IMF and World Bank reports predict bleak future for Africa

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The IMF predicts the global economic crisis will have a huge and disproportionate impact on sub-Saharan Africa. The effect will be to widen global inequality and plunge more of the African population into poverty.

The IMF's prediction of Africa's economic growth has been slashed by half, from 6.7 percent to 3.25 percent. IMF Managing Director Dominique Strauss-Kahn warned that even this figure may be "too optimistic". Growth at this level would mean declining GDP per capita (because of population growth) and therefore rising poverty.

Less than a year ago, the IMF was forecasting economic growth of 6.7 percent in 2009, an increase on the 5 percent growth in 2008. While the recent IMF report, "Impact of the Global Financial Crisis on Sub-Saharan Africa", says that "Unlike in developed economies, there has been no systemic banking crisis in sub-Saharan Africa", and makes the point that its financial institutions "so far remain largely sound", this will cause only a delay in the world crisis making itself felt in Africa rather than mitigating its effects.

According to the report, "In some countries banking systems may be increasingly exposed to market volatility. Countries where high equity returns had led to borrowing for investment in the stock market (e.g., Kenya, Nigeria, and Uganda) are at greatest risk".

It points out the danger "of contagion from distressed foreign parent banks [spreading] to local subsidiaries". A downturn in productive industries such as timber and cotton "could quickly affect the banking sector".

While the IMF talks about "dangers" of the banking crisis spreading to Africa, other sources regard it as all but inevitable. Heavily dependent on exports, often of a small number of basic commodities, 15 of the 21 countries in the world most vulnerable to the crisis are in Africa. The IMF states, "Oil and metal exporters have been hardest hit: oil prices have fallen over 60 percent from their mid-2008 peak". Zambia will be severely hit with the fall by two-thirds in the price of copper.

In previous recessions each one percent decline in global growth led to a half percent slowdown in the sub-Saharan African countries, but the IMF concludes that the effect will be greater this time because it will be compounded by the "tightening of global credit".

Strauss-Kahn warned that millions of African people will be thrown into poverty due to the crisis, and political systems put to the test. "This is not only about protecting economic growth and household incomes—it is also about containing the threat of civil unrest, perhaps even war”.

The World Bank has also predicted that the global economic crisis will drag 46 million people in Africa down into absolute poverty.

In 1960, sub-Saharan Africa’s per capita income was around a ninth of that in high-income OECD countries. By 1998, it had fallen to around an eighteenth. This gap is set to widen.

Antoinette Sayeh, director of the IMF’s Africa department, stressed that the crisis that began in developed economies and then the emerging markets was now hitting the world’s poorest continent through low global commodity prices, depressed demand for their exports and the effects of the credit crunch.

At the London G20 summit of world leaders in April, the IMF is likely to ask for a substantial increase in its funding. It is expected that such pleading for additional funds will fall on deaf ears. African leaders met British Prime Minister Gordon Brown to present their requests for more funds in the run up to the summit. South African Finance Minister Trevor Manuel told reporters that overseas development aid could “dry up or diminish”, and that some western donor countries “have indicated they are not capable of meeting these commitments.” Egyptian Finance Minister Youssef Boutros-Ghali told Reuters, “In the case of Africa, people are going to die. We are talking about lives, not just somebody who will have to drive a smaller car”.

Foreign Direct Investment (FDI) flows into sub-Saharan Africa fell by 21 percent in 2008, and the IMF predicts that this trend will continue. The World Bank also expects that developing countries will face a shortfall of $270 billion to $700 billion on their finances this year due to private sector creditors turning away from emerging markets.

The IMF report calls on the richer nations to maintain their aid commitments, but in fact all the Western countries are turning towards protectionism. Since they committed to increasing core development aid at the Gleneagles summit in 2005, they actually cut aid by 4 percent. France and Ireland are weighing up whether to make big cuts in their aid budgets as a response to the recession.

It is hardly surprising that nothing is said by the IMF about its own role in creating the conditions for a human catastrophe on the African continent. Some African leaders, including Tanzanian President Jakaya Kikwete, have accused the IMF of unfairness in its treatment of its members, being hard on poor countries whose populations were already on the brink while allowing richer countries to do as they pleased, even when this undermined their finances.

The IMF also calls on African countries to “seize the opportunity to advance their structural reform agendas in order to boost prospects for growth”—that is to continue with the IMF-imposed policies that have been responsible for squeezing huge amounts of wealth out of the poorest region of the world.

A report by the charity ActionAid has given a bleaker picture of Africa’s future than the IMF. Claire Melamed, head of policy for ActionAid commented, “We’ve calculated that just by the end of this year, Africa’s income stands to fall by $50 billion. And that’s equivalent to a pay cut of more than 10 percent for the continent”.

Melamed argues against those who hope “globalization hasn’t really gone as far as we thought it had and that will protect developing countries from the recession". She says, "What this crisis does is that it just shows the depth of global integration and the way in which we're all interconnected now whether we like it or not".

In particular, Melamed describes the layoff of tens of thousands of miners in South Africa. Although it is the major economic power house on the continent, South Africa is one of the worst affected countries.

Another factor that will affect most African countries is the big downturn in remittances sent back by those who work abroad. According to the BBC, $19 billion was sent home by Africans in 2007, more than double the amount three years earlier. But three-quarters of these remittances come from Western Europe or the United States, already mired in recession.

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