



Africa Likely to be Worst Hit by the Financial Crisis

WASHINGTON, April 23, 2009 – Africa is likely to be the worst-hit region by the global financial crisis, although it is the least integrated region into the global economy and financial systems, the World Bank warned Wednesday.

The crisis is impacting Africa through a sharp fall in four revenue generating areas: private capital flows, remittances, foreign aid and commodity prices, the World Bank's Vice President for the Africa Region, Obiageli Ezekwesili, told a press conference Wednesday, which linked over 200 journalists from 22 African countries via video to the Bank's head offices in Washington, DC.

Private capital flows to Africa, which had risen to \$53 billion in 2007 from \$30 billion in 2002, have dried up, forcing a cancellation, delay or postponement of projects. Kenya and Ghana have suspended bond offers worth a total \$800 million and the Democratic Republic of Congo estimates it will lose \$1.8 billion in foreign direct investments.

The vice president also affirmed that evidence pointed to a significant drop in remittances from the African Diaspora and said that this would inevitably have an impact on the safety nets that remittances provide for the poor, especially during hard times. Remittances, which had risen to \$20 billion, originate 77 percent of the time from the United States and Western Europe.

She noted that foreign aid is dwindling because the crisis is happening in countries that provide aid and as their economies contract, aid will fall both in volume and as a share of GDP.

Primary commodity prices have plummeted, hurting many countries across the region. For example, many countries made budget projections on high revenue from oil when the barrel sold at \$140 only to see that price nose dive to \$40 today. She cited the example of a country like Angola, where the GDP is expected to fall about 23 percent -- a decline comparable to that experienced by the United States during the Great Depression.

Growth Decline of three Percent Likely to Have Devastating Consequences

As a result, and although the financial sector in many African countries came out relatively unscathed by the crisis, the real economy is reeling. Africa's GDP growth, initially expected to be 4.9 percent, is now expected to fall to 2.4 percent. This is much

lower than the 6.4 percent forecasted prior to the crisis and represents a three percent decline in growth.

Such a drop is likely to have devastating, long-term consequences on Africa and could even lead to a humanitarian crisis, the Bank cautioned, in response to questions from the media that the forecast was alarmist and out of tune with some African ministers of finance who reporters said were insisting that the crisis had not hit their countries.

The World Bank's Chief Economist for the Africa Region Shanta Devarajan warned against repeating the errors of the 1990s, when most African governments failed to take, or delayed, urgent action to tackle the crisis.

World Bank data shows that as many as 700,000 more African infants could die before reaching their first birthday as a result of the crisis. The crisis could also mean that even countries like Ghana and Tanzania, once on course to meet the first Millennium Development Goal – halving poverty by 2015 – may no longer meet that target. The impact is expected to be even more devastating in the 35 countries classified as “fragile states” by the World Bank – 25 of which are in Africa.

Bank and African Ministers Explore Strategies to Minimize Growth Shortfall

Ms. Ezekwesili explained that the World Bank will during the ongoing World Bank-International Monetary Fund Spring Meetings in Washington, DC, work with African finance ministers and governors of central banks to fine-tune the urgent action they need to take to minimize the growth shortfall and to protect the poor.

For Mr. Devarajan, the specter of political instability and social unrest hangs over African countries where the expectations built up during the last 15 years of steady growth are being dashed and gains threatened. He warned that market-based reforms, which were painful in the first place but which African countries implemented because they could see the impact they were having on growth, are likely to lose political support because they no longer deliver results.

“It is precisely in a season of crisis like this that African governments must stay the course of market-based reforms, in order to position the continent to take advantage of a bounce back of the global economy,” added Ms. Ezekwesili.

The World Bank, she said, will stay in the emergency mode it entered to respond to the 2008 food and fuel crisis. The Bank, she said, will continue to deepen debt relief in an effort to expand the fiscal space available to African governments; and will also continue to provide policy advice, help governments prepare contingency plans, and set up safety net programs to protect the poor and the most vulnerable segments of African societies.

The vice president promised continued Bank support in making funding available in an expeditious manner to countries in need, including through the front-loading of International Development Association (IDA) resources. So far, at least 15 African countries have benefited from the front-loading of between 20 percent and 50 percent of their interest-free credit and loan envelopes under IDA.

Support will also go to help boost Africa's agricultural productivity and expand irrigation programs on a continent where only five percent of arable land is irrigated (compared to

40 percent in Asia), and where 97 percent of all food production is rain-fed, threatened by recurrent drought and the negative impact of climate change.

To minimize the impact of the crisis, she said countries will need to continue to improve basic service delivery to the poor, especially in the areas of health and education. Less than one percent of spending on primary health reaches health clinics in rural areas and public school teachers are absent from school 27 percent of the time in a country such as Uganda.

Urgent investments are needed in infrastructure and in improving regulations, which the Bank describes as a binding constraint on Africa. By some estimates, access to infrastructure of the quality available in Mauritius would increase Africa's productivity by 40 percent and GDP by two percentage points.

Wrapping up the video press conference, the World Bank urged African governments to strengthen transparency and accountability, and to expand participation by their citizens, including for civil society organizations. Ms. Ezekwesili singled out media for recognition, praising African journalists for the courage they show in difficult settings across the region and for their work in promoting voice and accountability, in shaping the development debate, and in advancing civil liberties, freedom of the speech, good governance and democratization.

SOURCE: The World Bank Group