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Managing Economic Shocks:

African Prospects in the Evolving External Environment

>> ISSUE BRIEF from the AUTHOR

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Sub-Saharan Africa and the External Environment

Amadou Sy

In 2015, sub-Saharan Africa experienced its slowest economic growth rate since the 1998 global financial crisis. According to the IMF, the region's real GDP growth fell from 5.0 percent in 2014 to 3.75 percent in 2015 and will rebound to 4.3 percent in 2016. Given recent global and regional trends, it is likely that the IMF will revise its 2016 sub-Saharan Africa growth forecast downward. Not all is lost, though: Changes like these create opportunities for appropriate and timely policy measures that can make a difference and help sub-Saharan African economies regain their growth momentum both in the short and long terms.

FIGURE 1.1. SUB-SAHARAN AFRICA: REAL GDP GROWTH AND FORECASTS

Domestic and external factors have driven down GDP growth forecasts for sub-Saharan Africa. The growth rate in 2015 is estimated to be at its lowest since 1998 but a slight rebound is forecasted in 2016 with growth up to 4.3 percent. Still, recent external shocks might bring the 2016 forecast down even further—a situation that calls for strong macroeconomic and tax policies to help the region bounce back.

Source: IMF and author's estimates.

Economic trends since the global financial crisis

The IMF 2016 forecast of 4.3 percent is lower than the 5.0 percent achieved in 2014 and even lower than the 2004-2014 average of 5.8 percent.

The path of the region's economic growth was a sharp V-shape in 2007-2009 (Figure 1) as African countries were able to quickly recover from the effects of the global financial crisis thanks to existing policy buffers that allowed for countercyclical measures. For 2015-2016, however, growth forecasts point to a less pronounced economic recovery. The IMF 2016 forecast of 4.3 percent is lower than the 5.0 percent achieved in 2014 and even lower than the 2004-2014 average of 5.8 percent. What is even more worrisome is that the IMF growth forecast for next year is just a baseline projection. There is, therefore, an implicit interval of confidence around the growth projection, and downside risks to the baseline are looming large.

Such a path means that the growth momentum in the region may be running out of steam. This trend is worrisome: When looked at on a per capita basis, Africa's growth rate is still too low to make a permanent dent on human development indicators. GDP per capita growth has averaged 3.4 percent in 2004-2014 but is now scheduled to fall to 1.4 percent in 2015 and hover around 1.9 percent in 2016. To put things in perspective, if the region was able to regain its 2004-2014 per capita GDP average growth rate, GDP per capita could be doubled in 20.5 years, by the year 2036. In contrast, at a growth rate of the predicted 1.4 percent, this achievement would take place in 50 years, by the year 2065.[1]

As the continent takes its first steps in meeting the Sustainable Development Goals, it is crucial that it achieves faster and better-quality economic growth, one that has a high growth elasticity of poverty reduction (the percentage reduction in poverty rates associated with a percentage change in mean per capita income) and relies on more engines of growth, such as agriculture and manufacturing than exports of oil and other commodities.

[1] Sub-Saharan Africa's 2014 GDP per capita (at constant 2005 prices) was $1,036.1 according to the World Bank.

VIEWPOINT

CHINA'S GROWTH SLOWDOWN WILL AFFECT AFRICA

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China's growth has had positive spillovers for Africa for the past decade. In particular, China's investment-led growth model generated large demand for energy and minerals, boosting Africa's terms of trade and export volumes. But now China is undergoing a difficult transition towards a new model that relies more on innovation and productivity growth on the supply side and on consumption on the demand side.

The hangover from the investment-led model is excess capacity throughout the economy. There are many empty apartments, low-capacity utilization in heavy industry, and under-utilized infrastructure. Given the excess capacity, it is natural that investment has slowed quite sharply, dragging down the overall growth of the economy. This trend has an immediate effect on Africa because it is one factor leading to declining prices for primary products and to declining volumes of exports for African economies. Through the first three quarters of 2015 the gloomy news for China's old economy was matched by some positive news from the new economy so that the overall growth rate was close to the target of 7 percent. However, markets are nervous because it is not clear if China's growth will stabilize in this 6-7 percent range or decline further in 2016 and beyond.

The slowdown in investment means that, for the moment, China has even more capital to send abroad than in the recent past. Its consumption rate should gradually rise, but for the foreseeable future China is likely to have an excess of savings over investment, that is, to be providing capital to the rest of the world. This can happen in a fairly orderly fashion. The authorities now are trying hard to stabilize the exchange rate: The large and growing trade surplus indicates that there is no foundation for devaluation in the medium to long term. The authorities have laid out an ambitious set of reforms that should facilitate the shift away from investment-led growth.

A smooth transition will enable China to continue to grow in the 6-7 percent range for the next decade. It will not provide increases in demand for energy and minerals on the scale of the past, but it should be a stable source of direct investment for other countries. Africa will need to compete for its share through infrastructure investment, improvements in the investment climate, and strengthening of human capital.

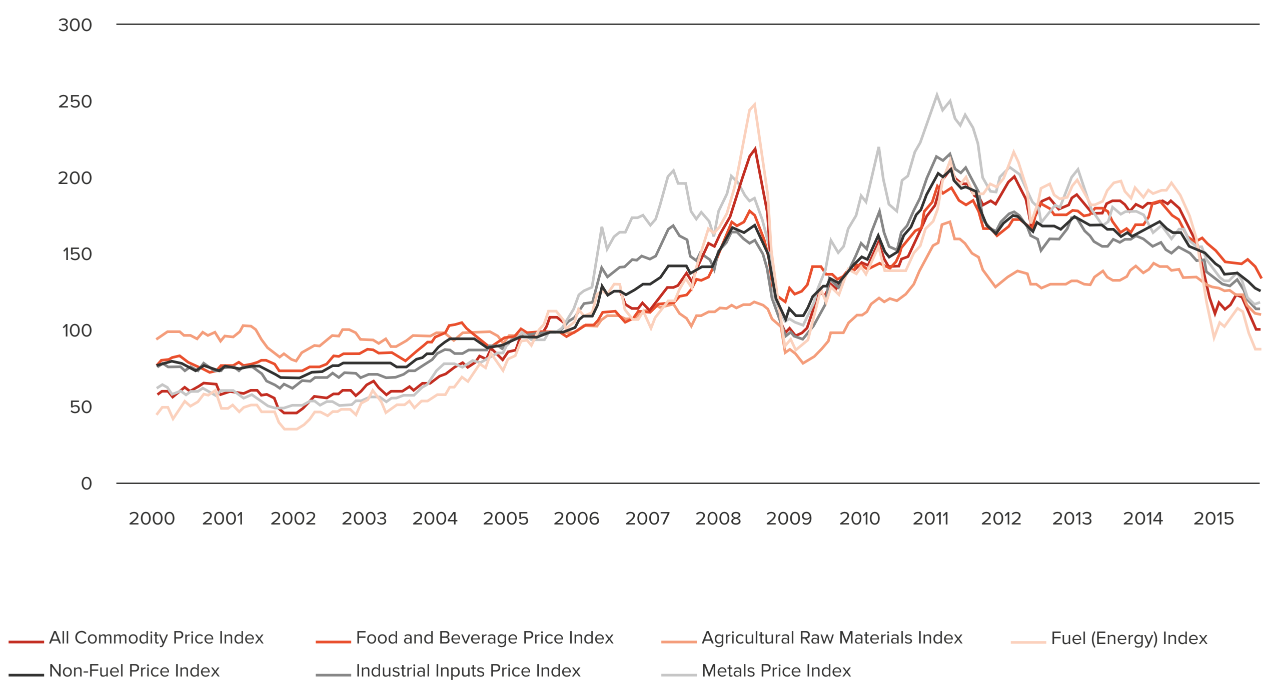
There is, however, some risk of a more negative outcome. If the deceleration of investment becomes too acute, it would fuel even larger capital outflows that could lead to a disorderly devaluation of the Chinese currency. This outcome would almost certainly lead to further devaluations of other emerging market currencies. More generally, if China does not make a smooth transition to a new growth model, it will still be a major source of capital in the short run but it will not grow as well over the medium to long term and thus will not be as important a source of capital or of demand for other economies.

What are the prospects for recovery this time?

In 2008, the continent, like the rest of the world, faced a global financial shock, but was in part insulated from it thanks to its less pronounced financial linkages with the rest of the world. In 2015 and 2016, however, the continent faces a "triple threat" from the changing global environment: (1) Prices of Africa's main exports, oil and metal, have fallen significantly, driven by robust supplies and low demand, and are expected to remain low as the commodity supercycle has come to an end; (2) the economy of Africa's main bilateral trading partner, China, is slowing down; and (3) external borrowing costs are increasing as the U.S. Federal Reserve further raises U.S. interest rates, and the options for borrowing are becoming more limited. One could even add a fourth threat—climate change—as East and Southern Africa expect to bear the likely brutal effects of El Niño in 2016.

FIGURE 1.2. COMMODITY PRICES SLUMP IN 2015, HITTING MANY AFRICAN ECONOMIES HARD

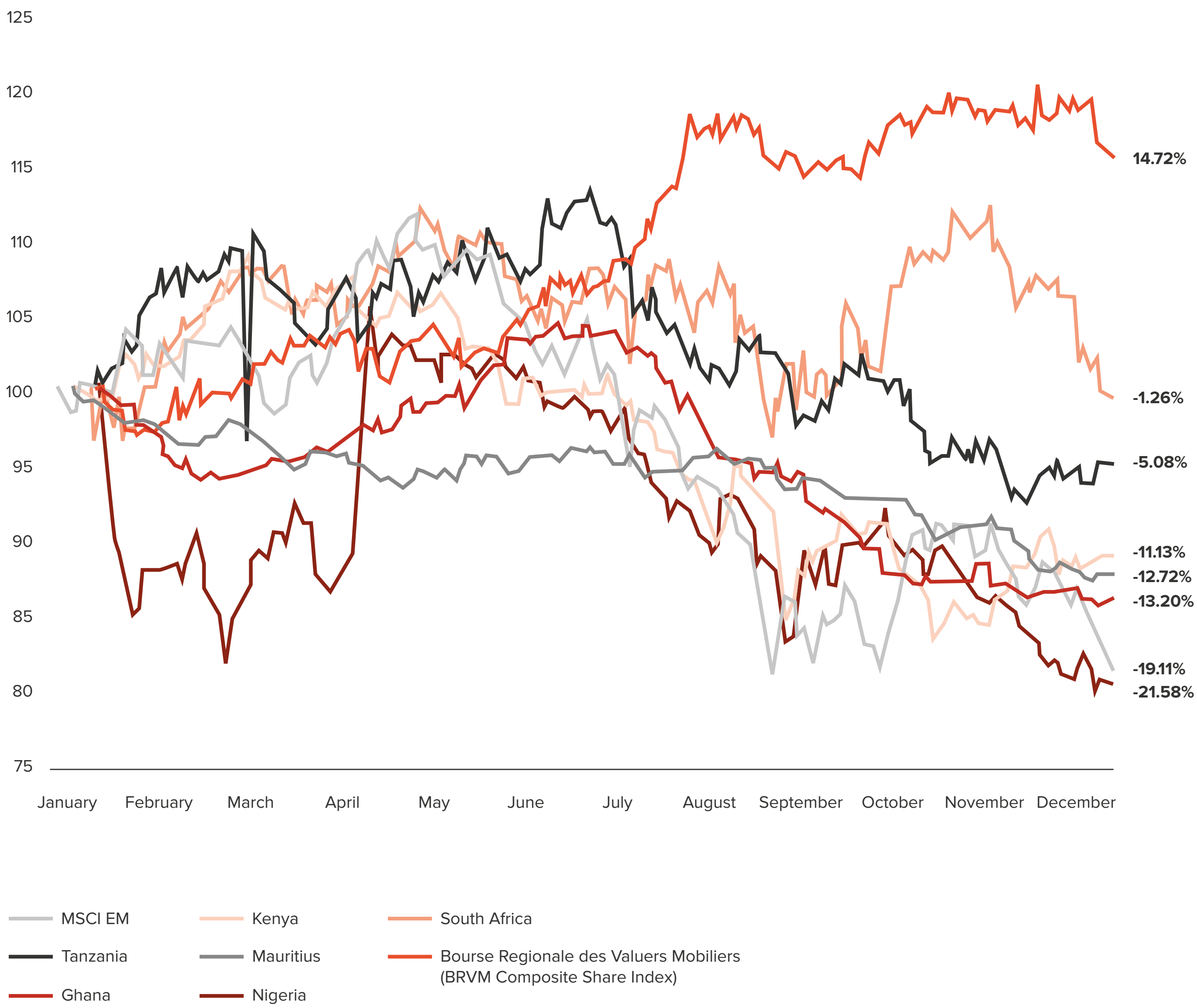
Since 2014, commodity prices have fallen dramatically to levels experienced during the global financial crisis. Economies highly dependent on exporting commodities (e.g., Zambia, Nigeria) have, as a result, registered lower export revenues and experienced domestic issues such as low growth, fiscal imbalances, and current account deficits. Despite these difficulties, these price drops also signal that 2016 is an opportunity to rethink policies (such as oil and tax) with more long-term goals in mind.



Source: IMF Commodity Price Indices. (2005=100).

FIGURE 1.3. RETURNS FOR SELECT EQUITY MARKET INDICES (JAN. 1-DEC. 14, 2015)

In 2015, most African equity markets indices registered negative returns amid a challenging economic environment. However, they still performed better than the emerging markets benchmark index (MSCI EM). The exception is Nigeria where uncertainty related to the presidential elections' outcome and lower oil price contributed to lower returns. In contrast, the BRVM, the regional stock exchange for the West African Economic and Monetary Union member countries, achieved strong positive returns on the back of stronger economic performance in Côte d'Ivoire. Differences in the performance of African equity markets suggest that there are some portfolio diversification effects for regional investors. In 2016, positive growth economic forecasts should be supportive for the performance of African equity markets while downside risks from the external environment remain.



Source: Bloomberg L.P. and author's calculations. (January 2015=100).

Which countries are most at risk?

Fuel, metal, and mineral exports represent about 62 percent of sub-Saharan Africa's exports in 2010-2014.

Throughout 2015, the effects of the "triple threat" have been felt across the continent. Almost all currencies have depreciated against the U.S. dollar, inflation is higher, stock markets are down, and bond yield spreads are up. 2016, then, provides the opportunity for sub-Saharan African countries to assess their existing vulnerabilities and enact policy measures taken to manage them.

There are different ways to look at the region's vulnerabilities to current external shocks, and these ways all point to a regional economic slowdown:

- Oil and metal exporters in the region will experience slower growth. World Bank data indicate that fuel, metal, and mineral exports represent about 62 percent of sub-Saharan Africa's exports in 2010-2014. Oil exporters, which include Angola, Cameroon, Chad, the Republic of the Congo, Equatorial Guinea, Gabon, Nigeria, and South Sudan alone represent about half of the region's GDP and will be a drag on the region's growth. In contrast, oil-importing countries such as Ethiopia, Kenya, Rwanda, and Tanzania will help mitigate the impact of lower oil prices on the region.

- Growth in the largest economies in the region, Nigeria and South Africa, is slowing down. The two countries together account for more than half of the region's GDP and have suffered from falling commodity prices as well as structural problems, including electricity shortages. Nigeria's real GDP growth is expected to fall to 4.0 percent in 2015 from 6.3 percent in 2014 and recover to 4.3 percent in 2016. South Africa is expected to barely grow in 2015-2016, with a growth rate hovering around 1.4 percent.

- Economies that export the most to China are mostly commodity exporters and, as a result, are vulnerable to both a Chinese economic slowdown and lower commodity prices (the two trends are related). Exports to China from South Africa (the second-largest economy in the region) exceeded 29 percent of its total exports in 2010-2014 and are above 40 percent for a number of countries (the Gambia, the Democratic Republic of the Congo (DRC), the Republic of the Congo, Angola, Mauritania, and Sierra Leone). One of the best examples of a vulnerable country is Zambia, which is major exporter of copper, most of which is sold to China (46 percent of Zambia's exports in 2010-2014), the world's largest consumer of the metal (45 percent of global demand in 2014).

Unfortunately, unlike in the aftermath of the 2008 global financial crisis, policy buffers are thin and most countries are suffering from twin deficits—both current account and fiscal. Deteriorating terms of trade have widened current account deficits, and public investment in infrastructure has contributed to widening fiscal deficits. To make things more complicated, these deficits need to be financed at a time when the cost of external borrowing is increasing and access to capital markets is becoming more difficult.

What policies are needed to accelerate the growth momentum?

Sub-Saharan African countries need a two-pronged approach to accelerate their growth momentum. Basically, countries need to implement macroeconomic policies to cope with the short-term effects of the external shocks, and they need to stay the course in implementing medium- to long-term structural policies. A typical policy risk for countries facing external shocks is to sacrifice long-term gains to avoid short-term pain; for example, by cutting public investments in order to avoid fiscal adjustment instead of cutting current expenditures. This is often because politicians—who at the end of the day lead the way—have a short-term horizon dictated by the electoral calendar.

Adequate short-term macroeconomic policies can help countries contend with current external shocks

With oil prices down, countries must now consider removing oil subsidies and increase non-oil fiscal revenues.

This changing environment makes 2016 an opportune year for policymakers to act. Significantly reduced revenues make fiscal reforms in commodity-exporting countries necessary. With oil prices down, countries must now consider removing oil subsidies and increase non-oil fiscal revenues—such as by raising the value-added tax (VAT). Countries will need, however, to make sure to alleviate the impact of such policies on the poor like through transfers. Other revenue boosting measures that should be considered include reducing tax expenditures, improving tax administration, and reviewing tax policy on luxury goods. Now is also the time to review and prioritize expenditures and maximize the efficiency of every dollar spent from the budget.

In addition, given the reduction in policy buffers, countries with flexible exchange rate regimes may consider letting their exchange rates depreciate in order to absorb some of the economic shocks. As global liquidity conditions are tightening, cash and debt management should become a priority.

VIEWPOINT

THREE STRATEGIES FOR AFRICAN ECONOMIES TO MANAGE EXTERNAL SHOCKS IN 2016

Ngozi Okonjo-Iweala
Former Coordinating Minister for the Economy and Minister of Finance, Federal Republic of Nigeria

Africa is facing increased uncertainty and strong headwinds as the global environment seems to pack several punches at the same time. There is weak recovery in most developed world markets. Emerging markets, especially China, appear to have slowed down and reduced demand for Africa's commodities. The specter of a U.S. interest rate rise or "lift off" has also reversed capital flows to many developing countries. These events and others have lowered Africa's growth forecasts and even challenged the story of the continent's resurgence.

So what are African economies to do in 2016 and beyond? How should they respond? First, most African policymakers learned the lesson in the 1980s and 1990s that macroeconomic stability is key. Absent this, it is pretty impossible to focus on other types of reforms. So, in today's uncertain world, the first area of focus is ensuring that correct fiscal and monetary policies are in place to weather the external shocks. Most African finance ministers have shown they know what to do on this score, but are looking for the political flexibility and space to implement prudent policies. Politicians who eschew the building of fiscal buffers and block the phase out of energy subsidies stand in the way of their country's progress.

African countries must not only diversify their economic base, they must also learn to tax it!

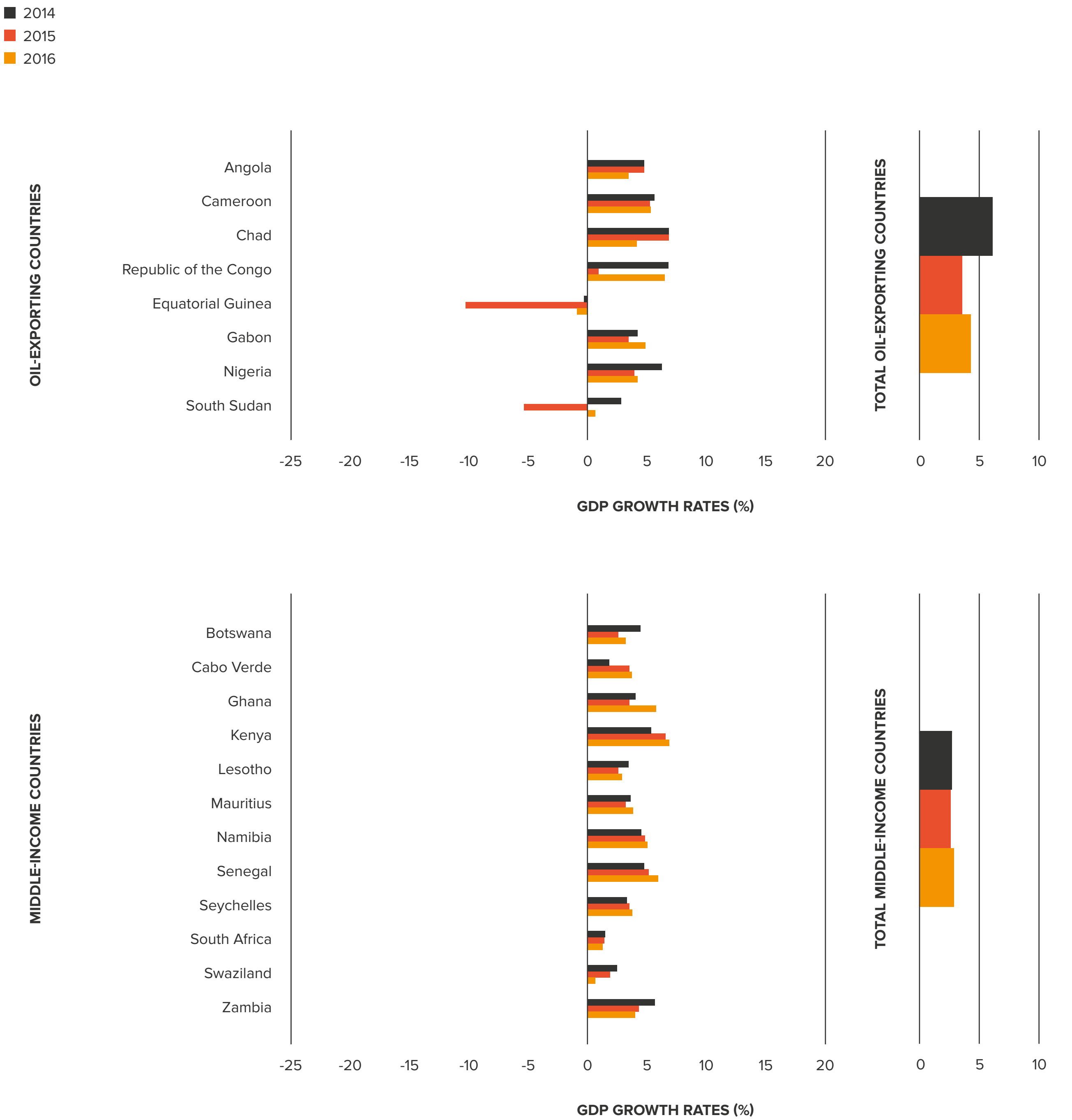
Second, over the medium to long term, African countries must also undertake structural reforms that transform their economies from dependence on primary commodities to reliance on a much more diversified economic base encompassing manufacturing, services, and value-added agriculture. These structural reforms should include reforms of the energy, transport, logistics, and other infrastructural sectors.

Third, a broadened economic base also provides a foundation for diversified revenue sources. The Achilles heel of African economies is their overreliance on single sectors or commodities for the bulk of their foreign exchange earnings. This trend must change over the next decade. African countries must not only diversify their economic base, they must also learn to tax it! Domestic resource mobilization (DRM) is the watch word for the future.

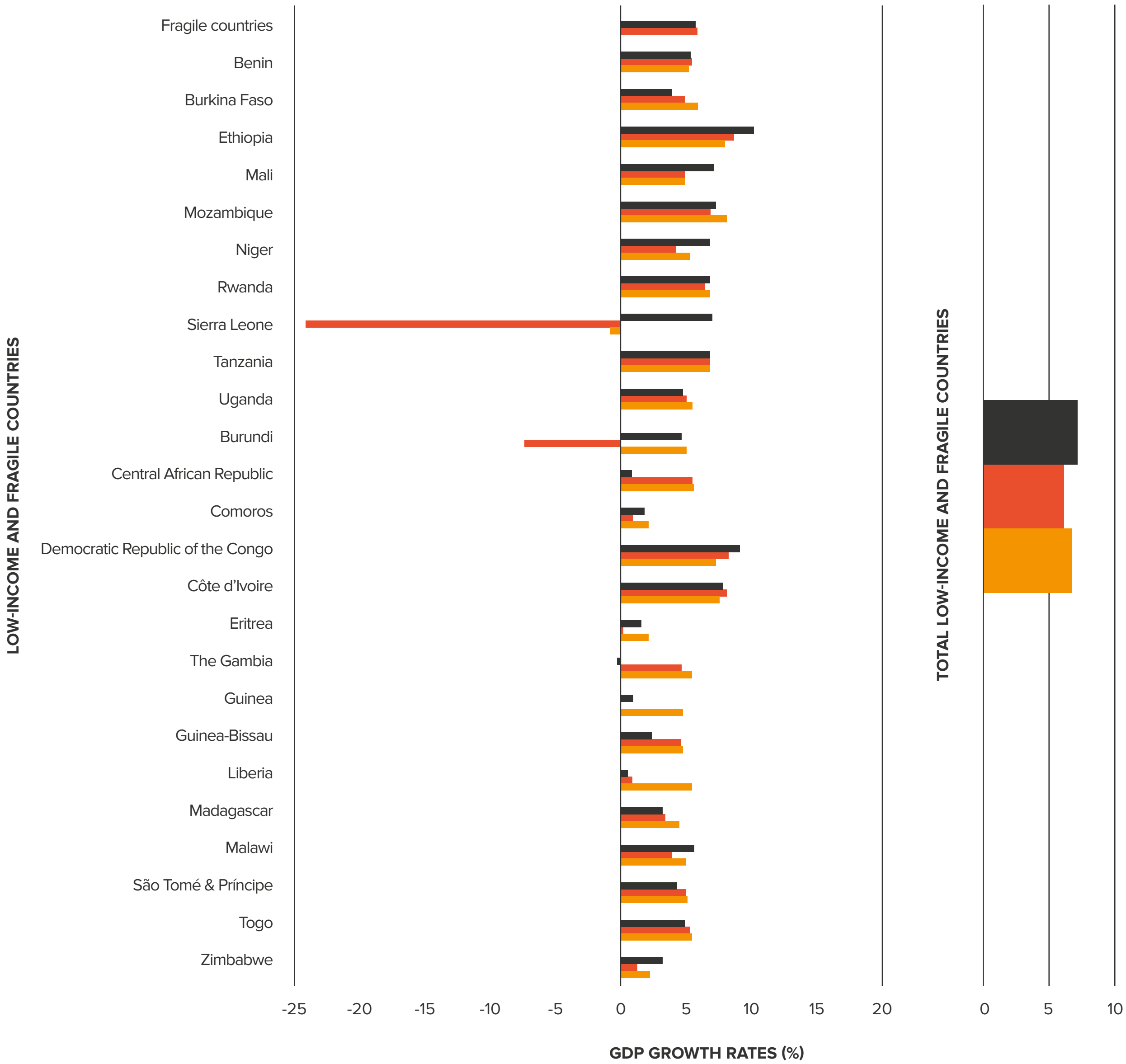
Today's global economic environment is challenging and uncertain. 2016 is the time for African policymakers to stay focused and take bold decisions.

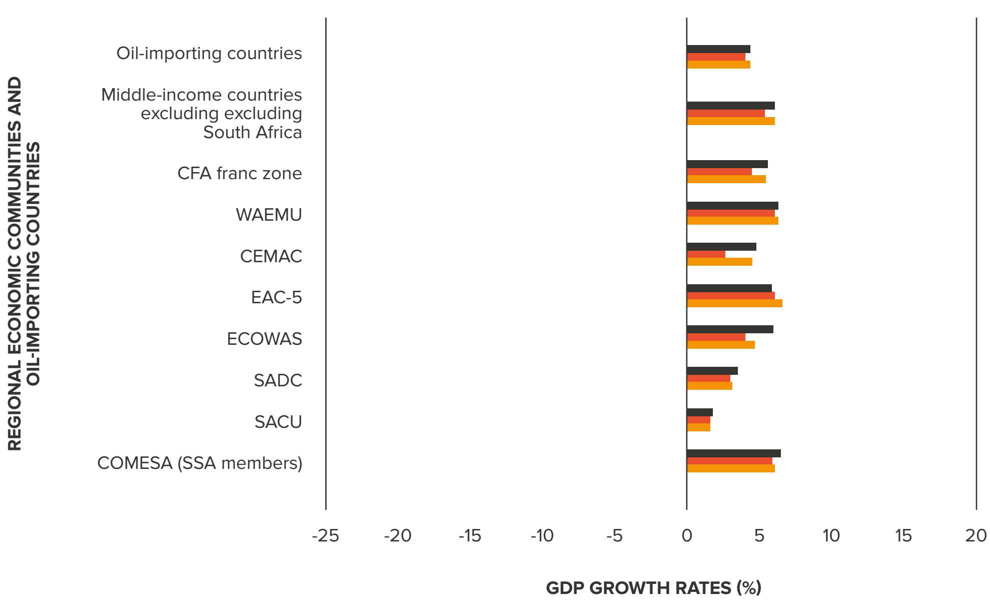
FIGURE 1.4. 2014-2016 GDP GROWTH RATES PREDICT A SLOWDOWN IN SUB-SAHARAN AFRICA FOR MOST COUNTRIES

Over the past two decades, the momentum in the GDP growth rates in the region contributed to the impressive growth observed in the emerging markets. Due to a combination of both external and domestic factors, the region's growth rates are expected perform at their lowest since 1998. However, they are predicted to rebound slightly in 2016. Even with 3.8 percent and 4.3 percent estimates for 2015 and 2016, respectively, growth remains higher than in many other emerging and developing regions of the world (as also seen in Figure 2.1).



Source: IMF Regional Economic Outlook, October 2015.


LOW-INCOME AND FRAGILE COUNTRIES
Fragile countries
Benin
Burkina Faso
Ethiopia
Mali
Mozambique
Niger
Rwanda
Sierra Leone
Tanzania
Uganda
Burundi
Central African Republic
Comoros
Democratic Republic of the Congo
Côte d'Ivoire
Eritrea
The Gambia
Guinea
Guinea-Bissau
Liberia
Madagascar
Malawi
São Tomé & Príncipe
Togo
Zimbabwe
-25 -20 -15 -10 -5 0 5 10 15 20
GDP GROWTH RATES (%)
TOTAL LOW-INCOME AND FRAGILE COUNTRIES
0 5 10


REGIONAL ECONOMIC COMMUNITIES AND OIL-IMPORTING COUNTRIES
Oil-importing countries
Middle-income countries excluding excluding South Africa
CFA franc zone
WAEMU
CEMAC
EAC-5
ECOWAS
SADC
SACU
COMESA (SSA members)
-25 -20 -15 -10 -5 0 5 10 15 20
GDP GROWTH RATES (%)

Medium- to long-term policies can support the engines of growth

At the same time, beyond the narrow macroeconomic response to external shocks, policymakers must consider broader policy responses: At the end of the day, a key challenge is to strengthen the resilience of African economies to shocks. This task involves successfully implementing the economic transformation agenda of the continent, starting with investment in infrastructure and kick-starting the engines of the economy beyond commodity exports.

Increased domestic revenue mobilization also depends on a growing economy, and the changing environment should be a catalyst to expand the non-oil economy. The recent rebasing of Nigeria's GDP has shown how large the non-oil economy has become and how little it still contributes to fiscal revenues. Strengthening the non-oil economy will require increasing investment and implementing structural reforms to improve competitiveness, reduce the infrastructure gap, enhance the quantity and quality of education and training, and improve skills. It will also mean addressing tough issues such as land tenure.

These measures need financing. In the case of infrastructure, local currency financing through the development of domestic capital markets and local institutional investors should be the first option. For countries with unsustainable pension systems, this means implementing pension reform. For countries with existing pension assets, this means increasing the liquidity of domestic markets. But financing is not the only way to increase investment; there are significant productivity gains that can be achieved through more efficient spending and better organization of line ministries and utilities. Finally, engaging the private sector and multilateral partners can help reduce the infrastructure financing gap.

Building the non-oil economy will also involve economic and financial integration, including through both regional and global value chains. It will involve broadening access to financial services and improving the payments system, including through mobile payments. It will involve adapting economies to climate change and avoiding the high carbon growth path that other countries like China have gone through. It will also involve avoiding home-grown shocks that could arise if Africa's high demographic growth and rapid urbanization are not leveraged.

Due to these shocks and future global changes and uncertainties, sub-Saharan Africa's external environment is definitely becoming less supportive of African growth. In the short-term, timely and appropriate macroeconomic policies can help the region absorb the shocks of declining commodity prices, the slowing Chinese economy, and higher U.S. interest rates. As I note above, rather than seeing these and other trends and developments in 2016 only as challenges, policymakers should also see them as opportunities to strengthen the resilience of their economies. For example, average growth numbers mask differences between economies and in 2016, some of African countries such as Côte d'Ivoire, the DRC, Ethiopia, Mozambique, Rwanda, and Tanzania will be among the fastest-growing economies in the world. Interestingly, in light of the announcements at the conclusion of the Forum on China-Africa Cooperation at the end of 2015, China is making a $60 billion bet that, with support, sub-Saharan Africa can ride the current shocks and return to its previously high growth.

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VIEWPOINT

HOW AFRICAN ECONOMIES SHOULD BUILD RESILIENCE TO MANAGE EXTERNAL SHOCKS IN 2016

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How can African economies manage external shocks? More specifically, how should they build internal and external resilience to better navigate shocks? African policymakers often ask these questions, but usually only after shocks are already disrupting their economies, making adjustments more difficult. What is truly required to build resilience is a set of short- and medium-term policies, all of which are consistent with longer-term economic strategies.

When faced with external shocks, the typical reaction from African policymakers is to reduce the long-term development budget and protect recurrent expenditures.

When faced with external shocks, the typical reaction from African policymakers is to reduce the long-term development budget and protect recurrent expenditures. However, these policies rob African economies' capacity for growth and their ability to manage future shocks. Instead, in the very short term, managing shocks requires buffers at four levels:

- The first level should be composed of foreign exchange reserves that are accumulated in good times, including IMF balance of payments support. These foreign exchange reserves can shelter the market from wild swings in domestic currencies and support smooth adjustments in the face of current account deterioration or external price shocks.

- Second should be a buffer of strategic food reserves. In times of drought and potential famine, these food reserves help countries maintain food security and mitigate pressures on the fiscal reserves as well cushion wild swings in domestic food prices—inflation drivers.

- Third should be a buffer of oil reserves for oil-importing countries. During rising fuel prices, inflationary pressures on domestic prices are amplified and can be further exacerbated by the need to power generators for electricity.

- Finally, countries dependent on commodity prices should create a fund for smoothing out commodity price cycles or swings. Most African economies lack such a buffer, which is why commodity price changes are often accompanied by economic crises.

Turning to medium- and long-term policy solutions to external shocks, it is important to first consider recent trends in economic performance and resilience within African countries. Over the last 15 years, throughout the period of the Millennium Development Goals, African economies experienced stronger growth driven by improvements in institutional capacity, an environment of policy clarity, a strong move toward political accountability, and, above all, the development and implementation of long-term growth strategies or visions. Strategic country-level visions have, for the most part, emphasized public investments to close the infrastructure gap, lower transaction costs, and unlock productive areas for private investments. Public investments will then encourage complementary private investments while at the same time enhance profitability of existing and future private investments through the channel of lowering transactions costs. The focus for the future then should be to sustain these trends and make sure that public investments are protected so that they can lay the groundwork and capacity for future growth.

> **A large African middle class is emerging, estimated in 2010 at nearly 350 million people (larger than the population of the United States).**

Importantly, changing demographic dynamics will have a significant effect on African economies in the years to come. A large African middle class is emerging, estimated in 2010 at nearly 350 million people (larger than the population of the United States). This middle class will be a class of innovators, policymakers, and leaders. Therefore, managing short-run shocks and protecting public investments for future growth will potentially become a reality once this group is drawn into the spheres of policy and economic management. In the past, most African economies have suffered from the fact that there are too few incentives to advocate for public investments oriented toward future growth due to the delayed onset of benefits from these policies. To ensure follow through on public investments, countries could also enter into regional arrangements where strong group pressures will provide additional political accountability.


WESTERN MEDIA
LOCAL MEDIA
BUSINESS
EBOLA
HISTORY
INTERNATIONAL
GLOBAL
POWER
LEADER
MIGRANT
WOMEN
AUSTRALIA
EUROPE
KENYA
DEAL
CRISIS
MIGRANTS
PRESIDENT
KILLED
EU
WIN
HEALTH
POLICE
HELP
CHANGE
AID
WORLD
WORLD CUP
ATTACK
DEVELOPMENT
BEST FIRST
SOUTH AFRICA
TIME
REFUGEES
CITY
OIL
LIFE
WEST
WAR
RUGBY
RIGHTS
FIFA
NEW ZEALAND
STATE
NIGERIA
DEATH
PEOPLE
WORK
GROUP
UN
NEW
US
BUHARI
POWER
CUP
DAR
PEACE
DEAL
LEADERS
FIGHT
STATE
PRESIDENT
EAC
BANK
PEOPLE
MAKE
SUDAN
STARS
TEAM
OIL
SAS
REGIONAL
NEW
BOKO
CHANGE
SOUTH
EAGLES
RWANDA
GOVERNMENT
WOMEN
MARKET
HIGH
ANC
ONE
BUSINESS
EAST
TIME
TRADE
DOWN
ECONOMY
UN
BILLION
MILLION
JONATHAN
GOOD
WORLD
GROWTH
COURT
WIN
GLOBAL

Africa in the news

Much criticism has been leveled at Western media for negative coverage of Africa. This word cloud compares the top 50 keywords found in the headlines of Africa-related articles (i.e., articles with the word "Africa" in the headline or leading paragraph and those geographically indexed to Africa) of 20 major Western and local (African) media sources for the period January-November 2015. Despite some overlap in the most frequently used words, there is a divergence in the stories covered by the two groups. For instance, while "Ebola" was among the top five words used by Western media sources when reporting about the entire continent, the turmoil in Burundi went relatively overlooked. Importantly, as the continent becomes more and more globalized, the way it is portrayed in the news might reflect or even predict African economic performance.

- Only Western media
- Only African/local media
- Both media

WESTERN MEDIA	RANK	WESTERN MEDIA	RANK	WESTERN MEDIA	RANK	WESTERN MEDIA	RANK
WORLD	1	EUROPE	14	INTERNATIONAL	27	POWER	40
SOUTH AFRICA	2	BEST	15	WOMEN	28	LEADER	41
WORLD CUP	3	WAR	16	NIGERIA	29	RIGHTS	42
NEW	4	DEVELOPMENT	17	LIFE	30	STATE	43
EBOLA	5	AID	18	MIGRANT	31	HISTORY	44
PEOPLE	6	UN	19	WORK	32	FIFA	45
MIGRANTS	7	ATTACK	20	KENYA	33	DEAL	46
FIRST	8	TIME	21	EU	34	GROUP	47
GLOBAL	9	WIN	22	KILLED	35	OIL	48
RUGBY	10	HELP	23	REFUGEES	36	NEW ZEALAND	49
CRISIS	11	CITY	24	HEALTH	37	POLICE	50
PRESIDENT	12	AUSTRALIA	25	BUSINESS	38		
WEST	13	DEATH	26	CHANGE	39		

LOCAL MEDIA	RANK	LOCAL MEDIA	RANK	LOCAL MEDIA	RANK	LOCAL MEDIA	RANK
NEW	1	MILLION	14	COURT	27	GOOD	40
US	2	RWANDA	15	MARKET	28	PEOPLE	41
WORLD	3	REGIONAL	16	STARS	29	PEACE	42
BUHARI	4	TRADE	17	ANC	30	DOWN	43
EAC	5	EAGLES	18	TIME	31	ONE	44
BURUNDI	6	LEADERS	19	TEAM	32	ECONOMY	45
EAST	7	BOKO	20	STATE	33	FIGHT	46
CUP	8	SOUTH	21	DAR	34	SAS	47
BANK	9	DEAL	22	JONATHAN	35	HIGH	48
GOVERNMENT	10	WOMEN	23	UN	36	WIN	49
BUSINESS	11	OIL	24	SUDAN	37	GROWTH	50
PRESIDENT	12	BILLION	25	CHANGE	38		
POWER	13	GLOBAL	26	MAKE	39		

Source: Lexis-Nexis.
Note: AGI is working on a project to analyze what drives this portrayal of the continent. More analysis will be coming in 2016.

FIGURE 1.5. MOST AFRICAN CURRENCIES DECLINED AGAINST THE DOLLAR BETWEEN OCTOBER 2014-2015

From October 2014 to 2015, nearly all African currencies declined in value against the U.S. dollar (the Zambian kwacha by nearly 50 percent!). Governments of commodity-exporting countries have allowed the exchange rate to adjust to manage the large terms-of-trade shocks while similar depreciations in non-commodity-exporting countries have occurred due to growing domestic vulnerability and macroeconomic issues. The only currencies that strengthened against the U.S. dollar over the past year were the Somali shilling (thanks to inflows from the diaspora and donor community) and the Gambian dalasi (due to a presidential directive to revalue the currency).

Source: Bloomberg L.P.

THE RISE OF THE ASIAN INFRASTRUCTURE INVESTMENT BANK AND THE BRICS NEW DEVELOPMENT BANK

Over the past few years, two new multilateral players have emerged on the international development financing scene: the "New Development Bank" (NDB) established by the BRICS countries (Brazil, Russia, India, China, and South Africa) and the Chinese-led Asian Infrastructure Investment Bank (AIIB). Beginning in 2016, the $100 billion NDB is expected to provide its first loan, while the AIIB—which will begin with an authorized capital of $50 billion that will eventually rise to $100 billion—will continue formulating its membership through 2016. While some experts argue that the NDB and AIIB are rival institutions to the Western-backed IMF and World Bank, others contend that they will be vital partners in addressing the enormous infrastructure gaps in the developing world, especially those in Africa. The African Development Bank, which is similarly tasked with providing funding for development projects within Africa, has already expressed interest in collaborating with the NDB and AIIB on infrastructure and other projects throughout the continent.

THE SIXTH TOKYO INTERNATIONAL CONFERENCE ON AFRICAN DEVELOPMENT (TICAD-VI)

Since 1993, every five years Japan has led an international ministerial-level forum on African development called the Tokyo International Conference on African Development (TICAD) in collaboration with the World Bank, the African Union (AU), the United Nations and the United Nations Development Program (UNDP). The Sixth TICAD (TICAD-VI) will be convened for the first time on the African continent, in Nairobi, Kenya in 2016, and will begin a new cycle of TICAD forums convening every three years. At the last TICAD forum (TICAD-V) in 2013, the government of Japan pledged $32 billion to assist African countries as they work toward three strategic objectives for the continent: establishing "a robust and sustainable economy," "inclusive and resilient society," and "peace and stability." TICAD-VI will serve as a unique opportunity to follow up on progress towards these goals, while also showcasing Kenya and other African countries to Japan and the international community.