TO THE G-20: DON'T OVERLOOK AFRICA DURING THE RECOVERY

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FRAMING THE ISSUE

As the G-20 Summit convenes in Pittsburgh, there are increasing signs that the global economy may have turned the corner on its worst recession in four decades. Global economic growth is now projected by the IMF to reach 2.5 percent in 2010. Those meeting in Pittsburgh may be tempted to focus their attention on efforts to speed the recovery in the major economies seated around the table—a conversation from which African voices will be largely excluded—but to ignore both the damage done to Africa by the global crisis and the opportunity for the G-20 to speed its recovery would be a serious mistake.

POLICY CONSIDERATIONS

After one of the longest periods of sustained economic growth in Africa's post-independence history, the crisis has hit the continent hard and threatens to erode the gains made over more than a decade. Economic growth in Africa for 2009 is now projected to be only about 1.5 percent compared to the 5.4 percent in 2008, and growth prospects for the near future are not encouraging.

The prices of many African export commodities have dropped by 40 percent or more, lowering the export revenues that are an important source of government finance. Remittances have fallen by more than 4 percent and Foreign Direct Investment has declined by about 10 percent. The shortfall in export revenues is predicted to be about $251 billion in 2009 and $277 billion in 2010. At the same time, food prices have increased dramatically resulting in a large proportion of Africans who are food-insecure.

The crisis is likely to have long-lasting impacts on Africans because prior gains in health, education and access to public services are at risk. When economic times are bad in Africa, there is a rapid decline in indicators of human development, such as maternal and infant mortality, education enrollment and completion rates, and women's employment opportunities. But when economic times improve, they do not recover with the same speed. For this reason, if Africa is to maintain momentum toward the Millennium Development Goals, protecting human development outcomes is essential.

In sharp contrast with earlier economic downturns, Africans have worked hard to adjust to the crisis. To preserve macroeconomic stability many countries have significantly restricted their fiscal programs to reflect the reality of declining resources. Today, African economies are more open, governance has improved, and prudent financial regulation and the independence of central banks are the norm, rather than the exception. Governments have been making investments in both "hard' and "soft" infrastructure to improve the investment climate. Without these reforms, African countries would have been even harder hit.

But, as crisis turns to recovery, there is a crucial need for partners such as the G-20 to support Africa in securing the gains already achieved. We propose that those in Pittsburgh commit to action on three broad fronts:

Focus on Vulnerability: Dealing with the increased vulnerability brought on by the crisis remains the most urgent need. African governments are currently faced with tight budget constraints and have limited flexibility to increase support to the poor. Already several countries are facing serious shortfalls in financing public services, especially those that target the MDGs. Resources are needed to sustain investments in education, health, and water and sanitation. In addition, and especially with the increase in food-insecurity, the G-20 could greatly help the poorest Africans through financing the provision of safety nets.

Halt economic decline: Public expenditure alone, however, cannot eliminate the risk that human development progress will be significantly retarded. Jobs and household incomes are also needed. For this reason it is crucial to commit resources to prevent economies from sliding further into recessionary traps. African economies urgently require substantial fiscal stimulus to reduce unemployment and generate incomes, but most lack the revenues to do so on their own. In 2008, African countries recorded a budgetary surplus of 2.8 percent of GDP; due to the crisis, they face a deficit of 5.4 percent of GDP in 2009. Budget support remains an essential tool for spurring the recovery.

Support economic transformation: For the vast majority of the region's economies, lack of economic and export diversity act as a powerful constraint on future growth. Reliance on commodities exposes countries to crisis and leaves the authorities with limited policy options. Efforts to restructure Africa's economies have not achieved much over the years. Governments—often at the urging of their development partners—have paid more attention to short-term needs than to longer-term growth and development. In 2005 manufactured exports per person for Africa were just $39, compared with $211 in Vietnam. Bangladesh alone produces as much manufacturing output as all of sub-Saharan Africa (excluding South Africa). So, a key to the region's recovery will be its ability to compete in new product and export lines, which depend largely on better infrastructure.

ACTION ITEMS FOR THE G-20 SUMMIT

What can the G-20 realistically commit itself to do? First, it can honor its existing aid pledges and push for additional financing through the African Development Bank and the Bretton Woods Institutions. The focus of much of this new assistance should be on closing the region's enormous infrastructure gap. Policies that promote African exports are also important. Most G-20 countries have erected new protectionist trade barriers in response to the crisis. These barriers harm Africans and G-20 consumers. It is time to stop protecting and start promoting, perhaps through a G-20 wide system of temporary preferences for non-traditional African exports. Finally, the G-20 can work with Africa to highlight the major changes in policies and institutions that have taken place in the last 10 years—changes that make the continent more attractive to foreign direct investments targeted to manufacturing and value addition in agriculture. While the G-20 may be understandably tempted to look inward to speed the global recovery, it must look to Africa as well.