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Seminar Paper

Implications of the current financial and economic crisis to East and West Africa

Possibilities for the Swiss Agency for Development and Cooperation (SDC) to react to the chances and risks

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List of Abbreviations

ADB	African Development Bank a development bank established in 1964 with the intention of promoting economic and social development in Africa. The Group comprises the African Development Bank (AfDB), the African Development Fund (ADF), and the Nigeria Trust Fund (NTF).
AU	African Union, an intergovernmental organization consisting of 53 African states. Established on 9 July 2002, the AU was formed as a successor to the Organization of African Unity (OAU). The most important decisions of the AU are made by the Assembly of the African Union, a twice-yearly meeting of the heads of state and government of its member states. The AU's secretariat, the African Union Commission, is based in Addis Ababa, Ethiopia.
EAC	East African Communityan intergovernmental organization comprising the five east African countries Burundi, Kenya, Rwanda, Tanzania, and Uganda.
ECOWAS	Economic Community of West African States. The Economic Community of West African States (ECOWAS) is a regional group of fifteen West African countries, founded on May 28, 1975 with the signing of the Treaty of Lagos. Its mission is to promote economic integration.
HIPC	Heavily Indebted Poor Countries (HIPC) are a group of 37 developing countries with high levels of poverty and debt overhang which are eligible for special assistance from the International Monetary Fund (IMF) and the World Bank.
IMF	International Monetary Fund, a private international organization that oversees the global financial system by following the macroeconomic policies of its member countries, in particular those with an impact on exchange rates and the balance of payments. It is an organization formed to stabilize international exchange rates and facilitate development.
FDI	Foreign direct investment (FDI) in its classic form is defined as a company from one country making a physical investment into building a factory in another country.
LIC	Low-income country.
MDRI	Multilateral Debt Relief Initiative (MDRI) is an extension of HIPC (see above). The MDRI was agreed following the G8's Gleneagles meeting in July 2005. It offers 100% cancellation of multilateral debts owed by HIPC countries to the World Bank, IMF and African Development Bank.

GCC	Cooperation Council for the Arab States of the Gulf, a regional organization often referred to as the "Gulf Cooperation Council".
SDC	Swiss Agency for Development and Cooperation is part of the Federal Department of Foreign Affairs. Its mandate is based on the Federal Law on International Development Cooperation and Humanitarian Aid enacted on 19 March 1976, and on a federal decree of 24 March 1995 on cooperation with the countries of Eastern Europe.
SECO	State Secretariat for Economic Affairs is part of the Federal Department of Economic Affairs.
WB	World Bank, an international financial institution that provides financial and technical assistance to developing countries for development programs (e.g. bridges, roads, schools, etc.) with the stated goal of reducing poverty.

1 Introduction

When the recent economic crisis started last year, most actors of the international community expected that the impact on Africa would be much less severe than on other world regions. Financially isolated, the continent appeared also to be immune against the negative effects of the meltdown of the global financial system. The argument went that except for a few countries with an own and internationally linked stock market the majority of the countries would not feel too much of the crisis. Unfortunately, as this paper will show, Africa has not been spared by the economic crisis. Although most of the African countries have not been directly affected by the turmoil on the financial markets, the continent is now seriously hit by the "second wave" effects of a global recession. Effects such as sinking demand for commodities, less financial resources due to lower direct investments, official aid and remittances or a decline in tourism have significant negative implications and seem to destroy the modest progress that was achieved in recent years in many of the African countries due to the booming world economy. Risks are high that among other things poverty will increase further, social and political tensions are reawakened or reinforced and important investments in infrastructure are postponed or cancelled. However, the crisis also offers the chance to fundamentally improve the governance of African countries as well as fostering the potential of the population in the sense of Good Governance and capacity building. The effects of the crisis in terms of risks and chances in turn have implications for the work of the Swiss Agency for Development and Cooperation (SDC). Some of the SDC's programmes and measures are apt to mitigate the negative impacts of the crisis. While some of these measures should be reinforced others have to be added in order to counteract the crisis as effectively and efficiently as possible.

This paper starts by pointing out the differences between the East and West African countries in terms of development levels and resources in order to differentiate between the countries and to illustrate the complexity and variety of circumstances on the African continent. After that, some significant actors in East and West Africa will be analysed. How are their activities affected by the crisis and how do they react to the changed circumstances? Chapter 4 then offers an overview of the crisis' impact on the most important direct and indirect financial channels and economic sectors such as tourism, the banking sector or Foreign Direct Investments (FDIs). From the analysis of actors and financial channels both risks and chances are derived in the subsequent chapter that concludes the first, more general part of the paper. The second and final part focuses on the SDC's work in East and West Africa. First the previous work of the SDC is briefly illustrated. Second some guiding principles are introduced that lay the foundation for the priorities and possible measures following there after.

2 Differentiation of the Countries in East and West Africa

Within the content of this paper, it seems to be necessary for the authors to clarify and enclose the underlying understanding of East and West African countries and the regions as such. It is important to do so in order to conciliate a differentiated picture of the subject matter and to stress the fact, that within this work, the reflection of the complexity of the African reality can only be a partial one. Nevertheless, giving an idea of this complexity is unquestionable necessary, for the purpose of science as well as for methodological reasons. This chapter is reflecting upon the African complexity, taking a wide range of issues, data and analysis. It cannot be complete, but shall give an impression on the numerous differentiations which have to be taken into account.

2.1 Human Development Index

The annual Human Development Reports have explored challenges including poverty, gender, democracy, human rights, cultural liberty, globalization, water scarcity and climate change. Hence it is a good measure reflecting upon a country's performance within a variety of fields and issues as well as being a useful tool comparing those countries alongside these parameters.[1] In the following, a brief comparison between selected countries of East and West Africa shall give an impression on both the differences between countries in selected areas such as literary rate, life expectancy, gender-related development index or GDP per capita as well as the overall performance of African states in the HDI. The presentation of the countries and issue areas is based on the idea of representing a good overview and is hence selective: For example in the overall HDI ranking[2] of countries amongst other West African states Nigeria is given rank 154[3], Burkina Faso 173[4] and Niger 174[5] out of 179 countries. Concerning East African Countries, Kenya is listed at rank 144[6], Djibouti 151[7] and Tanzania 152.[8] Regarding life expectancy at birth, West African States such as Ghana[9] (rank 139; 59,4 years), Guinea (rank 155; 55,3 years)[10] or Nigeria (rank 168; 46,6 years) are listed at the end of the statistical data as well as the equally weak performing East African countries such as Tanzania[11] (rank 158; 51,6), Eritrea (rank 145;

[1] Human Development Report Office, 2009.
[2] The HDI provides a composite measure of three dimensions of human development: living a long and healthy life (measured by life expectancy), being educated (measured by adult literacy and enrolment at the primary, secondary and tertiary level) and having a decent standard of living (measured by purchasing power parity, PPP, income).
[3] Human Development Report Office, 2008a.
[4] Human Development Report Office, 2008b.
[5] Human Development Report Office, 2008c.
[6] Human Development Report Office, 2008d.
[7] Human Development Report Office, 2008e.
[8] Human Development Report Office, 2008f.
[9] Human Development Report Office, 2008g.
[10] Human Development Report Office, 2008h.
[11] Human Development Report Office, 2008f.

57,2 years)[12] and Rwanda (rank 171; 45,8 years)[13]. Concerning the level of human poverty, the percentage of people without access to improved water sources serves as a good indicator, especially in light of the food crisis and ongoing migration movements (chapter 4 ff.): The West African state Mali is ranked 102nd with 40 per cent of the population without access[14], the East (respectively Central) African states Burundi[15] and Uganda[16] are ranked 162 (45,1%) and 96 (36%).

2.2 Resources

Regarding the perspective of the analysis of East and West Africa – the impact of the economic and financial crisis – a focus on economic and trade related issues is of sustainable importance for achieving a well structured and penetrative analysis aiming at the provision of a set of implications and priorities for the future work of the SDC on the African continent. Hence, in the following section, a brief analysis of the resource dependences, both from an importing and an exporting angle, of African countries shall provide a fundament for the continuative work on the matter.

A brief introduction on the economic possibilities and vulnerabilities of Sub Saharan Africa can be given by organizing them into four non-overlapping groups: oil exporters and non-oil exporters, middle income, low income and fragile countries (see table 1 and table 2 in Annex 1):

Table 1. Categorization of Sub-Saharan African Countries

Oil-Exporting Countries	Middle-Income Countries	Low-Income Countries	Fragile Countries
Angola	Botswana	Benin	Burundi
Cameroon	Cape Verde	Burkina Faso	Central African Rep.
Chad	Lesotho	Ethiopia	Comoros
Congo, Republic of	Mauritius	Ghana	Congo, Dem. Rep. of
Equatorial Guinea	Namibia	Kenya	Côte d'Ivoire
Gabon	Seychelles	Madagascar	Eritrea
Nigeria	South Africa	Malawi	Gambia, The
	Swaziland	Mali	Guinea
		Mozambique	Guinea-Bissau
		Niger	Liberia
		Rwanda	São Tomé and Príncipe
		Senegal	Sierra Leone
		Tanzania	Togo
		Uganda	Zimbabwe
		Zambia	
(1) Eritrea, Liberia, and Zimbabwe are not included in aggregate groupings because of data limitations.			

[12] Human Development Report Office, 2008i.
[13] Human Development Report Office, 2008j.
[14] Human Development Report Office, 2008k.
[15] Human Development Report Office, 2008l.
[16] Human Development Report Office, 2008m.

The seven oil exporters are countries where net oil exports make up 30 per cent or more of total exports. Except for Angola and Nigeria, all belong to the CFA franc zone. Oil exporters are classified as such, even if they would otherwise qualify for another group. The eight middle-income countries are not oil exporters and have per capita income higher than $905, according to the 2006 GNI per capita as calculated by the World Bank. The 15 low-income countries are not oil exporters and have per capita income equal to or lower than $905 and a score higher than 3.2 on the Country Policy and Institutional Performance Assessment of the World Bank, following the classification in the 2007 Global Monitoring Report. The other 14 countries are categorized as fragile.[17] Furthermore, the differentiation between landlocked and coastal countries as well as between resource intensive and non-resource intensive countries plays a crucial role in presenting a substantial outlook on the economic and trade related perspectives of a country. A summary of such an analysis is presented under table 3 in Annex 1.

3 Actors in East and West Africa

In this chapter, actors involved in the political and socio-economic development and performance of East and West Africa will be taken under consideration. The list of actors is not complete – some large financial as well as political institutions such as the United Nations Organization and its sub-organizations as well as some comparably smaller but nevertheless very active actors such as the International Committee of the Red Cross are missing. This is due to the focus of this paper on the impact of the financial and economic crisis on African countries (and hence for the work of the SDC). Under special consideration are therefore institutions which work in the field of international economics, trade or lending or are African institutions. This is due to the fact that those institutions are often left out when discussions on the African political and economic landscape arise, but that they are getting increasingly important - within African countries as well as for the work with international institutions or non-African states. The actors under detailed examination include international and multilateral institutions (International Monetary Fund, World Bank), African international institutions (African Development Bank, African Union) and African regional organizations (Economic Community of West African States, East African Community). It is not the purpose of this chapter to introduce these actors, but rather to describe their strategies and measures in responding to the financial and economic crisis in Africa.

[17] International Monetary Fund, 2008.

3.1 International Monetary Fund

The International Monetary Fund (IMF) plays two crucial roles on the African continent: The first, and most important one, is lending. Secondly, the IMF has a potential catalytic role in promoting availability and stability in the long-term resource flows to a country.[18] The main purpose of the IMF's work in Africa (and general) hence is the appropriation of financial means to needing countries. The focus of the IMF's analysis of the impact of the economic crisis on Africa is therefore on fiscal policies and macro-economic measures. Concerning the financial crisis, the IMF agrees for now, as many other international and African actors do, that due to the weak level of integration of the African banking sector in the global financial system[19], the African banking system is not under as much pressure as the European, American or Asian ones. Nevertheless the IMF forecasts several negative second-round implications for African countries: The global slowdown in economic activities has pushed commodity prices down with negative effects on export earnings and the external current account, fiscal revenues, and household incomes. Commodity exporters face major trade deteriorations.[20] IMF research shows that in the past a 1 % point slowdown in global growth has led to an estimated ½ percentage point slowdown in sub-Saharan African countries. The effects may be more pronounced this time because the tightening of global credit compounds the impact of the slowdown, exacerbating risks for trade finance and other capital flows.[21] A continuing economic crisis situation risks growth because of a protracted economic slowdown elevates credit risk. Concentrated bank portfolios have become a source of vulnerability in several African countries, in some countries banking systems may be increasingly exposed to market volatility and parent banks could withdraw funds from subsidiaries and local banks.[22] The IMF's reaction to the current crisis has been so far: The organization increased its financial support to African countries during last year's food and fuel price crisis and remains a catalyst for critically needed donor support.[23] The Exogenous Shocks Facility was modified in September 2008 to provide assistance more quickly and in larger amounts to low-income countries dealing with exogenous shocks. Malawi was the first country to benefit from this facility, and since then Comoros, Senegal, and most

[18] Bargawi & Martin,2005, pp.77 ff.
[19] Hassanali et al, 1998, p. 19ff.
[20] International Monetary Fund, 2009a.
[21] Bayagbon, 2009.
[22] In order to respond adequately to these effects, the IMF promotes in the field of Fiscal policies: Supporting growth and creating fiscal space, all countries would be well-advised to persevere with structural fiscal reforms, broadening the tax base would allow growth boosting reductions in the most distorting tax rates, efficiency-enhancing tax administration reforms would reduce both collection costs for the state and compliance costs for the private sector, better cash and debt management would also provide fiscal savings. In the field of financial sector policies, the recommendations concern monetary authorities should identify banking system vulnerabilities. For this, they should first identify the banks that are most likely to experience difficulties in the current environment and the region should track current G20 initiatives to strengthen regulation of cross border financial flows and restore investor confidence in order to unfreeze international credit markets and encourage capital inflows and intraregional lending.
[23] International Monetary Fund, 2009b, pp. 112ff.

recently Ethiopia have accessed the facility. The IMF has also increased access to the Poverty Reduction and Growth Facility for a number of countries. To meet the needs of low-income countries, the IMF is considering further major reforms of the architecture of its financing facilities, higher access limits to fund resources, and additional concessional assistance, as well as more flexibility to finance infrastructure projects and other critical investments. The IMF will continue to provide technical assistance to strengthen public sector capacities in Africa. To this end, the IMF plans to add two new Regional Technical Assistance Centers in Africa to the three that are already operating.[24]

3.2 The World Bank

Just like the IMF, the World Bank forecasts severe human degradation in developing countries. According to the World Bank, though Africa has been relatively isolated from the global financial system, it is however hard hit by the economic crisis.[25] As an immediate response to the extreme vulnerability of developing countries and after a call for additional assistance by African ministers, the World Bank Group is stepping up its financial assistance to help its member countries mitigate the impact of the crisis.[26] The Bank Group is leveraging its own resources with financial support from a variety of public and private sources using a menu of options to match the needs of developing countries with the interests and capacities of donors.[27] The Bank intends to almost triple the International Bank for Reconstruction and Development IBRD lending in fiscal year 2009 from $13 billion to $35 billion, and lending volumes could reach $100 billion over the next three years. Much of this additional lending is being delivered through fast-disbursing development policy loans (DPL). As of early March, crisis-related DPL lending (committed or planned through the end of fiscal year 2009) totaled over $12 billion.[28] Following its record 15th replenishment, International Development Association IDA has commitments amounting to nearly $42 billion over the fiscal years 2009-11. These resources have been allocated to long-term country development programs. There is scope for front-loading this support over the next year to assist low income countries to mitigate the impact of the crisis; the IDA Financial Crisis Response Fast-Track Facility, set up in late 2008, is fast-tracking up to $2 billion of financial assistance, with the potential to increase this amount in the future depending on the need. With its current capital base, IFC is projecting an investment volume of about $12 billion per year over the next three years. To increase development impact and leverage its resources effectively, International Finance Cooperation IFC has launched new crisis response initiatives in both investment and advisory services. Financing for

[24] International Monetary Fund, 2009a.
[25] African Development Bank Group, 2009a.
[26] World Bank Group, 2009c.
[27] Furthermore the World Bank Group is also mobilizing a wide range of technical assistance, capacity building and policy advice.
[28] World Bank Group, 2009b.

the new initiatives is expected to combine IFC funds with externally mobilized resources.[29] Furthermore, the World Bank Group intends to activate strong measures against the intensifying food crisis on the African continent.[30] The Bank expands its food crisis facility to $2 billion to provide immediate relief to countries hard hit by food prices. Since last May, the facility has approved $916 million worth of projects in 31 countries; with nearly half of the funds supporting projects in Africa.[31]

3.3 The African Development Bank

In close collaboration with the two international multilateral organizations introduced above, the African Development Bank (ADB) is taking actions against the effects of the economic crisis in Africa.[32] The ADB plays a crucial role in rallying African states to better respond to the current crisis. While responding to the immediate challenge of revitalizing capital flows, the ADB believes that the long-term challenge of economic diversification to reduce dependence on primary commodities remains a key mission. In a timely response to the global financial downturn, the ADB, together with the African Union Commission (AUC) and the United Nations Economic Commission for Africa (ECA), organized a conference of African ministers of Finance and Central Bank Governors in November 2008. It has committed itself to revitalize important capital flows to regional member countries through front-loading, fast-tracked disbursements and portfolio restructuring. It is stepping into several projects to provide additional funding and mobilizing existing programmatic instruments to support all its member countries, especially fragile states. The ADB has also developed a new set of crisis instruments, including an Emergency Liquidity Facility of US$ 1.5 billion and a Trade Finance Initiative of US$ 1 billion.[33] Amongst other measures, the African Development Bank has released a concept note on a report to be published on the continent's ports, logistics and trade bearing in mind the increasing importance of trade as a measure for development and expressing the fear that due to the impact of the global economic crisis, the rather positive development of Africa's integration in world economy is decreasing.[34]

[29] World Bank Group, 2009a.
[30] World Bank Group, 2009e.
[31] World Bank Group, 2009d.
[32] World Bank Group, 2009f.
[33] African Development Bank Group, 2009c.
[34] African Development Bank Group, 2009b.

3.4 African Union

The African Union (AU) forecast severe impacts due to the global economic and financial crisis in the following sectors:[35]

- Trade - due to the effect on major products in Africa (such as gold, copper, coffee, tea, cocoa, and other minerals that have experienced falling demand and price).
- Remittances - The AU is expecting a sharp decline in the volume of remittance flows.[36]
- Aid - The crisis will further effect the delivering of commitments made by development partners.[37]
- Foreign direct investment - According to publication by the Third World Economics, FDI flows are expected to decline from US $1.8 trillion in 2007 to about US $1.6 trillion in 2008 globally, mainly due to the current global financial crisis, representing a 10 per cent decrease.[38]
- Economic growth - Africa's economic growth performance is expected to decline from 6.1 per cent in 2007 to 5.2 per cent and 4.7 per cent in 2008 and 2009, respectively.

In order to react adequately to this situation, the AU is proposing an urgent response to the crisis by African leaders, the implementation of regional and continual integration agendas as well as the strengthening of pan-African financial institutions, the commitment by African countries to effective mobilization of domestic revenues and deepening of African capital markets for a more robust mobilization of local savings and financial integration and calls upon the establishment of three pan-African financial institutions, namely, the African Central Bank, the African Monetary Fund and the African Investment Bank. Finally, African countries must deepen economic reforms, including increased liberalization of their financial sectors, in the recognition that reforms have yielded strong macroeconomic stability and fostered growth and resilience to external shocks.[39]

3.5 Economic Community of West African States

Since the start of this decade, the 15-member Economic Community of West African States (ECOWAS) has recorded cumulative GDP growth of almost 80 per cent. But it now seems that growth is threatened by the global credit squeeze. 'We are very much concerned ... this is obviously going to slow down the process of growth of our economies because FDI flows to Africa will be curtailed,' ECOWAS Commission President Mohamed Ibn Chambas stated.[40] Overall, the ECOWAS countries are seeing a

[35] African Union, 2009a.
[36] Zhongxian, 2008.
[37] Scott, 2009.
[38] Zhongxian, 2008.
[39] African Union, 2009b.
[40] Usafricaonline.com, 2009.

significant slowdown of their region's economic growth. Its gross domestic product, up 5.6 percent in 2007, was estimated to grow by 6.1 percent in 2008 before the economic meltdown hit.[41] Adequately to the statements proposed by the African Union, ECOWAS declared that Africa should be more involved in ongoing international initiatives to address the challenge as well as international meetings on monetary and development issues. Furthermore, the West African regional organization stressed the importance of regional economic and political integration as well as the attempt to face the challenges ahead through integrative measures and within a regional approach. The consolidation of the regional integration process in West Africa is a necessity against the global financial crisis, including consolidation of peace and security, the deepening of integration through the achievement of a common market and macro-economic convergence, enhancing capacities in trade negotiations and the development of the private sector. ECOWAS is working on the evolution of a regional strategy for dealing with the ongoing economic shockwaves, including massive investments in energy, roads, air transport, maritime transport and railways through private-public partnership on a regional level.

3.6 East African Community

Compared to ECOWAS, the East African Community (EAC) is rather small and institutionally weak. The EAC consists of Kenya, Uganda, Tanzania, Burundi and Rwanda. While ECOWAS is basing its institutions on a rather sustainable and comparably long lasting institutional settlement and reached comparably far with regard to the regional integration process, the EAC faces fundamental problems such as an intra-institutional deep financial crisis following failure by member states to remit their contributions to the secretariat (only $7,858,651 had been remitted by the members instead of the proposed $ 15,643,503). On budget issues, the delegates proposed urgent review from the current system whereby of equal contribution by Partner States and over-reliance on external funding of regional projects to a more sustainable and self reliant sourcing of funds for regional projects and programms. Founded in 2001, the EAC is the youngest regional organization on the African continent. It lacks, compared to ECOWAS, the necessary political and infrastructural possibilities, measures and willingness to face the effects of the economic crisis successfully.[42] While ECOWAS is trying to attenuate the worst economic, social and political effects of the global economic downturn with a regional approach and proves at least its willingness for joint cooperation and action, prioritization of the regional EAC integration agenda is taking place only within their respective national agendas. It is unlikely that EAC is able to confront an intensified tense economic situation with successful actions due

[41] Ghana Business News, 2008.
[42] Mair, 2001, pp. 33ff.

to their own financially insecure situation, a lack of political willingness and last but not least due to the institutionally impossibility to do so.

3.7 NGOs

Countless Non-Governmental Organisations operate in East and West Africa. The third edition of the Directory of African NGO's published by the United Nations Office of the Special Advisor on Africa in 2004 listed more than 3500.[43]

According to Isam Ghanim, Vice President of the Christian Children's Fund in Africa, the crisis will have negative effects both on the supply as well as on the demand side of the NGO's.[44]

Supply side

On the supply side, government donations will most probably decrease as government budgets are strained by recovery and stimulation packages that have been initiated to counter the crisis.[45] Not only governmental appropriations are expected to fall but also donations from corporations and individuals. According to IRIN, the humanitarian news and analysis service of the UN Office for the Coordination of Humanitarian Affairs, NGOs expect the biggest reductions from corporate donors in the financial sector.[46] Others see individual donations to decrease the most in the coming months.[47] Grants from foundations are expected to decline sharply in 2009 as well. Though on a more modest range, the decrease in foundations' grants might continue in 2010.[48] So all in all the global recession hits NGOs by significantly slowing down charitable giving by governments, corporations, foundations as well as individual donors. For example Catholic Relief Services, a big American NGO that operates in more than 100 countries expects its revenues to be reduced by 13 percent in the first half of 2009.[49]

The decrease in charitable giving has wide-ranging effects on the work of NGOs. Because of the slowdown in funds, some of the world's biggest NGO's expect programme growth to slow down sharply. As an example, Oxfam revised its growth expectations for 2009-2010 from six to zero percent.[50] Many organisations already revised or even abandoned programmes. The elimination of functions, lay-offs, hiring freezes, wage reductions or travel restrictions are other measures NGOs resort to.[51] There are concerns that as the crisis continues and fewer and fewer money will be donated these measures won't

[43] United Nations Office of the Special Advisor on Africa, no date.
[44] Ghanim, I., 2008.
[45] Ibid.
[46] IRIN, 2008.
[47] BOND, no date.
[48] IRIN, 2009a.
[49] Ibid.
[50] IRIN, 2008.
[51] IRIN, 2009a.

be enough to balance the decrease in financial support and many organisations will be forced to close down.[52] As smaller NGOs have the most difficulties to cope with the crisis, because they often have less diverse sources of income, they are most probably the first who have to cease their activities.[53] This already happened with some smaller NGOs in South Africa.[54]

Demand side

The cutback of programmes and the closedown is particularly fatal because as the crisis continues and the governments' budgets of developing countries are strained more and more, the work of NGOs becomes necessary more than ever. They will have to cope with increasing needs for safety nets and social services for poor people.[55] As unemployment in developing countries increases, social tensions emerge and thousands of people fall back into poverty, the work of NGOs becomes all the more vital.

4 Impact of the Crisis on Financial Channels

4.1 Banking sector

The financial systems in sub-Saharan African countries have so far been resilient to the global financial crisis.[56] Although the crisis has exerted significant pressures on money, currency, and capital markets, they have continued to function normally. The relative stability reflects several factors – among them the limited, though increasing, integration with global financial markets, minimal exposure to complex financial instruments, relatively high bank liquidity, limited reliance on foreign funding, and low leverage in financial institutions.

As stated above the assertion can be found in the structure of the African banking sector.[57] Local banks play an important role in most areas but are often unstable and corrupt. That is why governments and industry rely on international banks. The financial market structure and degree of development vary significantly across sub-Saharan African countries so the nature and pace of risk transmission also differ. Three groups of countries can be identified on the basis of financial depth indicators and capital market development:

1. Emerging markets

52 IRIN, 2009b.
53 BOND, no date.
54 Peters, M., 2008.
55 Ghanim, I., 2008.
56 International Monetary Fund [IMF], 2009b, p. 9.
57 IMF, 2009b, p. 38.

South Africa, the only emerging market in the region, has a well-developed financial system with a full continuum of market segments that are interconnected and integrated with global markets. The financial system includes subsidiaries of foreign-owned banks and insurance companies; large domestic financial conglomerates, asset management firms, insurance companies, and pension funds, many with significant cross-border operations in sub-Saharan Africa and other regions; and non-resident and institutional investors (pensions, insurance, hedge funds) that invest heavily in equities and debt markets. Sovereign and corporate debt issuers are active in both domestic and international markets, and may issue in South Africa's own currency in developed offshore markets.[58]

2. Frontier market countries

This group consists of five middle-income countries (Botswana, Cape Verde, Mauritius, Namibia, and Seychelles) and seven low-income countries (Ghana, Kenya, Mozambique, Nigeria, Tanzania, Uganda, and Zambia). Though they vary in their degree of financial development, the linkages between financial segments and with global markets are fewer than in emerging markets. Foreign investors have increasingly participated in local and debt markets. Financial products are becoming increasingly sophisticated and this group has made initial forays in accessing international capital markets.[59]

3. Financially developing countries

The other 31 sub-Saharan African countries have narrow financial sectors, in which most segments are underdeveloped, and few financial instruments.[60] Access to global financial markets has been nonexistent or severely limited; where capital markets exist, they lack depth and liquidity. Systemic and institutional constraints have also contributed to a low level of intermediation and limited availability of financing for productive investments.

In recent decades, banking reform has been a priority of the IMF and World Bank. One important reform was obtaining permission for increased penetration by foreign banks. But still, the African financial sector as a whole is scarcely integrated into the world economy.[61] Foreign exchange trade is subjected under strong controls and restrictions. Banks are allowed to invest only a small part of their assets outside the continent because of the governments' fears that the heavily needed capital could flow on accounts overseas. Backwards, African banks have little foreign shareholders and the companies listed on the stock exchange are barely a target of speculations.

Compared to emerging countries, Africa's external financing (bond issue, stocks and private borrowing)

[58] IMF, 2009b, p. 38.
[59] IMF, 2009b, p. 38.
[60] IMF, 2009a, p. 8.
[61] African Development Bank [ADB], 2009a, p. 1.

is low, representing only 4% in 2007 of overall issue for emerging economies.[62] In 2007, bond issue stood at only USD 6 billion, compared to USD 33 billion for Asia and USD 19 billion for Latin America. Furthermore, in terms of access to private resources, Africa received only USD 3 billion in 2007, compared to USD 42 billion for Asia. Africa's stock market capitalization is still very low, representing only 2.09% of world capitalization. Furthermore, African banking assets represent only 0.87% of global banking assets, compared to 58.15% for the 15 countries of the Euro zone and 15.09% for the United States. Africa's financial globalization ratio is comparable to Latin America's, at 181.3% and 176.4%, respectively, far behind that of Asia at 369.8% and Japan at 495.7%.[63]

The restricted foreign exchange trade, which has been an obstacle to growth in the eyes of liberals, proves to be an advantage now, because of the relative stability of the African finance sector. However, pressures have intensified as sub-Saharan African countries are being hit by the global crisis.[64] The spiralling effects of a depressed world economy and the increased risk aversion of investors pose growing risks for financial systems. Because of the spill-over of the crisis to real economies, global demand and prices for commodities are depressed, capital flows are declining, and economic growth prospects have slowed throughout the region as it is stated below. If prolonged, this situation could further increase credit risk and nonperforming loans and reduce liquidity. In particular, with external resources drying up, domestic markets might be too thin to accommodate the demand for credit from both the government and the private sector. That is why priorities may have to emphasize short-term preventive measures to minimize contagion. The contagion effects may be amplified by foreign bank presence, which is high in some countries.[65] The share of foreign bank assets reaches 100 % in some countries such as Mozambique, Swaziland and Madagascar. The headquarters of these foreign banks are located mainly in France, Portugal and the United Kingdom, where banking institutions suffered tremendous losses in stock capitalization and profit during the financial crisis. Useful measures would be intensified surveillance to facilitate early detection of risks (e.g., through stress-testing of banks); contingency planning to reduce potential runs on banks and protect depositors; improved arrangements for home and host country supervisory relations and cross-border crisis management; flexible provision of liquidity support to the banking system; and strengthened bank resolution frameworks to ensure the orderly exit of weak banks.[66] Short-term priorities, however, should not detract governments from the need for longer-term reforms to build and diversify their financial systems. Reforms should aim to better regulate financial systems and address regulatory gaps, particularly weak cross-border supervision, tackle weaknesses in the legal and financial infrastructure, further promote capital markets and deal with

[62] ADB, 2009a, p. 1.
[63] ADB, 2009a, p. 2.
[64] IMF, 2009b, p. 9.
[65] ADB, 2009a, p. 2.
[66] IMF, 2009b, p. 9.

data deficiencies in risk-monitoring systems.[67]

4.2 Commodities

Along with the crisis of the economic cycle comes the deterioration of the commodity prices. Especially African countries are highly affected. Commodity exports have been one of the main drivers of growth in many African countries.[68] Strong growth in industrialized and emerging countries such as India and China has been an important factor of the increase in the prices and demand for commodities. Unfortunately, the financial crisis has had a negative impact on world growth prospects and seriously dampened expectations on commodity futures markets, thus inducing falling prices and demand for most commodities. The falling prices put pressure on external accounts and governments finances of commodity exporters.[69] However, the decline in commodity prices is providing some support to commodity importers. In the following section examples of commodities will be given in order to illustrate the impact of the financial crisis on African countries.

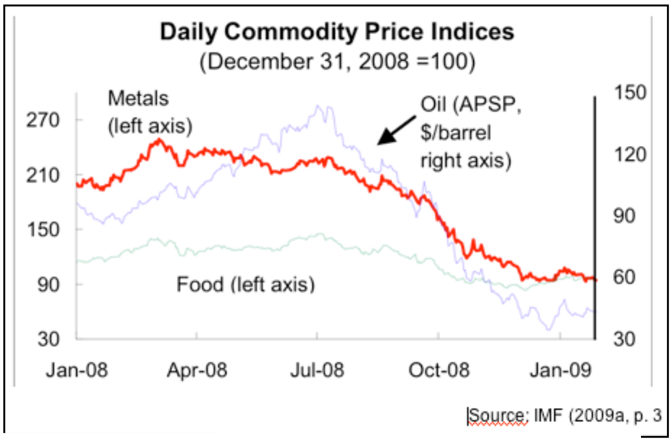

Figure 1: Commodity Price Indices

After the Middle East (56%) and North America (16%) Africa has the third largest ***oil*** reserves (9%) in the world.[70] In 2008, 3 out of 15 countries with the worlds biggest oil reserves came from Africa: Libya (9th), Nigeria (10th) and Algeria (15th). Other oil exporting countries in Africa are: Angola, Cameroon, Chad, Côte d'Ivoire, Democratic Republic of the Congo, Republic of the Congo, Egypt, Equatorial Guinea, Gabon, Kenya, Mauritania, South Africa, Sudan and Tunisia.

During last year a boom in oil prices filled the national budgets of oil exporting countries. But because of the global downturn prices felt drastically. Crude-oil prices for example dropped since the beginning of the financial crisis till January by 75 percent – from $144 in August 2008 to $37 in February 2009. The problem is that the economic slowdown with a decrease in prices caused a decrease in demand and heightened the inventory. OPEC production cuts could eventually help to support oil prices if implemented close to target, as scope for increased production elsewhere seems limited.[71] Nevertheless, still softening demand and rising inventories will continue to weigh on the market in the

[67] IMF, 2009b, p. 35.
[68] ADB,2009d, p. 4.
[69] IMF, 2009a, p. 3.
[70] US Energy Information Administration, 2009.
[71] IMF, 2009a, p. 3.

short term. But a rebound of the world economy could meet an intensely shortened supply. Then prices would rise very fast which would then weaken the economic recovery.

Lower prices for energy inputs will likely lead to some further easing of prices, although the high fuel and fertilizer prices through mid-2008 may weigh on supply in 2009.[72]

The impact of the volatility has strong impact both on oil exporting and oil importing countries: the crisis will push oil exporting countries like Nigeria, for which oil extraction is the focus of the entire economy, from an overall fiscal surplus of 4.3 per cent for 2008 to an overall deficit of 7 per cent of GDP reflecting a loss of 11 percentage points of GDP.[73] The current account projections for 2009 will push oil exporting countries from an overall surplus position of 8.7 per cent for 2008 to an overall deficit position of 4 per cent of GDP reflecting a loss of 12.7 percentage points of GDP. The loss of growth between 2008 and 2009 is estimated at 3.8 %. For the first time in more than 10 years, the oil importing countries will grow faster than oil exporting countries. Especially the Low Income Countries will benefit of the decrease in oil prices, but will be hit by the decline in prices for other commodities (see below). Particularly countries that have a huge trade deficit because of the high oil price will profit.

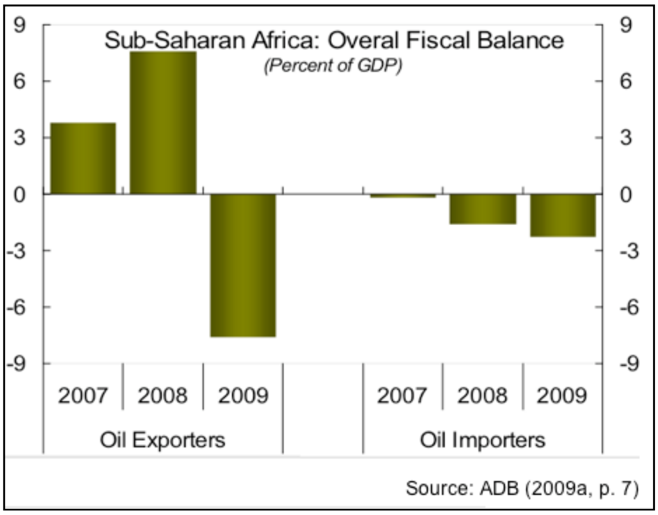

Figure 2: Overal Fiscal Balance

The changes in prices for ***copper*** have huge implications for countries which work in this sector because of the high dependence on copper for foreign exchange earnings. Export receipts as well as foreign currency reserves declined drastically. Since the second quarter of 2008 the currency reserves of Zambia went down at 30 percent: from 649 Mio USD to 454 Mio USD. Several projects in the extractive industries were cancelled or postponed in the Democratic Republic of the Congo, Zambia, South Africa and Cameroon. In Zambia, the USD 1.5 billion Kafu Gorge Dam Project was kept in abeyance following the reticence of several investors caused by falling copper prices. Such mining companies as First Quantam Minerals, Albidon and Makambo Copper Mine have given up all new explorations. At the same time, Konkola Copper Mines – the largest copper mine in Zambia – has ordered a 40% reduction in all supplier contracts.[74] The declining demand for copper – as well as the decline in foreign direct investment in commodity export industries – has not only resulted in the deferral or cancellation of projects or the closure of mines and cutbacks in other industries, but also in a

[72] IMF, 2009a, p. 4.
[73] ADB, 2009c, p. 2.
[74] ADB, 2009d, p. 8.

resultant rise in unemployment. In Zambia and the Democratic Republic of the Congo, for example, mine closures have resulted in the loss of a vast number of jobs (estimates of 10,000 in Zambia and 350,000 in the DRC).[75] That has a huge impact on neighboring countries because various migratory workers loose their jobs, too. And every job nourishes a whole family. The near-term metal price prospects depend on construction and investment demand in key emerging and developing countries to help to recover from the crisis.[76]

Around 20 million people in sub-Sahara Africa make their living with the cultivation of ***cotton***, after coffee and cocoa a primary export good in Africa. The United States with sales of $4.9 billion and Africa with sales of $2.1 billion, are the largest exporters of raw cotton. Total international trade is $12 billion. Africa's share of the cotton trade has doubled since 1980. Therefore, cotton is very important for the economic development of the West and Central African countries (5-10% of GDP in Benin, Burkina Faso, Chad, Mali and Togo). But because of the global economic crisis, the export growth of e.g. Burkina Faso dropped from 6.9% in 2007 to 3.5% in 2008, following the fall in cotton production and the decline in export. The balance of trade sharply deteriorated under the combined impact of falling agricultural production and declining lint cotton export (from CFAF 160 million in 2007 to CFAF 12 million in 2008). The current account deficit is estimated at 12.9% of GDP in 2008, a 3.8 point increase compared to 2007.[77]

The numerous African cotton producers are very competitive, but the 25’000 cotton growers in the United States are heavily subsidized with $2 billion per year. However, the future of these subsidies is uncertain.[78] The fact that many farmers in developing countries receive a low price for their product or find it difficult to compete with developed countries has led to an international dispute. On September 8th 2004, the Panel Report of the World Trade Organization recommended that the United States "withdraw" export credit guarantees and payments to domestic user and exporters, and "take appropriate steps to remove the adverse effects or withdraw" the mandatory price-contingent subsidy measures.[79] If the subsidies would be offset, that could help the cotton-exporting countries to recover from the global crisis.

The given explanations about commodities lead to the following ***concluding considerations***. Although Africa escaped direct effects of the financial crisis, it cannot be shielded from global recession, even if the degree of the continent’s trade integration remains low. Africa’s projected growth rate in 2009 (3.2%) is much below the 2008 level (5.7%). Preliminary projections show expected losses of 3.7% of growth rate for oil-exporters in 2009 and 1% decline in growth for oil-importing countries. For the first time since

[75] Governance and Social Resource Center, 2009, p. 2.
[76] IMF, 2009a, p. 4.
[77] ADB, 2009d, p. 4.
[78] Zachary, 2007.
[79] World Trade Organization, 2004.

the 2000s, oil-importing countries should register higher growth rates than oil-exporting countries.[80]

The adverse impact of the crisis on export commodity prices and resource inflows threatens to reverse the gains from the recent economic performance of African economies. Key consequences include declining reserves, non-profitability of some oil fields that have high extraction costs, reduction in government funding capacity and cancellation or postponement of a number of investments in extractive industries that are highly dependent on foreign direct investment.[81] The effects of the crisis will hit both oil exporters as well as producers of non-energy commodities, namely minerals and agricultural products. Agricultural and food products are following a similar downward trend estimated at around 20%. The decline in food prices should mitigate the impact of the economic crisis on African countries, especially on the balance of payments and government budget. However, the decrease of primary commodity prices will have a positive impact on the external accounts of oil importing countries, in particular countries that have sustained a large deficit on the trade account due to the large oil import bill. These include Burundi, Seychelles, Togo and Malawi. These countries have large current account deficits ranging between -37.6% for Burundi and -18.6% for Malawi. The effect will depend on the combined impact of the decrease of energy prices and non-oil primary commodity prices. The deficit on the current account will need to be financed by a surplus on the capital account, notably aid and private capital inflows. These countries would face significant difficulties if FDI and ODA were to decrease due to the effects of the global slowdown.[82]

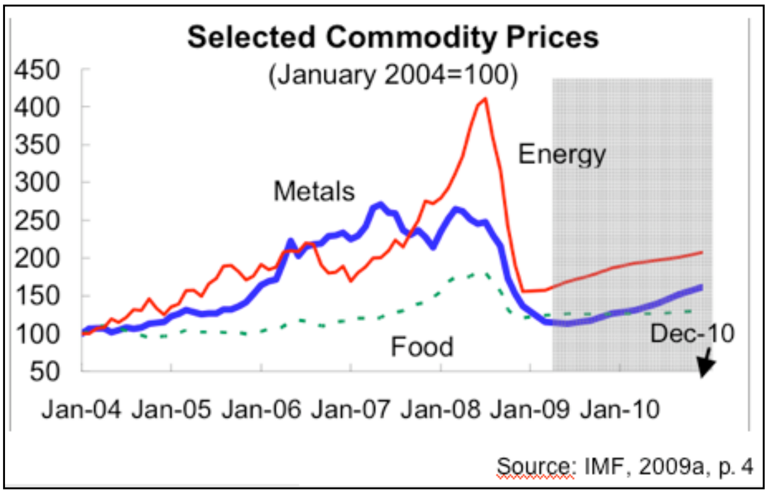

Figure 3: Selected Commodity Prices

4.3 Tourism

International tourism receipts constitute an important revenue source for countries in East and West Africa. They account on average for about four percent of GDP for 29 popular Africa tourist destinations. Tourism can also be seen as an important "growth driver" for economies such as Kenya, Uganda and others. The literature shows that a lot of middle-income countries will be affected by decreasing foreign demand for tourism because of the global crisis. But although tourism receipts are expected to be

[80] ADB, 2009d, p. 7.
[81] Ibid., p.4.
[82] Ibid., p.4.

significant only in a handful of MICs, tourism industry is an important source of revenue in some LICs, which are strongly exposed to the downturn in global demand for services.[83] The share of services in total LICs exports has trended upward over the past decade, the main activities being transportation and tourism.[84] For 29 countries, services accounted for at least 30 percent of exports in 2007, while 8 countries are heavily dependent on services receipts (ratio of services receipts greater than 70 percent of exports).[85] These include for instance Djibouti and Eritrea. The decline in tourism will have certainly a negative impact on the services sector, which was becoming a "growth engine" prior to the crisis.
The demand is suffering as financially stressed consumers from rich countries stay at home or take short-haul holidays. Tourist industries in West and East Africa have been feeling the effects of the financial crisis since the summer 2008, according to the United Nations World Tourism Organization (UNWTO). Both business and leisure travel are affected and UNWTO expects the situation to deteriorate further.[86] The growth rate of international arrivals to sub-Sahara Africa has already slowed down to 4.2 percent in 2008 compared to 7.5 percent in 2007.[87] For example Kenya announced a 25 to 30% decline in tourist arrivals. Kenya Airways posted a 62.7% drop in profit for the half-year at the end of September 2008.[88]
The entire effect of the financial crisis on Africans tourism industry remains to be seen in 2009, since international tourism reservations were normally made and paid in full at least a few months in advance. The UNWTO expects international tourism to stagnate or even decline slightly by 1 to 2 percent. Concerning measures for the DEZA and other development aid agencies, special attention has to be paid to small economies that are relying heavily on tourism.

4.4 Remittances

4.4.1 Relevance of Remittances for Africa

In recent years, remittances have become an important source of income for many developing countries around the world. They were continuously growing at large scale. On average, they increased annually by 15 per cent since 2000.[89] While they totalled $188 billions in 2005, they amounted to an estimated $283 billion in 2008.[90] As these numbers do not take into account the flows of remittances through

[83] UNWTO, 2009.
[84] International Monetary Fund, 2009, p. 15
[85] International Monetary Fund, 2009, p.16
[86] United Nations World Tourism Organisation, 2008.
[87] UNWTO, 2009.
[88] Kordjé B. ,2009, S.8
[89] Gupta, S., Patillo C. and Wagh S., 2007a, p.3.
[90] Ratha, D., Mohapatra, S. and Xu, Z., 2008, p.2.

informal channels, the actual amount of remittances might be at least 50 percent higher.[91] However, there are marked differences between regions. From all the regions, Sub-Saharan Africa (SSA) received the fewest remittances in the period from 2000-2005. Compared to Latin America and the Caribbean (24.9 per cent) and East Asia and the Pacific (23.9 per cent), the two top receivers of remittances, SSA obtained only a small fraction (4.1 %) of total remittances in this period. However, in 2006 and 2007 the region experienced extremely high growth rates of 35 and 42 percents respectively of remittance flows. This resulted in absolute remittance flow of $13 billion (5.7 per cent of totalling $229 billion) in 2006 and $19 billion (or 7.2 per cent of totalling $265 billion) in 2007.[92]

In addition, the flow of informal remittances in SSA is significantly higher than in other regions – probably 45-65 per cent of formal figures compared to the 5-20 per cent of formal remittances in Latin America.[93] These estimations of additional informal remittances do not include intraregional remittances. Migrants often search work in relatively prosperous neighbour countries such as Botswana or South Africa. Sub-regional labour mobility is also common in West Africa.[94] An important reason why a huge number of remittances to Africa is being transferred through informal channels and thus remains unreported are the prohibitive fees formal providers charge for transferring small sums of money.[95] This is especially the case for transactions between African countries due to a lack of competition in the transfer market that allows providers to demand a high price for their services. But also formal transactions from non-African countries are mostly charged with a very high fee. For instance, to transfer £100 with a cash pay-out option from the United Kingdom to Kenya, some Money Transaction Organisations (MTO) charge up to 14 per cent of the face value. Transactions on an account of an international bank even costs between 7 and 35 per cent.[96]

However, when informal remittance flows are disregarded, not only is the volume of remittances significantly smaller in SSA than in other regions, but also its share of the GDP. Whereas remittances in other regions account for up to 5 % of GDP at an average, the ratio is about 2.5 % for Sub-Saharan Africa. Furthermore, remittances have so far been considerably lower than official aid flows.[97] So, at first sight, remittances appear to be relatively irrelevant for African countries when compared to other regions. Though this may be true on an aggregate, region-wide level, the picture looks quite different for some individual countries. An intra-regional analysis of the economic importance of remittances reveals marked differences between the countries. For some countries in SSA, remittances play a vital economic role. This is the case for Lesotho, where remittances accounted for approximately 28 % of the

[91] World Bank, 2006, p.85.
[92] Ratha, D., Mohapatra, S. and Xu, Z., 2008, p.2.
[93] Gupta, S., Patillo C. and Wagh S., 2007a, p.37.
[94] Gupta, S., Patillo C. and Wagh S., 2007b, p.40.
[95] Ibid., p. 42.
[96] UK Remittances Working Group, 2005, p.39.
[97] Gupta, S., Patillo C. and Wagh S., 2007a, p.5-6.

GDP in the 2000-2005 period, but also for Cape Verde, Guinea-Bissau, Senegal and Togo, where they contributed more than 5 % to the national GDP.[98] Though smaller on the region-wide level, remittances exceed the flow of aid some countries receive, such as Lesotho, Togo, Nigeria and Swaziland.[99] In some countries, remittances are also an important source of foreign exchange, which in turn is needed to pay for imports. The ratio of the ten top receivers of remittances regarding their export earnings from 2000-2005 goes from approximately 15 % (Kenya) up to more than 60 % (Lesotho).[100] In absolute terms, the top receiver of remittances in 2008 in Africa was Nigeria with $10 billion. With this sum the country ranked sixth among the world's top receiver of remittances.[101] Kenya and Senegal follow Nigeria as the region's top receivers. Taking into account the large amounts of remittances that enter the countries through informal channels, the economic importance of remittances for some African countries is most probably considerably higher.

The importance of remittances for these countries on the macroeconomic level is reinforced by the general impact of remittances on the microeconomic level. In the short-term they seem to have a clear impact on poverty. By increasing recipient households' resources, they cover the basic needs of the recipients: They finance consumption or investments in education, health care and nutrition. Through higher household spending, remittances also have multiplier effects. A study by Gupta, Patillo and Wagh about the impact of remittances on poverty in 76 developing countries clearly demonstrates that remittances alleviate poverty. The share of people living on less than one dollar a day is reduced by more than one percent when the ratio of remittances-to-GDP is increased by 10 percent.[102]

In addition to the short-term poverty reduction effect, remittances also have long-term ramifications on economic growth. These effects can be both negative and positive. On the one hand remittances indirectly can slow down growth because they encourage the brain drain of the most talented people to the rich countries which in turn leads to a decreased labour supply in the developing countries. On the other hand, money sent back from abroad can foster investments into micro-enterprises, either by being a substitute for formal financial services (e.g. credits from a bank) or as a collateral that enables low-income households to make use of these financial services. By enabling recipients to start their own business either directly as starting capital or indirectly by guaranteeing a security for creditors, they foster economic growth. Considering access to financial services, remittances not only enable recipients to borough money but also to make use of other services such as savings products. So, besides

98 Ibid., p.5.
99 Ibid., p.6.
100 Ibid., p.5.
101 Ratha, D., Mohapatra, S. and Xu, Z., 2008, p.3.
102 Gupta, S., Patillo C. and Wagh S., 2007b, p.42.

contributing directly to economic growth through investments, remittances have an indirect effect on the economy by promoting the financial deepening in developing countries.[103]

To conclude, the significance of remittances for many African countries - though to differing degrees – is evident both, on the macroeconomic as well as on the microeconomic level. Their contribution to the GDP and to foreign exchange reserves as well as their impact on poverty and their long-term growth potential makes them an important factor for the economies of many African countries.

4.4.2 Impact of the economic crisis on remittances to Africa

Up to the current crisis, remittances have been relatively stable to economic downturns. Contrary to direct investments or official aid flows, remittances tended to be less volatile and even behaved counter-cyclical in the event of a crisis. Migrants rather sent more than less money home to support their families appropriately in times of economic distress. [104]

This time, however, the crisis may have a strong negative effect on remittances, due to the global scope of the economic downturn, which is not limited to a few countries but affects most of the economies around the world. With a slowdown in remittance flows in the third quarter of 2008, the negative effects already became noticeable. The World Bank estimates remittance flows to SSA to have grown by only 6 % in 2008 compared to 35 % in 2006 and even 42 % in 2007.[105] In its outlook for 2009-2010, the World Bank expects that remittance flows to SSA will shrink by 1.3 % in 2009 but return to positive growth (5.3%) in 2010. However, this base scenario rests on the assumption that the stock of migrants in host countries is not declining due to the crisis and that the migrants' incomes grow parallel to the GDP growth in the host countries. In a low case scenario, on the contrary, the stock of migrants would decline significantly. According to the World Bank the decline could be as much as 4 per cent in the United States, 8 per cent in Western Europe (EU-15 countries), 10 percent in the Gulf Cooperation Council (GCC) countries and 4 percent in other high-income countries. Furthermore, the crisis could have negative impacts on the migrants' incomes. For SSA, this worst case scenario would result in a much sharper decline in remittances by 6.8 % in 2009 and a slightly negative growth (-0.2 %) in 2010.[106]

Which one of the described scenarios will prove true is uncertain so far due to several reasons. First, it depends on the actual economic downturn of the migrants' host countries. For SSA, the further development in the United States and Western Europe is particularly important since three quarters of its remittances come from these two destinations.[107] With both economies in a deep recession[108], it is

[103] Ibid., p.42.
[104] Ratha, D., Mohapatra, S. and Xu, Z., 2008, p.1.
[105] Ibid., p.2.
[106] Ibid., p.7.
[107] Ibid., p.9.

likely that many migrants lose their jobs and have to return home. This could have a positive effect on remittances in the short-time, because migrants would take home all their savings.[109] In the long-term, however, the flow of remittances would be significantly reduced. Second, with rising unemployment rates, hostility towards immigrants increases as well.[110] However, the effect of a rise in anti-immigration sentiments and hence tighter border controls can be ambiguous. While the flow of new migrants might be slowed down, migrants who live already in the host country may find it harder to return to their homes. Because these long-standing migrants are the main contributors of remittances, payments from them would remain constant provided that they can keep their jobs.[111] Third, movements in exchange rates can influence the real and nominal value of remittances either positively or negatively. A depreciation of the US dollar or the Euro against the local currencies would lower the purchasing power of the remittances in the recipient countries and thus their real value. An appreciation of the US dollar against the Euro would significantly lower the nominal value in dollar terms of remittances from the Euro Area.[112]

The coming months will show how much remittance flows to SSA will decrease. So far the only definitive conclusion that can be drawn from the available reports is that their growth rate already sharply decreased last year and most probably will further slow down during the next months.

4.4.3 Effect of a decrease in remittances on African countries

How will a decrease in remittances - how strong it may be - affect the countries in East and West Africa? As described above, some countries are more dependent on remittances than others and therefore will be hit harder by declining remittance flows. According to a study on the crisis' implications for Low Income Countries (LICs) by the International Monetary Fund, six out of 16 LICs that are highly vulnerable to a slowdown in remittances are located in East and West Africa: Eritrea, Sudan, Togo, Guinea, Senegal and Liberia.[113] In case of a slowdown in remittances, these countries face a serious decline in their GDP and their foreign exchange reserves. The latter would cause an imbalance of payments, reducing their ability to import goods and services. For the other East and West African countries, the vulnerability is medium or low, because remittances either are a small part of the GDP or because their foreign exchange reserves are large enough to offset the negative effects of declining remittances.[114]

[108] In January the European Commission forecasted that the economy of the 16 countries of the Euro Area will shrink by 1.9 percent and the U.S. economy by 1.6 percent in 2009 (Bloomberg.com, 2009).
[109] The Economist, 2009a.
[110] The Economist, 2009b.
[111] Ibid.; Ratha, D., Mohapatra, S. and Xu, Z., 2008, p. 12.
[112] Ratha, D., Mohapatra, S. and Xu, Z., 2008, pp. 5 & 10.
[113] International Monetary Fund, 2009, p. 48 & 51.
[114] Ibid, p. 54.

However, this assessment deceives the negative effects on the microeconomic level which also take place in countries whose national economies face a low or medium vulnerability. Anecdotal evidence about the situation of households and families suggests that with remittances being squeezed, people in Uganda, Kenya or Nigeria lose an important source of income. In these countries as well, many families rely heavily on remittances for their basic needs or the education of their children.[115] With less money being sent, recipients withdraw their children from school, can not afford visiting a doctor or will not be able to buy basic goods. Furthermore, there is the danger that the economic development spurred by the investment of remittances into small enterprises will also slow down.

4.5 Foreign Direct Investment

4.5.1 Foreign Direct Investment from Europe and the United States

Shanta Devajaran, World Bank chief economist already warned that if the financial crisis in the United States and Europe worsens and therefore “risk aversion rises, it is possible that these capital flows which have fuelled growth in Africa will fall”.[116] Foreign direct investment (FDI) amounted to some 15 billion USD net inflows to sub-Sahara Africa in 2006.[117] In 2007 net FDI inflows to SSA amounted to approximately US $25 billion and, according to the IMF, they have continued to grow in the beginning of 2008. This has been mainly due to the fact that investments in the region have offered diversification opportunities as well as return rates higher than those in mature economies. FDI flows have been directed mainly to service sectors like telecommunication and have benefited a selected number of sub-Sahara African countries.[118] Over the past decades, the importance of FDI especially to LICs has quintupled in percent of their GDP. The sources of investment have also diversified.[119] But the latest global foreign direct investment estimates show a sharp decline of 21% in 2008 which is likely to worsen in 2009. In the short-term, the financial and economic crisis is expected to cause FDI to fall further in 2009. This will further increase Africa’s financial marginalization and undermine growth in foreign capital dependent sectors such as the mining and processing sectors. Short term net private capital flows have declined since 2007. This decrease shows the scarcity of financial resources, a result of the deteriorating market conditions and the contraction of the economy in some emerging countries.[120] Empirical evidence suggests that FDI in LICs is dependent on the health of the origin country’s

115 Reuters AlertNet, 2008; AllAfrica.com, 2008.
116 Holmqvist, G., 2008.
117 Ibid.
118 Massa & Velde, 2008, pp.4.
119 International Monetary Fund, 2009, pp. 20.
120 Bedoumra, 2009, pp. 5.

economy.[121] The latest World Economic Outlook's (WEO) projections show FDI inflows for 2009 falling by almost 20 percent from their 2008 levels, compared to over 10 percent growth that was projected in the WEO of April 2008. Multinationals' reduced profit margins, combined with difficult financing conditions and volatile commodity prices, have already begun to trigger reduced FDI commitments for 2009–10. The FDI in Africa is mainly concentrated in natural resource sectors, where new projects may be delayed but most ongoing projects are likely to be continued. The losses associated with withdrawing from natural resource projects prior to their completion, given the sizable up-front capital investment required for such investments, reduce the likelihood of FDI withdrawal from ongoing projects.[122]

The preliminary estimates for capital inflows in Africa are not as bad as for other regions and as some experts have predicted. The reasons for this are Africa's low share of total capital flows, the limited number of countries leveraging funds on international markets and the limited linkage between African and industrialized countries' financial markets.[123]

4.5.2 Foreign Direct Investment from China and India

Chinese and Indian investments have increased sharply in Africa. However, when forecasting the impact of global recession it should be kept in mind that their "share of the cake remains limited".[124] Asian FDIs are estimated to make up less than 10% of FDI in Africa. So even if China and India had been unaffected by a global recession, which has not happened as proven by now, that factor would still not provide Africa with much of a cushion.[125]

The economic crisis and the consequent banking stress might cause Asia's major investors in Africa to look inward in an attempt to consolidate their financial position and hence reduce their interest in doing business in and with Africa.[126] According to a UNCTAD-UNDP study of 2007 India and China were emerging as "significant sources of foreign direct investment (FDI) in Africa even though the overall percentage of FDI from Asian countries in Africa remains low".[127] Traditionally, FDI flows from developing Asia to Africa have been mainly from the Asian newly industrialized economies Hong Kong, South Korea, Singapore and Taiwan. Indian and Chinese investments also grew, with China's investment amounting to USD 1.18 billion by mid-2006.[128] According to the study Africa can expect increasing FDI from Asia in the coming years, provided African countries pursue proactive policies to

121 World Bank (2004); Nonnemberg and Cardoso de Mendonça (2004); Kalotay and Sulstarova (2008).
122 International Monetary Fund, 2009, pp. 19-20.
123 Bedoumra, 2009, pp. 5.
124 Holqvist, 2008.
125 Holqvist, 2008.
126 Oshikoya.
127 UNCTAD, 2007.
128 Broadmann, 2006.

attract investments in infrastructure and industries.[129] Gelb even observed a global trend towards "rapidly growing South-South investment".[130] However, in light of the crisis it remains so far uncertain if India and China will expand their investment activities in Africa or if there will be a slowdown in Asia's flows of direct investments like after the global financial crisis in the 90es. Back then major investors tended to look inward in an attempt to consolidate their financial position and reduced their business activities in Africa.

4.6 Development Cooperation

Foreign aid is a major source of income for countries in East and West Africa. The average fraction of net ODA receipts to GDP is 12.5%, the median is 10.3%. For some of the poorest countries, ODA inflows even exceed one third of GDP over the sample period: Somalia (34.2%) and Guinea Bissau (44.2%).[131] Poverty-reducing initiatives across the globe have led to sizable aid flows during this decade. Aid peaked in 2006, reflecting debt relief (driven by the HIPC and MDRI initiatives), coupled with increased flows from emerging donors such as Russia, China, and the GCC countries. However, excluding debt relief grants, net official development assistance remained broadly unchanged in real terms in 2006–07.[132] Potential reductions in aid flows are a serious concern.[133]

In the time after the financial crisis, "rich governments have found hundreds of billions of dollars to shore up their financial systems but poor countries don't have such huge resources". [134] They need foreign aid more than ever now, at a time when wealthy nations are more preoccupied than ever with their own economic woes. At best, aid revenues seem likely to stall and may as well fall as financial pressure mounts on donor governments and they look for politically easy spending cuts.[135] Long-held pledges that donor countries will scale up their giving to 0.7 per cent of their gross national product (GNP) now look increasingly unlikely to be realized.[136]

The threat of cuts is sufficiently serious to have prompted a chorus of recent calls, from institutions such as the IMF, World Bank and UN, for governments to maintain aid flows. In a statement on October 12th of 2008, the development committee of the World Bank and the IMF urged: 'Poorer countries, with their

[129] Ibid.

[130] Gelb, 2005

[131] The relative importance of aid makes Africa special. For developing countries outside of Africa, aid is, while still important, not that large relative to domestic output. Net ODA receipts average 4% of their GDP, with a median ratio of 2% (Pallage & Robe, 2000, pp. 7).

[132] Organization for Economic Cooperation and Development (OECD), 2008.

[133] International Monetary Fund, 2009, pp. 20.

[134] Cobham & Baird & Hogg, 2008, pp. 4.

[135] Ibid.

[136] The 0.7-percent standard was formally adopted by the U.N. General Assembly in 1970 after it was recommended by a commission led by then Canadian Prime Minister Lester Pearson.

limited sources of fiscal revenue, will be especially dependent on timely and predictable flows of official development assistance (ODA). In this regard, we emphasize the enhanced importance, in the current context, of donors meeting their ODA commitments.'[137] UN Secretary-General Ban Ki-Moon went further, warning that the financial crisis could undo progress towards eradicating poverty, hunger and disease, fighting climate change and promoting development. The world financial crisis "could be the final blow that many of the poorest of the world's poor simply cannot survive", he said.[138]

Evidence suggests that aid flows are already drying up. On World Food Day in October 2008, the United Nations' Food and Agriculture Organization's Director-General, Jacques Diouf, reported that only ten per cent of the US$22 billion pledged earlier this year to help ease food shortages had so far been handed over.[139] This shortfall augurs ill for the new pledges of US$16 billion made in September 2008 at a UN summit on the Millennium Development Goals (MDG). Official Development Assistance amounted to approximately 40 billion USD in 2006. The ODA flow declined during the 1990s and has increased since 2000.[140] Various economists proofed that aid flows are pro-cyclical with both donor and recipient incomes.[141]

In a sample of 18 donors, Pallage and Robe (2000) demonstrate that the co-movements of total aid disbursements with donors' output were positive for almost three fourths of donors during 1969–95. On the other hand, the cyclical component of ODA receipts is strongly positively correlated with the cyclical component of domestic output for more than two-thirds of the African recipients in their sample.[142]

Given the severity of the slowdown in growth in advanced economies, a potential reduction in aid cannot be ruled out. Projections of aid to LICs already started to decline in 2009. Growth in aid to LICs during 2008 was higher than initially anticipated by the WEO spring projections. This high level of projected aid partially reflected multilateral aid packages approved during late 2008 to help countries cope with food and fuel shocks experienced in early 2008. Notwithstanding international commitments to scale up aid, projections do not suggest that such scaling-up is in the pipeline for 2009.[143]

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137 World Bank and International Monetary Fund's Joint Ministerial Committee, 2008.

138 Secretary General, 2008.

139 Matthews, 2008.

140 Holmqvist, 2008.

141 International Monetary Fund, 2009, p. 19.

142 Only 2 African countries out of 38 (5%) experience countercyclical net ODA receipts. Outside of Africa, aid pro-cyclicality is somewhat less pronounced: 4 recipients in 25 (16%) experience countercyclical aid flows (Pallage & Robe, 2000, p. 8).

143 International Monetary Fund, 2009, pp. 21.

5 Risks and Chances for East and West Africa

The previous analysis of the crisis' impacts on East and West Africa has been far reaching. It included differentiations of East and West African countries, an introduction to some of the main actors and their reactions and recommendations to the negative impacts of the financial and economic crisis. Furthermore the impact of the crisis on direct financial channels such as the banking sector or development cooperation has been researched. In order to extract correct and valuable implications for the work of the SDC in Africa and to name possible measures and priorities, which should guide the SDC's work in Africa for the next years with regard to the negative implications of the economic situation, this chapter shall provide an overview of the chances and risks. The findings in this section rely on the previous research of the countries and regions, their performance in main political, social and economic areas, their dependencies on oil and other natural resources and on the crisis' implications for major economic sectors and actors for African development. Following the purpose of obtaining a differentiated picture and bearing the complexity of the macro-economic situation and the intra-African differences in mind, the identification of risks and chances goes alongside certain parameters: First, this chapter will differentiate between short term and long term risks; second it will take the implications for different dimensions (economic, political and social) into account. Concerning the chances, which arise possibly out of the current situation, a similar differentiation will lay the basis for forecasting and scrutinizing implications for SDC's work and being able to educe priorities and possible measures.

5.1 Risks

As stated above and regarding the comparably weak performance of African countries in a variety of sectors, concerning, for example, the Human Development Reports, the number of risks for African countries arising out of the tense global and continental economic situation is large. In the following, the analyses will first regard short term risks and then determine the long term risks, which are the possibly sustainable negative implications for East and West African countries.

5.1.1 Risks in the short term

The analysis of short term risks is subdivided into economic, political and finally social risks for African countries. Short term, with regard to the present paper, means until the end of the year 2009.

Economic Dimension

Generally speaking, one of the major short term risks is a general significant slowdown of economic growth in East and West African countries. As many international and African economic and trade related institutions and organizations predict, Africa, which had just been experiencing almost a decade of economic growth and intensified inclusion in the global economy, will be dealing with significant slump in economic activities. Second, fallen prices in oil and crude materials will put more economic pressure on exporting and resource intensive countries such as Botswana, South Africa or Nigeria. This risk is heightened due to the mostly highly resource dependent economic performance of African economies and a lack of diversification and the willingness to diversify national economies.[144] Third, a cancellation and the postponement of investments in extractive industries can be predicted. This will affect particularly those African countries, which suffer from a lack of technical or political possibilities for the extraction of natural resources by themselves. Since the crisis has been hitting stable and well performing extra-African regions such as the North American continent or the European Union comparably hard[145] (or with regard to the banking sector even worse), an imbalance of payments and hence a foreign account deficit due to lower exports can be expected. Finally and summarizing, government revenues are expected to decline as well. A decline in general government revenue will be passed down to the people due to a lack of functioning political and institutional frameworks and a lack of efficiency and effectiveness in dealing with public finances.[146] In this regard, the development of the human capital, amongst others one of the major possibilities to contribute to sustainable poverty reductions and citizenship enabling, will be delayed due to the lack of financial measures and possibilities.[147]

Political Dimension

One of the major concerns regarding short term risks due to the effects of the economic crisis on African countries is taking the political dimension into account: Regarding the current political situation in many East and West African countries and the level of corruption, both political instability and the level of corruption are likely to increase. Such a situation may occur for example to countries like Nigeria or Cameroon.[148] This outlook takes the weak structure of civil societies, the poor performances of political

[144] Diallo, 2000, p. 70ff.
[145] It is important to bear in mind, that in these regions, certain social and political safety guards have been established to assuage the negative impacts for the people.
[146] Lélé, 2004, pp. 283ff.
[147] Helmsing, 2004, p. 184.
[148] OECD, 2002, pp. 71ff.

institutions and the fragility of the political environment into account.[149] A decrease in public finances may as well lead to an increase in the level of corruption and hence in an intensified mistrust in official political institutions and their representatives (e.g. police or military).[150] Another major threat to the political environment can be foreseen in the intensification of separatist tendencies in regions with mineral deposits. Again, due to a decrease in public spending, intensified corruption and political instability, existing conflicts within African countries may intensify or older conflicts may break out again. Due to the intra-national complexity of many African countries regarding the consistency of the religious, social or ethnical affiliation of its populations, such conflicts tend to start on the basis of economic reasons, but intensify alongside other conflict lines.[151]

Social Dimension

First and foremost the possibilities of humanitarian catastrophes bear a concrete and drastic danger alongside the social dimension of short term risks. The difficult situation concerning the food crisis is likely to be intensified due to two reasons: First, a lack of national political possibilities to fight hunger effectively and second decreased official aid and development cooperation within the next years. The possibilities of intensified humanitarian catastrophes arise out of the current situation and the expensive and poor infrastructure, which is needed to assist affected regions as fast and efficient as possible.[152] This refers equally to East and West African countries and regions such as the Horn of Africa or countries such as Niger, Mali or Liberia. Second, an overall rising level of poverty due to less financial inflows from a variety of resources such as remittances, FDI or official aid and increasing unemployment within African nations sets the ground for social instability and unrest. Finally and as a result of the previous said, the rate of criminality may as well be rising, resulting in a further destruction of basic public security and civic cohesion.

5.1.2 Risks in the long term

The long term analyses of negative implications are dealing with a time frame from the beginning of the year 2010 onwards. Hence, it is a forecast and even though based on deep research on the current situation, needs to be handled with care.

[149] As an example for the fragility of the political landscape serves Kenya, a country which has been, relatively surprising to foreign observers, experiencing political unrest after the 2008 presidential elections.
[150] Klugman, Neyapti & Stewart, 1999, pp. 33ff.
[151] An example can be seen in Nigeria with regard to the oil producing Niger Delta region, where conflicts between several armed groups, private security and governmental forces remain due to a variety of reasons, ranging from a just distribution of oil related revenues to local political empowerment of ethnic groups.
[152] Johnson, 2002, pp. 171ff.

Economic Dimension

Depending on short term reactions to the financial and economic crisis from African countries, organizations and institutions as well as from international organizations, donors and developed countries and regions, the long term risks concerning the economic dimension lay within an insolvency of African financial institutions and a further increased disintegration in the global economy. This is highly depended both on the reaction of international institutions such as the IMF or the World Bank Group as well as on the international measures set up to fight the negative consequences of the financial crisis.[153]

Political Dimension

With regard to the political dimension of the crisis in the long run, short term risks may entrench themselves in a negatively sustainable and intensified manner, resulting in political instability, a long-term destabilization of governments, less financial means for necessary infrastructure projects and finally in an intensification of the battle for natural resources. All these possible negative outcomes are observable on the African continent at the moment or have been observed within recent years, including the battle for resources in Eastern Congo resulting in an intra-African war for six years or civil wars, for example in the West African countries of Sierra Leone, Liberia or the Ivory Coast. The existing African organizations dealing with peace and security have not proven so far that they are able to contribute sustainably and efficiently to the enforcement of the two.[154] Furthermore, the level of regional integration amongst countries, that has been reached so far and serves as a contribution to regional peace and security, is threatened.

Social Dimension

The short term risks alongside the social axis may as well intensify to the worse (level of corruption, unemployment rate and the amount and extent of humanitarian catastrophes) resulting in an increased diminution in the standard of living. Structural adjustments and effective strategies for poverty reduction will be increasingly difficult to implement the more African states lack necessary resources, intra-state alliances amongst political actors and international assistance.[155]

All three dimensions are interacting in the short as well as in the long run. They are not separated but entail each other mutually. Social unrest due to cuts in public spending may lead to intensified political

[153] Murshed, 2004, pp. 76ff.
[154] Makinda & Okumu, 2008, pp. 75ff.
[155] Helmsing, 2004, p. 193.

clashes within a country, resulting in cross border humanitarian catastrophes and regional political as well as economic disintegration. The level of complexity concerning forecasting likely risks is high; the level of complexity regarding the interaction of different dimensions and the long run implications is even higher.

5.2 Chances

A crisis offers principally the chance to question the institutions, the processes and the whole organizational situation in a country. This can be made from a market-based, a juridical or a political perspective. The concepts of good governance and capacity building can be used as criteria to analyze those sectors and areas of the respective country with the biggest need for change. Another advantage of this approach is that funds from development assistance are often bound to the fulfilling of different criteria concerning the rule of law, democratic mechanisms of participation and other issues from the vast area of good governance. Here, African states can try to come up with better monitoring and reporting systems that are often an important condition for the financial support from the developed world. Furthermore, there are already a lot of programs in existence with the goal of expanding the capacity of African states. If African states would formulate visions of the capacities they think are the most neglected and underdeveloped, they could continuously foster these capacities in joint partnerships with donor nations, international organizations and regional partners. The guarantee of security in the countries, the implementation of the rule of law, the reliability of rules and regulations and the free provision of information are also an important precondition to attract new FDI.
According to the United Nations, the concept of good governance has 8 major characteristics as shown in Figure 4.[156]

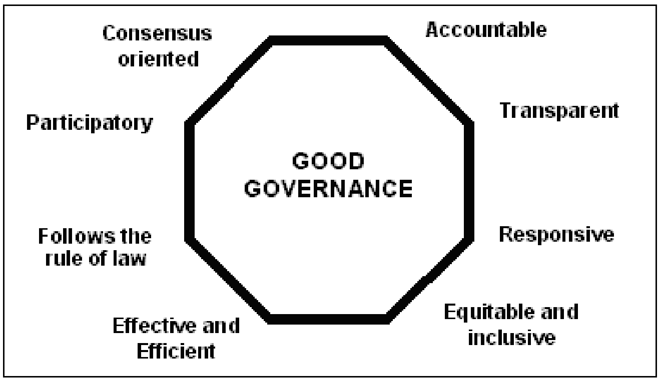

Figure 4: Characteristics of good governance

Participation needs to sufficient information and organization. This means freedom of association and expression on the one hand and an organized civil society on the other hand. Good governance requires also fair legal frameworks that are enforced impartially. Impartial enforcement of laws requires an independent judiciary and impartial and incorruptible police forces. Transparency means that decisions taken and their enforcement are done in a manner that follows rules and regulations and that information is provided in an adequate extent and is freely available. Good governance also requires that institutions and

[156] United Nations Economics and Social Commission for Asia and the Pacific, 2009

processes try to serve all stakeholders within a reasonable timeframe. Good governance also requires a mediation of the different interest in society to reach a broad consensus in society on what is in the best interest of the whole community and how it can be achieved. Furthermore it must be assured, that all groups, but particularly the most vulnerable, have opportunities to improve or maintain their well being. These goals should be achieved in an efficient way with sustainable use of natural resources. Another key element of good governance is accountability. Not only governmental institutions but also the private sector and civil society organizations must be accountable.

As already mentioned there is no single solution for all states in East and West Africa and it should be clear that the concept of good governance is an ideal which is difficult to achieve in its totality. However, to ensure sustainable human development, "actions must be taken to work towards this ideal with the aim of making it reality".[157] This entails the availability of the human, material and financial resources essential for efficiently managing the institutions and the identification and recruitment of personnel with the required knowledge, expertise, experience, competence and leadership to manage the institutions. Essentially, it is about unbundling the creative energies of the people, improving those energies and providing the legal, institutional and material context in which those energies will flourish.[158] Capacity building measures must therefore promote the individual development, the development of project teams and on higher levels the competencies of national institutions and regional agencies and on the national level the cooperation with other states and the integration in international institutions.

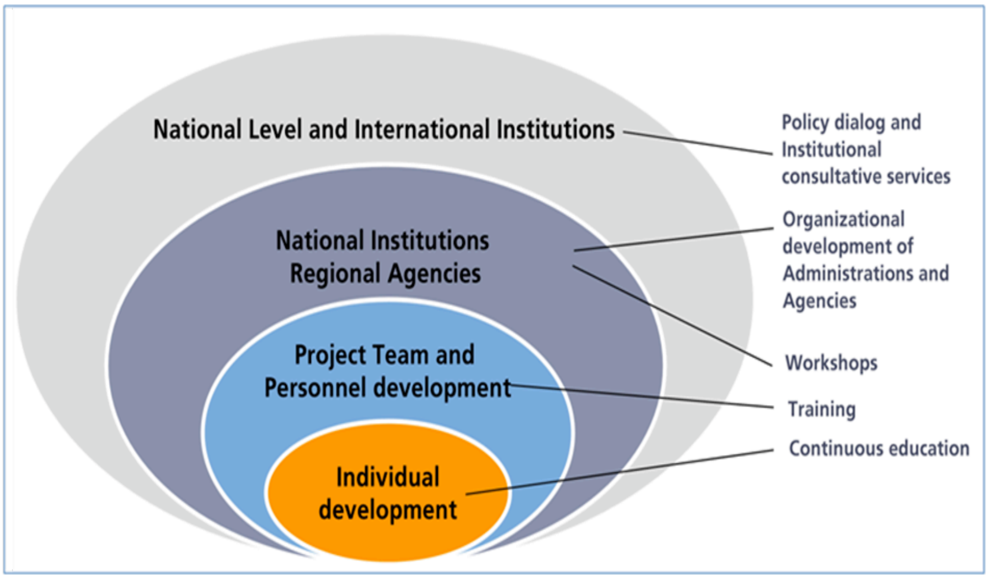

Figure 2: Intervention Levels for a Capacity Building Strategy

In order for the institutions of governance to perform their functions efficiently they must be endowed with the appropriate capacities. Good governance can therefore be seen as a complex vision with capacity-building ramifications.

157 United Nations Economics and Social Commission for Asia and the Pacific, 2009
158 UN Economic Commission for Africa, 2005

6 Implications for the Work of the SDC

This last part of the paper illustrates how the work of the SDC is affected by the different impacts of the global economic crisis on East and West Africa. However, before going into the detailed description of the different principles and measures this paper recommends the SDC to adopt, the previous work of the SDC in East and West Africa has to be briefly circumscribed. Knowledge about the recent work of the SDC in Africa is important for several reasons: First, the fact that the SDC operates only in some focus countries limits most of the measures mentioned below to these countries. Second, one can only recommend a change in measures if one knows what has been done before. And third, the extent of the previous work will reveal what is financially possible for the SDC. As it will be shown, the geographical focus of the SDC on a few countries is justified by the long-time experience the SDC has in these countries as well as by the very limited resources that are available.

6.1 The previous work of the SDC in East and West Africa

Generally, the commitment of the SDC for East and West Africa can be divided into three categories: bilateral development cooperation, multilateral cooperation and humanitarian aid. The bilateral development cooperation in Africa takes place within the broader scope of the "SDC cooperation with the South", which in turn is subdivided into focus countries/regions, special programmes and other activities. Altogether the SDC concentrates its activities on ten countries or regions in East and West Africa.[159] Seven of these countries are focus countries: Benin, Burkina Faso, Mali, Niger, Chad, Mozambique and Tanzania. The remaining countries and regions respectively are assisted through special programmes and/or humanitarian aid. The region "Great Lakes", which covers (parts of) Rwanda, Burundi and the Democratic Republic of Congo (DRC), receives both humanitarian aid and is designated as a special programme. Liberia and Sudan both receive substantial humanitarian aid. In 2007, the aggregate financial contributions made to this countries through the different programmes amounted to 136.7 Million Swiss Francs.[160] This amount does not take into account minor humanitarian aid to focus countries (e.g. 0.93 Million Swiss Francs to Niger in 2007)[161] and small bilateral development cooperation programmes in countries receiving humanitarian aid (such as Sudan)[162], respectively. Furthermore, the SDC appropriated close to 380 Million Swiss Francs in general

[159] SDC, 2009.
[160] Own calculation (on the basis of individual figures from Swiss Confederation, 2008, p. 12).
[161] SDC, no date/a.
[162] SDC, no date/b.

contributions to international organisations.[163] A substantial part of this money as well as contributions to NGOs accrues also countries in East and West Africa.[164]

Main fields of activity of the SDC in East and West Africa

What is the main focus of the SDC's work in East and West African countries? Though the priorities somewhat differs between countries, the main issues within the special programmes and the priority countries are agricultural development, decentralisation, governance (especially democracy and the rule of law), education and health. This focus is not only apparent from the figures about the splitting of the overall bilateral expenditures by issues, where the issues "agricultural development", "rule of law and democracy", "education" and "health" receive most of the financial resources.[165] It also becomes obvious when comparing the priorities of the SDC in the individual countries. The fostering of decentralised governance that respects the rule of law and democratic principles, the support of the local agricultural and commercial economy through micro-finance and other means and the development and improvement of local and decentralised health and education systems are the main fields of activity of the SDC in most of the countries.[166] Concerning humanitarian aid in Sudan, Liberia and the Great Lake region, which are all ravaged by past or ongoing wars and conflicts, the SDC focuses on the reconstruction of the basic infrastructure such as water supply and sanitation, the securing of a sufficient food supply for the population and the protection or reintegration of refugees.[167]

Implications of the crisis on the work of SDC in East and West Africa

Concerning the impact of the crisis on the work of the SDC in East and West Africa, some general conclusions can be drawn from the description of the SDC's previous work, especially its geographical as well as issue-related focus. First, the current priority countries and regions as well as the special programmes shouldn't be changed in the light of the crisis. Even if other countries in East and West Africa might suffer more from the crisis, the SDC's current geographical focus on the countries mentioned above should remain. An important reason is that the SDC has been operating in these priority countries for decades.[168] Thus, it has gained much experience and a deep understanding of the local circumstances and is able to use its resources most effectively to counter-act the negative effects

[163] Swiss Confederation, 2008, p. 12.
[164] Besides the engagement of the SDC other federal departments, in particular the SECO, are operating in several East and West African countries. Though the work of the SECO is an important element of the Swiss development cooperation in Africa, this paper will not go into this department's engagement due to the focus on the work of the SDC.
[165] Swiss Confederation, 2008, p. 11.
[166] SDC, no date/a; SDC, no date/c; SDC, no date/d; SDC, no date/e; SDC, no date/f; SDC, no date/g; SDC, no date/h; SDC, no date/i.
[167] SDC, no date/b; SDC no date/i; SDC, no date/j.
[168] See footnote 47.

of the crisis. Furthermore, the need to concentrate on a few countries is emphasized by the SDC's very limited financial resources. With an annual budget of about 1.4 billion Swiss Francs[169], the SDC has not the financial means to operate in every single country in East and West Africa. Thus, focusing on countries where most of the expertise exists is the best way to make the most out of the limited resources. However, within the framework of humanitarian aid the SDC still has some limited scope to flexibly react to the needs of those East and West African countries that are currently not receiving any help.

Concerning the topic-related focus, the SDC has already done important preparatory work to counter some of the short and long term risks of the crisis that most probably will occur, though by differing degrees, in the countries the SDC is currently operating. First, the focus on the development of the agricultural sector might mitigate the short term risks of poverty and food crises in many of the countries by ensuring a self-sufficient food supply. Second, the support of small and medium sized commercial businesses might help to counteract the increasing unemployment in the short-term and could reduce dependence on a few export products and thus the economic vulnerability in the long term. Third, the fostering of good governance both on a national as well as on the local level through decentralisation is an appropriate measure to make sure that the limited financial resources of the countries are utilised as efficiently and effectively as possible and that the corruption, which is most likely to increase during the crisis, is contained. Furthermore, local and federal governments that respect the rule of law as well as democratic principles are much more capable to deal with social and political tensions in the long term. Fourth, building or improving health care and education systems makes also sense in the light of the crisis. On the one hand, the assistance of health care systems can prevent the short term risk of a shortage with primary health care that will, together with other social services supplied by the national governments, probably decrease significantly due to the economic crisis. Because the crisis also increases poverty and thus malnutrition and the disability to pay for medical treatment, assistance for primary health care becomes even more necessary. Improving the education systems does not seem to be of primary importance in the light of the crisis' short term effects. But as remittances and other financial sources dry up, many families won't be able to pay for their children's or their own education. In the long term this will contribute to a lasting decrease in the living standard of the population in economic, social and political terms. To ensure that the human capital develops and thus fosters economic growth as well as the ability of the people to participate both in the social and political life is still an important goal in the long-term, even though there might currently evolve more pressing problems due to the economic crisis.

[169] Swiss Confederation, 2008, p. 2.

To sum up, the SDC's previous work in its priority countries and special programmes appears to be well suited to help counter the crisis' worst effects both in the short and in the long term. In the next to sub-chapters, the paper offers a range of principles, priorities and measures, the authors think are appropriate to cope the risks and to seize the chances the crisis imposes on the East and West African countries. Whereas some of them are in line or overlap with the SDC's current measures, others will add new ideas and approaches how to deal with the crisis.

6.2 Guiding Principles

Before going to illustrate the priorities and measures on the basis of the identified risks and chances, this chapter offers in a first step some overarching principles that should guide the work of the SDC in East and West Africa throughout the crisis (and perhaps thereupon). These principles are designed to be a rough orientation for the SDC concerning their priorities and measures.

Focus on countries that face the most urgent needs

This principle may sound banal but in the light of humanitarian catastrophes due to food scarcity and rising poverty in many of the countries, it is nevertheless an important guide in order to appoint resources where they are most desperately needed. However, the applicability of the principle is limited. As mentioned above, most of the SDCs financial resources are bound to priority countries and special programmes. As the commitment in these countries is a long-term one and based on decades of cooperation, it might be impossible and - due to the experience and expertise the SDC has gained in these countries - also be unwise to hastily abandon the existing programmes in order to help states that are hit harder by the crisis. However, the SDC is able to abide by this principle within the scope of its bilateral and multilateral humanitarian aid and its general contributions to international organisations. Regarding the bilateral appropriations, the SDC can shift financial resources relative flexibly between different countries and regions according to the neediness of the particular countries. Concerning the contributions to international organisations the SDC should apply this principle when partaking in meetings and negotiations of these organisations.

Financial capacities for flexible reaction within priority countries and special programmes

As mentioned above, a big part of the financial means of the SDC is bound to priority countries and special programmes. However, within the particular country programmes there should be ample financial flexibility to react to changing needs of the countries. This principle prioritizes to a certain degree urgent and short term measures as opposed to long term sustainable programmes. Though the latter ones are equally important for the countries' development in the long run, the possible risk of humanitarian catastrophes as a result of the crisis demands that a significant amount of money is not bound to long term measures but remains available for fast and flexible reaction.

Increasing support of regional integration and interstate relationships

As long as the most important donor states and development partners of the East and West African countries struggle themselves to mitigate the effects of the global recession on their own economies, the African countries should not rely too much on support from outside. Although at the recent G20 summit, the world's most important industrial and emerging countries have themselves committed to increase the support for developing countries[170], it remains uncertain if they comply with their promises when their economies continue to shrink and their own population is faced with unemployment and poverty. Supporting regional integration and interstate relationships thus can be a way to foster regional cooperation and enabling the countries to use their intra-national potential with regard to trade, the exchange of expertise and human capital as well as mutual assistance to counter the crisis.

Multilateral integration and cooperation

Taking into account the complexity of the current crisis, one single (and small) actor like the SDC can not make much of a difference. So the emphasis on and intensification of multilateral integration and cooperation that has taken place within the international development assistance and that is also a central part of the Swiss development policy[171] takes on even greater importance in the light of the crisis. The SDC should not only try to organize its cooperation within multinational organisations and forums as effectively as possible but also to co-ordinate its bilateral measures closely with the ones of other actors in the particular countries. Only by close cooperation and coordination will it be possible to make a combined effort against the crisis and to prevent a waste of resources through duplications or single measures that do not have a lasting impact.

Support of diversification efforts

To mitigate the effects of decreasing exports in countries that rely heavily on one or only a few resources, efforts should be made to diversify the economies of these countries. The dependence on one or a few export products is a main cause for the general effects of the current crisis such as unemployment, falling foreign currency reserves and shrinking state revenues. Thus diversification

[170] G20, 2nd of April 2009.
[171] SDC & Seco, 2005, p. 6.

measures both can create new jobs and new sources for state revenues in the short term. Furthermore this approach seems to be appropriate to provide a basis for less vulnerable economies in the future.

Counteract the rural exodus

Increased unemployment and a lower stream of financial support in terms of remittances or official aid combined with a decreased ability of NGOs and donor states to help the population constitutes the threat of a food crisis for many of the countries. This problem could be further aggravated by the possible movement of rural inhabitants to the main economic centres of the countries in order to find some work. By abandoning their previous agricultural activities they not only weaken the country's capacity to provide food for its own population. They might also add to social tensions which are most likely to the increase as a result of the crisis. Thus, specific measures should be taken to avert the rural exodus.

6.3 Priorities and possible measures

Reaching sustainable and observable successes in the field of development cooperation is a difficult and long lasting process. As analyzed and described above, the task is getting even harder, due to the negative effects of the economic and financial crisis, which cannot even be foreseen to their fullest extent and affect a wide variety of actors and economic and trade related fields. Furthermore, due to the complexity and fragmentation of the political, social and economic situations amongst African countries, the vulnerability of national and regional political stability, the different levels of intra-African integration and institutionalization and the intensification of existing problems within all sectors, the work of the SDC as well as the environment in which this work is implemented will become even more complex. Recalling the analyses from Chapter 5 of the present work, both short term and long term measures need to be taken into account. The European Strategy for Development Cooperation from 2006 proposed actions for assisting African countries under the title: "To do more, better and faster".[172] With regard to the current global crisis and the problems East and West Africa are facing, one could say, that measures nowadays need to be even more, even better and even faster. Hence, the SDC should react to the crisis in Africa with integrative measures with regard to urgency and sustainability.

Integrative measures in this regard refer to three dimensions: Firstly, an intensified cooperation with national governments will be necessary to fight the backlashes within the countries occurring out of the effects of the global crisis on African countries, especially aiming at a stabilization of the political and social environment within African states. Secondly, integrative measures have to be taken between the

[172] SDC, 2009a.

SDC and regional organizations such as ECOWAS or EAC or amongst several African nations in order to stabilize the political environment on a regional level, increase the importance of regional organizations as such and helping them in regaining scope of action. Thirdly, integrative measures shall include other actors, which are engaged in the field of development cooperation. This point is taking the lack of financial measures for traditional actors in this field into account (e.g. NGO's or national development agencies) and is aiming at a closer collaboration between the SDC and foundations or African and multinational corporations. This issue is very sensitive with regard to the non-commercial background of the SDC and needs to be closely and intensively assessed in every case; however such collaboration seems to be structurally possible.

Concerning the urgency of measures, short term risks need to be taken into account. This refers first and foremost to the situations in which human lives are directly threatened or harmed. Urgent reactions to humanitarian catastrophes and to the effects of the food crisis in combination with an intensified tense economic situation should be amongst the most important actions on the SDC agenda. The SDC has been very active in the area of humanitarian assistance throughout recent years (e.g. in East, South and Central Africa in Zambia, Zimbabwe, Democratic Republic of the Congo, Angola and Burundi[173] as well as in West African countries such as Ivory Coast, Liberia, Sierra Leone or Guinea[174]), but must prepare to do so inventively and within a wider range. Regarding the scenario of humanitarian crisis, intensified coherence and coordination with other donors is of inevitable necessity.[175] An example would be the situation around the Horn of Africa, where at least five countries fight the food crisis without possible support from neighboring states or a regional concept.[176] Pressing need for SDC actions occurs to fight the backlashes of increasing poverty and unemployment. The underlying importance besides humanitarian reasons refers to the threat that social unrest and political incapability of action may lead to an erosion of political stability in a national or regional context. Finally, intensified cooperation with African states and international organization is needed in fighting separatist movements within African nations (for example in Southern Sudan or in the Niger Delta region in Nigeria) to secure political capability of action as an essential precondition in assuring sustainable assistance and long term commitment. The SDC as a representative of Switzerland with its long standing tradition of neutrality would be of good use as a negotiator and in bringing adverse parties for negotiations together.

Concerning the sustainability of action, the SDC should focus on the stabilization of the political environment. This is done by urgent reactions to short term risks as mentioned above, but must involve further action as well: A critical and encouraging support of regional organizations, depending on the

[173] SDC, 2009b.
[174] SDC, 2009c.
[175] SDC, 2009a.
[176] Ethiopia, Eritrea, Djibouti, Somalia and Sudan.

level of efficiency and effectiveness those organizations provide in fighting the impact of the global crisis on Africa. This includes the support and assistance of regional integration processes, bearing in mind that possible protectionist political measures will lead to tense relations among states, threatening the international political stability and all efforts with regard to peace and security. Such developments may likely danger the rather fragile processes which have been accomplished in the field of regional integration throughout the last years. Giving assistance to economic sectors which provide sustainable growth without endangering the environment is another important measure, which should be taken by the SDC. In this regard, the necessary support of infrastructural projects which can not be handled by African states alone due to a lack of financial resources or investments in the development of the tourist sector, based on sustainable preservation of the natural and cultural heritage, may be mentioned amongst others. Finally, the support of rural areas, especially concerning the self-sufficient agricultural production, is of the greatest importance. The insufficient allocation of public support within most African nations, combined with the current food crisis, is a major threat to an adequate provision of the rural population with the necessary minimum of nutrition. Furthermore, such a situation leads to intra-national migration movements to the major cities, intensifying urban poverty, slum creation and social tensions. In this regard, the support of small businesses in urban areas, for example by using micro-finance tools, would adequately mirror the commitment in the rural sector in the urban areas. Especially small and medium-sized enterprises would gain from the support of the SDC, which would be comparably cost efficient and alleviate the social pressure by enabling people to rely on self-sufficient work. Finally, an intensified commitment of the SDC in the sector of public health and family planning, including working on a better control of birth rates and measures regarding the containment of the dissemination of infectious diseases such as HIV or providing people with basic safeguards against malaria or cholera, would be of great use in the long run concerning both an attenuation of the tense economic situation as well as laying the basis for the development in other sectors, such as schooling, education or the ability to work.

7 Conclusion and Outlook

The paper at hand has illustrated the deep and significant effects of the current economic crisis on East and West African countries. The global recession has led to a sharp decrease in the demand for commodities that are so viable for many of the African economies. Especially oil-exporting countries such as Chad, Gabon or Nigeria will suffer from the global downturn whereas commodity-importing countries are likely to profit – at least in the short run. However, as other important economic sectors such as tourism experience as serious meltdown as well, even countries that do not depend too much on commodities are not spared from the effects of the crisis neither. Furthermore, the decrease in FDIs, remittances and official aid aggravates the difficult financial situation both for individual households and the governments in virtually all East and West African countries. Though for some economic factors such as remittances, the degree of the negative impact is based at best on a rough estimation, one thing can be concluded for sure: countries in East and West Africa will experience a serious decrease of their economic growth in the months to come. This economic setback carries not only short term risks such as unemployment, poverty and food scarcity but also long-ranging negative implications such as a general decline in the living standards, the destabilisation of governments or intensified battles for resources.

Both short and long term risks affect the SDC's work in East and West Africa. The agency's measures in the fields of agricultural and commercial development, education and health as well as good governance are appropriate to counteract many of the crisis' effects and should be reinforced. However, the crisis might call for additional measures. Particularly the possible threat of a humanitarian catastrophe in many of the countries might require swift and wide-ranging support that exceeds the programmes and activities that mostly aim at sustainable development. So, at least in the short term urgent measures are likely to prevail over sustainable ones. Nevertheless, the latter ones are crucial for overcoming the crisis in the long-term and shouldn't be neglected.

Whatever the specific measures may be, the SDC should try to apply the guiding principles mentioned in this paper. Among others, increased multilateral cooperation and the fostering of regional capacities are some of the most important principles the SDC should keep in mind when planning its measures in East and West Africa. This focus is important all the more, considering both the complexity of the current crisis as well as the limited financial resources of the SDC.

Annex 1:

Table 2. Oil-Importing Countries	
Benin	Malawi
Botswana	Mali
Burkina Faso	Mauritius
Burundi	Mozambique
Cape Verde	Namibia
Central African Rep.	Niger
Comoros	Rwanda
Congo, Dem. Rep. of	São Tomé & Príncipe
Eritrea	Senegal
Ethiopia	Seychelles
Gambia, The	Sierra Leone
Ghana	South Africa
Guinea	Swaziland
Guinea-Bissau	Tanzania
Kenya	Togo
Lesotho	Uganda
Liberia	Zambia
Madagascar	Zimbabwe

Table 3. Sub-Saharan Africa: Country Groupings 1			
Resource-Intensive		Non-Resource-Intensive	
oil	**Non-oil**	**Coastal**	**Landlocked**
Angola	Botswana	Benin *	Burkina Faso *
Cameroon *	Côte d'Ivoire	Cape Verde	Burundi
Chad	Guinea	Comoros	Central African Republic
Congo, Republic of	Namibia	Gambia	Congo, Dem. Rep. of
Equatorial Guinea	São Tomé and Príncipe	Ghana *	Ethiopia *
Gabon	Sierra Leone *	Guinea-Bissau	Lesotho
Nigeria	Zambia *	Kenya	Malawi *
		Madagascar *	Mali *
		Mauritius	Niger *
		Mozambique *	Rwanda *
		Senegal *	Swaziland
		Seychelles	Uganda *
		South Africa	Zimbabwe
		Tanzania *	
		Togo	

Note: Asterisk (*) marks countries that have reached the completion point under the enhanced HIPC Initiative and have qualified for MDRI relief.
(1) These groupings follow Collier and O'Connell (2006), who show that the effect of being resource-rich is independent of location and thus classify all sub-Saharan African economies by both endowment and location. A country is classified as resource-rich if primary commodity rents exceed 10 percent of GDP (South Africa is not classified as resource-intensive, using this criterion). In terms of location, countries are classified by whether they have ocean access (coastal) or are landlocked.

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