Foreword

At the onset of the Global Financial Crisis (GFC) in the middle of 2008, the likely impact of the crisis on Africa was largely underestimated. However, the continent which has recorded rapid economic growth between 2000 and 2008 relative to the 1990s was hit by a severe external shock. The growth rate of the gross domestic product declined from 5.6 percent in 2008 to 2.5 percent in 2009. Taking an annual population growth rate of about 2.5 percent into account, GDP per capita did not grow at all in 2009. Prior to the GFC, the region was confronted with a food crisis due to various factors related to low productivity in agricultural sector, drastic price increases of imported food, negative effects induced by climate change (draught and flood), and drastic increases in oil prices and prices of other primary commodities including agricultural products in international markets. Consequently, food security became a worrying problem such that 21 countries in the region are currently under conditions of an acute food security crisis. The proportion of income in poor households spent on food is well over 50 per cent in many countries in the region (UNCTAD, 2009). The food security crisis was then followed in Africa by the effects of the global financial crisis.

The GFC has affected Africa mainly via two channels (Kato, 2009, UNU-WIDER, 2009). The first is a negative demand shock for African export products due to the decline in global demand for almost all kinds of commodities, including primary commodities such as crude oil, minerals, and agricultural products, resulting in declining export prices. The effects of the trade channel have been aggravated by a second channel, the transfer and capital flow channel. Potential dangers of the GFC included the decline of external transfers such as foreign aid and remittances. Whilst remittances declined significantly in many countries and by an estimated 6.6 per cent for the whole continent between 2008 and 2009, foreign aid is, however, expected to flow relatively constant in 2009 and 2010 (AfDB, OECD 2010, IOM, 2009). The path on ever-increasing foreign direct investment (FDI) inflows, which Africa enjoyed during the 2000s, came to an abrupt end in 2009. In 2009, FDI inflows were expected to decline by 36 percent (as compared with 2008). Africa’s decline in FDI goes hand-in-hand with similarly declining rates in other developing countries (AfDB, OECD 2010). Also access to credit was affected by the GFC. The slowdown in world trade reduced government revenues considerably, while government expenditures were on the increase also because of stimulation packages in some African countries. Additionally, this put pressure on fiscal positions in many African countries, thereby subjecting the progress made in poverty reduction and public investment.

One would then ask whether Africa is at another economic and political crossroad. Over two and a half decades many countries in the region have been engaged in economic policy reforms. The policy reforms were aimed at restructuring the economies to a more market-based development path. Multiple crises (food crisis and financial crisis) of such a magnitude imply that gains recorded from the policy reforms in countries like Botswana, Mauritius, Ruanda, Ghana, South Africa, etc. are in danger. Countries like Nigeria, that has made progress in banking and capital market reforms, face difficulties in managing the external shock. The SANE countries (South Africa, Algeria, Nigeria and Egypt), seen as the emerging economies that can drive the economic direction of the continent, were hit by second round effects of the crisis, especially on stock markets. For some observers, the influence of China in Africa became another source of concern since the Chinese development cooperation strategy failed to recognise the fundamental principle of economic and political reform in the region. The danger is that policymakers in the region may seek alternative ways out by reversing policies in order to respond to the crisis. New global powers may emerge as stumbling blocks to reform as countries in the region look for different development paradigms and seek alternative trade partners in the global market. Although the global financial crisis seems to be an event of the past in the developed world, the impacts on Africa are still present and severe.

In volume XV of the African Development Perspectives Yearbook, the Research Group on African Development Perspectives investigates the impact of the GFC on economic reform processes in Africa. The analysis is structured in such a way so as to reflect the opportunities and dangers of policy reversals in the face of the GFC. The impact of the crisis on different types and forms of governance in the region is considered. The central question is therefore which macro-economic policy instruments have to be applied in order to overcome the crisis and to continue with sustainable development. The further question is raised how the GFC has affected Africa's external economic relations and if the path of opening up to the world markets is continued. Another question raised is how the crisis has affected social cohesion, impacted on poverty alleviation strategies and the achievement of Millennium Development Goals (MDGs). All these questions are discussed in the various contributions which comprise general studies and country case studies. The authors also looked into the role of international financial institutions during and after the crisis.

The volume XV of the African Development Perspectives Yearbook is structured into three Units. Unit 1 addresses general issues regarding the impact of the GFC on economic reform processes in Africa. The main issues for Africa are how to assess the impact of the GFC on economic reform processes, and how to continue in the aftermath of the GFC with deeper economic reforms. Three contributions present the agenda for more fundamental reforms after the GFC so as to reduce the vulnerability of African economies; three other contributions highlight concrete reform steps deriving lessons from the impact of the GFC and the reactions to it for Africa: use of fiscal and countercyclical policies, use of policies for stabilising trade and pushing for export diversification, and use of policies for financial market regulation. Unit 2 presents case studies from countries and sub-regions. Three African sub-regions (West Africa, Central Africa, and Southern Africa) are covered in the contributions, but also the impacts of the GFC on ECOWAS and its member countries are discussed. The steps towards a West African Monetary Union (WAMU) highlight future options to strengthen the regional economies. Various contributions on Nigeria highlight important macroeconomic, human development and sector issues. Because of the important role of Nigeria (as a SANE country) for the further development of its neighbouring countries, the concentration on Nigeria in Unit 2 gives the possibility to reflect on the importance of necessary macroeconomic, human development, and sector reforms. The impact of the GFC on the economic reform processes is considered in all contributions, reflecting on the chances to continue with deeper economic reforms. Unit 3 presents reviews and book notes of current literature focussing on issues of African development perspectives. There is a concentration on books, reports and documents discussing GFC and developing countries, GFC and African countries, GFC and Global and African Economic Reports, GFC and development finance, but there are also reviews and notes on publications about post-conflict stabilization in African countries as these countries suffered most from the GFC and need special assistance in their economic reform processes.

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