FONDAZIONE
BANCO DI SICILIA

Extract from the research study *"Developing Africa: an opportunity for Europe, Italy and Sicily"* *

I. The international financial crisis and its effect on Africa

II. An overview of the African continent

III. Matching Millennium Development Goals (MDGs)

** Study developed by The European House-Ambrosetti for Fondazione Banco di Sicilia*

The international financial crisis is affecting developed countries as well as emergent economies and least developed countries, although in different ways and at differing rates.

As regards Africa, especially Sub-Saharan Africa, the crisis threatens economic growth, social development and political stability achieved in the last ten years, through a decline in per capita GDP, exports, foreign direct investments and remittances.

This document aims at highlighting the impact of international crisis on Africa together with some relevant issues for Africa's growth, including the new partnership and cross-sector integrated approach to support development.

I. The international financial crisis and its effect on Africa

Global GDP growth has been slowing since 2008

1. According to international financial organizations, world GDP grew by 2.2% in 2008 (from 3.8% in 2007) and it is estimated it will contract further in 2009, and subsequently recover by approx. 2% in 2010.[1]

2. The crisis is affecting world economies at different rates.[2]

- Developed economies: growth is estimated to fall from about 2.5% in 2007 to about 1.1% in 2008 and -0.5% in 2009.
- Emerging and developing countries: GDP growth is expected to slow from 6% in 2008 to less than 2% in 2009.

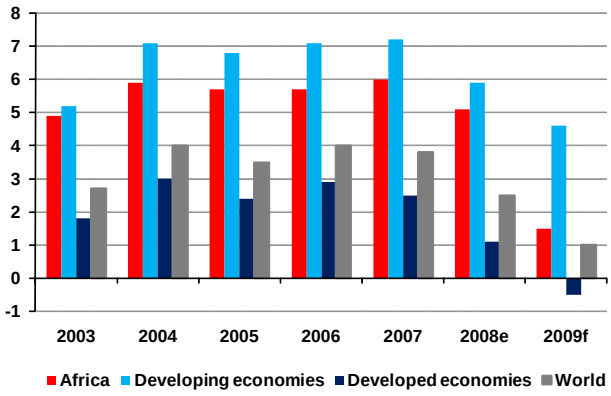

Figure 1 – Growth comparison among world regions, GDP % annual change (Source: TEH-Ambrosetti on United Nations data; for 2009, it is reported only the baseline scenario; for Africa, 2009 data refers to IMF, April 2009; e= estimate, f= forecast)

The impact on African countries depends on their economic structure

3. As regards Africa, when the crisis began, it was expected that the continent would only be partially hit, due to the modest dimensions of its internal financial sector only marginally exposed to complex financial operations.

4. However, while this prevision has been confirmed, Africa is suffering from other negative impacts that include reduced exports and foreign capital flows, such as FDI, remittances[3] and tourism receipts, with differences among states that depend on the structure of the economy of individual countries.

5. Oil and metal exporters have been hard hit by the reduction of those commodity prices which have fallen over 60%; a similar scenario can be drawn for states dependent on

[1] Source: IMF, *Regional Economic Outlook: Sub-Saharan Africa*, 2009 and OECD, *African Economic Outlook,* 2009.
[2] Source: IMF, *Regional Economic Outlook: Sub-Saharan Africa*, 2009.
[3] In 2007, remittances represented almost 2.7% of Sub-Saharan Africa GDP. It has been calculated that a reduction of 1 percentage point of GDP in the host economy corresponds to a reduction of 4% in remittances. Source: IMF, *Regional Economic Outlook: Sub-Saharan Africa*, 2009.

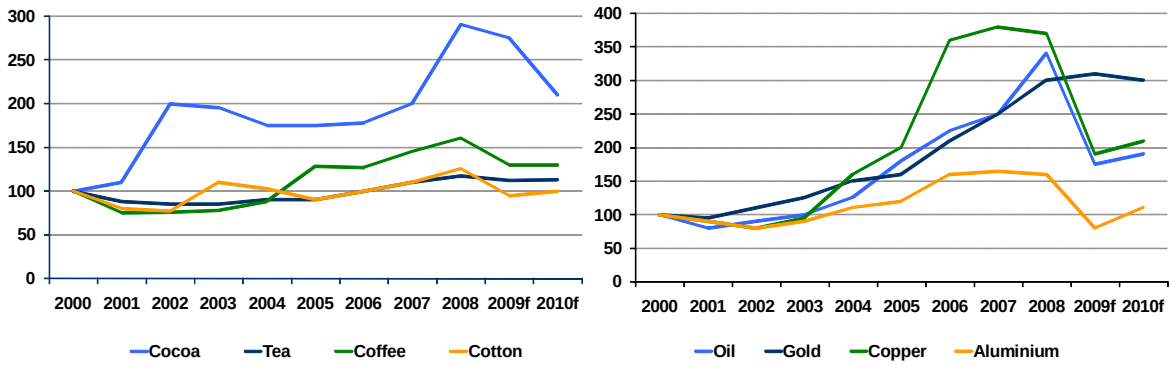

Figure 2 – Trends in agricultural, oil and metal prices, index
(Source: TEH-Ambrosetti based on IMF data; January 2000=100; f=forecast)

other commodity exports, such as coffee or cocoa, whose prices have fallen as well, while benefiting from oil price reduction[4] (see figure 2).

6. The net result for Sub-Saharan Africa is that, after a decade of economic growth, African GDP is expected to pass from over a 5% average annual rate through 2007, to less than 5% in 2008 and 1.5% in 2009.

7. For North Africa, economic growth at 5.8% on average in 2008 is expected to fall to 3.3% in 2009.[5]

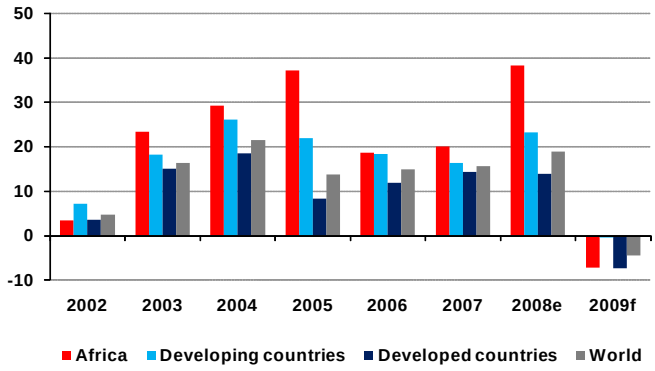

Figure 3 – Export value growth comparison, % annual change;
(Source: TEH-Ambrosetti based on United Nations data;
e= estimate, f= forecast)

In addition to GDP, other variables affected by the crisis are: exports, inflation, national accounts and employment

8. The international crisis will impact on other variables, as shown in figure 4. Associated with the lower GDP are:

– a reduction in exports (that amounts to a loss of USD 251 billion of revenues in 2009, that is -7.1% of their value),

– larger current account deficits (from 4% to 6.7% of GDP),

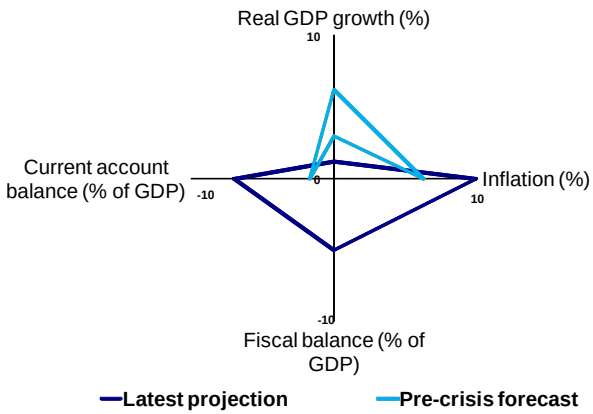

Figure 4 – Current and pre-crisis forecast for 2009 for Sub-Saharan Africa (Source: IMF)

[4] Source: IMF, *Impact of the global financial crisis on Sub-Saharan Africa*, 2009.
[5] Source: OECD, *African Economic Outlook,* 2009.

– currency depreciation leading to inflation pressure.

9. Last but not least, concerns have been expressed about the combined effects of rising spending pressure, increasing debt-servicing costs, lower tax revenues and higher borrowing costs that can negatively impact fiscal balances.

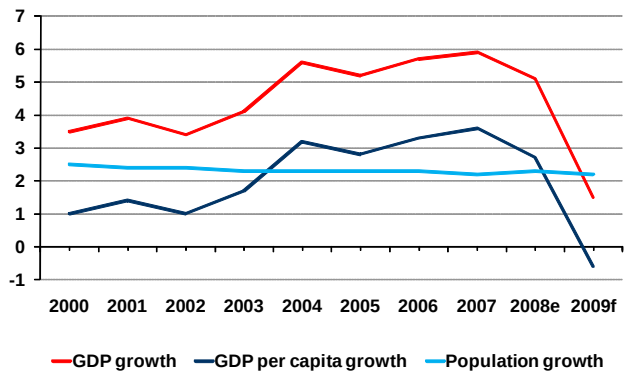

Figure 5 – Comparison between Africa's GDP growth (%), per capita GDP growth (%), and population growth (%) (Source: TEH-Ambrosetti based on World Bank data; e= estimate, f= forecast)

The crisis may threaten social gains

10. The international crisis does not limit its impact to economic and financial areas, and may threaten social and political gains, making it harder for African countries to combat poverty. As shown in figure 5, the limited growth of African GDP with the parallel increase of population is reducing per capita GDP, with a overall effect of increasing poverty.

11. A major concern is represented by the proportion of the population living on less than 1 USD per day, improvement in which is a target of Millennium Development Goals. It should be noted that, in absolute values, poor people doubled over the period 1990 to 2007 (from 286 million to around 412 million).

12. Economic slowdown, increasing inflation levels and job losses, together with growing population, can contribute to maintaining poverty levels high and intensifying migration flows from Africa.

13. In the end, the crisis may affect and even reverse the main development progress achieved by several Sub-Sahara African countries in recent years, since their economies remain fragile and vulnerable to external shock. For this reason, the international community should continue to provide its complete financial, technical and political support.

II. An overview of the African continent

14. In recent years, Africa has embarked upon a course of economic growth whose rate in 2007 was 5.9%.[6] Growth has been driven by high commodity prices (oil exporters experienced two-digit growth) and boosted by strong capital flows and investment, especially by new players in Africa such as China, India, Japan and Arab sovereign funds.

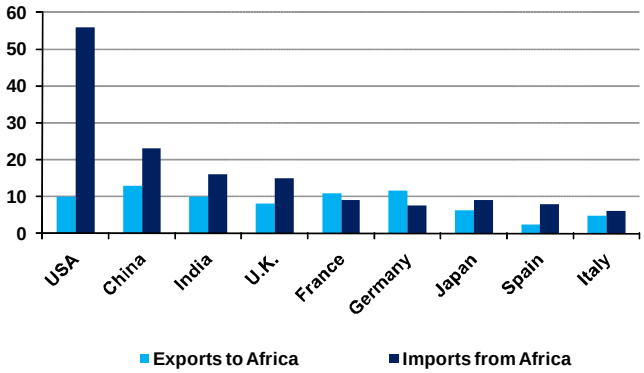

Figure 6 –Africa's main trading partners, USD billion (Source: TEH-Ambrosetti based on US Department of Commerce, Indian Industry of Commerce data, 2006)

[6] Source: World Bank, *African Development Indicators*.

African exports still remain raw-material oriented

15. Trade with Africa has been raw material-oriented, but several African countries are diversifying exports towards manufactured products, especially in the textile and fish industries.

16. Exports from Africa have risen to USD 424 billion in 2007, up from USD 360 billion in 2006 (+17.5%).[7]

17. While Africa's main trading partners remain the USA and the European Union (that account for about 60% of African exports), the Asian market for African exports is fast growing, with exports to Asia rising +50% from 2005 to 2007.[8]

18. Of total trade volume, intra-African exchanges amounted to 9.5%, reflecting persistent difficulties in internal trade due to poor infrastructure, border tariffs and other restrictions.

Foreign direct investments have reached the highest peak since 2001

19. FDI rose during the period 2002 to 2007, reaching USD 53 billion, the highest level since 2001. Nevertheless, such flows represent a smaller percentage of global FDI, declining from 3.2% in 2006 to 2.9%.[9]

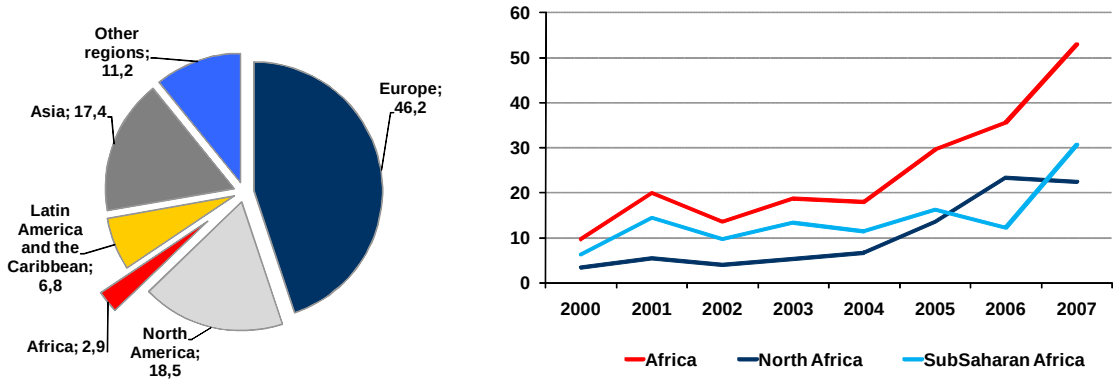

Figure 7 – FDI inflows towards Africa (USD billion) and share of global FDI
(Source: TEH-Ambrosetti based on OECD data)

20. In 2007, the top recipient countries were Nigeria, Egypt, South Africa, Morocco, Libya and Sudan.

21. As regards industrial distribution, mining represents a main attractor but other sectors and industries are catalyzing investments, e.g., infrastructure and manufacturing (specifically the textile and chemical sectors).

Official Development Aid decreased in 2007

22. In 2007, Africa reached almost 39 billion of net ODA, representing about 37% of global aid, falling from 43 billion in 2006, mostly due to the end of special debt relief operations.[10] Debt relief grants amounted to USD 3.7 billion (see figure 8). Within overall development aid, the Aid for Trade mechanism is a major one, since it represents the new framework for financing additional infrastructural projects.

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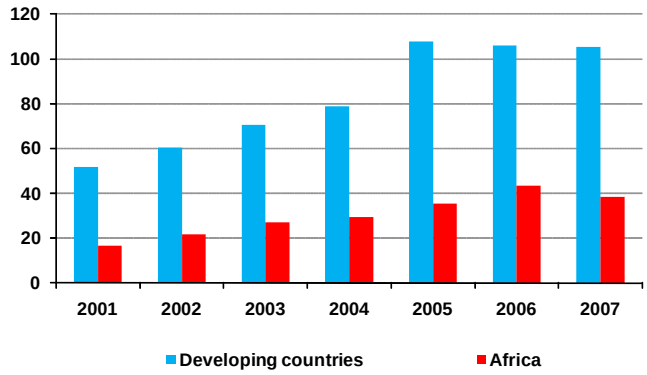
[7] Source: OECD, *African Economic Outlook,* 2009.
[8] Source: OECD, *African Economic Outlook,* 2009.
[9] Source: OECD, *African Economic Outlook,* 2009, UNCTAD, *World Investment Directory,* 2008.
[10] Source: OECD, *African Economic Outlook,* 2009.

Regional African partnerships for infrastructure programs are becoming central for Africa's development

23. Poor infrastructure is a very critical factor in Africa's economic and social development: for example, trade-related transport costs in Africa are more than twice as high as in South-East Asia.[11] It has been calculated that Sub-Saharan Africa needs about USD 17-22 billion per year to develop infrastructure, against the USD 10 billion spent[10] to overcome this gap.



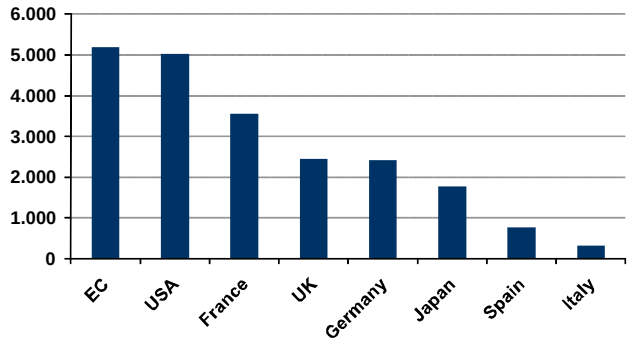


Figure 8 – Aid trend (USD billion) and Development Assistance Committee (DAC) main donor countries towards Africa (USD million) (Source: TEH-Ambrosetti based on OECD data)

The North-South corridor represents an example of multi-sector approach for development

24. Aware of the importance of infrastructure, several nations, especially in Southern Africa, while maintaining a bias towards the domestic market, have also seen a dramatic shift towards the development of regional infrastructure. An example is the recent launch of the North-South corridor promoted by SADC, EAC and COMESA[12], to undertake transport, power and trade facilitation projects. It represents a cross-sector integrated approach along the corridor traversing eight countries in East and Southern Africa.[13] For such a strategic project, development partners (which include the World Bank, European Union, and African Development Bank as well as individual countries) have recently pledged USD 1.2 billion for the North-South corridor, the busiest in the region in terms of value and volume of freight.

25. The North-South pilot corridor and the efforts of the three African regional organizations involved follow the path of Africa's self empowerment begun with the launch of New Partnership for Africa's Development (NEPAD) in 2001. This initiative is anchored in the determination of African countries to choose their own way out of underdevelopment (based on the principle of African ownership and management).

[11] Source: World Trade Organization.

[12] They respectively stand for: Southern African Development Community, East African Community and Common Market for Eastern and Southern Africa.

[13] Tanzania, Democratic Republic of Congo, Zambia, Malawi, Botswana, Zimbabwe, Mozambique and South Africa.

African institutions are working to enhance economic cooperation and integration

26. NEPAD and the entire African Union have been working to enhance economic cooperation and integration, solve internal African conflicts and spread democracy throughout the continent, as well as improve internal social and living conditions.

27. In this "self empowerment" process, it is therefore essential that the international community continue to give its political and financial support to African institutions to translate their commitment to development into reality.

III. Matching Millennium Development Goals (MDGs)

28. According to UNDP, the Human Development Index of Sub-Saharan Africa passed from 0.464 in 1998 to 0.493 in 2005. The average value of developing countries is 0.691 while OECD countries reach 0.916. The challenge to improve human development in Sub-Saharan Africa is mirrored in the achievement of Millennium Development Goals.

There has been only partial achievement of Millennium Goals

29. *Goal 1: Reducing extreme poverty and hunger by half.* Notwithstanding poverty[14] in Sub-Saharan Africa went from 55.7 per cent in 1990 to 51.4 in 2007, more than 50 per cent of African countries show a level of progress insufficient to reach the millennium goal or even a deterioration in poverty levels.

30. *Goal 2: Achieving universal primary education.* In Sub-Saharan Africa, 23 million children attended school in 2006 compared with 16 million in 1999. Primary enrolment rates increased by 14 percentage points between 1999 and 2006, from 56% to 70%. On the other hand more than 30 per cent of children enrolled in school do not complete the primary cycle. (In North Africa the level is 10%). On the whole, the literacy rate in Sub-Saharan Africa is around 60.3% for those over 15 years of age, but this is not yet in line with the average for developing countries (76.7% in 2005)[15] (see figure 10).

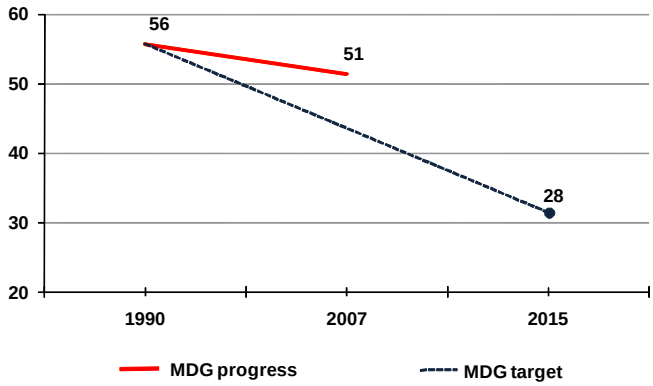


Figure 9 – People (%) living with less than a USD a day (Source: TEH-Ambrosetti based on The Millennium Development Goals Report 2008)

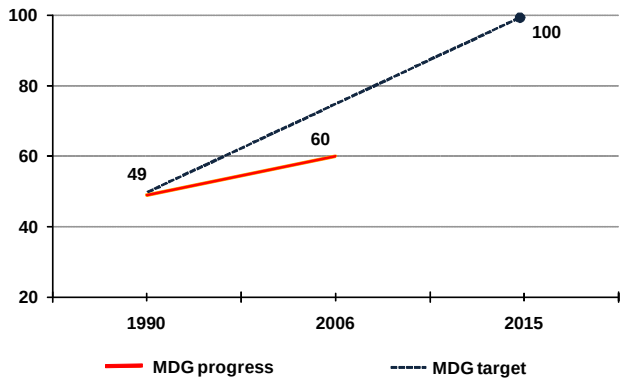


Figure 10 – Children (%) who have completed primary school (Source: TEH-Ambrosetti based on The Millennium Development Goals Report 2008)

[14] People living with less a USD a day.
[15] Source: UNDP, *Human Development Indicators Report*, 2008.

31. *Goal 3: Promote gender equality.* 67.9% of Sub-Saharan countries have reached or are on course to reach the target by 2015 and more than 80% have a rate superior or close to the average. Sub-Saharan Africa also shows improvement in the percentage of seats held by women in national parliaments: from 7.2% in 1990 to the current 17.4% (see figure 11).

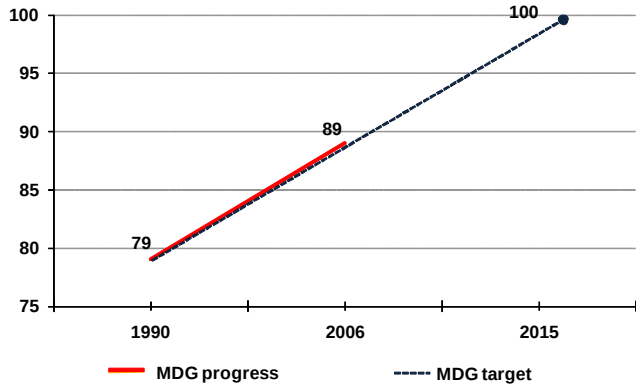


Figure 11 – Girls' enrolment in primary school in relation to boys' (Source: TEH-Ambrosetti based on The Millennium Development Goals Report 2008)

32. *Goal 4: Reduce child mortality.* Only 32.7% of countries have attained or are on course to attain this goal by 2015. For example, in Central Africa, child mortality increased by 13%. This goal is strongly correlated to poverty reduction. In 2006, 28% of children under five were underweight (compared with 32% in 1990). Measles is the leading cause of death in children in Africa, ahead of AIDS, tuberculosis and malaria.[16] (see figure 12).

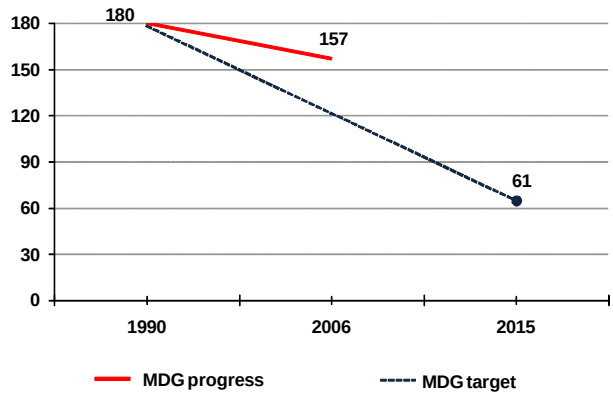


Figure 12 – Under five mortality, per 1,000 (Source: TEH-Ambrosetti based on The Millennium Development Goals Report 2008)

33 *Goal 5: Improving maternal health.* Half of global maternal deaths **(**approx. 265,000) have occurred in Sub-Saharan Africa. In 2005, the maternal death rate was 900 for each 100,000 live births. The target by 2015 should be to reach a level of close to 230: only 26.9% of Sub-Saharan countries are on track.

34. *Goal 6: Combating HIV/AIDS, malaria and other disease.* The HIV prevalence rate went from 2.1% in 1990 to 4.9% in 2009. Southern Africa registers the highest rates (more than 15%, with peaks over 20). Approximately 68% of the world population with AIDS lives in Sub-Saharan Africa, and it represents the no. 1 cause of death. Almost 60% of people with HIV in Africa are women. In more than 80% of Sub-Saharan countries, the HIV infection rate has not been reduced sufficiently or has actually increased. This makes it difficult to reach the goal to halt and start to reverse the spread of HIV/AIDS by 2015 (see figure 13). In Africa, HIV represents a key threat to sustainable development given that people between 14- and 49-years-of-age are the most affected.

[16] Source: World Health Organization, 2008.

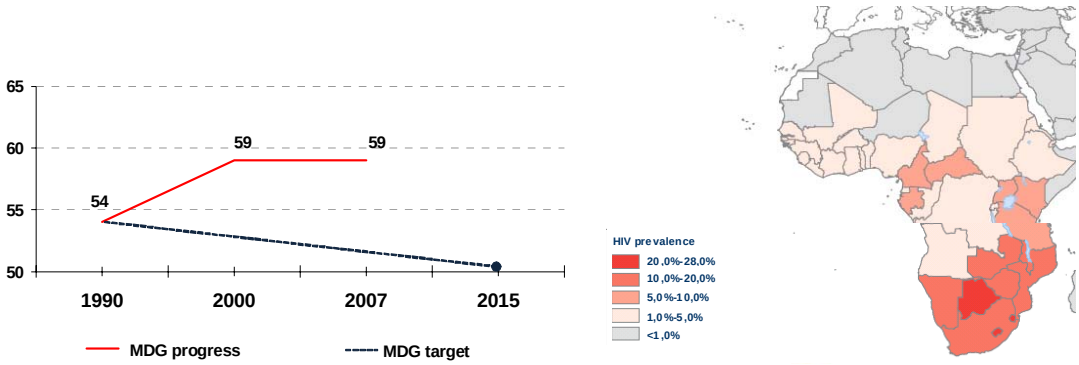


Figure 13 – Evolution of HIV prevalence in women between 15 and 24 (%) (graph on the left; the target line does not refer to a numeric target, it only indicates the trend); HIV prevalence (figure on the right) (Source: TEH-Ambrosetti based on The Millennium Development Goals Report 2008 and UNAIDS 2008)

35. After HIV, malaria and tuberculosis are the most serious diseases; malaria is responsible for more than 18% of deaths in children under 5. About 80% of world deaths caused by malaria are in Sub-Saharan Africa.

Improvements can be made also in sanitation and water access

36. In 2006 in Sub-Saharan Africa, 31% of the population had access to improved sanitation facilities (29% in 2000 and 26% in 1990). The 2015 target is to broaden access to facilities to 63% of the population.

37. Despite the fact that availability of water resources is not a main issue in Sub-Saharan Africa, lack of water infrastructure makes increased access to sources of drinking water a major goal to be achieved. In 2006, just 58% of the population had access to it and the 2015 target is to increase this percentage to 75%.

Basic economic indicators for African countries						
Country	GDP current prices, 2008e (USD million)	GDP annual growth, 2008e (%)	GDP per capita at PPP, 2008e (international USD)	FDI Inward Stock, 2007 (USD million)	FDI Inward Stock, 2007 (% GDP)	Current account balance, 2008e (%GDP)
Algeria	159.669	3,00	6.698,21	11.815	8,96	23,22
Angola	83.384	14,80	6.331,07	12.207	18,64	21,19
Benin	6.940	4,98	1.605,26	433	7,86	-8,28
Botswana	13.461	2,95	14.882,21	1.300	13,14	7,02
Burkina Faso	8.103	5,00	1.265,69	770	11,31	-11,01
Burundi	1.097	4,53	389,25	48	4,71	-11,10
Cameroon	23.243	3,45	2.152,60	3.796	17,82	0,36
CapeVerde	1.723	5,89	3.498,68	806	59,56	-12,26
Central African Republic	1.997	2,20	738,67	204	12,31	-8,56
Chad	8.390	-0,41	1.656,63	5.085	69,72	-11,42
Comoros	532	0,98	1.154,94	26	5,79	-9,25
Congo, Dem,Rep,	11.589	6,20	328,21	1.512	n/a	-15,38
Congo, Rep,	10.774	5,57	3.912,88	3.819	53,48	-6,76
Cote d'Ivoire	23.508	2,33	1.639,94	5.702	27,95	2,42
Djibouti	982	5,78	2.392,39	518	62,61	-39,17
Egypt	162.164	7,16	5.898,33	50.503	38,11	0,55
Equatorial Guinea	18.525	11,29	18.028,55	10.745	93,67	9,76
Eritrea	1.476	1,03	746,98	380	32,15	-2,69
Ethiopia	25.658	11,61	896,64	3.620	21,79	-5,80
Gabon	14.519	2,01	14.477,93	717	6,45	17,30
Gambia,The	808	5,86	1.389,30	507	78,40	-17,09
Ghana	16.124	7,16	1.520,48	3.634	25,31	-18,18
Guinea	4.542	3,96	1.002,84	800	18,63	-10,29
Guinea-Bissau	461	3,33	485,42	81	21,25	-1,97
Kenya	30.236	2,01	1.713,03	1.892	6,20	-6,68
Lesotho	1.620	3,51	1.302,37	735	47,47	-3,24
Liberia	836	7,13	372,65	2.278	278,10	-26,30
Libya	100.071	6,72	14.533,28	6.575	11,75	39,19
Madagascar	9.254	5,04	975,59	1.830	24,79	-24,37
Malawi	4.268	9,70	834,35	590	23,80	-6,26
Mali	8.783	4,99	1.126,17	1.326	19,33	-8,21
Mauritania	3.161	2,23	2.051,81	1.905	67,27	-15,73
Mauritius	8.738	6,59	11.991,51	1.249	17,01	-8,70
Morocco	86.394	5,44	4.349,37	32.516	44,09	-5,57
Mozambique	9.654	6,18	896,50	3.216	38,17	-12,57
Namibia	8.456	2,88	6.577,61	3.822	56,00	2,30
Niger	5.379	9,52	738,39	188	4,73	-12,56
Nigeria	214.403	5,29	2.133,84	62.791	41,50	4,48
Rwanda	4.459	11,23	1.041,41	170	6,05	-7,24
Sao Tome and Principe	176	5,80	1.748,81	113	129,44	-32,77
Senegal	13.350	2,49	1.736,40	555	4,93	-12,32
Seychelles	834	0,06	21.909,70	864	133,31	-32,05
SierraLeone	1.955	5,52	724,73	536	25,07	-8,35
Somalia	n/a	n/a	n/a	259	n/a	n/a
South Africa	277.188	3,06	10.119,41	93.474	33,65	-7,41
Sudan	57.911	6,84	2.305,15	13.828	30,54	-9,26
Swaziland	2.843	2,50	5.635,24	889	30,70	-6,39
Tanzania	20.721	7,46	1.351,56	5.942	39,23	-9,71
Togo	2.890	1,10	810,22	860	33,37	-6,65
Tunisia	40.348	4,45	7.962,53	26.223	75,62	-4,46
Uganda	14.529	9,53	1.151,94	2.909	23,50	-3,23
Zambia	14.323	6,02	1.399,48	5.375	47,69	-7,36
Zimbabwe	n/a	n/a	n/a	1.492	36,54	n/a

Figure 14 – Basic indicators (Source: TEH-Ambrosetti on IMF and UNCTAD data)