STRAIGHT TALK

Start This Engine

Africa's policymakers should prepare for global recovery by priming their private sectors

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AFRICA'S limited integration into global markets has provided little protection from the direct effects of the global financial crisis. But Africa should brace itself for the consequences of the global crisis on its real economy. The speed at which African economies have been affected has exceeded earlier expectations. Although the extent and depth of contagion are uneven across the continent—with mineral-exporting countries, large open economies, and fragile states affected most through one or several transmission channels—the continent as a whole has seen its growth prospects reduced from an average of 6 percent to less than 3 percent.

Widening current account and budget deficits pose an immediate threat to macroeconomic stability that years of economic reform helped establish. The ability of African governments to undertake needed crisis response, let alone sustain basic services and development programs, will be seriously tested. At this stage, it is difficult to predict how long African growth will continue at half its previous pace, because the global crisis is still relatively young. It is safe to assume, however, that whenever the global economy returns to a growth path, Africa's recovery is likely to be asymmetrical.

But African policymakers can prepare right now to take advantage of a global economic recovery. They can start hooking up more of their domestic economies to the most reliable and potent short-term engine of growth at their disposal: the private sector. The African Development Bank (AfDB) is one of several international financial institutions standing ready to help Africa harness the private sector. This important endeavor can and should start promptly, so that Africa's economies participate fully with the rest of the world in the global upswing that follows the downturn.

Booms and busts

Africa's growth trajectory over the past 30 years has been one of episodic growth phases followed by prolonged decline, typically on the back of commodity booms and busts and with internal factors aggravating the trend. The current global crisis, however, probably marks the first time in many years that, for a large number of African countries and not just for the big commodity exporters, the primary cause of an economic slump has been external and out of their control. But whatever its source, the effects of a growth slowdown in Africa are severe. The AfDB projects that this year, for the first time since 1994, per capita income growth will be negative for the continent as a whole—in mineral-rich economies and also in agricultural export–dependent countries.

Decades of policy reform helped deliver Africa's hard-won gains of recent years—sustainable debt levels, lower inflation, progress with liberalizing trade, export diversification, and other structural changes. Although it is true that before the current global crisis took hold, Africa was not on target to achieve the poverty reduction targets set by the UN Millennium Development Goals (MDGs), advances toward a few of the eight goals, notably universal primary education, had shown that real progress was feasible.

The slowdown caused by the global crisis should supply whatever extra impetus is needed to renew Africa's drive for growth. The really hard work has been done: the continent's big-picture reforms are in place and had begun to deliver before the world downturn came along. Africa's need now is to keep improving the environment in which its reformed policies and institutions can operate. This is where nurturing the private sector becomes a priority.

The AfDB has itself recently upgraded the importance of the private sector in the pan-African economy. The bank's first Strategic Plan, covering 2003–07, assigned private sector development a secondary role in support of sustainable economic development, and placed relatively little emphasis on private sector operations. This has been revised in light of individual country experiences: the bank's middle-income country members want to compete in the global marketplace without protection from trade preferences, and the bank's low-income country members want to improve their investment climate so that they can achieve middle-income status. The AfDB believes that an important means to achieving both objectives rests in cultivating the private sector.

The AfDB's Medium-Term Strategy for 2008–12 recognizes that the international community is looking more closely at Africa: existing donors have pledged more aid; new donors are coming to the fore; and private investors, although still interested mainly in natural resources, are assessing the possibilities in Africa. Accordingly, the bank now ranks as a high priority the development of a more robust private sector, and acknowledges vital private sector roles in equally important areas of focus such as infrastructure and higher education.

That "sweet spot"

In particular, the bank can play a constructive catalytic role in promoting and enabling creative public-private partnerships in what the bank believes is a growing "sweet spot" between traditional public and private sector domains. The AfDB's private sector investment tripled in 2007, and a strong pipeline of projects through innovative public-private partnerships presents significant opportunities for growth, synergy, and catalytic impact. The bank's private sector transactions will be further scaled up in the context of mutually agreed country strategies to promote private sector–led growth.

History tells us that in countries like Africa's, when economic times are bad, social indicators, such as maternal and infant mortality, educational enrollment and completion rates, and women's employment opportunities decline rapidly—particularly in fragile states where weak institutions and limited fiscal space often make it impossible to offer safety nets. Short-run crisis management requires budget adjustments to match expected resources, at the expense of human development. Greater private sector activity can help to boost social indicators in certain areas, such as higher education, that have multiplier effects in other social areas. Thus the AfDB is seeking to develop partnerships with the private sector to design and implement national and regional tertiary-level training projects. The bank will also support technical and vocational education and training operations to build skills and address chronic high unemployment.

A quick recovery for Africa from the effects of the global crisis will depend on many factors: the extent of damage to macroeconomic stability, the investment climate, and progress on infrastructure. In particular, maintaining the pace of infrastructure development at this time in the face of lower private investment and tight government revenue will be critical for a speedy recovery. Modern agriculture, services, and industry depend on infrastructure. Failing to fill the infrastructure financing gap will entrench Africa's position as a competitive laggard when global economic activity recovers. Here again, the private sector has a key role. Over the past two decades, there has been a significant shift in both industrialized and developing countries toward more private sector provision and financing of infrastructure—but this has happened least of all in Africa. The AfDB will strengthen partnerships to improve water and sanitation, transport, telecommunications, and energy infrastructure in its member countries.

Development of a vibrant and dynamic private sector requires a functional and enabling commercial environment in any country that wants to host such an engine of growth. It will therefore be critical for all countries on the African continent to make even faster progress in improving the investment climate by lowering the cost of doing business. This easily calculable cost is now a widely published yardstick by which all aspiring middle-income countries can be and are very publicly ranked. Minimizing it will allow such countries to position themselves much better and participate fully in an eventual recovery of global demand and investment.

Financing gap

Beyond regulatory and governance reform, it is important to stress that to achieve pre-crisis growth rates, Africa would need $50 billion to finance the investment-savings gap. To achieve the 7 percent growth rate that is deemed necessary to achieve the MDGs, the financing gap rises to $117 billion. Although some middle-income countries may be able to effectively mobilize both domestic and foreign investment, low-income countries and fragile states will need support.

The Group of Twenty industrialized and emerging market countries' commitment at their April summit to increase support for low-income countries, particularly in Africa, in response to the current global crisis, is a necessary but not sufficient condition for recovery. It must be accompanied by a determination not to reverse the gains from economic reforms that have contributed so much to African economies' resilience to the world recession.

We at the AfDB have responded expeditiously to the international slowdown. We have used our convening capacity to provide a platform for debate, sharing experience and advocacy for Africa's voice among the continent's economic leaders. In full realization that close collaboration among international financial institutions will be critical at this time, the bank has intensified its cooperation with other development partners in a search for targeted crisis intervention strategies through which we can pool our resources, expertise, and comparative advantage to enhance pan-African economic prospects.

The most critical issue for the bank at this stage is how to strike a balance between enacting short-term crisis responses and remaining focused on the long-term issues. It must not be forgotten that longer-term strategies—such as the development of infrastructure, encouraging economic integration, and establishing a skilled labor force—hold the key to Africa's growth trajectory. For that reason they are also all core areas in the AfDB's Medium-Term Strategy.

There is no doubt that the impact of the global crisis on Africa constitutes a major setback. Our firm belief remains that the long-term economic prospects for Africa are strongly positive, provided we respond to the impact of the current crisis on Africa in a coordinated way, while remaining focused on the long-term needs for a continent that aspires to earn its livelihood through trade and investment. ■