AFRICA'S GROWTH AND RESILIENCE IN A VOLATILE WORLD

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Until 2008, thanks to domestic policy reforms, external assistance and high commodity prices, most of the economies of sub-Saharan Africa experienced sustained and accelerating growth for over a decade. Poverty was declining, health and education indicators were improving—albeit from a low base—and there were signs that Africa's HIV/AIDS prevalence rate had begun to decline. Then, in 2008, the continent was subjected to three major global shocks: a 50 percent increase in food prices, a surge in world oil prices that reached $140 a barrel and the financial meltdown and worldwide recession that is still running its course. The initial impact of these shocks was devastating, but African policymakers and the international community responded quickly and effectively, preventing a far worse outcome. Using external assistance, they scaled up existing safety net programs to cushion the poor from the food price shock, and for the most part avoided unproductive but politically compelling policies, such as price controls and export bans. Leaders of the affected countries also increased the share of high food prices accruing to Africa's farmers. Similarly, many oil-importing countries passed on higher fuel prices to consumers, avoiding the temptation to increase poorly targeted and often regressive subsidies. Finally, when the price of oil plummeted, Africa's largest oil exporters were able to withstand the shock because they had been using a conservative reference price per barrel in their budgets and saving the rest. As the global recession worsens, the coming months or years will be extremely difficult for Africa. However, the combination of domestic policy reforms and prudent foreign assistance that enabled Africa to experience economic growth over the past decade and manage the food, fuel and financial shocks thus far, can, if replicated, enable the continent to minimize the impact on its poor and return to a path of self-sustaining growth.

After posting an average growth rate of 5.5 percent from 1995 to 2005, sub-Saharan Africa's growth accelerated to 5.7 percent in 2006, 6.1 percent in 2007

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and was forecast to reach 6.4 percent in 2008.[1] This growth was accompanied by a reduction in the poverty rate. Since 1995, the percentage of Africans living on less than $1.25 a day fell from 57 percent to 50 percent. There were rapid increases in primary school enrollment around the continent. Benin, Guinea, Madagascar, Mozambique, Rwanda and Niger were among the global leaders in *universal completion of primary education*, expanding achievement levels by over 10 percent a year from 2000 to 2005. While child mortality continued to increase in countries such as Botswana, Zimbabwe, Swaziland and Lesotho, there were successes in mass vaccination of children for measles. Between 2000 and 2006, measles-related deaths in the region were reduced by 91 percent.[2] Finally, HIV/AIDS, which had become a major development, global health and security challenge in many African countries, appeared to be slowing its spread as the prevalence rate declined for the first time in some countries.[3]

The development scene has witnessed the entry of many new actors, most notably China, which has provided tens of billions in loans and preferential credit to Africa.

Most observers attribute this turnaround in Africa's growth and certain human development indicators to three factors. First, there is no question that, as a result of sometimes painful reforms, macroeconomic policies improved throughout the continent. One indicator is the fact that the median inflation rate in 2005 was about half the rate of the mid-1990s. In the early 1990s, there were twenty-six African countries with inflation greater than 20 percent; by 2007 there was only one: Zimbabwe. Another indicator is the World Bank's Country Policy and Institutional Assessment, which showed that African countries had increased their performance from an average score of 3.1 in 2001 to almost 3.25 in the mid-2000s.

Second, the rise in commodity prices in the early- to mid-2000s contributed to rapid economic growth, especially among Africa's major commodity exporters. Oil exporters in particular registered a robust 8.1 percent average annual growth between 1997 and 2007 (Table 1). However, it is important to note that seventeen non-oil exporters, representing one-third of Africa's population, experienced more than 4 percent growth over the same decade.

Third, external assistance to Africa increased during this period to over $40 billion in 2006, mainly due to debt relief initiatives, which provided much-needed fiscal space to highly-indebted poor countries. Furthermore, many new actors entered the development scene, most notably China, which has provided tens of billions in loans and preferential credit to Africa.

Table 1: African GDP Growth Rates, 1997-2007 (cumulative annual average)

Slow Growing Countries (36 percent of population)		Moderate to Fast Growing Countries (34 percent of population)		Oil Exporting Countries (30 percent of population)	
Zambia	3.9	Mozambique	10.3	Equatorial Guinea	26.4
Madagascar	3.7	Cape Verde	9.0	Angola	10.3
Niger	3.7	Sao Tome and Principe	6.9	Chad	8.1
Mauritania	3.6	Rwanda	6.8	Sudan	7.4
South Africa	3.6	Botswana	6.5	Nigeria	4.7
Kenya	3.4	Burkina Faso	5.9	Cameroon	4.0
Guinea	3.3	Uganda	5.8	Congo, Rep.	3.1
Lesotho	3.0	Mali	5.7	Gabon	1.3
Malawi	2.9	Tanzania	5.6		
Togo	2.8	Ethiopia	5.5		
Swaziland	2.6	Sierra Leone	5.5		
Seychelles	2.6	Ghana	5.0		
Comoros	2.0	Gambia, The	4.7		
Burundi	1.9	Mauritius	4.6		
Central African Republic	1.8	Senegal	4.5		
Eritrea	1.4	Benin	4.4		
Congo, Dem. Republic	1.2	Namibia	4.1		
Cote d'Ivoire	1.0				
Guinea-Bissau	0.0				
Zimbabwe	-3.9				
Simple Average	***2.2***		***5.9***		***8.1***

Source: Growth rates before 2007 are from World Bank World Development Indicators (WDI), and 2007 rates are from International Monetary Fund Africa Regional World Economic Outlook 2008.

In 2008, this growing and developing continent was subjected to a trio of external shocks. First, world food prices rose by 70 to 100 percent in dollar terms, which translated to an increase of about 50 percent in real terms for African consumers (Table 2). In addition to creating problems for macroeconomic management—some countries experienced higher inflation—the shock was particularly devastating to the poorest Africans, some of whom spend up to 70 percent of their budgets on food (Table 3). In Cameroon, Guinea, Burkina Faso and Mozambique, the food crisis engendered social unrest, threatening internal political instability and regional conflict.

Governments were understandably under pressure to act. With the assistance of the international community, several governments sought to protect the poor.

Table 2: Import Prices of Food (cumulative, end 2006 - April 2008, in percent)

	Dollar Price	Domestic Price After Exchange Rate Adjusted	Real Change
Sub-Saharan Africa	79.8	67.4	50.9
Communauté Financière Africaine (CFA) franc zone	102.9	74.3	68.5
Outside CFA franc zone	72.4	66.8	46.6
Oil importing			
Coastal	93.6	82.4	60.4
Land-locked	74.9	67.8	44.5
Middle income	84.8	92.6	70.3
Low income	96.6	79.3	57.4

Source: World Bank, Development Prospects Group.

Ghana and Niger put additional money into existing social assistance programs; Guinea did the same with its community development projects; and Ethiopia increased wages for a major public works program. Many countries, such as Sierra Leone and Ghana, lowered taxes on imported food and used donor assistance to make up for the lost tariff revenues. To be sure, some governments introduced export restrictions and price controls, but these proved to be either ineffective (encouraging smuggling) or counterproductive (leading to hoarding and a reduction in supply) and were soon abandoned. Thus, quickly-disbursed infusions of cash by development partners did more than help poor people buy food: They provided fiscal, and therefore political, space for governments to avoid rash, counterproductive policies that could undermine past gains in growth.

Furthermore, many African governments saw the increase in food prices as an opportunity to use the increased farm revenues to invest in agricultural productivity. The African Union launched a major continent-wide program to boost productivity through improved infrastructure, such as water resources and technology, while targeting "smart" subsidies of fertilizer and other inputs to African farmers. This year, the World Bank intends to lend approximately $1 billion in support of these initiatives.

The second major shock of 2008 was the steep increase in world oil prices, which peaked at around $140 a barrel in the middle of the year. For the thirty-seven oil-importing countries of Africa, this was a major terms of trade shock. Countries such as Togo, Senegal, Cape Verde, Eritrea and Seychelles were transferring 6 to 10 percent of their 2006 GDP to pay for these imports. Again, most

Table 3: Share of Food Expenditure in Household Budget of 23 African Countries (in percent)

	National	Rural	Urban	Poorest 20%	Richest 20%
Average of 23 African Countries	55	61	48	63	48
Per capita Income Level					
Low Income Countries (<$1,000)	59	64	50	67	52
Middle Income Countries (>$1,000)	45	54	42	51	38
Degree of Urbanization					
Low Urbanization	61	65	48	68	54
Medium Urbanization	60	66	54	67	52
High Urbanization	49	56	45	56	42
Region of Africa					
East	64	71	46	73	56
West	53	60	47	62	46
South	57	62	51	66	49
Central	50	55	49	50	45

Source: Household Expenditure Survey Database, Africa Region, The World Bank.

countries avoided the politically tempting but ultimately counterproductive policies of imposing price controls and large subsidies. Many passed through the higher oil prices to consumers because, unlike with food, these consumers were not the poorest of the population. While the result in some cases—such as Ethiopia—was an uptick in inflation, the fact that the fiscal deficit did not increase significantly will make it easier to eventually bring inflation back under control, as Ethiopia has already begun to do.

The other side of the oil price increase was the sharp rise in revenues for oil exporters. Here, again, governments reacted differently than they did during previous oil price increases. First, despite the temptation to spend the oil revenues, the three largest oil exporters in sub-Saharan Africa—Angola, Gabon and Nigeria—all used a reference price of about $57 per barrel in 2008, so that the excess of the world price over this was saved. Second, in order to make better use of oil revenues, eighteen African countries signed on to the Extractive Industries Transparency Initiative, which paves the way for strengthening the institutions that govern the sources and uses of resource revenues.

The third and largest shock of 2008, which is still running its course, was the global financial meltdown and the ensuing recession. Africa was spared the

Table 4: Terms of Trade Shocks (% of 2006 GDP)

2008/2007		2009/2008	
Top Five			
Equatorial Guniea	32.5	Seychelles	5.4
Angola	21.9	Eritrea	3.8
Congo, Rep.	19.3	Togo	3.6
Gabon	17.9	Comoros	2.2
Mauritania	16.3	Senegal	2.2
Bottom Five			
Togo	-6.1	Nigeria	-10.2
Senegal	-6.2	Gabon	-12.5
Cape Verde	-6.8	Congo, Rep.	-13.6
Eritrea	-9.8	Angola	-15.1
Seychelles	-10.5	Equatorial Guinea	-20.9

Source: World Bank, Development Prospects Group.

initial impact of the crisis because most African banks keep their loans on their balance sheets and the interbank and derivatives markets are small. In the two largest countries in terms of GDP, Nigeria and South Africa, foreign ownership is only 5 percent. Yet, there are still causes for concern: 40 percent of South Africa's loans are in mortgages and home values are beginning to fall. In Nigeria, domestic credit grew by 100 percent in 2007. The fact that African financial systems did not feel the immediate impact of the crisis does not mean that Africa is insulated from it.

The biggest impact on the African financial system has been from capital flows. African countries are already being hurt by the decline in private capital flows, which had surged to $53 billion in 2007—exceeding, for the first time, foreign aid. This private funding, which was no longer concentrated in just one or two countries, was financing much-needed infrastructure and commodity-based investments in Africa. Meanwhile, portfolio flows have started reversing. African stock markets have fallen by an average of 40 percent, with some, such as Uganda's, falling by over 60 percent. Ghana and Kenya have postponed sovereign bond offerings worth over $800 million, which has delayed the construction of toll-roads and gas pipelines.

To make matters worse, many African countries face a decline in remittances, which peaked at about $20 billion a year in 2007. This is the first global crisis that started in remittance-sending countries.[4] Kenya has already lowered its growth rate of remittances in 2008 from 11.1 percent to 5.4 percent; the projected growth in 2009 is zero. For countries such as Lesotho, where remittances account for 29 percent of GDP, the decline could be devastating.

The other source of external investment is foreign aid. While most donors have pledged to maintain their levels of aid, they are already $20 billion short of the commitments made at the G-8 summit at Gleneagles, Scotland, in 2005—commitments that were made when the global economy was much healthier. Today, pressures to stimulate the donors' own economies are mounting. Just like the financial crises that hit Norway, Sweden and Finland in the 1990s, which caused aid coming from those countries to fall by 10, 17 and 62 percent respectively, the current shock could lead to a substantial decrease in foreign aid to Africa.

The second big impact on Africa is the rapid decline in commodity prices. This is a double-edged sword because oil importers who suffered during the sharp increase in prices from 2007 to 2008 will now benefit. In fact, the countries that faced the biggest negative terms of trade shock in 2008 are the ones with the biggest positive shock in 2009, and vice-versa (Table 4).

For primary commodity exporters, the collapse in commodity prices is unambiguously harmful. Even though Africa's large oil exporters, such as Angola, Nigeria and Gabon, used an oil reference price of $57 a barrel, their ability to use these savings to maintain growth is constrained by the fact that the non-oil sector in their economies is very small and highly dependent on government revenues and expenditure—both of which are constrained in the current environment. Exporters of other commodities, such as Zambia, the Democratic Republic of Congo (DRC) and South Africa, are experiencing a substantial drop in export revenues and, in some cases, fiscal revenues as well. In addition, there will likely be a decline in tourism revenues in Mauritius, Kenya and Tanzania.

Finally, several African countries entered the global financial crisis with significant macroeconomic imbalances. Ethiopia's inflation rate was 60 percent and Ghana's and South Africa's current account deficits were 19 and 8 percent of GDP, respectively. These countries' ability to weather the shock is much more limited, which means their economies may contract even more. South Africa, for instance, has revised its growth rate for 2009 to 1.9 percent.

The present crisis is different from the food and fuel crises that hit Africa in 2008 in at least three ways. First, unlike the food crisis, which specifically hurt poor consumers, and therefore demanded solutions that cushioned the impact on these people, the global economic crisis' impact on Africa is much more broad-based. Unless African countries show the same resilience they did with the previous two crises, there is a threat of a major economic downturn in the continent. It is this type of economic collapse that should be avoided at all costs. A study by Jorge Arbache and John Page of growth accelerations and decelerations in Africa found that their effects were asymmetric.[5] Poverty and human indicators deteriorated more during decelerations than they improved during accelerations. If the current global recession leads to a deceleration in Africa. Infant mortality, for example, could increase by an additional 700,000 infant deaths per year. Other human development indicators, such as primary school completion rates and life expectancy, will be affected as well.

Second, this is the first crisis since the Depression to start in a developed country—the United States—and spread to the rest of the world. During previous crises, countercyclical assistance could, in principle, come from developed countries. In fact, while remittances were countercyclical, foreign aid was for the most part not. But this time, the sources of countercyclical assistance are having serious economic difficulties of their own. The political pressure to spend fiscal resources on their own citizens, as opposed to Africans who are an ocean away, may be irresistible.

Third, as mentioned earlier, Africa's recent economic growth was due at least in part to the economic reforms that policymakers undertook during the previous decade. These reforms were often painful, but they seemed to be yielding results. Now, for reasons that have nothing to do with African economic policies, growth has slowed. There is a good chance that political support for these reforms will wane. Already, we are beginning to see populist sentiments being voiced in various parts of the continent. Considering most of the developed countries are undertaking "reverse reforms"—such as bank nationalization and deficit-increasing public spending programs—sustaining the momentum of reform in Africa will most likely be harder in the years to come.

What can African governments do to avoid a severe economic downturn? How can the international community help? For starters, African governments should continue with the reform programs that contributed to growth over the last decade. As the communiqué from the November 2008 African Economic Conference in Tunis notes, "[African central bank governors and finance ministers] agreed…to deepen economic reforms in the full conviction that such reforms have served African countries well, yielded strong macroeconomic stability, fostered growth and resilience to external shocks."[6] Furthermore, since they lack access to international capital markets, low-income African countries should contemplate a fiscal stimulus only if it can be financed by external resources such as foreign aid. Absent these resources, an increase in the fiscal deficit will either crowd out private savings or create inflation, neither of which is conducive to growth.

The role of the international community therefore is crucial because without additional aid, there is no possibility of countercyclical policies in poor African countries. World Bank President Robert Zoellick's proposal of a "vulnerability fund," which calls on rich countries to devote 0.7 percent of their own fiscal stimulus to a fund to support developing countries, is aimed precisely in this direction.[7] Another important contribution that developed countries can make is to reduce or eliminate protectionist barriers to African exports in their domestic markets.

Even if there are additional external resources, governments should be prudent about the type of countercyclical policies they pursue. For instance, some countries such as Ghana already have a high fiscal deficit—about 14 percent of GDP. In a sense, these countries have already had their fiscal stimulus. The challenge, in Ghana's case, is to bring down the deficit using external assistance to smooth the transitional path so that the economy's debt is manageable and private investment resumes.

To be sure, other African countries have much lower fiscal deficits and debts. Assuming it can be financed from abroad, these countries should contemplate a modest fiscal stimulus as a way of shoring up the growth of their economies. But how the fiscal stimulus is spent will be just as important as the size of the stimulus. It is unlikely that tax reductions will yield great gains in growth because many of the efficiency-reducing taxes have already been reduced—most recently in response to the food price crisis when some countries eliminated or lowered import tariffs on cereals. Thus, the major gains will come from expenditure increases. Here, governments should look for increasing expenditures that will create jobs in the short run and leave the economy in a more efficient state in the long run. One possibility, which the DRC is pursuing, is the maintenance of infrastructure such as roads, water pipes and electricity grids. Investment in agricultural infrastructure, long neglected in Africa, would also be productive and create off-farm employment. The provision of finance to small- and medium-enterprises, as well as for infrastructure projects, would have similar effects. Finally, targeted safety net programs that will cushion the poor or near-poor from the growth slowdown should be part of the stimulus package, but with one caveat: only programs that are known to be reasonably successful at targeting the poor, and whose leakage rates are relatively low—such as Ethiopia's public works program—should be scaled up. The opportunity cost of public funds in these times is too high to waste them on unproductive programs that do not benefit those who need them the most.

Thanks to a combination of deft policymaking and expedient international assistance—with a little help from commodity prices—most African countries have grown at their fastest pace in decades, while weathering the food and fuel price shocks of early 2008. The fallout of the global financial and economic crisis threatens to undermine those gains. Nevertheless, the very same factors that generated Africa's decade-long growth and resilience until mid-2008—economic reforms and the support of the global community—can, if deployed appropriately, help ensure that Africa does not suffer an economic collapse during the global downturn, and is poised to accelerate growth and poverty reduction when the global economy recovers.

NOTES

[*] The views expressed in this piece are those of the author and do not necessarily reflect the policies or positions of the World Bank. The author would like to thank Shantayanan Devarajan, Chief Economist for Africa at the World Bank.

[1] Economic data referenced in this article are drawn from internal World Bank statistics and publicly available documents including: International Monetary Fund, *Regional Economic Outlook, Sub-Saharan Africa*, (Washington, DC: International Monetary Fund, 2008); The World Bank, *Global Economic Prospects, Commodities at a Crossroads*, (Washington, DC: The World Bank, 2009); The World Bank, "Double Jeopardy: Responding to High Food and Fuel Prices," (working paper produced for the G-8 Hokkaido-Tokyo Summit, 2 July 2008); and International Monetary Fund, *World Economic Outlook Update* (Washington, DC: International Monetary Fund, 28 January 2009).

[2] UNICEF Press Release, "Achievements Offer New Prospects for Success in Global Efforts to Help Africa's Children" (28 May 2008).

[3] 2008 Report on the Global AIDS Epidemic, UNAIDS.

[4] Over 77 percent of Africa's remittances come from the United States and Western Europe.

[5] Jorge S. Arbache and John Page, "More Growth or Fewer Collapses? A New Look at Long Run Growth in Sub-Saharan Africa," (World Bank Policy Research Working Paper No. 4384, Washington, DC: 2007).

[6] "Communiqué of the Meeting of African Ministers of Finance and Planning and Governors of Central Banks," (communiqué of the African Economic Conference in Tunis, Tunisia: 12 November 2008).

[7] Robert Zoellick, "Time to herald the age of responsibility," *Financial Times*, 25 January 2009.