

Weathering the economic crisis in Africa

With the global economic downturn hitting fragile African countries particularly hard, European and African experts gathered in Accra, Ghana, to take stock of the implications for development policy. In parallel, the ‘new faces’ of African research brought a wealth of local perspectives on the issue of fragility from across Africa.

Accra played host to some 80 prominent researchers and policy-makers from Africa, Europe and international organisations who assembled in the Ghanaian capital to take stock of the economic fallout of the global economic crisis on ‘fragile countries’ (see box below) in Africa and what can be done to enable them to cope with the consequences. ‘Financial markets, adverse shocks and coping strategies in fragile countries’ (21-23 May 2009) was the fifth preparatory event for the first edition of the European Report on Development (ERD), a new research initiative spearheaded by the European Commission and several EU Member States (see box below).

Despite earlier expectations that the global crisis would pass Sub-Saharan Africa by because of its relatively small financial sector, the region has suffered severely from the turmoil, especially among those countries that are politically unstable, such as the Democratic Republic of Congo and Sudan, noted Victor Davies of the African Development Bank. “In Africa, although we were spared the first-round effects [of the financial crisis], we are suffering in the second round,” observed Joe Masawe of the Bank of Tanzania. And unlike in the West, the “shock to the financial system is likely to come from the real sector”.

What are the potential repercussions on poverty? The African Development Bank estimates that the ranks of the poor will swell by 27 million, and the International Labour Organisation forecasts that unemployment will rise by 8.5% in 2009. This could lead to a severe setback on progress towards the Millennium Development Goals on the African continent. To establish what this means concretely for the poor, Abena Oduro of the University of Ghana [explored](#) what effects (economic) shocks can have on African households and the coping strategies they employed to deal with them, while Wendy Harcourt of the Society for International Development [examined](#) the gender angle of fragility.

Shock channels

Most financial markets in Sub-Saharan Africa, and particularly in fragile countries, are very small and poorly integrated, so the global crisis did not hit the continent’s shores until it began affecting the real economy. According to the ERD’s lead author Giorgia Giovannetti, these indirect [transmission channels](#) included falling exports, a drop in remittances from diaspora communities, reduced access to trade finance lower levels of foreign direct investment and

potential reductions in future foreign aid flows. Participants agreed that there was enormous heterogeneity among African countries and the effects of the crisis on them.

The impact on countries in situations of fragility could be devastating, essentially because they are often more vulnerable and less resilient to external shocks, Professor Giovannetti explained. Besides, these decreasing income streams could even push some previously stable countries towards fragility, the assembled experts agreed. To prevent this requires timely intervention based on the careful monitoring of the situation in each country, as well as the more effective use of available development budgets.

And as foreign sources – from export revenues to development assistance – dry up, the need to tap the underutilised home front has become pressing. “Many Sub-Saharan African countries will have to rely on domestic resources, so they need... to strengthen their financial institutions and examine the options available for expanding the tax base,” [emphasised](#) Ernest Aryeetey of the Institute of Statistical, Social and Economic Research at the University of Ghana. In that regard, the potential of non-bank and non-formal institutions, including micro-credit facilities, to support small business activities and boost local economies was highlighted by many participants.

In addition, African countries need to work on improving their financial markets, [stressed](#) Franklin Allen of the University of Pennsylvania, notably to overcome their vulnerable dependence – [highlighted](#) by Philippe Martin of Sciences Po, the Paris school of political science – on foreign financing for their exports. Mobile banking and other remote technologies can help overcome the challenge of low population density that hinders financial development in many African countries, he added.

Representing the European Commission, Nicolas Gérard outlined the recently adopted [EU response](#) to help developing countries cope with the effects of the current financial and economic crisis.

Africa’s got talent

In a bid to support young African academics and highlight their work, 15 researchers from across Africa – out of an original pool of 158 submissions from 38 countries – were invited to present their research at the conference, as part of the ‘New Faces for African Development’ initiative launched by the European University Institute in the context of the ERD process.

Together, the talented young researchers provided valuable snapshots from the field. The issues they covered included the use of [traditional African governance](#) mechanisms to decentralise power, Zimbabwe’s [descent into fragility](#), [food insecurity](#) in Nigeria, as well as the [link](#) between aid and growth.

A podcast featuring some of these ‘New Faces’ will soon be available on the ERD website.

A European perspective on development

The European Report on Development (ERD) seeks, in close co-operation with developing partner countries, to enhance the European Union's perspective on development issues on the basis of knowledge excellence, innovation and enhanced bridges between top-level academics and policy-makers. It is a concrete manifestation of the commitment of the EU, the world's largest provider of development assistance, to the Millennium Development Goals. Fragility in Africa is the central topic in the 2009 edition which will be officially launched by mid-October.

For more information: <http://erd.eui.eu/>

Fragile, handle with care

Many Sub-Saharan African countries are in situations which can be described as 'fragile'. The root causes of this fragility can be manifold and include conflict, post-conflict, poor governance, weak institutions, etc. Countries experiencing fragility are extremely diverse in terms of their socio-economic and cultural make-up and circumstances, so there can be no 'one-size-fits-all' approach to their development challenges.

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