nigeria and Angola have reported significant revenue shortfalls due to the fall in global oil prices. Among the many African countries seeking multilateral assistance are those seen as having relatively solid macroeconomic governance, such as Botswana, Ghana, Kenya, and Tanzania.

The 111th Congress has monitored the impact of the global economic crisis worldwide. The FY2009 Supplemental Appropriations legislation (P.L. 111-32) provided \$255.6 million for assistance to vulnerable populations in developing countries affected by the crisis. While an initial House report indicated several countries, including five in Africa, should receive priority consideration, the subsequent conference report did not specify recipients. More broadly, U.S. policy responses to the impact of the crisis overseas have focused on supporting the policies of multilateral organizations, including the IMF, the World Bank, and the African Development Bank (AfDB). These organizations have increased their lending commitments and created new facilities to help mitigate the impact of the global crisis on emerging market and developing countries worldwide. However, the U.S. government has not formulated bilateral efforts to mitigate the impact of the crisis in Africa specifically.

This report analyzes Africa’s vulnerability to the global crisis and potential implications for economic growth, poverty alleviation, fiscal balances, and political stability. The report describes channels through which the crisis is affecting Africa, and provides information on international efforts to address the impact, including U.S. policies and those of multilateral institutions in which the United States plays a major role. It will be updated as events warrant. For further background and analysis, see CRS Report RL34742, *The Global Financial Crisis: Analysis and Policy Implications*, coordinated by Dick K. Nanto.

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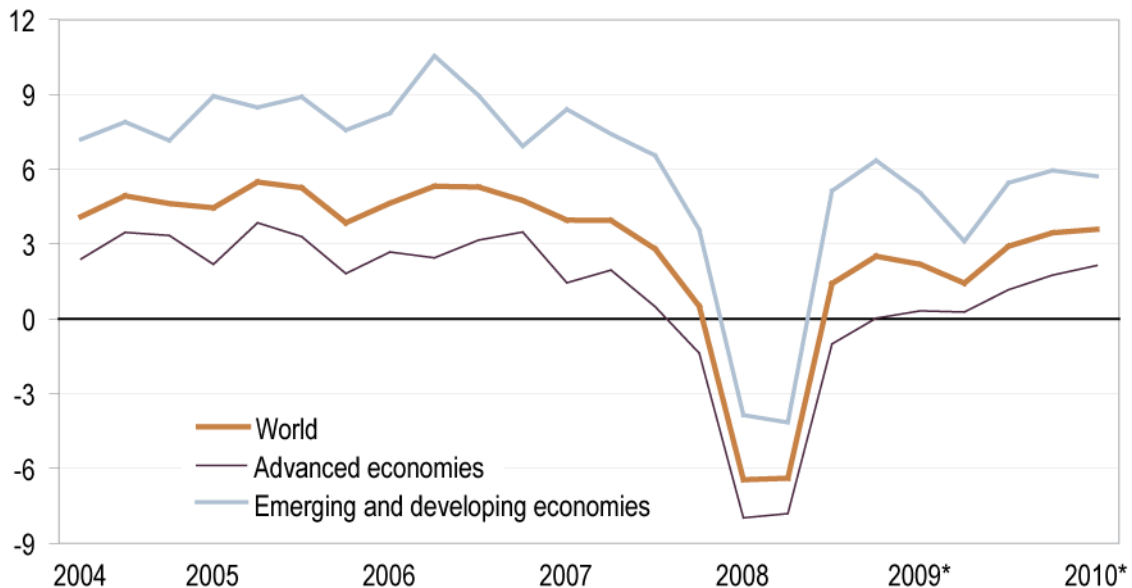
Overview

What began as a bursting of the U.S. housing market bubble and a rise in foreclosures has ballooned into a global financial and economic crisis, leading to the most severe global recession since the Great Depression of the 1930s. Starting in September 2008, credit flows froze, lender confidence dropped, and economies around the world dipped toward recession. Having begun in industrialized countries, this financial crisis quickly spread to emerging market and developing economies. Investors pulled capital from countries, even those with small levels of perceived risk, and caused values of stocks and domestic currencies to plunge. Slumping exports and commodity prices have added to developing countries' woes. The International Monetary Fund (IMF) estimates that the global economy will contract by 1.4% in 2009.¹

Developing economies may not have played a major role in the onset of the crisis, but they may have less resilient economic systems that can be highly affected by actions in global markets. Most industrialized countries have been able to finance their own rescue packages by borrowing domestically and in international capital markets, but many emerging market and developing economies have insufficient sources of capital and have turned to help from the IMF, the World Bank, and traditional donors such as the Group of Eight (G-8).

Figure 1. Global Gross Domestic Product (GDP) Growth

Quarter-over-quarter percentage change, annualized



Source: IMF World Economic Outlook Update, July 2009.

Note: Quarter-over-quarter changes in GDP differ from yearly figures.

* In all graphs, 2009 and 2010 figures reflect estimates and projections, respectively.

¹ IMF, *World Economic Outlook Update*, July 8, 2009.

Many analysts were initially optimistic that the impact of the global financial crisis on Sub-Saharan Africa (henceforth, “Africa”)² would be negligible. African economies are among the least exposed to the global financial system of any world region, and African banks hold few of the “toxic assets” that helped spark the crisis.³ However, as the financial crisis has deepened into a global economic recession, most now agree that African economies will be strongly affected, due to a contraction in global trade, including reduced demand for African commodity exports, tighter financing conditions overseas, and a drop in foreign direct investment and other capital flows. Additional revenue streams such as tourism and remittances from African workers abroad are also expected to fall, and foreign aid is predicted to decrease, particularly if the crisis persists.

The World Bank has warned that most African states are “highly exposed and vulnerable to the effects of the crisis.”⁴ The IMF estimates that average economic growth in Africa will slow from an average of over 6% per year over the past five years—a historic high—to 1.5% in 2009.⁵ The crisis is expected to dampen prospects for reducing African poverty, as at least 7% annual growth is generally considered necessary for outpacing population growth and making significant progress in alleviating the toll of hunger, unemployment, and disease.⁶ Anticipated negative growth in some countries, including in Africa’s largest economy by far, South Africa, may have further ripple effects for smaller neighboring economies who depend on regional powerhouses for trade, remittances, and employment. Unemployment—already high in all African countries—is expected to rise, with potential implications for political stability as well.

Limited and Faulty Data

Infrequent and flawed economic data collection in nearly all African countries has contributed to significant variation in estimates of the economic impact of the crisis. For example, the IMF estimate of 1.5% average growth in 2009 is significantly lower than the Organization for Economic Cooperation and Development (OECD) estimate of 2.8% growth, but higher than the 1% growth predicted by the World Bank and the 1.7% contraction predicted by the Economist Intelligence Unit.⁷ Challenges include a lack of data collection capacity on the part of national governments and the difficulties of collecting reliable information in war-torn and infrastructure-poor societies. Given these problems, some analysts rely on unusual indicators such as cell-phone and building material sales, rather than GDP, to probe the health of African economies.

² This report uses the terms Africa and Sub-Saharan Africa interchangeably, comprising the region as defined by the International Monetary Fund except where otherwise indicated.

³ Only one country in the region, South Africa, is considered by the IMF to be an “emerging market economy,” possessing a full range of financial institutions that are integrated with the global economy (such as subsidiaries of foreign-owned banks and insurance companies, asset management funds, pension funds, etc).

⁴ Africa Progress Panel, *An Agenda for Progress at a Time of Global Crisis: A Call for African Leadership*, June 10, 2009.

⁵ IMF, *Regional Economic Outlook: Sub-Saharan Africa*, April 2009.

⁶ African Development Bank (AfDB), *Impact of the Crisis on African Economies—Sustaining Growth and Poverty Reduction: African Perspectives and Recommendations to the G20*, March 21, 2009.

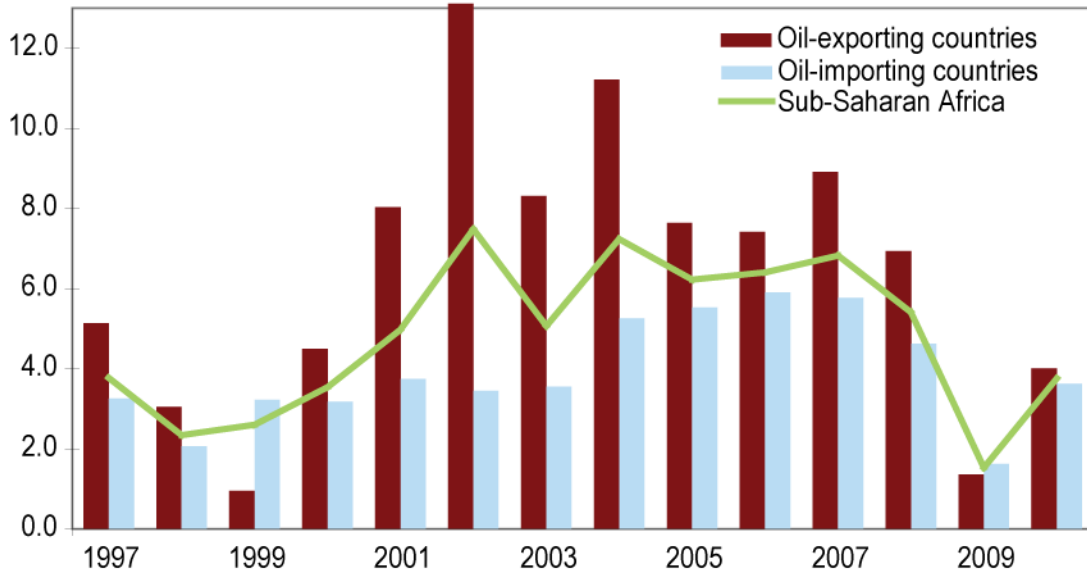
⁷ IMF, *Regional Economic Outlook: Sub-Saharan Africa*, April 2009; OECD/African Development Bank (AfDB), *African Economic Outlook*, May 2009; World Bank, *Global Development Finance: Charting a Global Recovery*, June 2009; Economist Intelligence Unit (EIU), *Global Outlook*, August 2009. Some of the differences in these estimates may be attributable to variances in country lists and in the timing of analysis.

Congressional Interest

The impact of the global economic crisis threatens to undermine long-term U.S. foreign policy goals in Africa, including regional stability, increased trade, the alleviation of poverty and hunger, and socioeconomic development. Congress has acted to address the impact of the economic crisis on poor countries, though legislators have not specifically targeted assistance at African countries. The FY2009 Spring Supplemental Appropriations for Overseas Contingency Operations (P.L. 111-32, Title XI, signed into law on June 24, 2009) includes \$255.6 million in Economic Support Funds (ESF) for “assistance for vulnerable populations in developing countries severely affected by the global financial crisis,” with certain eligibility criteria.⁸

Background: African Economies

Figure 2. Economic Growth in Africa
Percentage Change in GDP (Year-on-Year)



Source: IMF Sub-Saharan Africa Regional Economic Outlook Database, April 2009.

Note: Oil exporting countries are Angola, Cameroon, Chad, Republic of Congo, Equatorial Guinea, Gabon, and Nigeria. All other African countries are net oil importers.

Recent Trends

As a region, Africa experienced strong economic growth between 2000 and 2007, largely driven by high external demand for primary commodities, notably oil and minerals. This demand was

⁸ H.Rept. 111-151, June 11, 2009. The eligibility criteria outlined in the conference report are that countries must have a 2007 per capita Gross National Income of \$3,705 or less; have experienced a contraction in predicted growth rates of 2% or more since 2007; and demonstrate consistent improvement on the democracy and governance indicators as measured by the Millennium Challenge Corporation 2009 Country Scorebook.

bolstered by steady growth in industrialized countries and explosive growth in emerging economic powerhouses such as China and India. Demand for African commodities drove an investment surge in many countries, with foreign direct investment (FDI) stocks nearly doubling between 2003 and 2007.⁹ Net private capital flows—including FDI, remittances, portfolio flows, and other sources—are thought to have quadrupled between 2000 and 2008.¹⁰ These changes followed decades of post-independence economic stagnation and backsliding in development indicators.

While Africa's recent growth was driven by the global commodity boom, many other factors contributed as well. Both net oil exporters and oil importers experienced growth of over 5% between 2004 and 2008 (**Figure 2**), and investment extended beyond traditional foreign interests in extractive industries. The IMF reported in 2008 that Africa's "fast growers are a diverse group, including resource-rich and landlocked countries and resource-poor countries that have not had large gains in their terms of trade."¹¹ In many countries, productivity increased and domestic investment improved—in part due to remittances from African workers overseas. Domestic demand also grew, with particularly significant gains seen in mobile phone services. Recent growth has been aided by policy reforms, as many African governments have improved economic governance through better banking regulations, oversight mechanisms, and fiscal restraint, which brought down inflation, encouraged private investment, and instilled greater macroeconomic stability. Some believe international debt relief programs contributed to these trends in some countries. The rate of armed conflict has also declined since the start of the decade, making some countries and the region more attractive to foreign investment.

Development Challenges

Despite these positive trends, economic growth has failed to raise incomes sufficiently to trigger significant progress in meeting the Millennium Development Goals (MDGs) and other anti-poverty benchmarks.¹² Africa is the region where progress on the MDGs has been the slowest: according to the World Bank, the rate in Africa of those living on less than \$1.25 per day has hovered around 50% since 1981, while the number of poor people, in absolute terms, has nearly doubled, from 200 million in 1981 to 380 million in 2005.¹³ Economic development is constrained by numerous structural factors, including high ratios of foreign debt to national income; a lack of technological investment in agriculture; limited communications and transportation infrastructure; high population growth; and the burden of disease. Many countries

⁹ U.N. Conference on Trade and Development (UNCTAD) data, cited in World Economic Forum, *Africa Competitiveness Report*, June 10, 2009.

¹⁰ Oxford Analytica, "Africa: Economic growth is strong but constrained," May 15, 2008.

¹¹ IMF, *Regional Economic Outlook: Sub-Saharan Africa*, October 2008.

¹² The Millennium Development Goals are to achieve the following by 2015: (1) Reduce by half the level of extreme poverty and hunger; (2) Achieve universal primary education; (3) Eliminate gender disparity in primary and secondary education preferably by 2005, and at all levels by 2015; (4) Reduce by two thirds the mortality rate among children under five; (5) Reduce by three quarters the maternal mortality ratio; (6) Halt and begin to reverse the spread of HIV/AIDS, and the incidence of malaria and other major diseases; (7) Integrate the principles of sustainable development into country policies and programs, reverse the loss of environmental resources, reduce by half the proportion of people without sustainable access to safe drinking water and basic sanitation, and achieve significant improvement in lives of at least 100 million slum dwellers by 2020; and (8) Develop a global partnership for development. See United Nations, "Millennium Development Goals," at <http://www.un.org/millenniumgoals/>.

¹³ United Nations, *The Millennium Development Goals Report 2009*; United Nations, *Africa and the Millennium Development Goals: 2007 Update*; World Bank, "Overview: Understanding, Measuring, and Overcoming Poverty."

rely on external aid to balance their budgets and provide basic services. Political unrest and instability continue in many areas, and few states constitute transparent and representative democratic regimes.¹⁴

Many African economies remain reliant on primary commodity exports, which has rendered them vulnerable to external shocks; African exports are the least diversified of all developing regions.¹⁵ Natural resource extraction, while effective at creating growth and drawing foreign investment, is also associated with high levels of corruption, labor exploitation, environmental degradation, and internal displacement. During recent periods of high resource revenues, oil- and mineral-producing countries failed to use such revenues to further increase productivity, significantly diversify their economies, or improve social services. Simultaneously, windfall profits may have contributed to already endemic corruption in some countries.

Many analysts argue that despite recent economic reforms, growth and development are limited in many African countries by policy choices that restrict competitiveness. According to the World Bank, Africa is the world's second most trade-restrictive region (after South Asia), and African countries have among the world's fewest and weakest services trade liberalization commitments. The region, on average, also displays "the worst rankings in business environment, governance, logistics, and other trade facilitation indicators."¹⁶ Private sector activity in most countries is dominated by large multinational firms on the one hand, and small entrepreneurs operating mostly in the informal sector on the other; there are few small and medium enterprises. Labor productivity is the lowest, on average, of any world region.¹⁷ Due to low levels of regional integration, Africa has consistently had considerably lower rates of intraregional trade than other world regions.¹⁸ Service provision is severely limited in many countries, impacting individual household consumption as well as the economic feasibility of private firms. Nearly all African countries, even many oil producers, have experienced serious problems in ensuring sufficient electricity, meaning firms must rely on expensive generator-supplied power.

In addition, African economies continue to be affected by the lingering impact of the 2008 food crisis. In 2008, already rising global food prices spiked to record heights, partly due to high oil prices but also to other complex factors.¹⁹ Those most affected by the crisis were impoverished populations in developing countries, many of whom already suffer from chronic hunger.²⁰ The crisis strained household budgets and compromised individual resilience to further economic hardship. While African oil exporters benefited from higher oil prices, most oil importers ran fiscal deficits as governments subsidized food imports, fertilizer, and other agricultural inputs. The crisis fed high inflation and sparked food riots and political unrest in several countries. The

¹⁴ See, for example, Freedom House, *Freedom in Sub-Saharan Africa 2009*.

¹⁵ World Bank, *World Trade Indicators 2008*. Despite diversification efforts in many mid- and low-income African countries, South Africa remains the most diversified economy on the continent.

¹⁶ World Bank, *World Trade Indicators 2008*, p. 72. See also Alberto Portugal-Perez and John S. Wilson, "Trade Costs in Africa: Barriers and Opportunities for Reform," World Bank Development Research Group, September 2008; World Bank, *Doing Business Report 2009*; and World Economic Forum, *Africa Competitiveness Report*, June 10, 2009.

¹⁷ United Nations, *The Millennium Development Goals Report 2009*.

¹⁸ U.N. Conference on Trade and Development (UNCTAD), *Economic Development in Africa: Strengthening Regional Economic Integration for Africa's Development*, June 25, 2009.

¹⁹ See e.g. Food and Agriculture Organization (FAO), *The State of Food Insecurity in the World, 2008*.

²⁰ CRS Report R40127, *The Impact of Food Insecurity and Hunger on Global Health: Issues for Congress*, by Tiaji Salaam-Blyther and Charles E. Hanrahan.

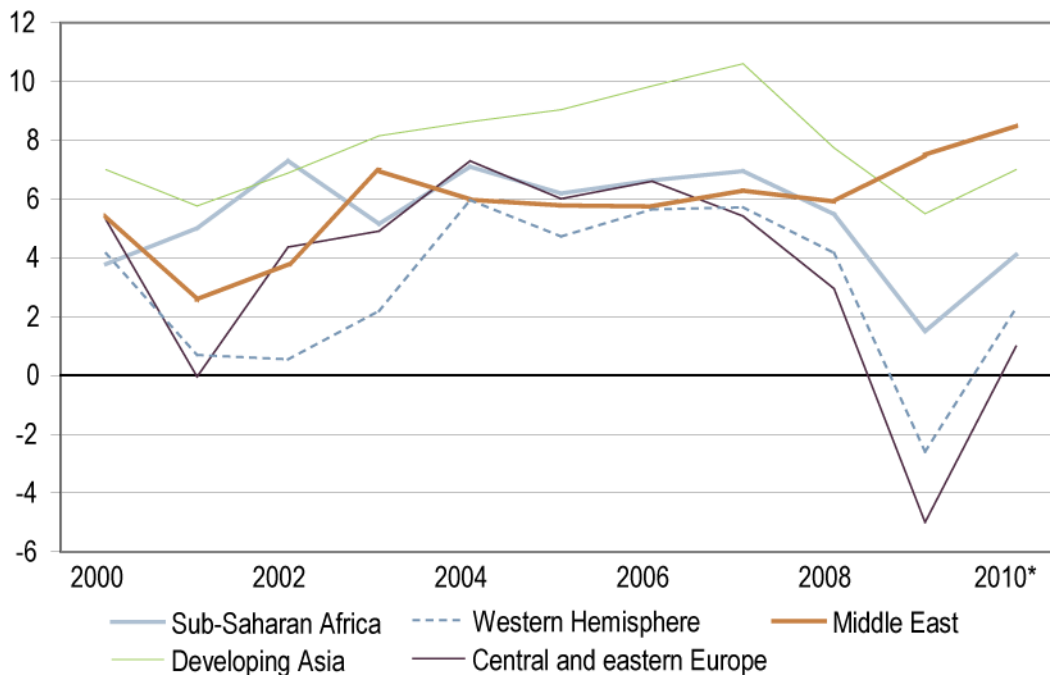
fiscal costs of African policy responses to the crisis doubled between 2007 and 2008, to an average of 1% of GDP, according to the IMF.²¹

Many also argue that the broader geopolitical environment imposes challenges to Africa's development. Some contend that neocolonial relationships continue to dominate Africa's trade ties, while African countries have a limited voice in international trade regulatory bodies. While oil and mineral exporters face low tariffs overseas, exporters of other commodities, such as cotton or sugar, face much higher export barriers.²²

How the Crisis Is Affecting Africa

The global recession is affecting Africa through a variety of mechanisms, or channels, including a decline in global trade, a drop in investment, falling remittances from overseas workers, and possible cuts in foreign aid. These channels are connected to Africa's "real" economy, rather than its financial sector; most African economies had little exposure to advanced economies' banking systems or to the "toxic assets" that set off the global financial crisis.

Figure 3. GDP Growth by Region
Annual Percentage Change



Source: IMF World Economic Outlook, April 2009.

²¹ IMF, *Regional Economic Outlook Sub-Saharan Africa*, April 2009.

²² World Bank, *World Trade Indicators 2008*.

International Trade

World trade is projected to shrink by 11% in 2009, its first decline since 1982 and reportedly the biggest drop since the mid-1940s.²³ Advanced economies are expected to be the hardest hit, with exports projected to drop by over 13%, but poorer nations are expected to see exports fall by over 6%.²⁴ Since the United States, the European Union, and China cumulatively count for nearly 70% of African trade, African exporters are suffering from the decrease in global demand. For example, total exports to the United States from all 41 countries eligible for trade benefits under the African Growth and Opportunity Act (AGOA) declined by 63% in the first half of 2009, compared to the same period of 2008.²⁵

While Africa accounts for less than 2% of global trade, many African economies depend on trade in commodity exports, whose prices on the world market have declined drastically due to the global crisis.²⁶ The price slump in oil and many mineral commodities, combined with decreased external demand, dealt a severe blow to the region: oil and other mineral fuels represented 68% of African exports to the world by value in 2008; ores, slag and ash about 14%; and precious stones about 4%.²⁷ African countries are thus exporting less on average, and at lower prices, than a year ago. Investor perceptions of risk have exacerbated the impact of falling commodity prices for resource-rich African countries that are also fragile or post-conflict states. Several other countries depend in part on international tourist arrivals (understood as trade in services), which declined worldwide by about 8% in the first four months of 2009 compared to 2008.²⁸ Overall, African countries' export exposure to advanced economies—the degree to which economic shifts in developed countries may impact African economies through decreased demand for African exports—has increased in recent years. According to the IMF, on average, a 1-percentage-point decline in world growth (trade-weighted) is associated with a roughly 0.5-percentage-point drop in GDP growth in Africa.²⁹

Global trade could drop even further if countries react to the economic crisis by enacting additional trade barriers. African economies face the further risk that the global recession will spark new attempts by developed countries to restrict imports and protect local producers. World Trade Organization Director-General Pascal Lamy has reportedly warned that despite trade's

²³ IMF, *World Economic Outlook*, April 2009; Todd Moss, Center for Global Development, *How the Economic Crisis is Hurting Africa—And What To Do About It*, May 2009; Moin Siddiqi, "How to Improve Africa's Trade Performance," *African Business*, July 1, 2009.

²⁴ IMF, *World Economic Outlook*, April 2009.

²⁵ Data available at <http://www.agoa.info>. The African Growth and Opportunity Act is a U.S. trade preference program, begun in 2000 (P.L. 106-200, as amended), that provides certain goods from Sub-Saharan Africa duty-free access to the U.S. market. AGOA extends preferential treatment to imports from eligible countries that are pursuing market reform measures. See CRS Report RL31772, *U.S. Trade and Investment Relationship with Sub-Saharan Africa: The African Growth and Opportunity Act*, by Vivian C. Jones, for further background.

²⁶ Statement of Florizelle B. Liser, Assistant U.S. Trade Representative for Africa, before the House hearing on "U.S.-Africa Trade Relations: Creating a Platform for Economic Growth," June 24, 2009.

²⁷ Trade statistics are based on CRS calculations using the Global Trade Atlas Navigator database and the U.S. International Trade Commission Trade Dataweb. Oil and mineral fuels account for about 80% of all U.S. imports from Sub-Saharan Africa, and 92% of all U.S. imports under the African Growth and Opportunity Act (AGOA).

²⁸ U.N. World Tourism Organization, "World Tourism in the Face of the Global Economic Crisis," May 12, 2009.

²⁹ IMF, *Regional Economic Outlook Sub-Saharan Africa*, April 2009; see also Paulo Drummond and Gustavo Ramirez, "Spillovers From the Rest of the World into Sub-Saharan African Countries," IMF Working Paper, 2009.

potential to serve as a tool for recovery, “the use of protectionist measures is on the rise.”³⁰ Some analysts fear that policies aimed at encouraging trade with Africa—such as AGOA, the European Union’s “Everything But Arms” program, or the Doha Development Round of the World Trade Organization—could be threatened by political pressures to become more isolationist.³¹ The tightening of international credit markets is also expected to render it more difficult for African countries to access trade finance.³² In prior financial crises, a drop in the availability of trade finance negatively impacted the operations of private firms in developing countries (and therefore these countries’ ability to rebound). However, it is unclear whether the current crisis will have a similar impact.³³

In terms of export performance in individual countries, the trade picture for Africa is not without its bright spots. Some countries are experiencing export growth despite the economic downturn, particularly those that have made recent significant investments in infrastructure and resource development.³⁴ For example, Burkina Faso’s export performance is expected to expand rapidly in 2009-2010 due to a recovery in the country’s cotton sector, combined with a surge in gold exports as four new mines begin full production. Djibouti, a major cargo transportation hub, is also expected to see rapid growth in export volumes as a new shipping terminal in Doraleh (about 4 miles south of Djibouti’s existing port) comes online. In Liberia, revitalization of mineral, timber, rubber, and palm oil production is forecasted to drive export growth, with increased exports of coffee and cocoa also contributing. Export growth in Malawi is expected to be boosted by the expansion of a uranium mine in Kayelekera.

U.S. Trade with Africa

The value of total U.S. trade with Africa increased by about 29% between 2007 and 2008. After at least three years of continuous growth, however, the value of Africa’s exports to the United States decreased in value by about 57% in the first six months of 2009 in comparison to the same period in 2008. U.S. exports to Africa decreased about 9% in value. The decline in U.S. imports from Africa largely reflects the decline in oil prices from late 2008 through early 2009, as oil and mineral fuels account for about 80% of all U.S. imports from Africa, and 92% of all U.S. imports under AGOA. Petroleum imports did not decrease in volume as dramatically as they did in value. However, decreases in U.S. and global consumption are likely to continue to have a negative effect on most exports from the region.

Trade with China

Because recent growth in Africa relied in part on commodity exports to China, Africa is particularly vulnerable to fluctuations in China’s economic growth. In 2007, China was the destination for some 13% of Africa’s exports and the source of roughly 10% of Africa’s imports.³⁵

³⁰ Quoted in Moin Siddiqi, “How to Improve Africa’s Trade Performance,” *African Business*, July 1, 2009.

³¹ E.g. Todd Moss, Center for Global Development, *How the Economic Crisis is Hurting Africa—And What To Do About It*, May 2009.

³² “Trade finance” refers to the role of banks, institutions, and private corporations in facilitating the movement of merchandise in global trade. See, e.g., Thomas Dorsey, “Trade Finance Stumbles,” *Finance and Development*, March 2009.

³³ John Humphrey, “Trade Financing: Is it a barrier to Africa’s exports?,” *Vox*, April 28, 2009.

³⁴ Examples drawn from country reports by the Economist Intelligence Unit (EIU).

³⁵ U.S. Department of Commerce, International Trade Administration, *U.S.-African Trade Profile*, July 2009.

These figures represent a long trend of increased Chinese trade and commercial ties with Africa, particularly with countries rich in natural resources. China's trade with Africa greatly increased in recent years, reportedly growing to \$74 billion in the first eight months of 2008, a 62% increase over the previous year.³⁶ Even with the impact of the crisis in the second half of 2008, total Sino-African trade for the year was reportedly \$106.8 billion, a significant increase from 2007.³⁷ This trade has spurred Chinese investment in large infrastructure projects in Africa, which in some cases are thought to have helped alleviate constraints on economic competitiveness.

News reports and private sector analyses suggest that China is reevaluating some resource extraction agreements, particularly in countries perceived as politically unstable, in light of the global slump, with some mining firms suspending production or withdrawing altogether.³⁸ At the same time, recent statistics on China's growth in the first months of 2009 have shown robust, if somewhat reduced, economic growth. Furthermore, China's domestic economic stimulus package reportedly relies heavily on infrastructure construction, which has kept demand steady for some primary inputs, such as oil, copper, tin, and lumber.³⁹ Indeed, while Chinese private-sector engagement with Africa has apparently decreased as a result of the crisis, some Chinese firms and the Chinese government have continued to negotiate economic and resource-acquisition agreements with African countries. Chinese diplomatic outreach to African governments has also continued.⁴⁰

³⁶ Oxford Analytica, "Africa: Positive Economic Outlook Belies Fragility," May 23, 2005, and "Africa: Growth to Suffer Despite Insulated Banks," October 15, 2008.

³⁷ Reuters, "Factbox—China's Growing Business in Africa," February 12, 2009.

³⁸ E.g. Lydia Polgreen, "As Chinese Investment in Africa Drops, Hope Sinks," *The New York Times*, March 25, 2009; Oxford Analytica, "China/Africa: Ties Should Weather Global Downturn," June 10, 2009.

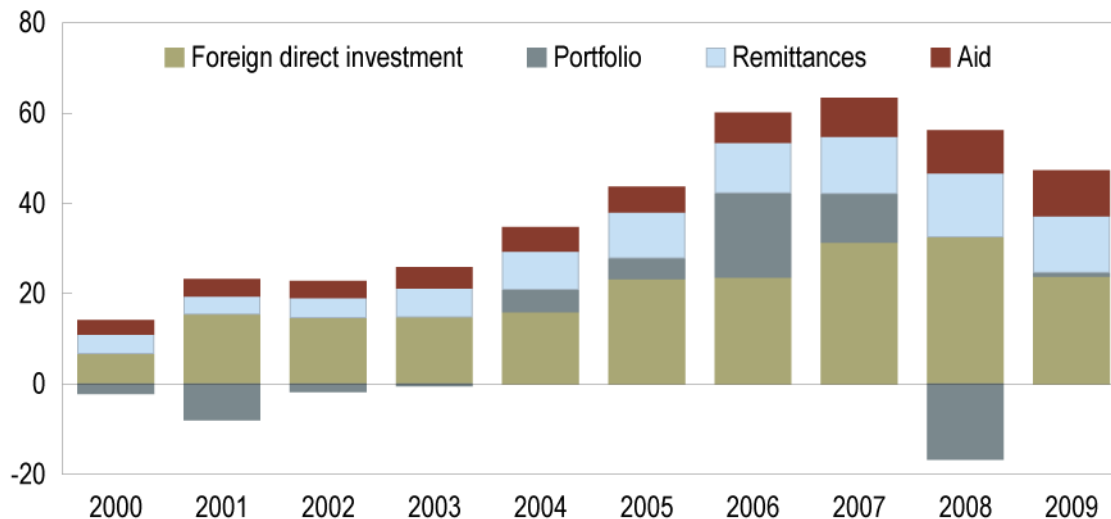
³⁹ Standard Bank, *Implications of the Financial Crisis on Sino-African Relations*, June 30, 2009.

⁴⁰ See CRS Report RL34620, *Comparing Global Influence: China's and U.S. Diplomacy, Foreign Aid, Trade, and Investment in the Developing World*, coordinated by Thomas Lum.

Capital Flows

Figure 4. Capital Inflows to Africa

Billions of U.S. dollars



Source: IMF Regional Economic Outlook: Sub-Saharan Africa, April 2009.

Capital flows—which include foreign direct investment (FDI), portfolio investment flows, worker remittances, private charity, and foreign aid—are thought to have helped fuel Africa’s recent economic growth.⁴¹ Between 2000 and 2007, private capital flows were the most important source of external finance for the region, growing from an estimated \$8.9 billion in 2000 to \$54.8 billion in 2007—or 6.5 times global foreign aid of \$8.5 billion. FDI peaked in 2008 at \$32.6 billion, and accounted for between 2.5% and 5% of annual GDP between 2001 and 2007.⁴² At the same time, flows of FDI and portfolio investment are clustered among Africa’s oil-exporting economies and South Africa (Figure 5), and may have little impact in many African countries.

The contraction of capital flows to Africa has been sharp. The IMF estimates that FDI in Africa will drop by roughly 26.7% in 2009, compared to 2008. Between the second quarter of 2008 and year’s end, Africa saw the sharpest contraction in cross-border lending of all emerging regions—over 50%—compared with less than 20% for emerging market countries in other regions.⁴³ Portfolio investment flows were initially the most impacted by the crisis, reversing from inflows of \$18.7 billion in 2006 to outflows of \$16.7 billion in 2008 (Figure 4). These outflows have hit Africa’s “frontier economies” the hardest as foreign investors fled the region’s stock markets for safer, more liquid investments at home.⁴⁴ However, limited available research suggests that while

⁴¹ **Foreign direct investment** reflects direct investments in productive assets, such as factories, mines, and land, by a company incorporated in a foreign country. It does not include foreign investment in stock markets. **Portfolio investment** is a more passive form of investment that includes holding equity securities and debt securities in the form of bonds and notes, money market instruments, and financial derivatives such as options. See also the *International Monetary Fund Balance of Payments Manual*, available at <http://www.imf.org/external/pubs/ft/bopman/bopman.pdf>.

⁴² IMF Sub-Saharan Africa Economic Outlook database, April 2009.

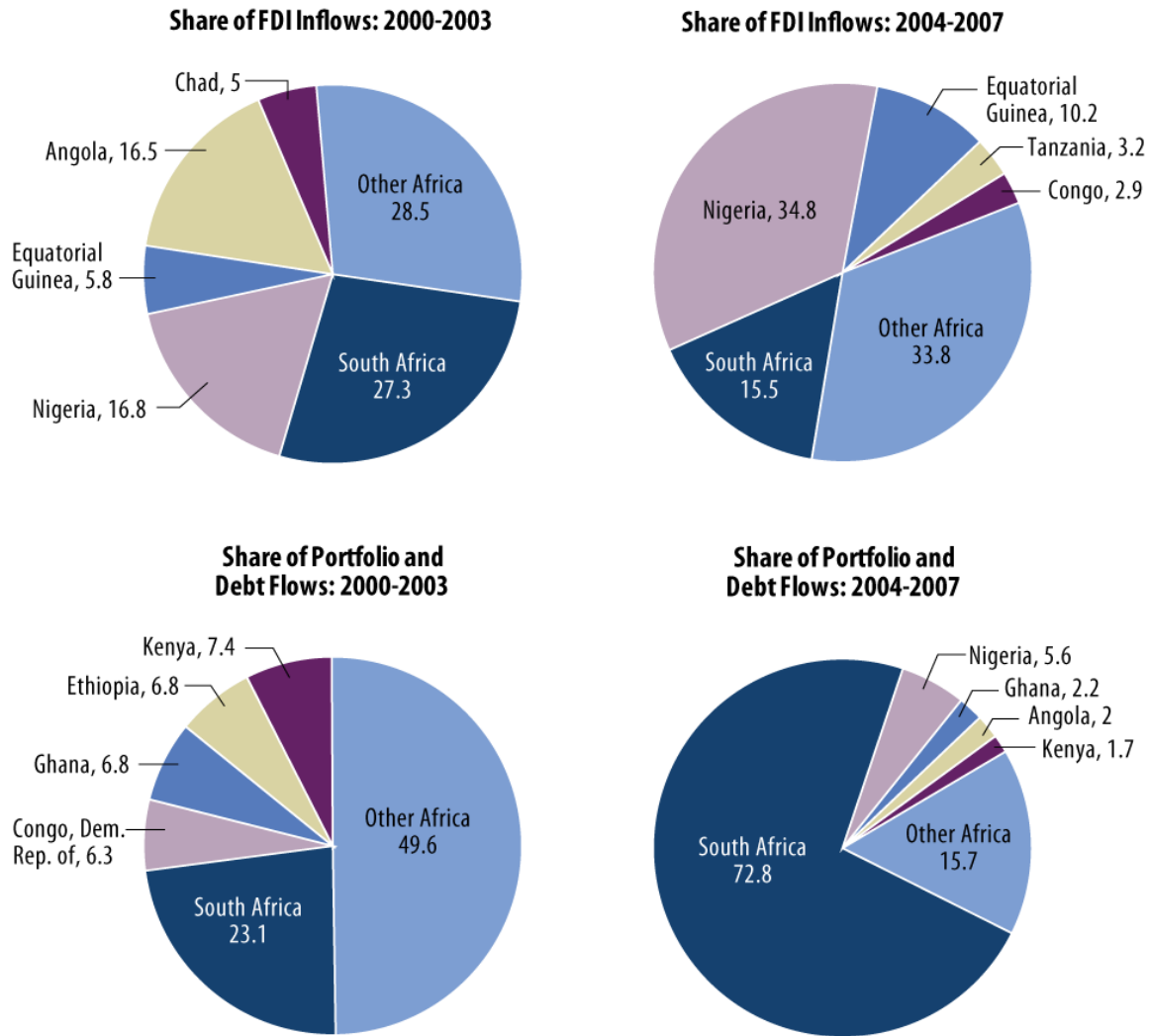
⁴³ Razia Khan, “Africa: Financing the Future,” *Standard Chartered Global Focus*, May 14, 2009.

⁴⁴ The term “frontier economies” refers to economies that are smaller and less developed than emerging markets, but which investors believe have significant growth potential. In Africa, the IMF considers the following countries to (continued...)

portfolio investment declines will have significant impacts on the financial sectors of affected countries, the impact on regional growth is expected to be minimal.⁴⁵ FDI remains the largest share of inward capital flows for the region as a whole, and is expected to be a key driver of future growth.

Figure 5. Top Recipients of Private Capital Flows in Africa

Percentage of total



Source: International Monetary Fund.

(...continued)

constitute frontier economies: Botswana, Cape Verde, Ghana, Kenya, Mauritius, Mozambique, Namibia, Nigeria, Seychelles, Tanzania, Uganda, and Zambia. There are some signs that investor interest in African frontier economies has rebounded since April 2009; see Reuters, "Africa Attracts \$1 Billion in Fund Flows This Year," August 3, 2009.

⁴⁵ José Brambila Macias and Isabella Massa, "The Global Financial Crisis and Sub-Saharan Africa: The effects of slowing private capital inflows on growth," Overseas Development Institute Working Paper 304, June 2009.

Migrant Remittances

Of all forms of international capital flows, remittances—or monies sent home by foreign workers overseas—are thought to be the most stable, reacting least to international politics or events.⁴⁶ While Africa receives the smallest amount of remittances of any region, their impact is thought to be relatively large compared to the size of African economies and the fact that Africa's extractive industries often provide little economic trickle-down into the local economy. Recorded remittances to Africa totaled \$18.59 billion in 2007; the actual amount is likely higher, however, since the region receives a large share through informal transfers and unofficial mechanisms and networks.⁴⁷ Within the region, remittances are thought to account for 3.7% of GDP on average, although there is significant variation among countries. Remittances in Lesotho, for example, were reported to be 29% of GDP in 2007, according to the World Bank. By total recorded flows, Nigeria and Kenya receive the highest value of remittances.

Global remittance levels are, however, expected to fall 5-8% in 2009, from an estimated \$305 billion in 2008, according to the World Bank. In Africa, remittance levels are projected to fall by 4.4% in 2009; while significant, this is a slightly smaller drop in percentage terms than the worldwide average for low- and middle-income countries.⁴⁸ Remittance levels could fall further if continuing economic troubles cause destination countries to tighten immigration restrictions. The long-term implications are difficult to assess, as they depend on complex factors such as the share of unskilled jobs in destination countries and the relative value of local currencies compared to currencies in which remittances are earned.⁴⁹

Foreign Aid

While only a small handful of donors to date—including Italy, France, and Iceland—have reduced bilateral foreign assistance due to the crisis, the global flow of foreign aid could suffer in the medium term if the global downturn continues.⁵⁰ A more significant decline in aid flows, if it occurs, is expected to be delayed due to the long-term planning process in donor countries. Most observers believe that while most aid levels will not be impacted by the crisis in 2009 and 2010, they may drop in 2011 and 2012 as developed countries experience continued fiscal strains and political pressures to balance budgets. Nonetheless, African governments have requested donors to increase aid flows in order to help offset the impact of the crisis on their domestic economies.⁵¹ Analysts continue to debate whether foreign aid has helped or hindered Africa's socioeconomic development in the long run.⁵²

⁴⁶ E.g. Dilip Ratha, "Workers Remittances: An Important Source of Development Finance," *Global Development Finance 2003: Striving for Stability in Development Finance*, World Bank, 2003.

⁴⁷ World Bank "Migration and Remittances" data.

⁴⁸ Dilip Ratha and Sanket Mohapatra, *World Bank Revised Outlook for Remittance Flows 2009-2011*, March 23, 2009.

⁴⁹ See e.g. EIU, "Going With the Flow," July 1, 2009 and "Africa Economy: Remittances Flows Ebb," July 23, 2009.

⁵⁰ In the case of France, reductions in the total amount of bilateral aid are partly due to the fact that aid commitments are tied in many cases to France's GDP; as GDP has been revised downward due to the crisis, so have aid flows.

⁵¹ AfDB/Committee of African Finance Ministers and Central Bank Governors Established to Monitor the Crisis, *Impact of the Crisis on African Economies—Sustaining Growth and Poverty Reduction: African Perspectives and Recommendations to the G20*, March 21, 2009.

⁵² See, among many, ONE, *Guiding Principles for Aid Reform in The United States*, available at <http://www.one.org/c/us/policybrief/765/>; Jeffrey Sachs, *The End of Poverty: Economic Possibilities for Our Time* (Penguin: 2006); William Easterly, *The White Man's Burden: Why the West's Efforts to Aid the Rest Have Done So Much Ill and So Little Good* (continued...)

Many African economies are vulnerable to a downturn in foreign aid flows, particularly those that are not natural resource exporters, and many rely on donors for budget support.⁵³ Compared to other regions, Africa receives the highest total amount of overseas development assistance, including international debt relief, according to the Organization for Economic Cooperation and Development (OECD).⁵⁴ In 2006-2007, Africa received the equivalent of nearly \$27.19 billion in bilateral overseas development assistance as defined by the OECD, far greater than the next largest recipient, the Middle East and North Africa, which received \$14.03 billion.⁵⁵

Prior Aid Commitments

During the 2005 Group of Eight (G-8) Summit in Gleneagles, Scotland, members pledged to roughly double annual aid to Africa by 2010.⁵⁶ Some countries—such as the United States—committed to a dollar-figure increase, while European countries committed to raising the percentage of national income spent on aid to Africa. According to the organization ONE, which monitors aid commitments and disbursements to Africa, the overall result of the 2005 G-8 commitments—given subsequent revisions and changes to GDP in individual countries—is the equivalent of increasing overseas development aid to Africa by \$21.48 billion per year (in 2008 dollars)—on top of what was already being spent in 2005—by 2010. The commitment by the United States was to raise aid to Africa to a total of \$8.8 billion per year.⁵⁷

Most observers believe G-8 members will fall short in their commitments to increase aid to Africa. According to the OECD, Development Assistance Committee (DAC) countries will need to provide an additional \$18 billion in aid to meet Gleneagles' 2010 targets.⁵⁸ Using an analysis of aid in the pipeline to be disbursed by 2010, ONE estimates that G-8 members will fall short in their commitments by a total of \$3.59 billion. This may be attributed mainly to shortfalls by France, Italy, and Germany, while other G-8 members, including the United States, are believed to be on track to meet their commitments.⁵⁹ Additionally, reductions in projected national income in European donor countries have negatively affected the real value of targeted commitments.

(...continued)

(Penguin: 2006); and Oxfam, *Smart Development: Why U.S. Foreign Aid Demands Major Reform*, February 2008. See also CRS Report RL32489, *Africa: Development Issues and Policy Options*, by Raymond W. Copson.

⁵³ IMF, *Regional Economic Outlook: Sub-Saharan Africa*, October 2008. The IMF notes at the same time that “fears that large increases in aid may also undermine exports are ‘difficult to prove, but difficult to dismiss’” (p. 3).

⁵⁴ Overseas development aid may include debt relief, budgetary support, and funding for specific types of development projects, among others. If debt relief is not counted, Africa's aid-dependency compared to other regions has varied in recent years.

⁵⁵ OECD Factbook 2009: Economic, Environmental and Social Statistics.

⁵⁶ G-8 members made this commitment on behalf of members of the Development Assistance Committee (DAC), a sub-organization of the Organization for Economic Co-operation and Development (OECD) responsible for development issues and development policies. Russia did not commit to raising aid to Africa, causing some monitors to refer to the Gleneagles commitments as made by the G-7.

⁵⁷ ONE, *The Data Report 2009: Monitoring the G8 Promise to Africa*, May 19, 2009.

⁵⁸ OECD, *2009 DAC Report on Aid Predictability*.

⁵⁹ ONE, *The Data Report 2009: Monitoring the G8 Promise to Africa*, May 19, 2009.

Implications of the Crisis in Africa

The IMF expects Africa to experience average economic growth of only 1.5% in 2009, followed by a projected recovery to 3.8% growth in 2010. While some observers argue that merely sustaining positive average growth (as opposed to a recession) means the impact of the crisis on Africa will be relatively minor, others contend that Africa's developing economies require high levels of growth to outpace demographic trends and translate into significant poverty alleviation. Even if a rebound occurs as hoped, 2010 growth is expected to be lower than its pre-crisis level. African Development Bank President Donald Kaberuka has expressed concern that international credit shortages and investors' risk aversion may cause African countries to recover more slowly from the crisis than those of other regions.⁶⁰

Economic growth in Africa began to decrease in the second half of 2008, with average growth falling from nearly 7% in 2007 to just under 5.5% in 2008, according to the IMF. African countries with relatively developed financial markets—such as South Africa and Nigeria—were the first to feel the effects of the crisis. The impact was also felt faster and more strongly in oil producers and exporters of other primary commodities, as the price of oil and many minerals collapsed on the world market while external financing for extraction-related investment dried up.

Sub-Regional Variations

Regional averages of economic growth are heavily weighted toward Africa's largest economies, and do not necessarily reflect the expected impact of the crisis on any given country. Because South Africa, Nigeria, and Angola represent over 60% of Africa's combined gross domestic product (GDP), regional aggregated statistics disproportionately reflect the impact of the crisis on these countries.⁶¹ Nigeria and Angola are expected to be strongly negatively impacted because much of their economies depend on oil exports, while South Africa, by far Africa's largest economy, is already experiencing a recession, its first in 17 years.

Middle-income countries (a relatively small category in Africa; see Note, **Figure 6**) and oil exporters are expected to experience the strongest negative impact from the global crisis; both categories are expected, on average, to experience negative per capita GDP growth. Even well-governed countries that rely on commodity exports—such as Botswana—risk experiencing very low growth or possibly recessions in 2009.⁶² On the other hand, some low-income countries that do not rely on oil or mineral exports—such as Ethiopia, Rwanda, and Uganda—are projected to experience relatively strong economic growth in 2009, albeit at lower levels than before the crisis. Certain low-income countries, such as Ghana, may even benefit from positive terms-of-trade movements, as prices of gold and cocoa (major exports) have risen while the prices of food and

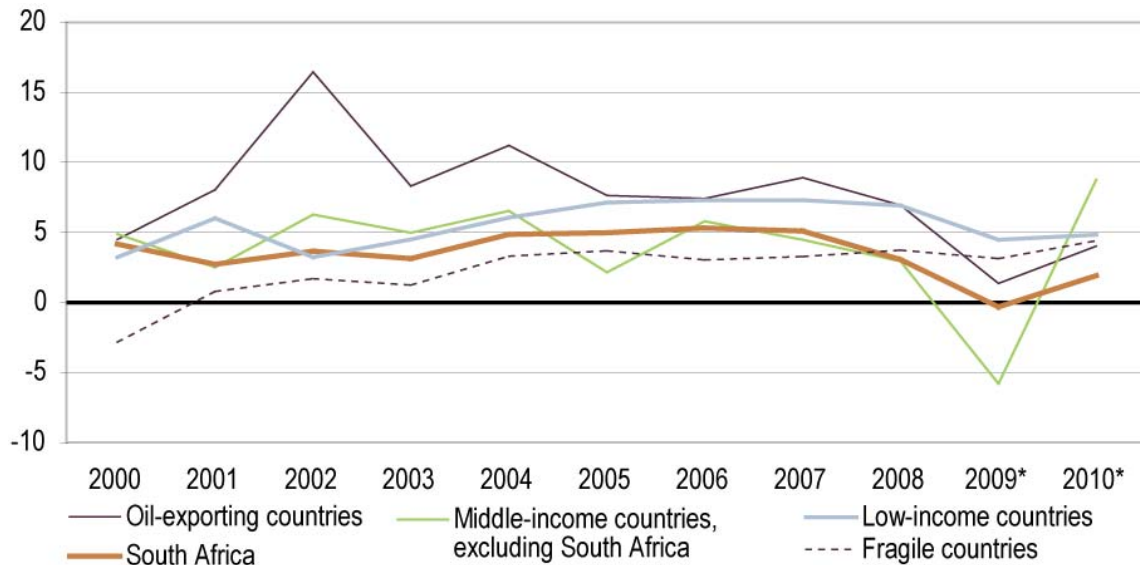
⁶⁰ AFP, "Africa to Lag Recovery From Crisis: African Development Bank," April 26, 2009.

⁶¹ CRS calculation based on IMF World Economic Outlook data, April 2009.

⁶² Considered to be one of Africa's most stable and best-governed economies, Botswana received a record \$1.5 billion loan from the African Development Bank (AfDB) in June 2009, designed to cover a budget gap estimated at 13.5% of GDP due to the collapse in world diamond prices. Diamonds are thought to account for roughly two-thirds of Botswana's total exports and 28% of GDP. It was the first time in 17 years that Botswana had applied for an AfDB loan; it has previously served as a contributor to the AfDB's concessional loan facility, the African Development Fund. AfDB, "AfDB Approves US\$1.5 Billion Budget Support for Botswana to Help Country Cope with the Financial Crisis," June 2, 2009; U.S. State Department, "Background Note: Botswana," August 2009.

fuel imports have fallen.⁶³ Fragile and post-conflict states, particularly those that rely on primary commodity exports, will be negatively affected by the crisis, but many are also expected to rebound in 2010 if peace and stability gains are consolidated. Idiosyncratic factors unrelated to the global crisis are further expected to exert strong influence in many African countries, including rainfall, declining oil production in some Gulf of Guinea countries, labor strikes, and the impact of political instability.

Figure 6. GDP Growth
Percentage Change Year-on-Year



Source: IMF Regional Economic Outlook Database, April 2009.

Notes: Country classifications follow IMF categories. **Oil Exporting Countries:** Angola, Cameroon, Chad, Republic of Congo, Equatorial Guinea, Gabon, and Nigeria; **Middle-Income Countries:** Botswana, Cape Verde, Lesotho, Mauritius, Namibia, Seychelles, South Africa, Swaziland; **Low-Income Countries:** Benin, Burkina Faso, Ethiopia, Ghana, Kenya, Madagascar, Malawi, Mali, Mozambique, Niger, Rwanda, Senegal, Tanzania, Uganda, Zambia; **Fragile Countries:** Burundi, Central African Republic, Comoros, Democratic Republic of Congo, Côte d'Ivoire, Eritrea, the Gambia, Guinea, Guinea-Bissau, Liberia, São Tomé and Príncipe, Sierra Leone, and Togo. [Growth figures for Zimbabwe and Somalia are not included in most IMF metrics.]

Fiscal and Trade Balances

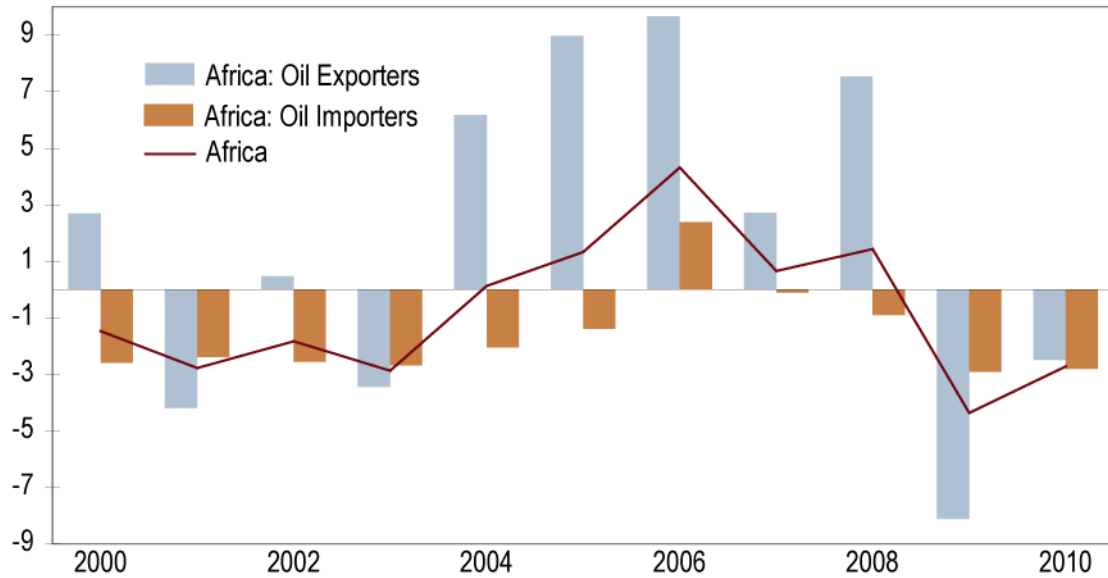
The economic crisis is already having a deep impact on fiscal and trade balances throughout the region (**Figure 7** and **Figure 8**). In recent years, debt forgiveness and improved fiscal discipline contributed to greater economic stability: between 2004 and 2008, the region's governments maintained a budget surplus on average. In 2006, the surplus in African oil exporters approached 9% on average. Fiscal positions have already turned negative due to the crisis, and the IMF forecasts deficits of 4.37% of GDP in 2009 and 2.72% of GDP in 2010. Current account positions—the difference between a nation's total exports of goods, services, and transfers, and its total imports of them—are also expected to decline, from a surplus of 1.22% of GDP in 2008 to a

⁶³ Todd Moss, Center for Global Development, *How the Economic Crisis is Hurting Africa—And What To Do About It*, May 2009.

deficit of 6.23% of GDP in 2009. Weakened commodity prices are exacerbating these effects in oil-producing states.

Figure 7. Fiscal Balances

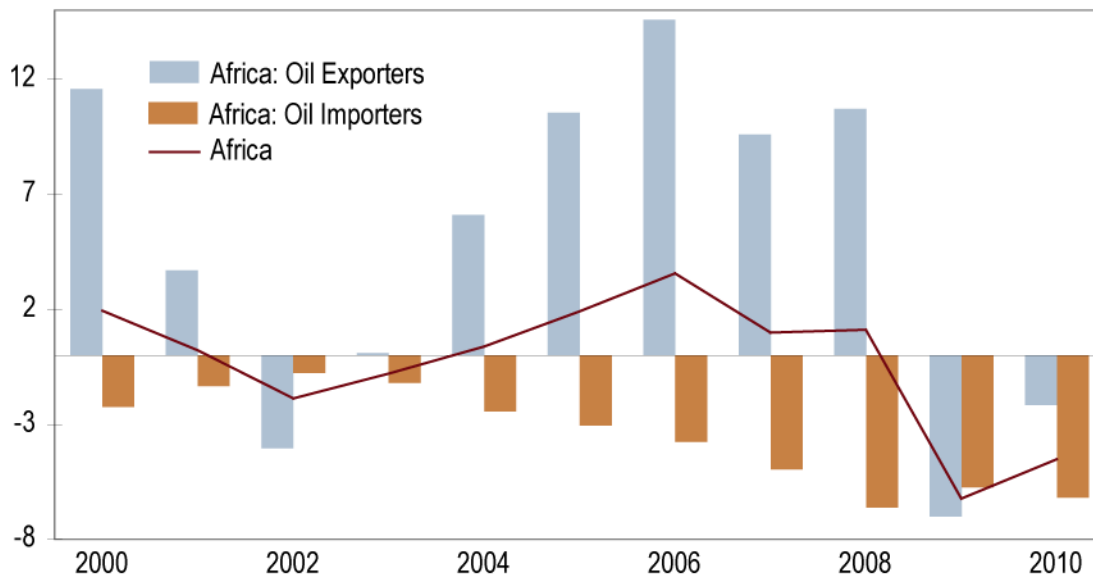
Percent of GDP



Source: International Monetary Fund Regional Economic Outlook database, April 2009.

Figure 8. Current Account Balances

Percent of GDP



Source: International Monetary Fund Regional Economic Outlook database, April 2009.

Fiscal deficits reflect declining government revenues due to decreases in the collection of taxes and royalties on natural resource extraction, customs and tariffs on trade, and taxes and fees on tourist activity and other consumption. Foreign exchange reserves are reportedly low in many African countries, which could jeopardize government capacity to import basic necessities such as food and medical supplies. While these effects will vary on a country-by-country basis, many countries are expected to have difficulty financing their deficits.⁶⁴ Several African governments had planned to raise long-term financing through the issuance of sovereign bonds, as Gabon successfully did in late 2007. Because of the impact of the crisis on global liquidity, these plans have reportedly either been unsuccessful (South Africa), canceled (Ghana), or delayed (Kenya, Nigeria, Tanzania, and Uganda).⁶⁵

Government revenue losses are likely to coincide with pressure on governments to increase domestic expenditures, as local populations see a need to expand social safety nets and subsidize food and fuel. Even with international assistance, government capacity to enact fiscal policies to mitigate the impact of the crisis is expected to be restrained. Combined with the difficulty of raising financing and abating investor risk aversion, budgetary pressures resulting from the crisis have reportedly caused some major infrastructure projects, including government-funded projects and public-private partnerships, to come under strain. In resource-dependent countries, fiscal stimulus measures may not, in any case, be able to directly replace lost external demand, while unemployed individuals formerly employed in extraction may not be able to readily switch to new activities.⁶⁶

Poverty Reduction

The crisis is expected to set back or reverse efforts to alleviate poverty in Africa, the world's poorest region. The number of Africans living in poverty is thought to have increased by 16 million between mid-2008 and mid-2009; multilateral organizations project that the economic crisis could increase poverty worldwide by at least 45 million people.⁶⁷ The impact in Africa may be further compounded by the effects of the 2008 food crisis, which made many African families more vulnerable to sudden economic shocks, especially as domestic prices for fuel and food remain relatively high in most countries.⁶⁸ Currently insufficient social safety nets are expected to be further strained by a projected reduction in budget allocations for public services as government revenues drop. Many African households teeter just above the international poverty line, and a small impact on average household income could translate into a large jump in poverty

⁶⁴ Reuters, "Factbox—Five Risks to Watch in Africa," August 11, 2009.

⁶⁵ AfDB/Committee of African Finance Ministers and Central Bank Governors Established to Monitor the Crisis, *Impact of the Crisis on African Economies—Sustaining Growth and Poverty Reduction: African Perspectives and Recommendations to the G20*, March 21, 2009.

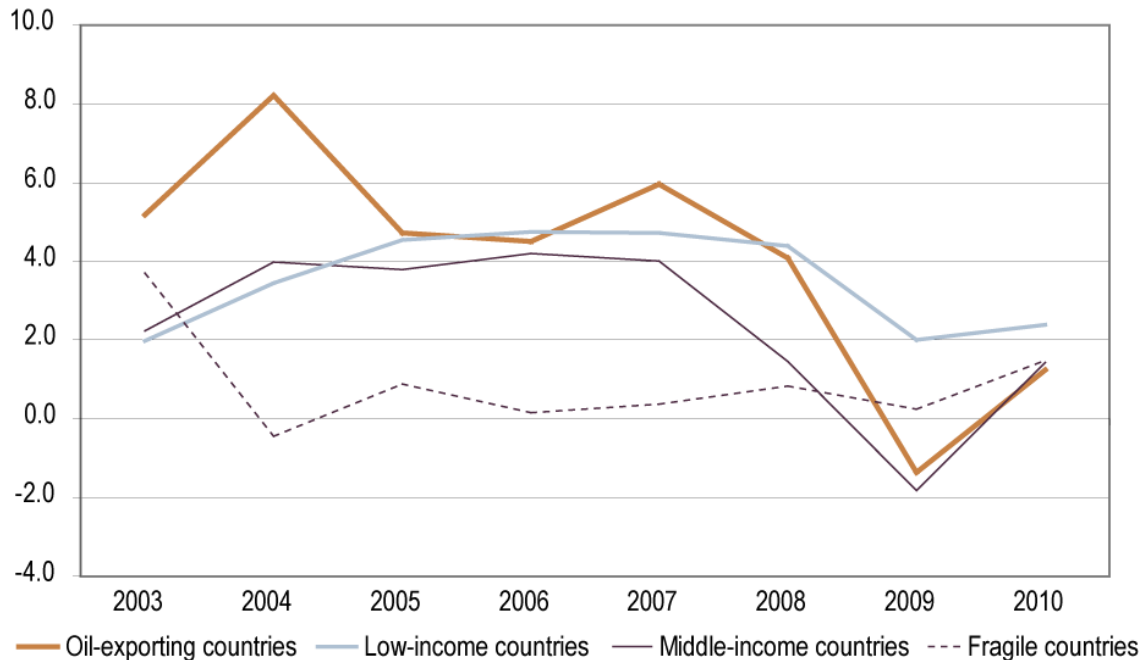
⁶⁶ Andrew Berg et al, "Fiscal Policy in Sub-Saharan Africa in Response to the Impact of the Global Crisis" (IMF Staff Position Note), May 14, 2009.

⁶⁷ For the purpose of global aggregation and comparison, the World Bank measures global poverty according to reference lines set at \$1.25 and \$2 per day (2005 Purchasing Power Parity terms). World Bank, "Overview: Understanding, Measuring, and Overcoming Poverty," online at <http://go.worldbank.org/RQBDCTUXW0>; World Bank/International Bank for Reconstruction and Development, *Swimming Against the Tide: How developing countries are coping with the global crisis*, March 2009; Africa Progress Panel, *An Agenda for Progress at a Time of Global Crisis: A Call for African Leadership*, June 10, 2009; Inter-Press Service (IPS), "Continent 'Not Badly Hit' Despite 16 Million More Poor," June 11, 2009.

⁶⁸ In some countries, depreciating exchange rates are putting additional upward pressures on prices, including food imports. IMF, *Regional Economic Outlook Sub-Saharan Africa*, April 2009.

as measured by international standards. Indeed, while overall GDP growth is expected to remain positive, per capita GDP is expected to contract in many African countries (**Figure 9**). Some predict that the human costs of the economic crisis will be dire: for example, one World Bank analysis estimates that the crisis will directly cause 30,000-50,000 excess infant deaths in Africa, with most of these additional deaths likely to be poorer children, and overwhelmingly female.⁶⁹

Figure 9. African GDP Per Capita
Percentage Change Year-on-Year



Source: IMF Regional Economic Outlook database, April 2009.

Food Security

The impact of the crisis is expected to compound existing challenges for African food security. The United Nations estimates that the proportion of undernourished people in Africa’s population rose to 29% in 2008, compared to 28% in 2004-2006, and that it may rise further in 2009; progress in eradicating hunger had already stalled or reversed in 2008 due to the global food crisis.⁷⁰ While inflation declined throughout Africa in the second half of 2008 with the slump in oil and food prices on the world market, global food prices have remained higher than they have been in a decade, nearly double historical levels.⁷¹ Moreover, Africa’s insulated markets and factors such as poor transportation infrastructure have limited the pass-through of lower global prices to domestic markets. According to the Food and Agriculture Organization (FAO), food

⁶⁹ Jed Friedman and Norbert Schady, World Bank, *How Many More Infants Are Likely to Die in Africa as a Result of the Global Financial Crisis?* August 2009.

⁷⁰ United Nations, *The Millennium Development Goals Report 2009*.

⁷¹ IMF, *Regional Economic Outlook: Sub-Saharan Africa*, April 2009; Reuters, “World Food Prices Stabilize, No Drop in Sight—WFP” August 7, 2009.

crises persist in at least 20 African countries.⁷² While high food prices may serve as an incentive for some crop producers, most analysts believe that they have a net negative effect on Africa's poor. Many African countries have not announced intentions to reverse food crisis-oriented policies, meaning that these policies will continue to reduce government revenues.⁷³

Political Stability

Many believe fallout from the global economic crisis could have implications for Africa's political stability. The Economist Intelligence Unit recently contended that "as people lose confidence in the ability of government to restore [economic] stability, protests look increasingly likely.... There is growing concern about a possible global pandemic of unrest."⁷⁴ This may be particularly pertinent for post-conflict or "fragile" states, where institutions are especially weak, investors are already wary, and donor countries may choose to pare down financial commitments as their own economies suffer. Analysts' conclusions are based in part on observations from mid-2008, when rising food prices sparked food riots across the continent and were thought to have played a role in political unrest in several countries. As the crisis pushes up the number of impoverished and unemployed individuals, long-standing potential instability may be ignited—particularly if local populations identify their governments as the culprits of economic hardship, if political or military contenders for power use the economic crisis as a weapon against incumbents, or if observation of unrest in neighboring countries acts as a vector of contagion. Tensions from the crisis may exacerbate preexisting sources of instability in many African countries, including ongoing or recently resolved conflicts, fragile institutions, xenophobia, and income inequality. At the same time, widespread economically driven protests such as those seen in 2007 and 2008 have not been observed to date in Africa, and some believe the threat may be overstated.

International Efforts to Address the Impact of the Crisis on Africa

Developed Countries

At the Group of 20 (G-20) summit in London in April 2009, members agreed to inject \$1 trillion into the world economy in order to combat the effects of the global crisis. This included a commitment to support growth in emerging market and developing countries. For example, members committed to increase lending resources available to the IMF by \$250 billion through immediate contributions from some IMF member countries, and to use additional resources from agreed sales of IMF gold to provide \$6 billion in additional financing (including concessional lending) for poor countries over the next two to three years. At the same time, some observers

⁷² Africa Progress Panel, *An Agenda for Progress at a Time of Global Crisis: A Call for African Leadership*, June 10, 2009.

⁷³ IMF, *Regional Economic Outlook Sub-Saharan Africa*, April 2009.

⁷⁴ EIU, "Sub-Saharan Africa Politics: Submerging Markets," April 14, 2009. See also Amnesty International, "Economic crisis reveals deeper human rights problems," May 28, 2009; and U.N. Integrated Regional Information Networks (IRIN), "Africa: Helping Fragile States Survive Financial Crisis," May 14, 2009.

contend that “the legitimate concerns of LICs [low-income countries] in general, and Africa in particular, have not featured prominently in international rescue efforts.”⁷⁵

At the July 2009 G-8 summit in L’Aquila, Italy, members declared that they were “determined to assist developing countries in coping with the impact of the [economic] crisis” and committed to fulfilling the Gleneagles commitments on aid (discussed earlier) and improving aid effectiveness, and strengthening global initiatives to achieve the MDGs and other anti-poverty goals.⁷⁶ The G-8 agreed to mobilize \$20 billion over the next three years for agricultural development assistance, in addition to prior commitments of emergency and humanitarian food aid. As part of this commitment, the United States committed to doubling U.S. agricultural development assistance to more than \$1 billion in 2010, providing at least \$3.5 billion over the next three years. Significant portions of any increase in agricultural assistance may be directed toward African countries. However, some observers view these pledges as unlikely to be fully upheld.

International Financial Institutions

The World Bank, African Development Bank (AfDB), and the IMF have all stepped up lending to the region since the onset of the financial crisis. These institutions have also reformed several of their existing loan and assistance programs, or created new facilities, to target their efforts to aspects of the current crisis. These include, for example, the IMF’s Exogenous Shocks Facility, the World Bank’s new Financial Crisis Response Fast-Track Facility and Infrastructure Crisis Facility, and the AfDB’s new Emergency Liquidity Facility and Trade Finance Initiative. These are aimed at offsetting budget shortfalls, increasing liquidity, and providing financing for infrastructure and trade finance—all of which are considered by many analysts to be crucial to Africa’s eventual economic recovery.

The World Bank and the AfDB share a development focus, and provide financing for projects as wide-ranging as heavy infrastructure, education and health policies, financial sector development, and natural resource management. World Bank lending to Africa in its 2009 fiscal year (July 1, 2008-June 30, 2009) was \$9.9 billion, up 36% from \$7.3 billion in FY2008.⁷⁷ The AfDB, according to its president Donald Kabaruka, is on target to commit \$11 billion in 2009, doubling its 2008 commitments.⁷⁸ Much of this assistance is at highly discounted interest rates.

The World Bank

To ramp up assistance to the World Bank’s poorest member countries, World Bank member countries approved the Financial Crisis Response Fast-Track Facility. This facility will allow the Bank to front load \$2 billion of the \$42 billion of assistance available under its International Development Association’s 2007 financial replenishment (known as IDA-15). The Democratic Republic of Congo was one of the first countries to take advantage of this new facility, receiving Bank approval for a package totaling \$100 million in February 2009. The World Bank’s private sector arm, the International Finance Corporation (IFC), has expanded or launched five new

⁷⁵ Africa Progress Panel, *An Agenda for Progress at a Time of Global Crisis: A Call for African Leadership*, June 10, 2009.

⁷⁶ G-8 Declaration, “Responsible Leadership for a Sustainable Future,” L’Aquila, Italy, July 2009.

⁷⁷ “World Bank Group Support to Crisis-Hit Countries at Record High,” World Bank, July 1, 2009.

⁷⁸ Reuters, “AfDB Sees Commitments Almost Doubling to \$11 Bln,” August 5, 2009.

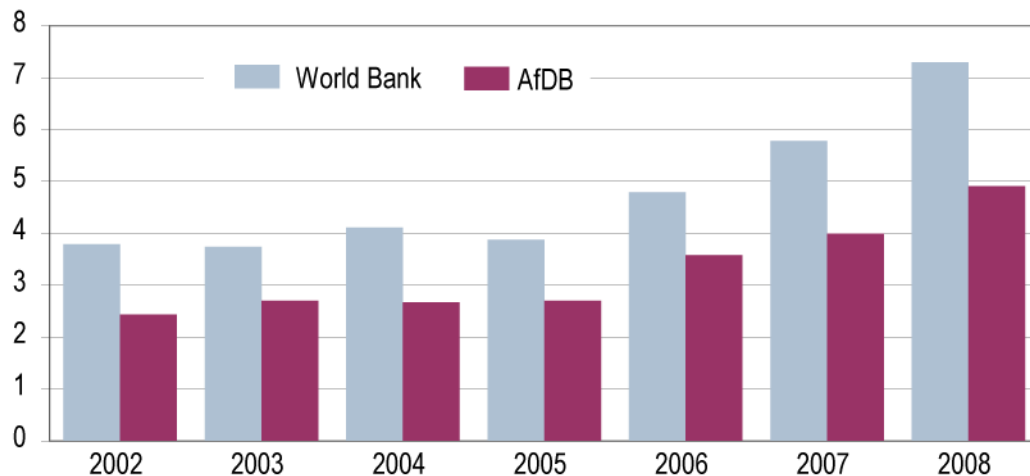
facilities aimed at supporting the private sector in affected emerging market and developing countries worldwide. The IFC expects financing for these new facilities to total roughly \$31 billion between 2009 and 2011.

The World Bank has initiated several policies aimed at mitigating the impacts of the crisis on Africa in particular, including scaling up its lending and policy advice with a focus on poverty-reducing activities, safety nets, infrastructure support, and budget support to compensate for the loss in private capital flows. Beneficiary countries of targeted lending include South Africa, Mauritius, the Democratic Republic of Congo, Comoros, Ghana, Kenya, and Zambia. Additionally, 15 African countries have benefitted from front-loading of IDA resources.

In addition, the World Bank's new Infrastructure Crisis Facility (ICF) is making \$300 million available to provide top-up financing for viable, privately funded infrastructure projects experiencing financial distress, or which are no longer able to reach financial closure. The Bank is also stepping up knowledge assistance to help countries prepare contingency plans for responding to the crisis. This package of assistance supplements the Bank's \$1.2 billion Global Food Crisis Response Program (GFRP), launched in response to the 2008 food crisis. As of January 2009, 10 African countries had received a total of \$83 million in GFRP resources to fund seed and fertilizer purchases, safety net programs, and budget support for governments whose fiscal balances were hurt by high fuel costs. The Bank also increased its lending to projects supporting African agriculture, from \$800 million in 2008 to \$1 billion in 2009. The Bank also plans to expand infrastructure investments through a \$45 billion Infrastructure Recovery and Assets Platform (INFRA), about one-third of whose resources will be spent in Africa, depending on country demand.

Figure 10. World Bank and African Development Bank Commitments to Africa

Billions of Dollars



Source: World Bank, African Development Banks.

The African Development Bank

The African Development Bank Group (AfDB) announced four new crisis-response initiatives in March 2009: a \$1.5 billion Emergency Liquidity Facility (ELF); a \$1 billion Trade Finance Initiative (TFI); a framework for accelerated transfer of African Development Fund resources to eligible countries; and enhanced policy advisory support.⁷⁹ The newly created ELF aims to provide financing to eligible African beneficiaries to support a broad range of obligations, including underpinning a fiscal stimulus and supporting public-private partnerships at risk. The ELF has a fast-tracked application process, with proposals considered by the AfDB Board within 10 working days.⁸⁰ The TFI plans to launch a new line of credit of \$500 million designed to enable commercial banks and development institutions in Africa to use Bank resources to support trade financing. Accelerated African Development Fund transfers—concessional loans and grants—are expected to provide budget support and infrastructure financing.⁸¹

In addition to various ongoing and new projects addressing infrastructure, governance, macroeconomic policy, skills development, humanitarian relief, and other areas, the AfDB has approved several loans in recent months designed primarily to offset the impact of the global economic crisis. The Bank reportedly saw its lending nearly double to \$11 billion between mid-2008 and mid-2009, with funds going largely to budgetary support, trade finance, and infrastructure projects (notably ports and airports in Tunisia, Senegal, and Djibouti, where investors had withdrawn).⁸² Recent loans explicitly linked to fallout from the crisis include a \$1.5 billion loan for Botswana designed to help address a budget deficit estimated at 13.5% of GDP, the first such loan to Botswana from the AfDB in 17 years (June 2009); and a \$97.18 million grant to the Democratic Republic of Congo to finance the country's Emergency Program to Mitigate the Impacts of the International Financial Crisis (May 2009).⁸³

The International Monetary Fund

Unlike the AfDB and the World Bank, which fund specific development projects, the IMF provides loans to help countries that cannot meet their international payments and are unable to borrow money from other governments or raise capital on the financial markets at affordable terms. The IMF is often called the international lender of last resort.⁸⁴ The Fund is also increasing

⁷⁹ AfDB, "AfDB Response to Financial Crisis Economic Impact," March 5, 2009. The African Development Fund (AfDF) is a concessional lending/grant making facility for low-income African member countries. There are currently 38 AfDF borrower countries. The AfDF is primarily financed by 24 non-regional countries including the United States, Canada, and several European and Asian countries. See CRS Report RS22690, *The African Development Bank Group*, by Martin A. Weiss.

⁸⁰ AfDB, "Emergency Liquidity Facility (ELF)," at <http://www.afdb.org/en/projects-operations/financial-products/emergency-financing/>.

⁸¹ AfDB, "AfDB Response to Financial Crisis Economic Impact," March 5, 2009.

⁸² Oxford Analytica, "Africa: AfDB doubles lending in a year," August 6, 2009.

⁸³ AfDB, "AfDB Approves US\$1.5 Billion Budget Support for Botswana to Help Country Cope with the Financial Crisis," June 2, 2009; and AfDB, "AfDB Grants US\$97 Million Budget Support to DRC to Mitigate Impacts of Financial Crisis." The latter grant is expected to help strengthen the foreign reserves of the Central Bank of Congo, increase the availability of essential imports, and assist the government in meeting key benchmarks for reaching the IMF-led Heavily Indebted Poor Countries (HIPC) completion point in 2009, paying state employee salaries, and making regular utility payments for public entities, among other goals.

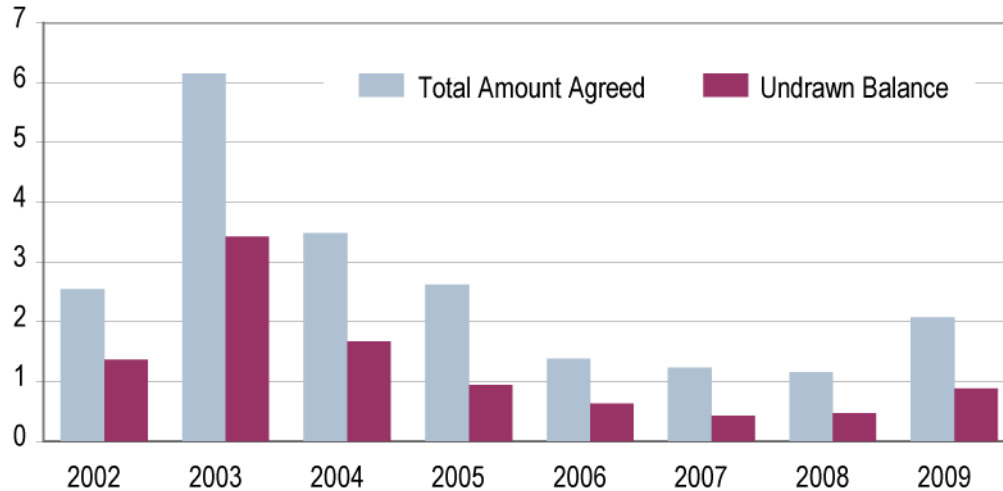
⁸⁴ CRS Report RL32364, *The International Monetary Fund: Organization, Functions, and Role in the International Economy*, by Jonathan E. Sanford and Martin A. Weiss.

its financial assistance to Africa in response to the crisis, doubling “access limits”—the ceiling amount that countries may borrow—for low-income countries. IMF lending to low-income countries in response to the economic crisis is expected to reach \$8 billion by the end of 2010.⁸⁵

In Africa, new IMF lending commitments from January to mid-July 2009 were \$2.7 billion, an increase from \$1.1 billion in 2008.⁸⁶ The amount of IMF credit available to the region fell sharply following implementation of the Multilateral Debt Relief Initiative (MDRI) agreed on at the June 2005 G-8 summit in Gleneagles, Scotland; the total amount of IMF credit available to African countries totals about \$4.7 billion, \$2 billion of which remains undrawn. Cote D’Ivoire (\$581 million) and Zambia (\$342 million) have the largest loan programs in the region.⁸⁷ With the exception of one loan (to Gabon), all IMF financial assistance to Africa is provided through the IMF’s concessional lending facilities, the Poverty Reduction and Growth Facility (PRGF) and the Exogenous Shocks Facility (ESF).⁸⁸

Figure 11. IMF Concessional Loans to Africa

Billions of Dollars



Source: International Monetary Fund.

Notes: Amounts are the total amount of outstanding PRGF and ESF loans to African countries at the end of April for each year.

⁸⁵ CRS Report R40578, *The Global Financial Crisis: Increasing IMF Resources and the Role of Congress*, by Jonathan E. Sanford and Martin A. Weiss.

⁸⁶ IMF, “The IMF Response to the Global Financial Crisis: Meeting the Needs of Low-Income Countries,” July 29, 2009.

⁸⁷ CRS Report RS22534, *The Multilateral Debt Relief Initiative*, by Martin A. Weiss.

⁸⁸ PRGF loans are intended to help low-income countries address balance of payments concerns, such as those created by the financial crisis. Unlike IMF assistance to more developed economies, however, PRGF loans are provided at concessional (i.e. below market) interest rates. The ESF is intended to provide countries with quicker and easier access to assistance to help them cope with economic shocks that have a negative impact on their economy but are beyond their governments’ control. Conditionality is focused on steps needed to adjust to the economic shock, with less attention to the structural adjustment measures more commonly associated with SBA, EFF and PRGF assistance. In September 2008, access was made more flexible and the earlier requirement that countries must have PRGF in place was dropped.

The IMF has also accelerated long-standing efforts to revamp its lending and policy support programs for African borrowers and other low-income countries. Among recent reforms, the creation of \$250 billion worth of IMF special drawing rights (SDRs) and their equi-proportional (all countries receive an amount relative to their IMF quota share) allocation to all member countries is of particular interest, as is the approval of a second SDR allocation (around \$33.9 billion) specifically for under-represented countries, many in Africa.⁸⁹ African countries are expected to receive around \$11 billion in SDRs from the two allocations, which will be helpful for countries in the region that have seen their foreign exchange reserves drop sharply in an effort to avoid defaulting on their foreign financial obligations.⁹⁰

African Governments

African governments established a Committee of Ten African Finance Ministers and Central and Regional Bank Governors (C-10) at an AfDB-organized meeting in Tunis in November 2008. Finance ministers and central bank governors have met several times since then to discuss the impact of the crisis and possible policy responses. Some countries have set up economic monitoring units and deployed limited fiscal and monetary resources. Steps taken by some African governments have reportedly included fiscal stimulus packages (e.g. Mauritius, South Africa), targeted assistance to certain sectors (Nigeria, Uganda), expansionary monetary policy (Botswana, Namibia, South Africa), and bond financing of public expenditures (Cape Verde, Kenya).⁹¹

Nevertheless, most African governments have little capacity to fund policy interventions to address the crisis. Effective economic governance continues to be lacking in many countries, and responses are projected to be restrained by the relative unavailability of foreign reserves, insufficient budgetary margins for enacting fiscal stimulus packages, and restrictions on incurring further external debt in countries that have benefited from international debt relief. While multilateral institutions have urged African governments to focus spending on social security nets and infrastructure projects—which have the potential to stimulate the economy while addressing some of the long-term obstacles to economic growth—regional expenditures on infrastructure fell far short of World Bank recommendations even before the crisis hit.⁹² Some believe high levels of corruption could additionally impede the effectiveness of government responses to the crisis.

⁸⁹ The First Amendment to the IMF Articles of Agreement, which went into effect in 1969, authorized the IMF to create a new international reserve asset that could be used to supplement IMF member country's foreign exchange reserves. SDRs are not a global reserve currency. However, they can be exchanged for hard convertible currency among IMF member nations.

⁹⁰ Joe Bavier, "Sub-Saharan Africa to Receive \$10 Bln in SDRs-IMF," Reuters, May 25, 2009. See also Alex Sienaert, "IFI Support to Africa – A Closer Look," Standard Chartered, July 20, 2009.

⁹¹ Africa Progress Panel, *An Agenda for Progress at a Time of Global Crisis: A Call for African Leadership*, June 10, 2009; AfDB/Committee of African Finance Ministers and Central Bank Governors Established to Monitor the Crisis, *Impact of the Crisis on African Economies—Sustaining Growth and Poverty Reduction: African Perspectives and Recommendations to the G20*, March 21, 2009.

⁹² Oxford Analytica, "Policy Options Limited for Managing Downturn," June 15, 2009.

Outlook and Issues for Congress

There is strong congressional interest in African socioeconomic development and regional stability. Congressional interest in fostering U.S. economic ties with African countries is evidenced in recent hearings, such as that held in June 2009 by the House Committee on Energy and Commerce, Subcommittee on Commerce, Trade, and Consumer Protection and the House Committee on Foreign Affairs, Subcommittee on Africa and Global Health on “U.S.-Africa Trade Relations: Creating a Platform for Economic Growth”; in pending legislation, such as H.Con.Res. 128, “Expressing the sense of Congress that Africa is of significant strategic, political, economic, and humanitarian importance to the United States” (referred to the House Foreign Affairs Committee in May 2009); and in existing laws and programs such as AGOA. A consideration of the impact of the crisis may affect bilateral and regional aid levels and programs, U.S. trade policy toward Africa, and analyses of regional and country-level political trends, among other areas.

The U.S. government has announced several new policies to aid developing countries affected by the crisis, though it has not, to date, formulated a policy specifically aimed at addressing the impact on Africa. The June 2009 FY2009 Spring Supplemental Appropriations for Overseas Contingency Operations (P.L. 111-32) includes \$255.6 million in Economic Support Funds (ESF) for “assistance for vulnerable populations in developing countries severely affected by the global financial crisis,” with certain eligibility criteria. However, while an initial House report on the legislation provided that several African countries—Ghana, Liberia, Mozambique, Tanzania, and Zambia—should “receive priority consideration,” along with El Salvador, Guatemala, Haiti, Indonesia, and Mongolia, the subsequent conference report did not include such specifications.⁹³ In July 2009, the Obama Administration noted the impact of the economic crisis on developing countries in announcing its commitment to double U.S. agricultural development assistance to more than \$1 billion in 2010, and to provide at least \$3.5 billion over the next three years.⁹⁴ The initiative is a global one, not uniquely focused on Africa, though the Administration cited the U.S. Comprehensive Africa Agriculture Development Program (CAADP) as a “model.”⁹⁵

U.S. responses to date have focused on support for multilateral lending and grant initiatives. Moving forward, this may include increased financial support to the international financial institutions to which African countries are expected to apply for economic support during the crisis. In the FY2009 Spring Supplemental Appropriations legislation, Congress approved U.S. participation in a range of measures designed to increase the amount of financial assistance the IMF may provide to its member states in the wake of the economic crisis.⁹⁶ It is also expected that the AfDB will request a general capital increase within the next year. Relevant legislation includes S. 955, the African Development Fund Replenishment Act of 2009.

⁹³ H.Rept. 111-105, May 12, 2009; H.Rept. 111-151, June 11, 2009.

⁹⁴ White House, “Africa: Food Security - Investing in Agricultural Development to Reduce Hunger and Poverty,” July 10, 2009.

⁹⁵ See CRS Report R40127, *The Impact of Food Insecurity and Hunger on Global Health: Issues for Congress*, by Tiaji Salaam-Blyther and Charles E. Hanrahan (Appendix E) for background on the CAADP.

⁹⁶ CRS Report R40578, *The Global Financial Crisis: Increasing IMF Resources and the Role of Congress*, by Jonathan E. Sanford and Martin A. Weiss.

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