

**Presentation made by H.E. Meles Zenawi**

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**On Africa's Policy response to the Global Financial Crisis and  
how the International Community should help Africa**

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## **Your Excellencies, Ladies and Gentlemen.**

Allow me to express how pleased I am to be here with you and to welcome all of the participants to Addis Ababa. I think it is very important that the activities of UNDP, an institution that plays such a vital role in Africa's war on poverty, should be informed by accurate assessment of Africa's development challenges and possible ways of overcoming them. I think such assessment should be enriched by contributions from various stake holders as well as academics. That is why I think your workshop today is a most timely and useful event.

I have been asked to speak about what the international community should do to assist Africa in overcoming the challenges posed by the current global economic crisis. To do that, I think it is necessary to briefly review the impact of recent global economic trends on Africa's development prospects.

Africa has done well in terms of economic growth in recent years particularly since the beginning of this century. We have had the highest growth rates in decades, and while there were significant variations among countries, it would still be accurate to state that there was sustained and relatively fast economic growth in most of our countries. The first crisis to hit Africa emerged last year before the global financial crisis, which was then followed by another hit subsequent to the financial crisis.

The first crisis to affect Africa was caused by accelerating increase in commodity prices, particularly that of oil and agricultural commodities. While higher commodity prices have been associated with the positive economic outlook in Africa in previous years, indeed while according to most analysts such robust price of commodities was one of the key if not the key driver of growth in Africa, by early 2008 this had turned into its exact opposite, and became the key challenge. This was so because while sky-rocketing oil prices helped a few oil producing countries it hit much of Africa very hard. It generated massive inflationary pressure, created extreme pressure on the balance of payments of most African countries and through its impact on transport costs and fertilizer prices affected agriculture very negatively. Sky rocketing food prices added massive strain to the pressure that African countries faced. By the summer of 2008 the

crisis had reached a stage where the G-8 felt obliged to pronounce itself on the matter and pledge to help address it.

It is interesting to note that while a moderately growing price level for commodities has been at the root of much of the robust growth in the continent in previous years, this very trend became the key source of the problem when oil and food prices accelerated massively. It seems that African economies can do well within a very narrowly defined set of commodity prices.

It is before Africa had dealt with the crisis generated by high oil and food prices that the financial crisis hit the world. It was initially assumed that the financial crisis would not significantly affect Africa and indeed it did not. It is the economic crisis which followed the financial crisis, which has affected Africa very negatively. Commodity prices and global trade collapsed, and Africa's balance of payment and growth was severely tested from the opposite end of the spectrum. Growth collapsed, investment was dramatically curtailed and Africa moved from one crisis to the other.

The second crisis I think further confirms that the robust growth we had since the beginning of the century is very fragile, can be sustained only in an environment of very narrowly circumscribed set of global commodity prices. Growth in Africa collapses when prices go up too far and when they go down too far. In other words, the fragility of Africa's economy is at the root of the impact of the current crisis on our economies. We are too dependent on commodity exports, there is too little value addition and the associated process of industrialization. Agriculture, which is the source of livelihood for the vast majority of the population in Africa, has not been transformed and is still the weakest link in our economic chain. The robust growth we have had since the beginning of the century has not addressed these structural flaws. What we had was growth without transformation. Moreover, it was growth based on a uniquely favorable set of global commodity prices, a unique set of circumstances that could not be expected to last.

There is no consensus amongst economists whether the global recession has hit the bottom or not. While most economists expect a low global growth rate for the next decade or so as the imbalances which created the crisis are sorted out and as the cost of overcoming the crisis are paid for, the price of oil has doubled from the lowest point it reached at the beginning of the current crisis. Most other commodity prices have made very modest gains while oil prices are shooting up again. A number of explanations have

been presented for this rather odd phenomenon. There are those who blame the speculators. They argue that there is still a lot of money seeking profitable opportunities and speculation in oil is about as profitable an opportunity as this money is ever going to get in this environment of drastically reduced global growth prospects. Others suggest this is a reflection of the fact that fossil fuel based growth has reached its limits, and as soon as the recession begins to hit bottom oil prices inevitably shoot up. I believe both explanations have merit and together provide adequate explanation of the phenomenon. I believe the combination of low economic growth, relatively low prices of most commodities and high and growing oil prices is unlikely to go away anytime soon, and may be with us in some form or another for the coming decade or so.

Just as we in Africa seemed to have had good luck at the beginning of this century with a unique set of benign commodity prices, we seem to have arrived at a stage where both sets of crisis to hit us in 2008 and 2009 are coming to create a uniquely unfavorable set of commodity prices in 2010- very high and growing oil prices, and perhaps similar growth in food prices (similar to what we faced in 2008) combined with weak prices for other commodities and a generally depressed growth prospects globally (similar to what we faced in 2009). We seem to be destined to face all the negative consequences of 2008 and 2009 without any of their limited benefits for the foreseeable future.

I am afraid I am not done yet with the set of gloomy forecasts for our continent. Global warming is now a scientifically established fact. It is happening and it is happening largely because of our activities. Nothing we do now is going to stop our climate from warming by an average of at least 2<sup>0</sup>C. While such level of warming is just short of being catastrophic, and while keeping it that way is now the defining global agenda, the fact remains that Africa will be hit first and be hit hard by the unavoidable global warming. The weather pattern in much of our continent will be more erratic and drier than has been the case in the past. Such changes are going to hit our fragile agriculture hard and depress the prospects of growth and transformation in Africa.

Over the coming decade, therefore, we are going to have to do things that we did not do while the going was good and do so in a global environment that has become much less permissive. We are going to have to achieve growth rates that are on average higher than what we have achieved so far but use such growth to transform our

economies and address the structural fragility which is at the root of our economic problems. We are going to have to do that in an environment where global growth is depressed, climate change adds a massive burden on our growth prospects and where oil and possibly food prices are high but the prices of most of our other commodities are low. This is bound to be huge challenge taxing our own capacity to adapt and that of our partners to help to the limit.

I think the international community can and should do three things to help. The first, and I think the most important thing, is to give Africa the necessary policy space to adjust to the changed circumstances. We know that the neo-liberal paradigm imposed on the continent has not delivered the goods. It could not bring about economic transformation even when the going was good. It would be madness to expect it to deliver the goods when the going is likely to be very bad indeed.

I do not know whether I need to explain why sovereign African nations should plead to be given policy space. The simple answer is that they are not so sovereign when it comes to economic policy making. The fact remains that African states depend heavily on foreign aid and credit to sustain their economic activities and the aid is largely disbursed on the basis of how well countries adhere to the policy orthodoxy promoted by donors. These sovereign countries are thus faced with a very well coordinated and solid policy orthodoxy-they either adhere to it and get the money or chart their own course and face the risk of the drying up of external assistance or at least a substantial reduction of it. The decision of donors to give African states the policy space to try out alternative paths of addressing the economic challenges they face is thus of paramount significance.

I think there are some encouraging signs in that regard. A few months ago the Prime Minister of the UK publicly declared that the Washington consensus, which is the other term used to describe the neo-liberal orthodoxy, is over and we need a new one. It may very well be the case that he was never in the first instance a true advocate of the orthodoxy. The fact remains, however, that a major donor government has publicly and directly challenged that orthodoxy and we should all welcome and support that as a hopeful sign. But I would add two qualifications to that statement. While there may have been a neo-liberal consensus among major donors, there was never any such consensus in Africa. It was imposed on Africa. Secondly I think replacing the Washington consensus with a new consensus is likely to be difficult and time consuming.

We therefore may have to settle for a lesser objective-that of creating space for various alternatives.

One way of doing that could be to agree on the objectives of our endeavors and to let the means of achieving the common objectives be determined by each country. There is apparently a global consensus on achieving the MDG's. We could build on that and eliminate policy conditionality. Instead of the policy conditionality we could evaluate each African country on the basis of how well and how fast they are moving towards the Goals and provide the assistance accordingly. This would create, in my view, adequate space for policy experimentation and provide space for at least some countries to come with a winning formula. I think without such space most if not all the African countries will remain in a state of international receivership at a time when the capacity of donors to sustain such state of affairs is being sorely tested by the current economic crisis.

Creating adequate policy space for African countries is bound to be politically difficult, but even if we were to achieve that, it would not be enough. Africa is going to need development assistance perhaps more so than in the past given the more hostile global economic environment that appears to be emerging. Here again I see some hopeful signs. The most recent G-20 summit held in London re-affirmed the commitment of donors to the Monterrey and Gleneagles commitments and proposed an additional contribution of about 50 billion dollars to help Africa overcome the current economic crisis. Some 23 billion of that additional resource appears to be ready for quick disbursement through the IMF. The rest which is supposed to be disbursed through the World Bank and African Development Bank is not yet available. In addition not all donors have lived up to their commitments. But given the fact that a significant number of donors have made goodwill efforts towards that, and the fact that a significant portion of the new money promised by the G-20 has been made available it would not be unrealistic to hope and expect that the rest will follow.

Climate change is one of the factors that are expected to make the transformation of African economies even more difficult than in the past. We therefore need to deal with that to assist Africa overcome the current difficulties. In this regard the international community needs to take urgent steps to limit global warming to about 2<sup>0</sup>c. But as I indicated earlier the unavoidable level of global warming is going to hit Africa first and hit it hard. As Africa did not create the problem it has to be compensated by those who

did for the damage caused. Such compensation should be large enough to enable Africa to adapt to the change in its climate. The most effective means of adapting to climate change is growth and transformation of Africa's economy. It is therefore essential that adaptation measures be broadly defined to include all necessary measures required to grow and transform African economies. Africa should also contribute to the mitigation of climate change and needs funds from the international community to do so.

I think it is necessary to make a distinction between the development assistance that Africa is asking for and the compensation for global warming that it is demanding. The international community may have more moral obligations to provide assistance, and there may be an element of enlightened self-interest in it too. But it cannot be said that the international community has any legal obligation to do so. With regards to the damage caused by global warming, however, I think those who created the change have both a moral and legal obligation to compensate the victims of their activities and Africa has every right to demand compensation.

There are some hopeful signs in this regard too. There appears to be an emerging global consensus to do whatever is required to limit global warming and to do so on the basis of common but differentiated responsibility. Africa too is rising to the challenge. It has decided to field one team to negotiate on behalf of all African countries, and is in the process of articulating a common negotiating position.

In brief therefore, I think the international community could and should provide adequate policy space, live up to its commitments in terms of development assistance, limit global warming and pay compensation for the unavoidable damage caused by it to assist Africa overcome the current economic challenges. These steps in and of themselves will not transform African economies. Only the efforts of African states and peoples can do that. What the international community can do is to either become a stumbling block or a helping hand in the struggle for African economic growth and transformation. If the international community does the things that I have suggested, I think many if not all of the African countries will have a fighting chance of surviving the dangerous economic storms that we are passing through and even thrive in them. If no such assistance is forthcoming, then I am afraid the prospects for many countries in Africa is likely to be very dire indeed.

I thank you.