



Measuring the Pulse of Africa in Times of Crisis

How will the economic crisis affect Africa's growth?

How can the region's governments safeguard the progress made in recent years?

What role can information and communication technologies (ICTs) play?

What must donors do now?

Can the crisis pose setbacks for political and social stability?

What must Africa do to improve its long-term growth prospects?

For further information

For further reading

Where to contact us?

Introduction

Only a year ago Africa's economic growth prospects seemed historically bright. But what effect has the global crisis had? The international environment facing Africa¹ has turned decisively negative. GDP in the OECD countries is expected to contract by 4.3% in 2009 and to be virtually flat in 2010. Growth in emerging economies is also expected to slow dramatically. In turn, world trade is expected to contract by 13.2% in 2009 – its first decline in 60 years. For Africa this means that growth projections for 2009 have fallen to 2.8% after four consecutive years above 5%.

The hardest hit African economies are those that are heavily reliant on commodity exports. Most commodity prices have fallen back to their 2005 or 2006 levels, many of them registering declines of 40% or more. Net oil-importing African countries face a different set of challenges, with GDP growth in many of them expected to fall sharply in 2009 and 2010. For many countries in the region, the persistence of high prices for internationally traded food continues to contribute to a food crisis, especially for the urban poor.

Meanwhile, inflation continues to rise, although at a more moderate pace. This is mainly due to a more complete pass-through of international oil price increases to consumers combined with increases in the international prices of grains and vegetable oils.

Politically, the need to promote good governance in Africa is as important as ever, as several years of improved political and social stability came to an end in 2007 and worsened in 2008. The deterioration of the economic situation could jeopardise some of the advances made toward greater democracy and better governance. More needs to be done to nurture an environment that

The African Economic Outlook (AEO) is a unique tool combining the expertise of the OECD Development Centre, the African Development Bank and the United Nations Economic Commission for Africa to understand the economic and social developments of African countries over the past year. The 2009 AEO is the eighth edition of the report and provides comprehensive and comparable data and analysis of 47 African economies, accounting for 97% of Africa's population and 99% of its economic output.

is conducive to private-sector development, especially in further reducing corruption. That said, some progress is being made. The AU/NEPAD African Peer Review Mechanism has begun to provide a candid assessment of African countries and, thus, to foster progress in governance.

The promising news is that despite these economic strains and social disruptions, Africa is in better shape to survive the global economic crisis than it would have been ten years ago. With the right combination of domestic policy reforms, and with donors' willingness to compensate for drops in trade revenues, the continent can continue to grow.

This *Policy Brief* presents some of the main findings of the 2009 *African Economic Outlook*. ■

1. The 47 countries examined in this eighth edition of the OECD's *African Economic Outlook* are classified by sub-region: in North Africa: Algeria, Egypt, Libya, Mauritania, Morocco, Sudan and Tunisia; in West Africa: Benin, Burkina Faso, Cape Verde, Côte d'Ivoire, the Gambia, Ghana, Guinea, Liberia, Mali, Niger, Nigeria, Senegal, Sierra Leone, and Togo; in Central Africa: Cameroon, Chad, Central African Republic, the Republic of Congo, the Democratic Republic of the Congo, Equatorial Guinea, and Gabon; in East Africa: Burundi, Djibouti, Ethiopia, Kenya, Rwanda, Seychelles, Tanzania and Uganda; in Southern Africa: Angola, Botswana, Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, South Africa, Swaziland and Zambia.

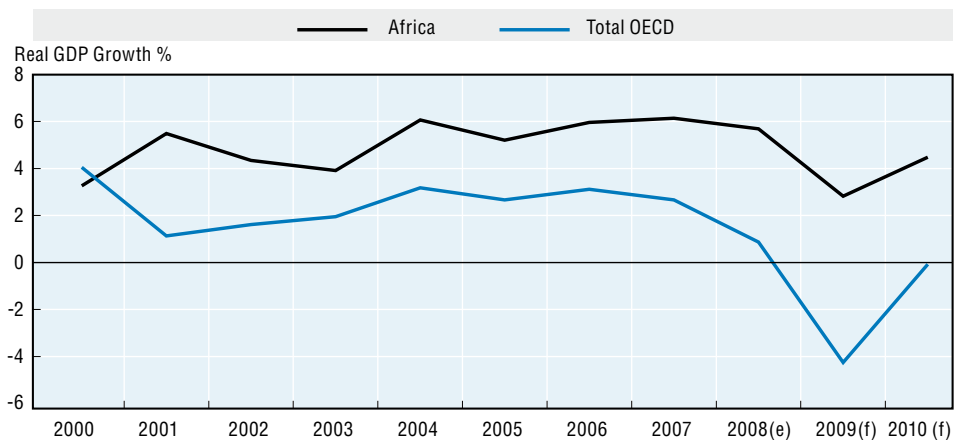
How will the economic crisis affect Africa's growth?

Not surprisingly, the outlook for Africa has been adversely affected by the global recession. Economic growth in Africa is expected to be only 2.8% in 2009, less than half of the 5.7% estimated for 2008. It is then expected to rebound partially to 4.5% in 2010. Growth in oil-exporting countries, which continued to outpace that of oil importers by a substantial margin in 2008, is slowing as well, and is expected to be 2.4% in 2009 compared to 3.3% for the net oil importers. Moreover, some countries continue to face particularly serious problems— including the humanitarian catastrophe in the Darfur region of Sudan, the economic collapse in Zimbabwe, conflicts and political unrest in Guinea, Guinea-Bissau, Equatorial Guinea, Madagascar and Somalia—that are likely to further impede economic progress.

The hard-won macroeconomic stability achieved recently in African countries was also affected by food price inflation in the first three quarters of 2008 and could be challenged further by worsening economic conditions. A slowdown of investment in oil and mineral production is also expected to be a drag on growth in 2009 and 2010.

However, Africa is better equipped to withstand an economic crisis than it was ten years ago. Wiser macroeconomic policies have strengthened fiscal positions and reduced inflation, while recent multilateral debt-relief operations have improved the debt burden and eased financing constraints. This should help many countries to avoid drastic spending cuts and to afford small budget deficits. Structural reforms have led to an improved business environment both for domestic and foreign operators, as shown by improved scores on the World Bank Doing Business indicators. In addition, the increased importance of Asian and Latin American emerging markets as development and trade partners is reducing the continent's vulnerability to the economic performance of OECD countries. A prolonged international crisis, however, could pose a risk to these advances, making 2010 crucial for medium-term macroeconomic prospects. ■

Figure 1.
REAL GDP GROWTH



Source: OECD Development Centre/World Bank, 2009.

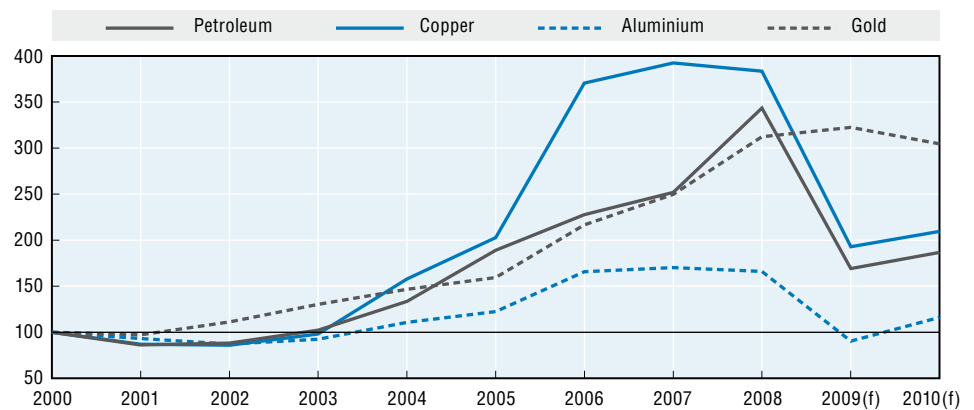
How can the region's governments safeguard the progress made in recent years?

It will not be easy. The balance sheets of African governments are suffering from falling revenues linked to the economic slowdown and falling commodity prices. As early as 2007, oil-importing countries began to suffer from rising import costs and the implementation of costly tax exemptions and subsidies in response to food and fuel price increases. Today, however, it is oil and mineral exporters who are experiencing the sharpest fall in their fiscal and current account balances due to the slump in oil prices. African governments will have to find a balance between insisting on macroeconomic fundamentals, such as public expenditure streamlining, real exchange-rate depreciation to reinstate competitiveness, and inflation control, and continuing with structural reforms, including infrastructure development, institutional improvements and actions to reduce poverty. ■

What role can information and communication technologies (ICTs) play?

Innovative use of ICTs is vital as it is breaking down long-standing barriers to market development. Four out of ten Africans have a mobile phone line, and mobile-banking solutions are quickly scaling up on a continent with low levels of bank users. For example, in Kenya, where only 26% of the population has a bank account, mobile-payment services have attracted over five million users in less than two years. Such high levels of access to ICTs are making it possible for businesses to deliver sophisticated services to the continent's population for the first time. In agriculture, ICTs have brought together farmers and buyers by enabling timely and affordable access to prices and quantities. In Senegal, farmers can check market prices in real time on their mobiles to obtain the best prices for their crops. Regional integration is being reinforced as more inland broadband links are built. Pan-African operators are already offering free roaming services across 12 countries. Africa is the only region in the world where this innovative business model exists. ■

Figure 2.
HARD COMMODITIES
(BASE 100 IN 2000)



Source: OECD Development Centre, based on World Bank, 2009

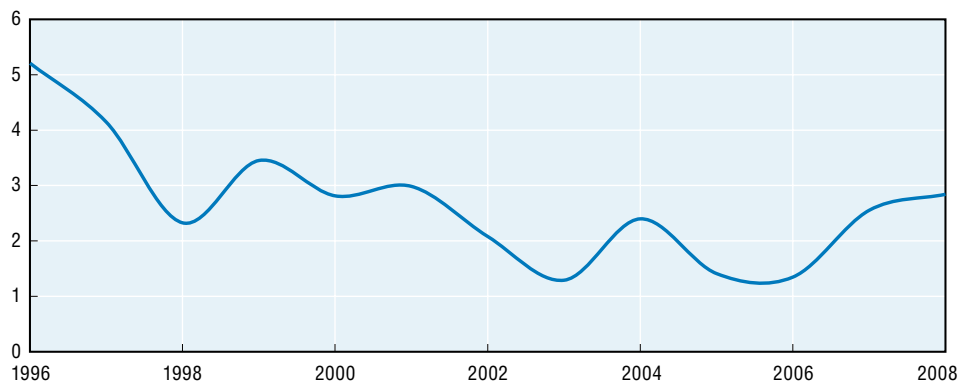
What must donors do now?

Official development assistance to Africa, which was driven largely by debt relief and emergency assistance, fell by 18% in real terms in 2007, mostly due to the end of exceptional debt relief operations. However, global aid reached a record high in 2008, and may well grow, albeit slowly, in 2009 and 2010. Africa may benefit more than other regions. There is a risk that ballooning fiscal deficits and dwindling political support for greater aid in major donor countries could trigger a downward revision of aid levels. Donors must therefore increase efforts to honour their Gleneagles commitments to double aid to Africa by 2010, as OECD Secretary-General Angel Gurría, and the Chair of OECD’s Development Assistance Committee, Eckhard Deutscher urged in their “Aid Pledge” initiative in October 2008.

African countries need donor support to continue investing in infrastructure and structural reforms. To abandon such reforms would mean jeopardising gains in poverty reduction and future growth prospects. In a context where foreign private capital flows and government revenues are drying up, ODA should not only be maintained, but also scaled up and used counter-cyclically against the downturn. Taking into account the economic difficulties in donor countries, the focus should be on front-loading aid spending, and improving effectiveness, particularly by reducing fragmentation as a way to streamline ODA and increase its impact.

Finally, Africa needs help in restoring trade financing which has also dried up. One strategy is to create mechanisms for donors to play a role in that regeneration. For example, cash-rich countries, such as China, could set up facilities with regional multilateral agencies, like the African Development Bank, to provide the needed financing. ■

Figure 3.
POLITICAL STABILITY
INDICATOR
Civil tensions



Civil tensions: Occurrence of strikes, demonstrations, violence and coups d'état. Qualitative data obtained from *Marchés Tropicaux et Méditerranéens*.

Source: OECD Development Centre, 2009.

Can the crisis pose setbacks for political and social stability?

Yes, and maintaining social stability will be a challenge. Since the end of 2007, when rising living costs triggered a series of disturbances, authorities have worked to strike a careful balance between adopting measures to control unrest and avoiding a shift to authoritarianism. With some exceptions, governments responded constructively. The challenge will now be to continue this approach during a time of decreasing public resources and uncertain donor support.

There are promising signs however. Increased political awareness among the population has made some governments more accountable. They now convene regular electoral consultations and implement structural reforms in public administration, which have improved governance and increased transparency. In addition, some countries have shown improvements in macroeconomic management and the regulatory environment, and conflicts have begun to subside. Positive signs also come from regional co-operation on governance in the framework of the African Union and in the African Peer Review Mechanism. According to the OECD Development Centre Political Stability Indicator (Figure 3) however, social instability worsened overall in Africa between 2007 and 2008, as it did in other parts of the world. Many African governments responded with tough measures, reflecting the rise in social tension common during periods of economic stress. ■

What must Africa do to improve its long-term growth prospects?

While most OECD countries will experience a recession in 2009, Africa has an opportunity to continue growing. To do so, countries need to promote domestic growth based on greater investment and consumption.

Suggestions include:

Macroeconomic policy

- Strike a balance between insisting on macroeconomic fundamentals (public expenditure streamlining, real exchange-rate depreciation to reinstate competitiveness, and inflation control) and investing in structural reforms (infrastructure development, institutional improvements, poverty-reduction programmes).
- Adopt sustainable fiscal policies that increase government revenue while creating a business environment conducive to domestic and foreign private investment.

Political and economic governance

- Prioritise transparency (electoral consultations, public administration reforms) and regional co-operation on governance.

Private sector development

- Work with businesses to remove the hurdles to ICT infrastructure development; improve regulation; and invest in scaling-up innovative applications for social services.

- Eliminate bottlenecks for the domestic private sector, such as inadequate infrastructure and poor access to credit.
- Promote domestic production and diversification.

Regional economic integration

- Strengthen the role of regional actors, including financial institutions.

ODA

- Lobby donor governments to scale-up aid commitments, use aid counter-cyclically, especially in highly aid-dependent countries, and avoid protectionism.

The implementation of these measures will not only reduce present and future vulnerability, but also help lay a stronger basis for future growth and development. ■

For further information

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For further reading

- OECD (2009), **African Economic Outlook 2009**, ISBN 978-92-64-06170-5, € 60, 300 pages.
- OECD (2008), **African Economic Outlook 2008**, ISBN 978-92-64-04585-9, € 80, 689 pages.
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The OECD Policy Briefs are prepared by the Public Affairs Division, Public Affairs and Communications Directorate. They are published under the responsibility of the Secretary-General.