

Africa's Opportunities and Challenges in a Risk-Averse World

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Introduction

Good morning and thank you to our hosts, the African Human Security Initiative and the Hanns Seidel Foundation, for the invitation to share ideas on how to overcome the challenges Africa faces in the current global economic crisis. This clearly is not the first crisis, nor will it be the last that we will face because the interconnectedness of the world has ensured that economic, political and social shocks are felt around the world, despite borders, cultural distance and ideological differences. This crisis has been likened to the Great Depression and the Asian financial fallouts, but this one is different because of its scope and its projected duration. Over the past year we have seen food riots, wage strikes and governments being ousted. This is a period of rising instability, increased human insecurity and decreasing policy space.

On the positive side, we are being presented with an opportunity to change the way world does business. We have the opportunity to find ways to create equality through economic growth. We now have a chance to change or adjust macroeconomic policies to ensure that they benefit the majority while still supporting those industries that promote national, regional and continental growth. This is a unique opportunity that does not come around very often; therefore, if we do not exploit it, we will have wasted it.

International organisations, states, non-governmental organisations and private companies have had to deal with the crisis in novel ways in order to make ends meet. However, there has been increased unemployment, a decrease in trade and economic growth, a consequent decline in Gross Domestic Product (GDP) and a narrowing of policy space within which the state can act. The nature of business and institutions will need to change to adapt to the constraints that face us. Reforms should include national and international changes to the financial system and more transparent regulation of that system. The International Monetary Fund (IMF) and the World

Bank set up the Financial Sector Assessment Programme after the Asian Financial Crisis, but because its scope of risk assessment has been too 'narrow its effectiveness has been limited'.¹

We will need to re-examine the role of the state, of global institutions such as the World Bank, the IMF and other development finance institutions as well as the role of central banks in our countries and the relationship between them.² Many economists are not arguing for an ideological change from capitalism and free market economies, but rather are arguing for systemic regulation that will still allow for the principles of market economies to function. They are not arguing for wholesale change, but that we should work within the system we know and make it a better system. Therefore it is not my intention to argue against neoliberal principles of free market economies, because those are self-evident and we will not be moving away from capitalism. But what we do need are more people-centred institutions and policies that work in favour of citizens, not against them.

My presentation will briefly look at the challenges facing Africa but will concentrate on the effect of the crisis on women and offer ideas for discussion on how we could mitigate the inevitable effects of a global financial crisis. I also aim to highlight some of the strategies that would work for the continent.

Broad context

I will not go into the causes of the crisis, suffice it to say that risky economic decisions were taken at the expense of lenders in the United States that have thrown their housing market and economy into a steep decline and affected financial markets around the world. Initial speculation about the spread of the crisis thought that Africa would not be affected because of its peripheral relationship with the rest of the world. However, many economists argue that the economic imbalances were caused by 'dependency on the world's three largest currencies: the dollar, the euro, and the yen. The dominance of these currencies and their relationship to developing countries' economies have helped spread financial contagion'.³ Also, Africa is deeply ingrained in the world economy as a resource exporter and consequently reliant on foreign exchange rates and the ability of its buyers to pay for the resources.

With the collapse of the markets, especially the US and Europe, African economic growth has declined significantly due to falling commodity prices and diminishing foreign direct investment (FDIs). Up until the crisis happened, developing economies benefited from higher commodity prices; increased FDIs; and increased remittances from Diaspora communities. Many remittances have either been reduced or postponed due to the financial crisis as people lose their jobs, companies close down and the cost of living increases. The IMF recently predicted that the US's

¹ 'New Financial Architecture', December 2008.

http://www.economicsofcrisis.com/economics_of_crisis/nfaintro.html

² Jane D'Arista and Stephany Griffith-Jones, 2009. 'Agenda and Criteria for Financial Regulatory Reform'.

http://www0.gsb.columbia.edu/ipd/pub/DAristaGriffithJones_Financial.regulatory.reform.pdf

³ New Financial Architecture.

growth for 2009 will probably be between 0.1 and 0.2 per cent and Europe and Japan's GDP growth rates would be 0.2 and 0.5 per cent respectively. These rates show a significant reduction in imports from the developing world thereby reducing Africa's growth drastically.⁴ Many resource endowed African countries will still experience growth but not to the same extent as they have in the past few years.

The emerging economies of Brazil, China, India and Russia (BRICs) also benefited greatly from the windfalls of the boom between 2002 and 2007. From 2003 to 2007, the collective GDP of developing countries rose by more than 5 per cent each year; in 2006, the growth rate peaked at nearly 8 per cent. The IMF projects a world growth of 3 per cent for this financial year.⁵

The broad arguments are based on the fact that the international financial markets have not been sufficiently regulated; therefore the risky behaviour that characterised the periods of high growth between 2002 and 2007 led to the collapse of the world economy in the period starting in 2008. This collapse came at a time when governments were recommitting themselves to development agendas. The Paris Declaration and Monterrey Consensus were key in the 2008 agenda. But this was all done in an environment where the economic collapse dictates the size of the FDI purse. Countries that previously had committed 0.1 per cent of their Gross National Product for overseas development, were now neither able to nor willing to commit additional funds or even pay what they had promised. The meeting in Lusaka, Zambia, in March 2009, launching the North-South Corridor also saw the European Union, Department for International Development (DfID) and other major donors, including my employer the Development Bank of Southern Africa, commit to infrastructure development in Africa. Apart from the DfID and the DBSA funds, all the other commitments were not new money but a reiteration of old promises.

In the growth period after the East Asian Crisis, the number of people worldwide living in extreme poverty has dropped by more than 300 million.⁶ The World Bank recently predicted that as many as 53 million more people in the developing world could likely slip into poverty due to the crisis. Already 1.5 billion people worldwide live in abject poverty with the majority living in the developing world. This poses a significant worldwide human security threat as more and more people become poor with no possibility of moving out of poverty. If levels of poverty are measured in terms of Sen's capability measures, more and more people are becoming incapable of living decent lives and therefore are becoming more peripheral to decision-making and participation in their own countries. This creates instability in economic, social and political terms that our continent can ill-afford.

⁴ Justin Yifu Lin, 2008. 'The Impact of the Financial Crisis on Developing Countries'. Paper delivered at the Korea Development Institute, Seoul, p. 8. http://crisistalk.worldbank.org/files/Oct_31_JustinLin_KDI_remarks.pdf

⁵ Lin, 2008, p.12.

⁶ Chen, Shaohua and Martin Ravallion. 2008. 'The Developing World Is Poorer than We Thought, But No Less Successful'. Research Working Paper 4703. Cited in Lin, 2008, p.13

Impact on women

Emerging markets and Least Developed Countries (LDCs) have been affected by the economic downturn. Key industries have closed down, especially textile and service industries that employ mostly women. Women will feel the brunt of this recession, unlike during the Asian Crisis when women were employed in low-ranking jobs to keep labour costs low. Women were employed above men because they were cheap, controllable and worked hard. Now women are being forced out of the markets. For some feminist economists, this marks the return of women to the household as more women lose their jobs and take up the burden of unpaid work within the private sphere. As the crisis deepens, women take on more responsibilities outside the formal market and public space and are lost to the household. As long as our governments and economies do not give a financial value to women's unpaid work in households, women's work will remain unaccounted for and not contribute to GDP. Informal markets also increase in size as women are forced out of formal employment and jobs. This unregulated sector also does not quantify the work of women despite more women working in informal markets than men. In Britain, this is seen as the first feminised recession.

There are a number of areas that need to be highlighted in relation to women's experiences of this crisis:

- Trade and employment – neo-liberal trade has always disadvantaged women and the poor. The division of trade within the world maintains the gender relations in women's work and men's work. Women are employed in sectors that have been significantly affected by the crisis, for example, tourism, services and export-oriented goods. Workers are either being expected to work part-time or half-time to keep their jobs or they are being laid off from work. If the crisis continues for an extended period of time, workers in the social sector will be lost and education, health and other social services will bear the brunt. Women are already carrying a heavy load with HIV/AIDS, TB and other diseases that force poor people to remain at home because governments cannot take care of them.
- Increased unemployment – women are mostly found in 'vulnerable jobs' therefore are fired before men. They are also seen to be 'second breadwinners' therefore not integral to the household's survival. Women headed households far outnumber male head households and women also spend their wages on education, health and nutrition in the household. Public sector budgets will also be cut with the result that women have to pick up the responsibility of caring for the young and the sick in the home. Girl children are taken out of school to help their mothers or head child-headed households.

- Decline of GDP – with the loss of jobs and businesses closing, GDP will drop leaving the state worse off. As a result social spending will be cut and women will pick up the social sector responsibilities at home.
- Migration – mass migration from poor economic areas to urban areas also place a burden on the state. Cities will not be able to manage a huge influx of people from either neighbouring countries, towns or from the rural areas.
- Fiscal policy – ‘Fiscal policies should be transformational in their goals and effects’.⁷ This means that inflation targeting, unfettered markets, gender-neutral economic policies should all be reviewed to ensure that the inequality does not remain in place after the crisis is over. Stimulus packages should not only rescue male-dominated industries like the motor industry, but should support social infrastructure spending; fiscal oversight bodies; use of international reserves to support countries in the short-run (counter-cyclical measures); financing women in agriculture and ensuring food security; shared employment; sources for funding; currency transaction taxes (CTT).

Central banks could play a significantly different role in the future (as lender of last resort). They could be engines of employment growth where they use expansionary monetary policy, development banking and credit subsidies to support small, micro and medium enterprises. Central banks should move away from their obsession with inflation targets and move towards financing small scale business and small scale agriculture. Government loan guarantees and lower interest rates could support this initiative in the long run.

Job creation is going to be of paramount importance in the next period but it needs to be gender-aware job creation and solutions that support women and men in different ways depending on their context. Developing countries are going to be forced to develop their domestic economies. It is a time when we need to become inward looking again and concentrate on the local. Globalisation has provided us with great opportunities but in this time of crisis, we need to think and act locally.

- African countries should re-double their efforts to develop their own domestic institutional investor base. We should begin to own our own resources and invest in our development.
- There is a key role to be played by the DFI’s and IFI’s to shorten the crisis, and mitigate against its effects. The US\$15 billion war chest – recently announced and pledged through the *African Financing Partnership* that is coordinating a joint DFI/IFI response

⁷ Stephanie Seguino, 2009. ‘The Global Economic Crisis, Its Gender Implications, and Policy Responses’. Paper prepared for Gender Perspectives on the Financial Crisis Panel at the Fifty-Third Session of the Commission on the Status of Women, United Nations, March 5, 2009, p.5.

to the financial crisis – is a significant step in the right direction [*this war chest is targeted to promote trade, strengthen the financial sector, increase lending for infrastructure projects, agri-business, and small and medium enterprises in Africa affected by the global economic meltdown*].

- The development and financing of public-private partnerships to provide public goods and infrastructural services is another area of opportunity. This should be done with the awareness that many private companies are not female owned or headed by women therefore special attention should be given to supporting women-owned businesses.
- There are also increasing possibilities to *make markets* and *develop instruments* to intermediate financial surpluses in local financial markets rather than abroad. Developing and providing *local currency debt finance instruments* is one such example. Such activities improve the depth and sophistication of local financial markets. This should include broadening women's access to financial instruments and markets.
- The global financial crisis provides Africa with the opportunity to accelerate restructuring of its economies, improve corporate governance, and take advantage of the changing geopolitical environment in Africa that has seen the emergence of the likes of China, India, Russia, the Gulf States, sovereign funds, etc. that are gaining prominence in Africa.
- Finally, a further opportunity exists. Stalled global trade talks need to be resumed to stimulate global growth and welfare. The current crisis could provide impetus for the successful conclusion of the Doha Round that would help to better integrate developing countries, including those in sub-Saharan Africa, into the global trading system, which would spur global and regional growth and facilitate African attainment of the MDGs. Temptations to respond to weakening balance of payments positions with protectionist measures need to be avoided. Less global trade would likely harm all countries.

Multilateral institutions

The OECD, IMF, WB, G8 and G20 all represent arenas for the developing world's struggle for equality. The IMF completed its 13th review cycle in 2007 that resulted in a net loss of voice and representation of the two African giants, South Africa and Nigeria, and a net gain for the emerging markets of India and China. The collateral benefit also accrued to the G8. The voting and quota systems need to be reformed to truly reflect the members' market size, population, GDP based on PPP, and international savings.

The Managing Director, Executive Directors, members of the IMFC and senior staff of the IMF should be elected and identified by the membership of the IMF. Each country should have one vote for this process. The weighted voting process could continue in regard to the issues being

debated at each level of the IMF but in terms of electing the leadership of the IMF, the voting structure should be changed. We missed the opportunity to change the IMF's governance governance structures. A changing mandate and financing system demands a new evolving process through which the leadership is elected. The G7, especially the Europeans and the US, could play a role in effecting that change by surrendering some of their powers. This could be started by more concerted lobbying from the emerging markets as well as the Global South.

Intra-regional trade

The share of intra-regional imports of total imports amounts to 12 per cent in SADC and 4 per cent in COMESA and the share of intra-regional exports of total exports is less than 9 per cent in both SADC and COMESA. Although intra-regional trade has increased somewhat, internationally, trade has been decreasing or at best remained constant: the share of COMESA in world exports remained about 0.5 percent since 1990, while that of SADC declined from 1.0 to 0.7 percent in 2004. International trade patterns reflect largely colonial ties, but trade with India and China is increasing.

Development of infrastructure and services is critical for promoting and sustaining regional industrialization, trade and investment growth. The potential for deepening integration in SADC through sharing of production, management and operations of infrastructure facilities, hubs, development corridors or poles is considerable. Efficient infrastructure is therefore a link between production and trade.⁸ The Development Bank of Southern Africa has committed itself to regional integration and infrastructure development to facilitate regional trade across southern Africa. The World Bank's Chief Economist, Justin Lin, has identified infrastructure development as a main driver for the economy.⁹ One such need is building of urban and rural infrastructure that is needed to sustain that growth. Lin's second area of investment is in social protection and human development, for example, conditional cash transfer programmes to keep children in school, public works employment like India's Employment Guarantee Scheme and South Africa's Extended Public Works Programme; and, subsidies on the consumption of staple goods.¹⁰

Challenges for developing nations

Mainstream economists argue that this is not a crisis of capitalism or of markets in general and that it would be a 'grave error' to restrict markets as it will result in lower growth and slower

⁸ Mxolisi Notshulwana 2008, 'Discussion Document: Regional Integration and FTAs', p.5.

⁹ Lin, 2009, p.16

¹⁰ Lin, 2009, p.20

poverty alleviation. Protectionist governments, they argue, would destroy the opportunities to engage internationally while protecting national economies. In many cases, the state has moved towards industrial policy that hopes to identify and boost particular sectors, like during the Asian Tiger period. The two fundamental problems with these initiatives are that: (i) government has no particular skill in identifying the appropriate sectors to support, leaving them open to political and social pressure, as opposed to economic arguments. (ii) the second and related problem is that the beneficiaries of these policies, though often small in number, are identified and mobilised while those saddled with the costs of the intervention (consumers, both rich and poor) are dispersed and hence politically ineffective. This calculus of effective intervention by mobilised minorities is why governments often implement interventions which cost the economy many times more than the benefits they yield to society.

Fiscal policy has also become a powerful tool in the fight against poverty. It is the much criticised prudence of fiscal policy that has allowed government to expand its social support so dramatically. And the cyclical nature of government revenue against the backdrop of a sound debt position also means that fiscal policy will lean moderately against the local recession.

Conclusion

My colleagues will talk about the impact of the crisis from various perspectives therefore I aimed to look at it broadly and from a feminist perspective. Women have been excluded from many arenas of decision-making and have been at the low end of economic development due to culturally and socially gendered norms. There are a few suggestions that I will leave you with, and in no order of importance:

- Governments have to ensure that economic growth includes sectors that create jobs for women and men, but more especially women.
- Social services should extend to those who do care work and to the informal sector where women are in the majority.
- Women should be provided with access to credit to own and build their own businesses. Land ownership should also be extended to women.
- People-centred development should be the core of every government's economic growth plan. This means that participation and transparency are key.
- Infrastructure development should not happen at all costs, for example, some of the white elephants that have been built with foreign money because our governments want to be seen to deliver.
- We should move from purely extractive industries to beneficiation and value-add industries. African countries should begin to export finished goods and services, and not be a mere resource provider to the developed world.

- The IMF and other international institutions should be lobbied for the next round of review in 2013 to provide the developing world with more voice and representation that reflects the true nature of the world.
- The unfettered market needs to be controlled through regulation that benefits all. We cannot have a system that does not work for the majority of the people. But we cannot all be Venezuela. African countries need to find ways to work within a system that is inherently based on inequality and division of labour at an international level. How do we make this work for ourselves?
- We should create policies that are able to ‘generate broadly shared capabilities expansion and well-being’.¹¹ Job creation should be the underpinning principle of the next round of economic growth. Money should be transferred to the low and middle-income households to generate economic growth.

As I said in the beginning, this is an opportunity to restructure the global economy and our national economies. While doing that we need to consider the poorest of the poor, the women, and design systems and institutions that work for them. This includes gender mainstreaming, gender budgeting and including women in decision making processes.

Thank you.

¹¹ Seguino, 2009, p.12