

RESEARCH PROJECT  
MAKING MIGRATION A DEVELOPMENT FACTOR:  
THE CASE OF NORTH AND WEST AFRICA

*Migration labour markets and development:*

*The global economic crisis and its impact on the  
economy, labour markets, migration and development in  
North and West Africa*

WORKING PAPER

by

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## List of Abbreviations and Acronyms

ADB/AfDB	African Development Bank
AEO	African Economic Outlook
APF	Africa Partnership Forum
BCT	Central Bank of Tunisia
BOE	Barrels of Oil Equivalent
CFA Franc	Communauté Financière Africaine Franc
CIA	Central Intelligence Agency
DAC	Development Assistance Committee
DOLE	Department of Labour
DZD	Algerian Dinar
ECA	Economic Commission for Africa
ESF	Exogenous Shock Facility
ETF	European Training Foundation
EU	European Union
EUI	European University Institute
EUR	Euro
FDI	Foreign Direct Investments
G-20	Group of Twenty
GDP	Gross Domestic Product
GNFS	Goods and Non Factor Services
GNI	Gross National Income
ICT	Information Communication and Technology
ILO	International Labour Organisation
IMF	International Monetary Fund
LDCs	Less Developing Countries
MAD	Moroccan Dirham
MDGs	Millennium Development Goals
MENA	Middle East and North Africa
MEPI	Middle East Partnership Initiative
MFA	Multifibre Agreement
MIREM	Migration de Retour au Maghreb
ODA	Overseas Development Assistance
OECD	Organization for Economic Cooperation and Development
OPEC	Organisation of the Petroleum Exporting Countries
OWWA	Overseas Workers Welfare Association
PRGF	Poverty Reduction and Growth Facility
SDRs	Special Drawing Rights
SME	Small and Medium Enterprises
SSA	Sub Saharan Africa
TFP	Total Factor Productivity
TND	Tunisia Dinar
UAE	United Arab Emirates
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
UNFPA	United Nations Population Fund
US	United States
USAID	United States Agency for International Development
USD	United States Dollars
WAEMU	West African Economic and Monetary Union
WB	World Bank
WTO	World Trade Organisation

## **I. Introduction**

This report is part of a project with the overall objective of maximizing the contribution of labour migration to development in selected countries in North and West Africa. The report reviews the theory and evidence regarding the current global economic crisis and the impact (immediate, medium-term, and long-term) on the economy, labour markets, migration and development in Africa. The report focuses on the regions of North and West Africa specifically, with the countries of Algeria, Morocco, Tunisia, Mauritania and Senegal as the countries of study (see appendix for geographical location of the countries).

This section of the report presents the background to the Global economic and the financial crisis. It gives the origins of the crisis, its spread, indicators and effects on general economic performance. The section also gives an introduction to the emergence and manifestations of the crisis in the specific countries under study.

### **A. *Background to the global economic and financial crisis***

The global economic crisis has become a reality affecting almost all nations, and threatening to reverse development trends in many countries. The crisis started as a mortgage crisis in the United States in the latter half of 2007, but by 2008, it had built into a world crisis spreading from the US into the developed countries. Across continents and countries, it affected the financial system leading to bankruptcies and bailouts in 2008. Since its onset, it has spilled from the financial sector to real economy, including international trade in commodities and services, defying initial expectations that the crisis would only be restricted to financial markets with few repercussions on the real economy and developing countries

The economic and financial crisis poses a significant threat to the world economic and social development including to the fulfillment of the Millennium Development Goals (MDGs) and other internationally agreed development goals. World Gross Product is expected to fall in the baseline scenario to 2.6 per cent in 2009 compared with the positive growth of 2.1 per cent in 2008 and an average annual growth of almost 4 percent per year prior to the crisis (2004 – 2007). Between September 2008 and May 2009 the market capitalisation of banks in the United States of America and Europe declined by 60 per cent. Despite enormous write down and massive financial sector rescue operations by governments, problems still remain (UNCTAD, 2009).

The economic crisis has spread to developing countries through capital reversals, rising borrowing costs, collapsing world trade and commodity prices as well as reducing the remittances flows. In the baseline scenario world income per capital is expected to decline by 3.7 per cent in 2009 (UN, 2009). Other spread channels are contraction in trade finance and slow down in demands. There is also decline in global production and supply due to slump in demand in the developed countries.

In the developing countries, the ongoing uncertainty and instability in the international financial, currency and commodity markets have aggravated their situation. Most developing economies are commodity dependent, which exposes them to external shocks stemming from price booms and bust in international commodity markets. Growth in developing and emerging market economies had been fairly resilient in 2008, but mounting evidence has shown that they are not likely to be immune to the global slowdown (Kanaga, 2008).

African economies were relatively isolated from the direct impact of the financial crisis due to their low level of financial integration with the global economy (Kasekende et al. 2009), but the effects of the crisis have now started to be felt. The crisis is hitting the key drivers of growth in Africa, leading to downward revisions of projection of growth rate in 2009 to 2.3 per cent from the February projection of 2.8 per cent (ADB, 2009) while that for 2010 is projected at 4.7 per cent (African Economic Outlook, 2009). Exports from the continent are expected to fall by more than USD 250 billion in 2009, with oil and mineral exports suffering the largest losses. The decline in export revenues is resulting in the deterioration of current account balances, erosion of foreign exchange reserves, and heavy losses in trade tax revenue.

The crisis is expected to affect the continent's budget from a surplus of 2.3 per cent of the GDP in 2008, to a deficit of -5.5 per cent in 2009, and an overall current account deficit of -3.8 per cent of GDP in 2009 (Kasekende et al 2009). Oil exporters are expected to register a deficit of -7.7 per cent of GDP from a surplus of 5.5 percent of GDP in 2008. In Addition, due to the high cost of foodstuffs and supply bottlenecks, inflationary pressure is expected to persist (Kasekende et al. 2009). The associated losses for Sub Saharan African (SSA) countries are forecasted at over USD 50 billion in 2008-2009 (Njinkeu, 2009). As a result of the declining trade flows, it is expected that trade taxes will fall dramatically, and that the continent will suffer a shortfall in trade tax amounting to USD 15 billion in 2009, representing one per cent of GDP and 4.6 percent of government revenue (ADB, 2009). The sectors expected to be most affected by the crisis include tourism, textiles and manufacturing (Kasekende et al, 2009).

The periods immediately preceding the onset of the global economic crisis saw African countries enjoying an average economic growth rate of about 5 per cent per annum, single digit inflation, reduction in armed conflicts and good governance (IMF, 2009b). This attracted foreign direct investments leading to net capital inflows to Africa increasing from \$17.1 billion dollars in 2002 to \$81 billion dollars in 2007 (ECA and APF, 2008). This meant that Africa got increasingly attached to the other parts of the world, particularly developed countries via these investments. Therefore with the global financial crisis hitting developed countries hard, African countries through contagion became affected too (Ali, 2009). Since then it has spread rapidly to Africa and the rest of the world through various transmission mechanisms (ECA, 2009).

## **B. *Indicators of the crisis***

The immediate effects of the global economic and financial crisis have been identified as contagion effects on financial markets, foreign exchange market volatility and falling commodity prices. In the medium and long term, the effects are felt through declining trade flows, capital flows affecting both the foreign direct investments (FDI) and short term private capital as well as remittances. The impact was expected to be dire for export –oriented countries particularly those

with a small domestic economy where the reduction in international demand is more likely to curtail exports and raise unemployment (UNCTAD 2009; Kasekende et al 2009).

The main indicator of the economic crisis in the world arena is the slowdown in economic growth in the developed economies. The repercussions of economic instability in the developed economies are likely to result in negative effects on developing countries. According to the World Bank (2008), the economic growth in developing countries, which had been expected to register a 6.4 percent growth rate in 2009, has been marked down to 4.5 percent and in high-income countries, many of which have already entered into recession, average growth is now expected to turn marginally negative in 2009. The sudden deceleration of capital inflows from developed economies to the developing countries will force a sharp adjustment in private-sector activity (World Bank Report 2008).

Another indicator of the crisis is the slowdown in investment. According to the World Bank (2008), investment was the main driving force for developing-country growth over the past five years, contributing almost half of the increase in domestic demand. There is a risk that investment in developing countries may be headed for a “perfect storm,” with a convergence of slowing world growth, withdrawal of equity and lending from the private sector, and higher interest rates, with a further risk that lower commodity prices in the medium term will deter new investment in natural resource sectors.

Available estimates show that global FDI flows declined by 15 percent in 2008 to about \$1.6 trillion. Further decline is anticipated for 2009, especially with respect to the flows into developing countries. The global economic crisis has therefore translated into sharp decline in FDI flows both for developed and developing countries UNCTAD (2009).

The basic transmission mechanism for this phenomenon is the external finance in the form of Official Development Assistance (ODA) that African countries rely on, but is now dwindling. Perhaps the most glaring indicator of the trouble caused by the global crisis is the volatility in the stock markets as well as the pressure on the foreign exchange markets. The depreciation of the African currencies witnessed in the recent past has been the major indicator of the danger posed by this crisis. In the long-term this depreciation will increase exchange-rate risks by the domestic firms leading to the likelihood of loans defaults owed to domestic banks and hence vulnerability of these banks (AfDB, OECD, and ECA, 2009).

In both short and medium term, trade between African countries and the developed world has been compromised. There has been a significant decline in the prices of key commodities exported by African countries since the second half of 2008 (ECA, 2009). This has led to the fall in the volume of exports by African countries and hence a fall in the export revenues. In the long run this is further expected to compromise on the ability of the governments to finance imported inputs for the production process (ILO, 2008). The falling exports will lead to fall in government tax revenue and hence expenditure (Kasekende et al 2009).

The global economic crisis and the liquidity crunch imply serious consequences for the availability of trade finance, an important component of international trade. Around 90 percent of international trade transactions involve credit. With the crisis, such finance has become scarce

and costly due to rising interest rate on export credits. It is therefore increasingly more difficult and costly for developing countries' exporters to borrow from international financial markets or to apply for export credits and insurance. This affects not only the production capacity of developing countries, but seriously but also jeopardises their trade (UNCTAD 2009).

The contraction of orders for internationally traded commodities from demand side and the deterioration of suppliers' financial positions, has strongly contributed to the dramatic fall in commodity prices and the downturn in commodity production and demand. The uncertainties about the length of the economic crisis and commodity prices volatilities provide few incentives for new investments even in case where the necessary finance is available (UNCTAD 2009).

The crisis has further manifested itself in the substantial shrinking of export revenues. For many countries in Africa commodities represent between 20 and 50 percent of export earnings. Therefore, lower commodity prices are being translated into lower income for producers and lower fiscal revenue for governments, as well as worsening balance of payments situation. The exports are critical for employment and income levels of poor households. The Foreign Direct Investment (FDI) into developed countries also decreased by an estimated 25 percent in 2008 compared to 2007, mainly as result of the protracted and deepening problems affecting financial institutions and the liquidity crisis in the financial markets.

According to the African Development Bank (2009), the global economic crisis also constitutes a major threat to the African poverty reduction agenda. For many African countries especially those that started with weak macroeconomic and structural conditions, the recovery may be painful and prolonged. The global crisis will risk that resources may be shifted towards crisis response to the detriment of long term development programme.

The global economic crisis has affected stock markets, which have significant negative effects on the financial sectors and aggregate demand. The banking sector will likely experience an increase in non performing loans. In many African countries where many banks are owned by foreign companies, who may decide to reduce their support of local banks or sell their assets, this has put pressure on African foreign exchange marketers. The likely result is currency depreciation, leading to high costs of debt services to indebted countries and increased cost of imported intermediate inputs with consequences for production output and employment. Exchange rate depreciation will also increase the exchange rate risk faced by domestic firms and increased the likelihood that they will default on loan owed to domestic banks and this makes this banks more vulnerable (UN,2009).

The foreign exchange markets have also been affected by the crisis, as reflected in their volatility. The domestic currency fluctuation against the major currencies is one of the outcomes of the crisis. The impact of the crisis on commodity prices has also manifested itself through depreciation of currencies. For three of the case study countries of Tunisia, Mauritania and Morocco, the depreciations ranged from 11-17 percent Table 1.

**Table 1: The expected exchange rate depreciation in Africa against the US dollars: 2009**

Country	Currency	Expected depreciation
Tunisia	Dinar	17.1
Mauritania	Ouginya	14.3
Morocco	Dirham	11.4

Source: Based on data from the Economic Intelligence Unit.

There have been various efforts at identifying the general effects of the crisis on African economies. While such efforts are important, they overshadow regional or country specific effects and indicators of the crisis. The subsequent parts of this section discuss country specific indicators of the crisis for the respective countries.

Among the North African countries, there are differing opinions on the effects of the crisis. Some have argued that the impact of the global financial crisis in Northern African states such as Morocco has not been substantial (Eghbal 2009). According to this view, the region is expected to continue growing in 2009, yet export revenues, remittance inflows and tourism receipts are projected to weaken due to the recession in Western Europe.

### ***Algeria***

Algeria's proximity to Europe makes it a classical case of how the global financial crisis has hit the North African countries. It is mostly analysed in the group of countries referred to as the Middle East and North African (MENA) countries or countries in the Arab region. The MENA countries even before the global and economic crisis faced major socio-economic problems, with the major problem being the rapidly growing labor force and population that became difficult to service. The immediate concern for these countries will therefore be to provide employment for their citizens, with the labour market expected to be the greatest casualty during the crisis (MENA-OECD, 2009).

Algeria's economic position in the wider Arab countries is also important. It belongs to the first group of Arab countries<sup>1</sup> (which are categorized into three groups). This first group is the oil producing countries (Saudi Arabia, Kuwait, UAE, Qatar, Oman, Bahrain, Libya, and Algeria). In 2008, oil contributed 36 per cent of total value added, 85 per cent of export revenues and 71 per cent of government fiscal receipts. Therefore, for these countries, the economic implications of the crisis may not be considerable, especially in the short run, since they have accumulated high reserves and huge budget surpluses during periods of oil price increases. This is expected to enable them absorb substantial losses, although many development projects will be postponed or scaled back (IMF, 2009a). This notwithstanding, the World Bank predicts growth in the sub-region will be 3.9 per cent in 2009 down from 5.8 per cent in 2008. Since Algeria is in the first group, it enjoys among other countries in the group, the highest level of GDP per capita and the lowest unemployment rate; with a high level of exchange reserves and therefore in a better position to face the crisis.

The hydrocarbons sector is the backbone of the Algerian economy, accounting for roughly 60 per cent of budget revenues, 30 percent of GDP, and over 95 percent of export earnings. Algeria

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<sup>1</sup> See Bachir Hamdouch(2008), for Analysis of Group one, two and three Arab countries

has the eighth-largest reserves of natural gas in the world and is the fourth-largest gas exporter; while it ranks 15<sup>th</sup> in oil reserves. The sustained high oil prices in recent years has helped improve Algeria's financial and macroeconomic indicators, with the country running substantial trade surpluses and building up record foreign exchange reserves. Real GDP increased due to higher oil output and increased government spending. The government's continued efforts to diversify the economy by attracting foreign and domestic investment outside the energy sector, has however, had little success in reducing high unemployment and improving living standards (The World Fact Book, 2009).

The GDP in current values has been on the rise through to 2008. Algeria's political stability since 2001 allowed it to boost hydrocarbon exports, earning windfall revenues as oil prices rose. Algeria's hydrocarbon revenues have fallen as oil prices collapsed amid the global slowdown, from US\$147 per barrel in July 2008 to less than US\$40 per barrel in December 2008. The impact of the 2008 global economic crisis in Algeria has however been minimal and the country is expected to continue growing, yet export revenues, remittance inflows and tourism receipts are expected to decline (Media Eghbal, 2009).

The Algerian Economic growth increased slightly in 2008 to 3.3 per cent, from 3 per cent in 2007; but it remained below the projected levels, in particular because of lower production and oil and gas exports. However, the increase in medium and long-term credit to the economy and in private-sector credit demand confirmed the signs of good growth in non-oil GDP, which reached 6.1 per cent in 2008. Growth remained largely dependent on oil and gas production and government investment, which made it vulnerable to sharp downturns in world oil prices, thus reducing state revenue, which is mainly from oil taxes.

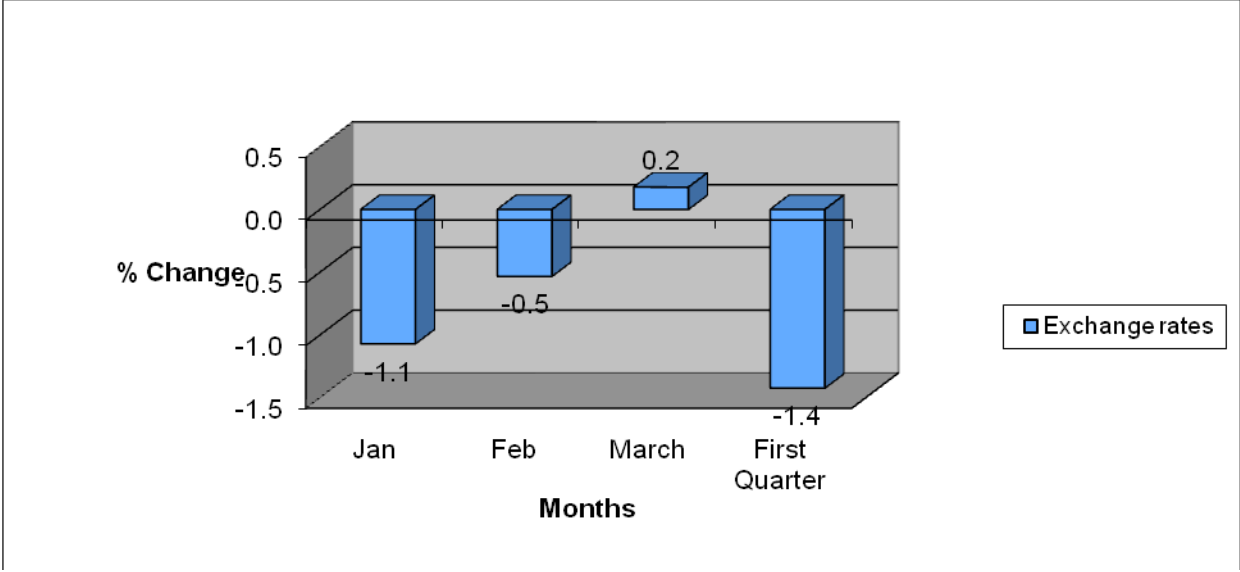
Oil and gas has continued to dominate the Algerian economy. The sector accounted for nearly 46.7 per cent of GDP in 2008 and 97.5 per cent of export revenue. The country's oil and gas reserves remained high: 43 billion barrels of oil equivalent (BOEs) for oil, and nearly 5 trillion cubic metres (m<sup>3</sup>) for gas. The collapse in global crude oil prices since July 2008 reduced oil and gas export revenue in 2008 by nearly USD 2 billion (USD 78.2 billion, compared with projections of USD 80 billion) due to the global economic crisis.

The agricultural sector, which produces more than 6.5 per cent of the country's wealth, grew by only one per cent in 2008, as against five per cent in 2007 due to the global economic crisis. This weak growth was essentially due to the decline in the world cereal production, which represents more than 40 per cent of value added in the sector. The estimated production for 2008 of 21million quintals is less than half the size of the 2007 harvest (43million quintals). Accordingly the volume of food imports reached a record level of USD 8 billion in 2008, but the figure may be even higher in 2009. This would affect the country's public finances, given the weight of state-approved subsidies to consumer staples to protect the population's purchasing power.

The Algerian government was initially reluctant to accept the impact of the international economic crisis on its economy. The onset of the global economic crisis did not immediately impact on the on the Algerian government. It was thought to be minimal because of the low integration of the African countries with the global economy.

One of the major indicators of the global economic crisis has been the exchange rate channels. This has manifested itself in Algeria through exchange rate fluctuations (ADB 2009). A survey carried out by the AfDB on tracking the exchange rate as an indicator of the global economic crisis indicated that in January and February, 2009, the exchange rate changes were negative while in March it improved to 0.2. Overall, the quarterly report showed that the exchange rate was a negative (Figure 1).

**Figure 1: Exchange rate Movements for Algeria (Algerian Dinar/USD)**



Source: AfDB, 2009

The global economic crisis in Algeria saw a decline in growth of the construction sector from a rate of 9.8 per cent in 2007 to 9.4 per cent in 2008. This downturn was partly due to the saturation of capacity to absorb investment in infrastructure and the global economic crisis. The sector, which accounts for 8.7 per cent of GDP, continues to benefit from domestically funded capital expenditure. Market goods and services grew by 7.5 per cent in 2008, compared to 6.8 per cent in 2007, representing 19.8 per cent of GDP. The strong rise in imports, especially capital equipment, led to a significant increase in transport and distribution activity and in imports of technical and consulting services. Public services grew by only 5.5 per cent in 2008, as against 6.5 per cent in 2007; they account for 8 per cent of GDP.

The global economic crisis also manifested itself in the domestic demand, which became relatively stagnant in 2008, down slightly to 77.1 per cent of GDP from 78.2 per cent in 2007. However, gross investment recorded stronger growth than consumption, especially public investment, which expanded by 13 per cent. Gross fixed capital formation is expected to continue to grow in 2009 thanks to the continued gross investment that, in the context of the crisis, the authorities intend to consolidate through the new 2010-14 investment plan. External demand (essentially energy products) increased in 2008, and total exports, benefiting from high

oil prices before the crisis, reached DZD 5.3176 trillion. A downturn could occur in 2009 because of the fall in oil and gas prices, lower global demand and the reduction in output.

The crisis has therefore exerted enormous threats to the economic performance of Algeria. This happened even as the Algerian government was recovering from the negative effects of the fuel and food crisis (World Bank, 2009). The government of Algeria therefore has a major task in managing this crisis so that it doesn't affect the achievements of the Millennium Development Goals (MDGs) (ADB, 2009).

### ***Morocco***

Morocco as one of the North African countries has been expected not to be strongly affected by the crisis. The main reason advanced was that the country is insulated from the global crisis since banks in Morocco have less exposure to foreign assets.

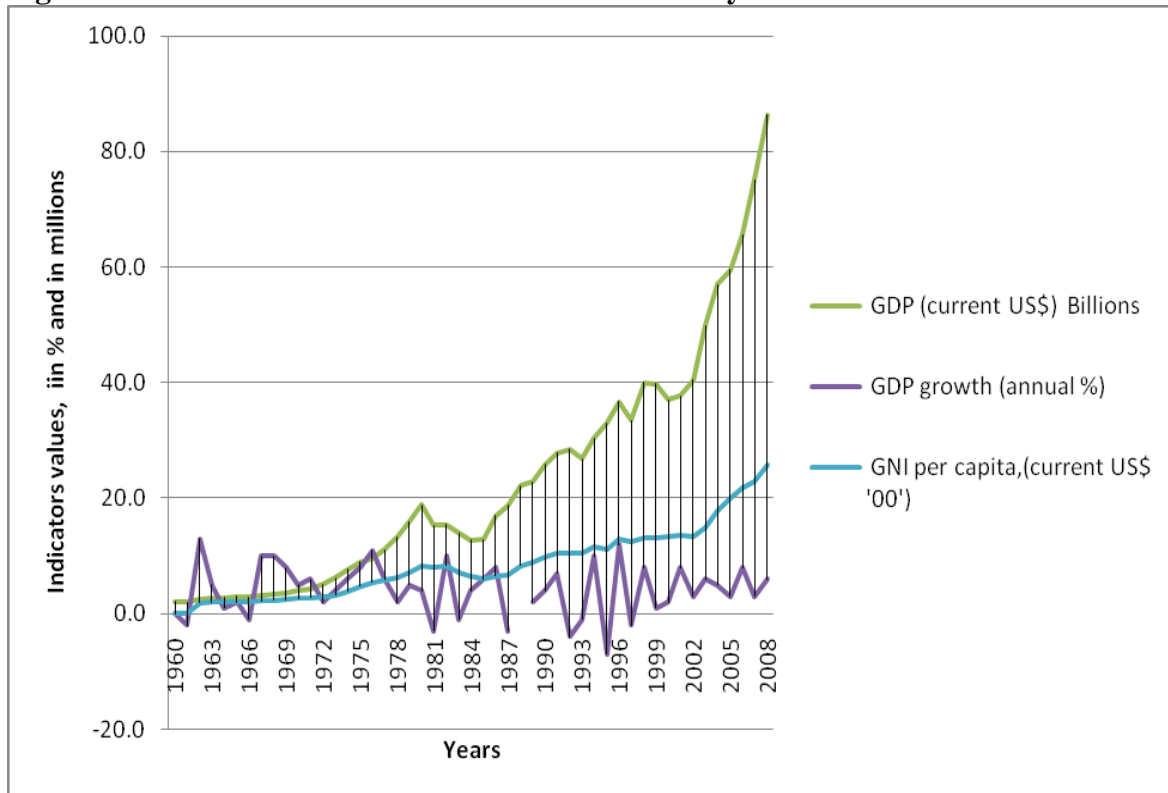
It has been observed that capital flow restrictions, shallow financial markets and conservative exchange rate policies in Morocco made it largely escape the first wave of the global crisis, unlike most developing countries (Lahcen 2009).

According to Eghbal (2009) and Lahcen (2008), the recession experienced in Europe and other developed economies in 2008-2009, would affect the North African economies like Morocco in various ways such as dampening demand for exports. In 2007 export revenues as a share of GDP was 19.5 per cent in Morocco. Recession could lead to job losses in Morocco where export industries and agriculture are labour intensive. As European consumers restrict discretionary spending, the tourism industry in Morocco is set to slow. At the same time, the country's proximity to Europe puts it in a better position than other tourist destinations in Africa and Asia; finally, as unemployment in Europe rises, remittances from North African migrants like Morocco living in Europe will weaken, affecting household consumption at home. In Morocco remittance inflows equalled 9.0 per cent of GDP in 2007, compared with 5.0 per cent in Tunisia and 2.2 per cent in Algeria. The World Bank's December 2008 outlook predicted real growth in 2009 at 4.0 per cent in Morocco, compared to the IMF (2008) forecast of 5.5per cent in 2009. A look at the basic indicators on Morocco tends to support this view (Figure 2).

Morocco's stock market fell by five percent while most other markets fell by 40.0per cent and more during the same period (Eghbal 2009). Currently, Morocco has been severely affect affected by dramatic falls in commodity prices, world trade, remittances, and foreign investment Lahcen (2009).

Non-agricultural activities have slowed in Morocco in 2009. Manufacturing, which represented 17 percent of GDP and supported 20 percent of the labor force in Morocco, has been contracting since the recession began in 2007. Due to Morocco's high dependence on European markets with 70 percent of Morocco's export destined for Europe, Europe's severe recession translated into lower demand for their manufacturing sectors (Lahcen 2009).

**Figure 2: Basic Indicators for the Moroccan Economy**



Source: World Development Indicators 2009

The Moroccan government reacted swiftly to the crisis in the early 2009 with rescue packages focused on preserving employment, easing banking credit and supporting marketing initiatives (Lahcen 2009). However, due to their ineffective implementation and narrow scope, the packages apparently failed to have a significant impact. Morocco recorded significant job losses in manufacturing over the first six months of 2009 and failed to stop the decline in their exports. As a consequence, Morocco's trade deficit has worsened, and its import coverage sharply contracted to 44 percent at the end of June 2009 from 54 percent one year earlier. Its foreign reserves, which now cover about seven months of imports, have also been affected by the deterioration of foreign direct investment inflows (-34.5 percent) and the significant drop in remittances (-12.5 percent).

Morocco is also suffering from a burgeoning external deficit in the face of a sluggish international recovery. In 2008, the current account deficit stood at 5.2 percent of GDP in Morocco and it is expected to worsen significantly by the end of 2009. Morocco's situation is more risky, given its existing, large trade deficit and the fact that oil prices are rising. However, Morocco is also reaping the benefits of its external debt reduction efforts, with its debt now estimated at 20 percent of GDP. Morocco also faces the challenge of maintaining sustainable macroeconomic balances while temporarily supporting its the economy through public investment and incentives to boost household consumption (Lahcen 2009).

## *Senegal*

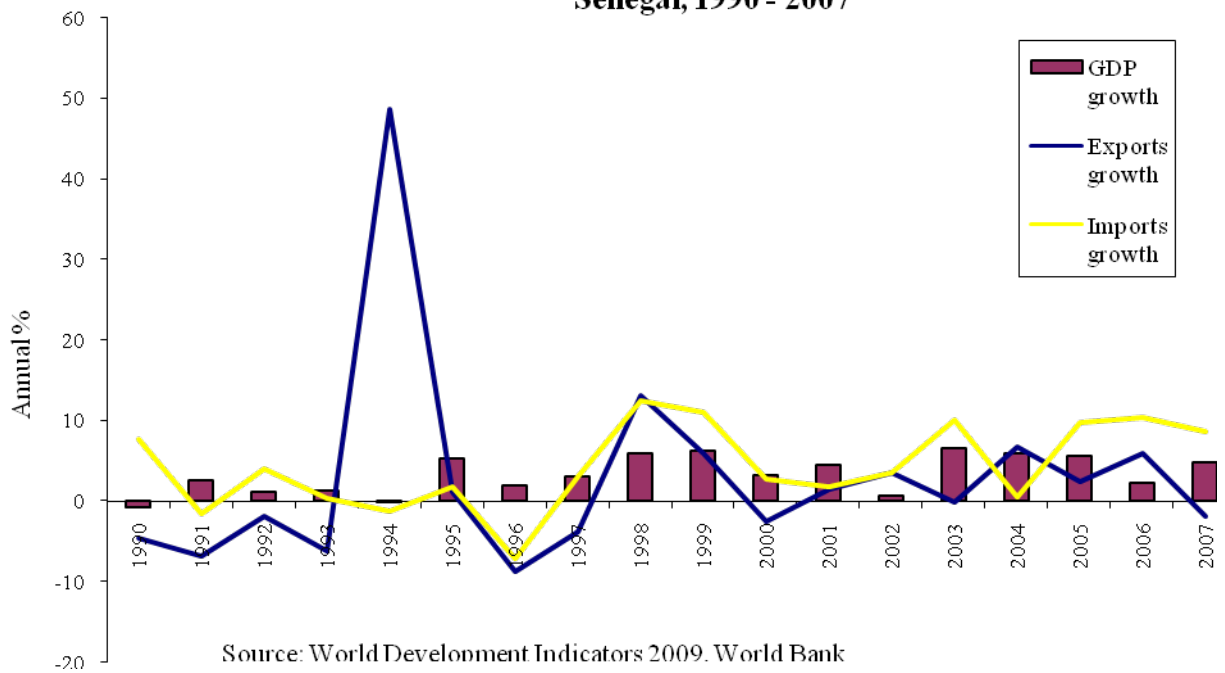
The global economic crisis began to affect the Senegalese economy in the late 2008/early 2009 following the oil and food price shock in 2008 and remittances, export prices, and FDI appear to be the main transmission channels (IMF, 2009a). The macroeconomic performance of Senegal has not been very stable though it showed signs of improvement in late 1990s and early 2000s, maintaining a growth rate of above 3 per cent between 1998 and 2007 (with exception of 2002 and 2006). Trade growth (import and export) has also been volatile with no predictable path, though import growth has been positive since the late 1990s (Figure 3).

A higher growth in exports was experienced in 1994 following the 1994 CFA franc devaluation which boosted exports by over 10 per cent of GDP (IMF, 2008). It was expected that the momentum for positive growth of GDP in 2007 was going to be maintained thereafter. This was however not the case with macroeconomic performance being dismal, reflecting an unfavorable international environment as well as domestic factors and real GDP growth declining sharply from 4.7 per cent in 2007 to only 2.5 per cent in 2008 (IMF, 2009a).

Consumer prices increased 5.8 per cent on average, but inflationary pressures declined towards the end of the year as a result of the drop in oil and food prices. The external current account deficit amounted to 12.3 per cent of GDP representing a deterioration of 0.5 per cent of GDP relative to 2007, primarily as a result of the increase in oil and food prices for the year as a whole (IMF, 2009a). It also affected Senegal through its impact on its export commodities, and the fall in the price of the iron since the crisis has resulted in delaying the operational startup of the exploitation in Flémé whose production is envisaged for 2011 even though the agreement was signed in February 2007 with Arcelor Metal, a French company (Kasekende et al. 2009). Figure 3 shows trends for some of the basic indicators for Senegal. Exports show a declining trend from 2007.

**Figure 3: Trends in GDP, Imports and Exports (annual growth) for Senegal, 1990-2007**

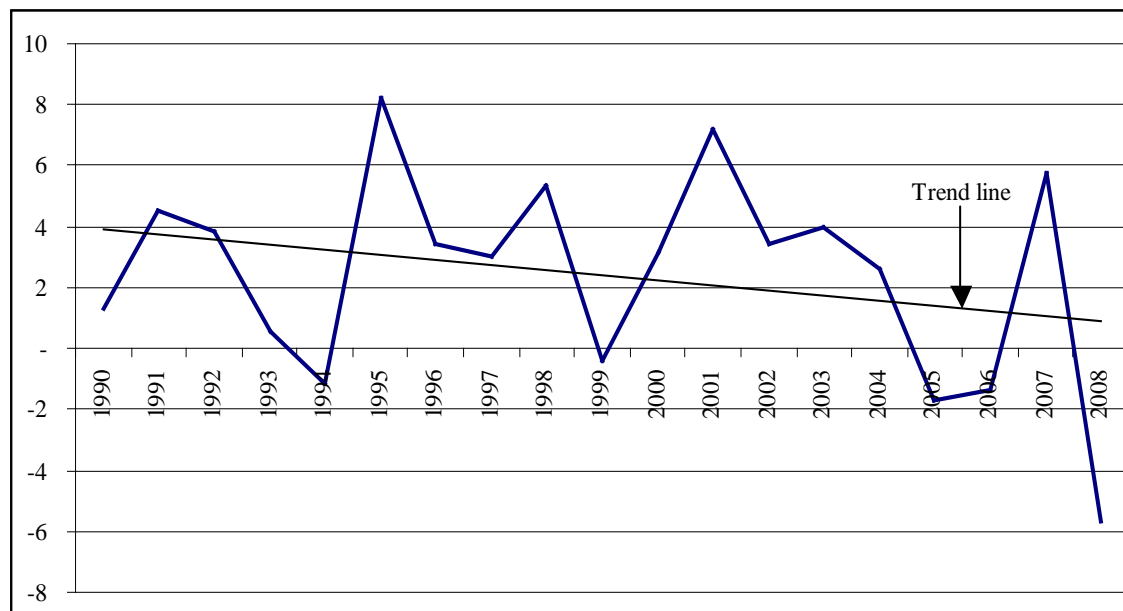
**Figure 1.3: Trends in GDP, Imports and Exports (annual growth) for Senegal, 1990 - 2007**



Source: World Development Indicators 2009, World Bank

The growth in the economy is also reflected in the annual growth of manufacturing value added which, though volatile, has been declining over time since the 1990s (Figure 4). This reflects the fact that the share of manufacturing to the country’s growth has been declining, thus shift in the engines of growth. While this may be due to uncompetitiveness of the economy in manufacturing, it may also reflect a policy decision to shift focus to other sectors and promote them as the major contributors to growth. The problem is that a decline in manufacturing potential of a country like Senegal may expose it further to international price stability especially if most of the necessities are imported.

**Figure 4: Manufacturing Value added for Senegal (annual % growth)**



Source: World Bank Development Indicators 2009, World Bank

The crisis might have resulted in fiscal deficits, with the IMF assessment finding that of all the quantitative program targets, Senegal exceeded the assessment (performance) criterion on the basic fiscal deficit, which is attributed to sharply lower revenues despite significant under-spending (IMF, 2009b). The Senegalese government is responding to the crisis through a wide range of measures geared at maintaining a prudent fiscal policy stance, preserving macroeconomic stability, and advancing structural reforms (IMF, 2009a). Given the progress made by the Senegalese government towards attaining macroeconomic stability, institutional adjustment and debt sustainability, it is seen that the country is in a stronger position to handle the effects of the international economic crisis (IMF, 2009b). The IMF review on the transmission channel of the global economic crisis in Senegal found that remittances has declined sharply in 2009, and the overall balance of payments is projected to deteriorate by a cumulative CFAF 419 billion during the 2009/10 due to the crisis (IMF, 2009b).

### ***Tunisia***

In Tunisia, the global economic crisis has presented great economic challenges. Economic growth is likely to slow to less than three per cent in 2009 dampened by the recession in France and Italy, Tunisian's major export destinations. Textiles, auto- parts and tourism are sectors that are experiencing significant slump in growth (www.dbresearch.com Feb. 2009).

The global financial crisis is expected to heavily impact on the real sector of Tunisia where export revenues, capital flows and tourism have started to slow down remarkably. Tourism and textiles has been especially hit by the declining global demand. The year 2008 was marked by declining value added in unskilled labour intensive activities. Agriculture and fisheries sectors, which contribute 9.6 per cent of GDP, recorded negative growth in 2008. The textile, clothing and leather sectors continue to feel the repercussions of the dismantling of the Multifibre Agreement (MFA), and China's accession to the World Trade Organization. Moreover, Tunisia's

economy is highly exposed to European markets where the recession is dampening demand for all exports. Rising unemployment in Europe is also directly impacting on Tunisia as remittances from expatriates which made up five per cent of GDP is expected to decline. Reduction on remittances would have negative effects on investments and household consumption in Tunisia. The decline in remittances and exports will present pressing social challenges (Abraham and Choucair 2009). Economic growth in Tunisia has been driven by manufacturing and agriculture exports as well as tourism and remittances. However, the growth is weakening as the slowdown in Europe affect tourism, remittances and exports.

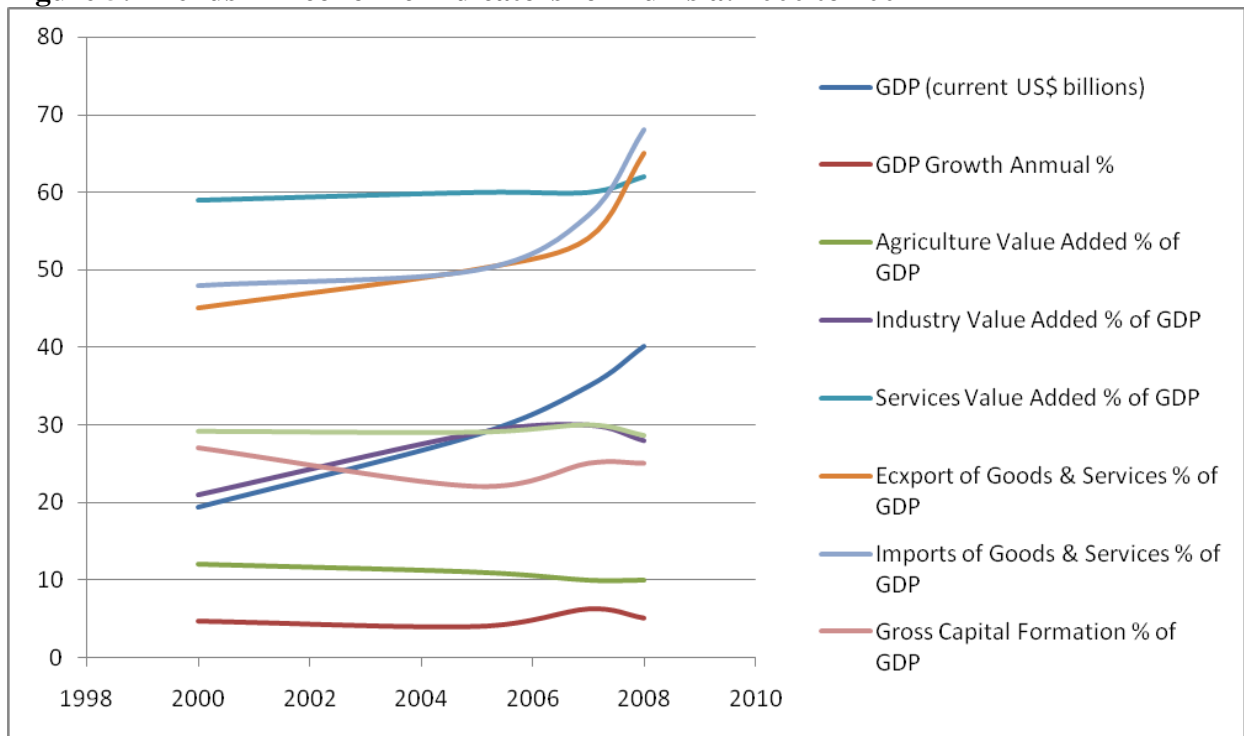
Although Tunisian banks are not affected directly by the financial crisis because of their relatively loose ties with the international capital markets, the indirect effect should not be neglected. The recent downward revision of the GDP growth estimates for 2008 and 2009 suggests that Tunisia economy will feel the negative effect of the crisis from the developed countries particularly Europe. The real GDP growth rate fell considerable from 6.3 per cent in 2007 to an estimated 5.1 per cent in 2008 and is expected to fall to 4.1 per cent in 2009 ([www.africaeconomicoutlook.org/en/countries/north Africa/Tunisia](http://www.africaeconomicoutlook.org/en/countries/north%20Africa/Tunisia)).

Tunisia may not be affected by the crisis due to the fact that banks in Tunisia had minimal exposure to foreign assets, which could minimize their effects. Tunisia's stock market is one of the few in the world that has remained positive registering 17 per cent annual growth by November 2008. By early 2009, the international financial crisis had not yet affected Tunisia's financial sector. Housing loans account for less than 10 per cent of all loans, while Tunisian financial institutions hold a very low proportion of foreign assets and do not employ the techniques that caused the crisis like instruments that dissociate the real and financial spheres such as securitization and structure products. On the Tunis stock exchange, the share of market capitalization held by non Tunisians is only 25 per cent, while US investments in Tunisia are very small. In addition, measures have been taken to limit risk. For example, the Central Bank of Tunisia (BCT) reduced the share of financial investments placed with international banks from 75 per cent of total reserve, before the crisis to 39 per cent in November 2008 and stopped borrowing on the international financial markets until the end of 2009.

Rationalisation of expenditure is proving difficult in a context of economic crisis and high unemployment. The goal of reducing the wage bill from 12 per cent to 10 per cent of GDP as recommended by Bretton Wood Institutions will be difficult to achieve owing to the relatively high inflation rate in 2008 and the government's target of 80,000 net jobs created annually. Tunisia has more diversified production and exports that make it less vulnerable to the reduction in demand resulting from the crisis but growth will still slow (AfDB 2009).

A report from the committee of African finance ministers and central bank governors established to monitor the crisis, notes that, while Tunisia has one of the most diversified economies in Africa, it has nevertheless experienced the full spectrum of the economic downturn from contraction in industrial production and exports, sharp declines in government revenues and foreign reserves. Figure 5 shows the trends in some basic indicators for the country.

**Figure 5: Trends in Economic Indicators for Tunisia: 2000 to 2007**



Source: World Development Indicators 2009, World Bank.

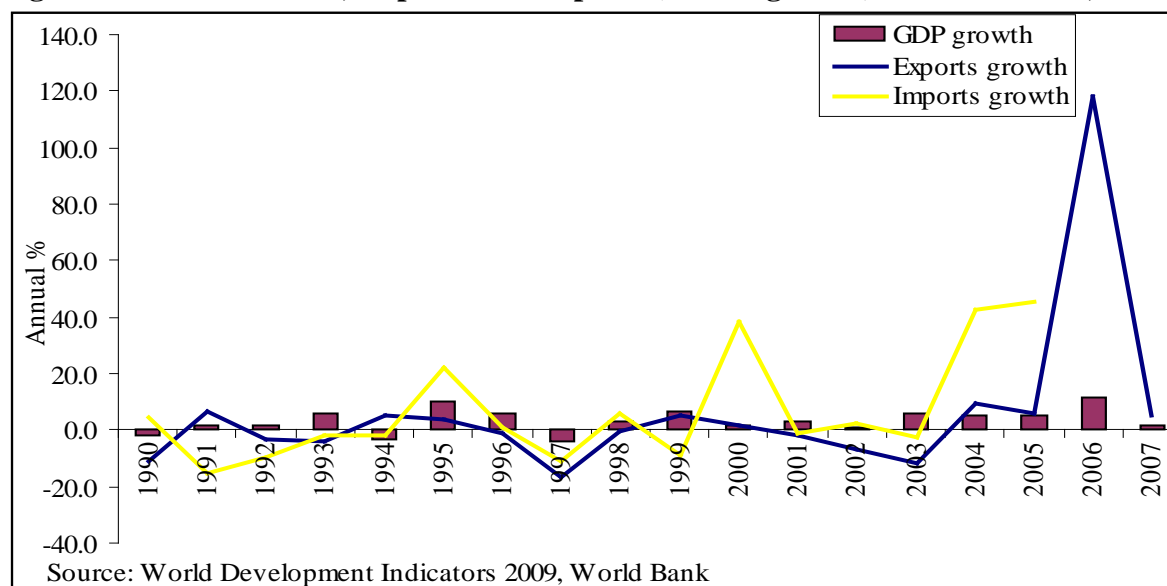
From Figure 5, there are marked changes in trends of economic indicators. Agriculture and industry value added as a per cent of GDP started to fall in 2008. The GDP also started falling. This could signal that the effects of global economic crisis are felt in Tunisian economy. However, it is important to note that the value added to GDP of some sectors like services, imports and exports have increased steadily. This could mitigate the effect of global economic crisis being felt in other sectors.

### ***Mauritania***

Before the effects of the global economic crisis began to be felt, Mauritania was already experiencing the effects of oil and food price shock which affected its economy. The global economic crisis is limiting the employment opportunities for households especially in urban areas thus fuelling the food insecurity situation in the country.

The performance of Mauritanian economy has been dismal for most of the period with a volatile GDP growth experienced since early 1990s, while at times the country has experienced negative GDP growth. The economic performance, though poor in the 1990s, recovered during the 2000s with annual GDP growth rate increasing from 1.85 per cent in 2000 to a high of 11.7 per cent in 2006 but declined in 2007 to a growth rate of 1.9 per cent (Figure 6). In 2008, real GDP growth of 5.2 percent was driven mainly by mining (iron, copper and gold), agriculture and construction while inflation was held at around 7.4 percent (African Economic Outlook, 2009). The volatile economic growth has been experienced in the backdrop of equally volatile annual trade growth (both imports and exports) which has not displayed any predictable path. Trade growth however improved in 2000s with imports growth recording the highest growth value of 45.3 per cent in 2005 while exports growth recording 117.9 per cent in 2006.

**Figure 6: Trends in GDP, Imports and Exports (annual growth) for Mauritania, 1990-2007**



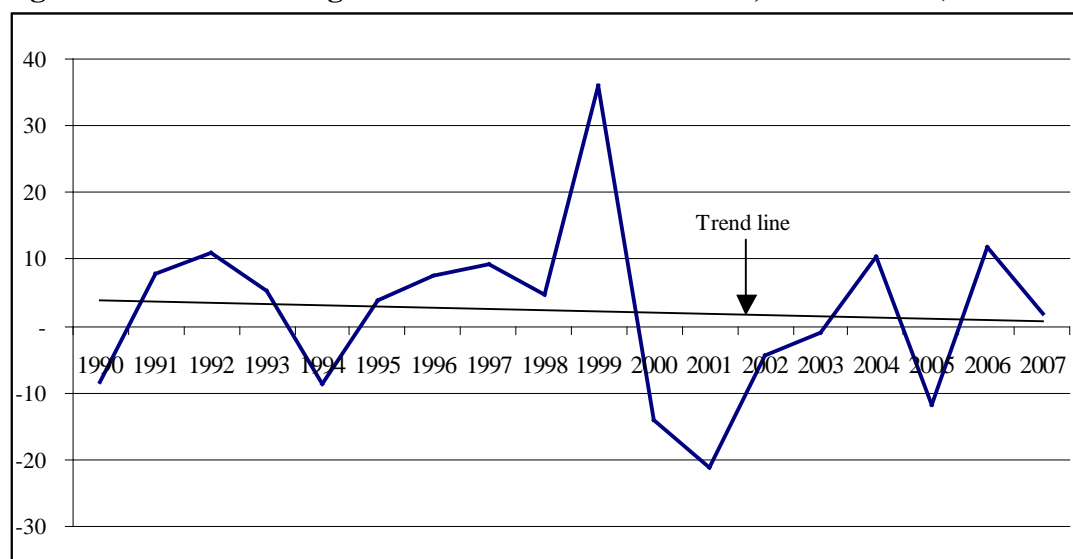
Source: World Development Indicators 2009, World Bank

Mauritania had the highest real growth in total trade of goods and services in 2005-06 at 36 percent largely due to the purchase of oil exploration and petroleum products machinery for the commencement of oil production and exportation in 2006. Mauritanian production of iron accounts for 50per cent of her exports and this was heavily affected by the fall in the price of the iron since the beginning of the economic crisis (Kasekende et al. 2009), which may further affect her trade potential and result into current account deficit. While no empirical relationship was established between trade and growth, GDP growth seems to mimic trade growth over the period (Figure 6).

It is expected that slowing world demand will depress Mauritanian economy in 2009 and 2010, given its lack of diversification which makes it vulnerable to external shocks as the global recession will curb mining and oil exports, reduce tourism and also government revenue, which in turn will have adverse effects on public finances and the balance of payments (African Economic Outlook, 2009). Real GDP growth is therefore projected to decline to 3.4 percent in 2009 and 4.5 percent in 2010.

Mauritania has not had a strong manufacturing sector as depicted by the share of manufacturing sector value added to GDP (Figure 7). The value added has been oscillating from positive to negative range since the 1990s and it may not be easy to predict the actual movement in the future. The trend line however shows a decreasing trend over time with the manufacturing value added as a share of GDP approaching zero in 2007.

**Figure 7: Manufacturing Value Added Annual Growth, Mauritania (annual % growth)**



Source: World Development Indicators, 2009

The household consumption as a share of GDP has been stable in Mauritania though with a few incidents of volatility, while labour force participation rate has stabilised at about 70 per cent of population of ages 15-64. These trends are however expected to change as the global crisis starts hitting the country. Given its impact on trade and income, household consumption will be affected given the high consumption rates as a proportion of GDP. What may be necessary is diversity in the economy in terms of sources of incomes as labour force participation will also be affected and the likely increase in return migrants may as well aggravate the situation

## **II. The impact of the global economic crisis on labour market and employment**

### **A. *Labour markets and employment situation***

According to ILO (2009) the global economic crisis has affected labour markets in various ways. The high commodity and energy prices, the sub-prime crisis contraction of real estate markets in many developed economies and the severe financial services shock, which has triggered a massive tightening in lending have all had a significant impact on most sectors of the economy and employment. Investment, production and consumption have all declined through diminishing investor confidence as credit froze with millions of people losing their jobs. The international trade has been slowing as import demand continues to wane in some major economies like the United States, Europe, and Japan.

The significant fall in the global economic growth in 2008 due to the crisis resulted in the weakening of a number of labour markets, with the sharp contraction in global economic activity having widespread consequences for the world's labour markets. After four consecutive years of decrease, the global unemployment rate increased from 5.7 per cent in 2007 to 6.0 per cent in

2008. The global number of unemployed is estimated at 190 million out of which 109 million are men and 81 million are women. The global number of unemployed youths increased to 76 million and the youth unemployment rates has increased by 0.4 percentage points in 2008 (ILO, 2009). The report estimated that global unemployment could increase by up to 59 million, with consequent severe labour market distress worldwide, with a sudden drop in the availability of job opportunities leading to a buildup in unemployment and deterioration in other labour market indicators.

Considering how the crisis has evolved in the developed countries and its spill to the developing countries, its social and welfare impacts also need to be addressed. Thus, a consideration of the effects on the labour market especially on how the crisis will affect employment is necessary (ECA, 2009). In as much as the crisis will affect migration, the net effect is uncertain as both pull factors such as employment opportunities in receiving countries and push factors such as prospects for earning money in developing countries are affected (ECA, 2009). The effect in the labour market can also be through its impact on access to credit either because of the inability of large companies to borrow on international markets or inadequate financing capability of domestic banks due to financial instability. With credit unavailable to the private sector, investments will be curtailed and employment opportunities will decline. The crisis may also lead to reduction in production levels by firms in an attempt to contain the effects of the crisis which in turn leads to job cuts. The employment situation is compounded by the fact that trade is shrinking as a result of the crisis.

In the North African countries like Algeria, Morocco, and Tunisia, the ILO report (2009) observes that youth unemployment rates may increase by between zero and four percentage points (ILO 2009). The report notes that North African countries share a number of labour market characteristics which include having the lowest employment-to-population rate in the world. In 2008, the employment -to-population rate in North Africa was 45.7 per cent, which increased by only two percentage points in the last 10 years. The low employment-to-population rate is associated with low participation of women and youths in work. In this sub-section, we look at the impact of the crisis on labour markets in the specific study countries.

### ***Algeria***

The global financial crisis has had its heaviest impact on the real sectors of Algeria where export revenues, capital inflows, and tourism are expected to slow down significantly. In 2007, export revenues as a share of GDP was 44.7 percent in Algeria. Due to the global economic crisis, Algeria has witnessed deteriorating labour market conditions (The Economist, 2009). Unemployment of young adults in Algeria has always been higher compared to adults, even during the periods of financial security and a comparatively low percentage in the job market. This is exacerbated by the issue of employability, the educational system and the inadequate professional training that lead to disqualification of young adults in the employment market. Algeria is less dependent on the Western European market but is more vulnerable to the decrease in oil and gas prices since it depends on revenues from hydrocarbon exports to sustain its five-year \$62 billion expenditures on infrastructure (ILO, 2009). The effect of the crisis on the revenues is therefore a major factor affecting employment in the country.

Algeria, with the highest unemployment rate in the Maghreb region (at 28 percent unemployment rate – translating to more than 2.5 million unemployed persons) is considered one of the seven world economies that have unemployment rates in excess of 20 percent. The working-age population is growing by approximately three percent a year and the labour force by 3.7percent, as increasing numbers of people seek jobs. This is because of the increasing proportion of the young and educated people (Ibrahim, 2009). With the crisis affecting the real sectors, which are the main source of employment, employment is expected to be adversely affected by the crisis.

### ***Morocco***

In Morocco, the fast growing labor force, combined with the low level of GDP growth rate and its implications in terms of job creation explain to a large extent the worsening of the labor market conditions. The growth rate of unemployed population increased to reach 6.27 per cent during the implementation of structural adjustment program (1982-1994) (Lahcen, 2002). With the advent of the global economic and financial crisis, the situation could worsen because of return migration from host countries like Spain, which was hard hit with the crisis. It is understandable that return migrants will put more pressure on urban unemployment which may be detrimental to the economic growth in the short and long run. The crisis will therefore also affect the labour market indirectly through return migration. The ECA<sup>2</sup> (2009) reported that expected decrease in revenue from tourism will also negatively affect economies that are dependent on tourism such as Morocco.

The labour force in Morocco is about 11 million. The annual growth rate of the labour was at its peak in 2003 (5per cent) and has remained at 1.4per cent between 2006 and 2007. The unemployment rate as at 2007 was 9.8per cent down by 1.6per cent from 2003.

It has been observed that the Moroccan labour market is tight in the peri-urban areas where exporting firms are often concentrated. However, although job searchers are abundant, the qualification of the Moroccan manpower is limited. More than 50 percent of adults are illiterate, much more for women. While half of the population works in agriculture, the Textile industry stands as a major employment sector (42 percent of industrial employment, 60 percent for female labour force) (Muller and Nordman 2004). The job creation came from the low skilled, low paying temporary jobs, which may explain the stagnation of real wages.

According to Musette et al (2006) in Morocco, the size of the workforce is such that the local labour market cannot absorb the current huge oversupply, as a result of which unemployment affects countless people. Due to structural adjustment policies and State rollback, joblessness has reached levels where it is exacerbating inequalities and plunging huge swathes of the population into poverty.

According to Musette et al (2006) it is notable that unemployment is highest among the youth. Similarly, unemployment is also higher amongst graduates, with 22.6 percent of university graduates out of work and 44 percent of those who complete secondary school. Unemployment in Morocco is characterized as being concentrated in urban zones, with town-dwellers accounting for 86.6per cent of those out of work. Rural unemployment is exported to towns. The

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<sup>2</sup> Economic Commission for Africa

bulk of those out of works are young people with over two thirds of the jobless being under 30. These people are also most likely to emigrate. Furthermore, unemployment tends to be long-term, with a national average of 75per cent out of work for a year or more. In other words, unemployment is structural, which also spurs people on to migrate. The high level of joblessness amongst graduates (27per cent according to recent estimates) is proof that the labour market cannot cope with supply.

Additional key findings emerged from Moroccan research. Firstly, the tendency to emigrate rises with age, with 15per cent of those in primary school and 82per cent of those in secondary school stating that they wish to leave their country. Secondly, the inactive and the unemployed are not the only ones contemplating emigration. Almost 64per cent of those surveyed in a region in the northwest of Morocco wished to leave in search of better working conditions. The study also shows that less than a third (29%) planed to take the legal route. These statistics demonstrate that how strong the urge to leave is, despite the risks involved and hint at the scale of illegal immigration. An analysis of the structure of unemployment shows how inadequate economic growth is, both in scale and quality. This undoubtedly has a significant bearing on people's decision to emigrate.

### ***Tunisia***

The labour force in Tunisia by 2005 was estimated at 3.3 million of which 26 per cent were women. About 49.6 per cent of the labour force works in the service sector, 34.3 per cent in industrial sector and 16.3 per cent in the agricultural sector. The unemployment rate stood at 14.3 per cent in 2005 with 468,000 unemployed (AfDB 2007). Tunisia as a country has maintained the highest levels of employment in manufacturing among North Africa countries. In addition, the country has also performed well in increasing service as a share of employment. Agriculture's share in total employment has steadily declined as the country employment shifted toward manufacturing and service industry. Most of the employment growth has occurred in private non agriculture work. However, the public sector employment remains relevant source of jobs creation. Survey data from 1997and 2001 indicated that public sector employment had made up of 4.6 per cent of employment growth (Dyer, 2005).

Unemployment in Tunisia has however increased over the last decade and is now above 15 per cent of the labour force. Urban unemployment is rising affecting an increasing proportion of the young and educated people. Tunisia has pursued liberal policy that encourages labour migration as a way of reducing tension in the labour market and decreasing unemployment rate and increasing monetary flows from labour remittance which contribute to the balance of foreign finance.

According to the European Training Foundation (2007), the current global crisis has affected employment situation in Tunisia. The textile and clothing sub-sector, which have been the most important employers, have seen their share of total employment decreased and is more likely to decrease further due to global competition and slack in demand in global markets because of global economic crisis.

Agriculture, which accounts for 12 percent of GDP, has seen its output for most export crops such as olive oil, date palm and wine decline due to among other things, a reduction in prices of

primary commodities in the global market due to current global economic crisis. The decline in agricultural production has affected Tunisian labour market and employment negatively because most of unskilled labours are employed by agriculture (Republic of Tunisia 2007).

Tunisia's attempts to break from agriculture and expand its textile and leather industry, which employs about half of all manufacturing employees has been affected by inexpensive Chinese products in the European markets which are the main export destination for Tunisian products (Republic of Tunisia, 2007). In this context, the global economic crisis is more likely to worsen unemployment problem in Tunisia especially among young new entrants to the labour markets.

The global economic crisis has also affected the Tunisian labour market and employment through reduction in tourism and official development assistance and direct foreign investment flows. The global financial crisis heavily impacts on the real sector of Tunisia where export revenues, capital flows and tourism have started to slow remarkably (AfDB, 2009). The reduction in tourism due to global economic crisis implies job losses or limited job creation in the sector. The crisis also compromises formal private sector in creating decent jobs.

## ***B. International trade***

International trade is an important player in the economies of these North African countries. It is estimated that around 90 per cent of trade is traditionally financed by short-term credit, which is facing a crunch due to the crisis. The trade finance estimated at US\$25 billion (WTO, 2008) posted a reduction as banks limit their risk exposure. This led to reduced demand for exports and reduced trade credit. The reduced international trade flows affects labour markets in the export producing countries due to reduced activity.

The global financial crisis will heavily impact on the real sectors of Tunisia, Algeria, and Morocco, where export revenues, capital inflows, and tourism are expected to slow down. Furthermore, the Maghreb economies are highly exposed to European markets, where the recession is dampening demand for all exports. Rising unemployment in Europe is also directly impacting on the Maghreb, as remittances from expatriates, which make up around 9 percent of GDP in Morocco, 5 percent in Tunisia, and 2.2 percent in Algeria, drop, further diminishing investment and household consumption in the region. The decline of both remittances and exports presents a pressing social challenge. In 2008, Tunisia and Morocco ran a deficit of one percent and 2.6 per cent respectively. The IMF expects the rates to worsen by 2012. Algeria on the other hand, ran a surplus in its current account in 2008 of about 28 per cent, but is expected to witness a decline to 10 per cent by 2012 (International Economic Bulletin, April 2009). The dependency of these countries on the European countries as their trade partners has important implications for their labour markets especially with the crisis hitting European countries. Most of these countries export and import most of their goods to and from the EU, which has been hit by the crisis.

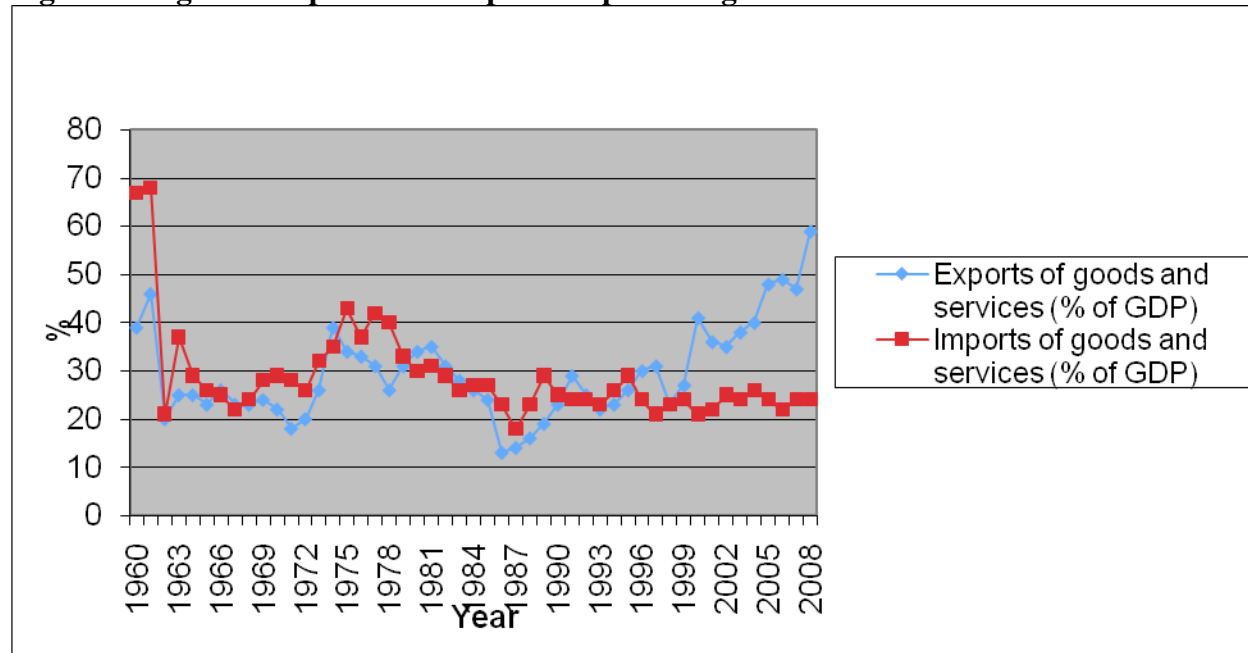
At the country level, international trade has had a major role in the Algeria economy. However, with the global financial crisis, the trading activities and relations have been widely affected in Algeria. This has manifested itself through the trade imbalance that has triggered financial crises.

The current deficits have decreased foreign reserves leading to a currency crisis. The global economic crisis has also been transmitted through trade linkages from Algeria to other countries (WTO, 2008).

The global financial crisis has affected the international trade in Algeria through the banking crisis. The banks have been forced to liquidate the long term investment before it matures and all depositors suffer some losses. With a lower income, local agents' demand for foreign goods goes down. Through this channel, both imports and exports decrease during and after banking crises. The banking crisis can also cause panic withdrawals and reduce new foreign investment in the future. Hence the banking crises can stimulate exports during crises but reduces them after crises.

However, the unfavourable balance of trade in Algeria is not new. This is because in early 1960s Algeria had higher imports compared to exports and this persisted until mid 1990s when exports began to exceed the imports. Since then the gap between exports and imports have continued to widen with imports further falling. This could be attributed to the fact that due to the global economic crisis, the countries that Algeria used to import from are facing a slump in the production process. Therefore the volume of international trade has been affected by the global economic crisis (Figure 8).

**Figure 8: Algerian Exports and Imports as percentage of GDP**



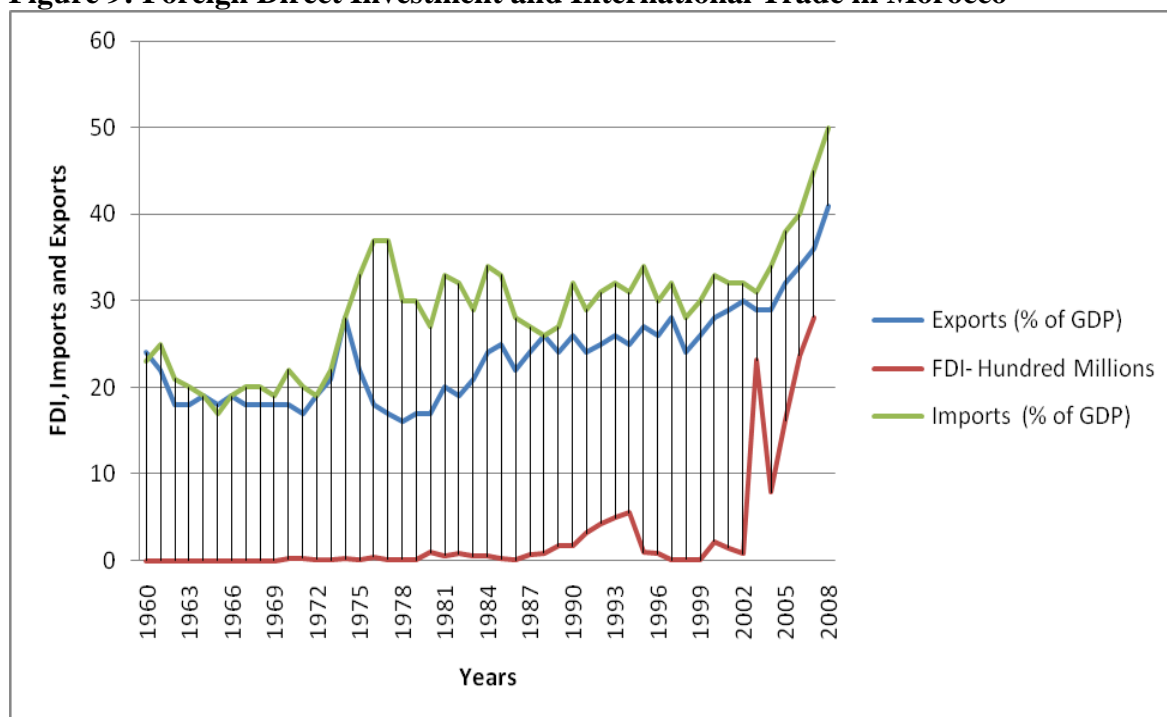
Source: World Bank, 2009

In Morocco, the CIA World Fact book<sup>3</sup> reported over the past several decades that Morocco has relied more and more on imports, and has maintained a steady trade balance as a result. The value of imports in 1999 was estimated US\$12.2 billion, but exports were estimated to be only US\$7.6 billion in 2000. Capital goods (industrial and semi-finished products) account for well

<sup>3</sup> <http://www.nationsencyclopedia.com/economies/Africa/Morocco-INTERNATIONAL-TRADE.html>

more than half of Morocco's imports, followed by food and beverages, consumer goods, and fuel. Morocco's export base is diversified, with phosphates and phosphate by-products being the largest contributor, accounting for one-third of exports. Textiles and leather items come in second place, followed by fish and fish products. Figure 9 gives the trends for Moroccan exports and imports

**Figure 9: Foreign Direct Investment and International Trade in Morocco**



Source: World Development Indicators (2009).

### **C. Investments and financial flows**

Developing countries like the ones covered by this study require financial inflows from the rest of the world to facilitate and accelerate economic growth, trade and development. Such flows include official development assistance (ODA), investment flows (both portfolio and foreign direct investment (FDI), trade credits and flows of remittances. All of these are set to be affected negatively during the current crisis. Cali, Massa and Te Velde (2008) estimate the decline in financial resources to developing countries to be around US\$300 billion. Action Aid gives a higher estimate of US\$400 billion on the decline.

FDI to developing countries grew tremendously over the past seven years to a record high of over US\$500 billion by 2007. It was however expected that FDI flows to these countries will decrease by 10 per cent in 2008 (UNCTAD 2008). In many parts of Africa the decline in commodity prices is likely to compound the reduction in FDI, as most FDI to the continent is resource-motivated.

FDI is one of the areas likely to be affected by the crisis. This will result from the fact that the crisis will also constrain access to credit by companies both in the domestic and global markets

resulting into controlled investments. With trade already shrinking, this is also likely to affect employment. Investments will be affected further by the effect of the crisis on private capital flows, which will result into a reduction in foreign direct investments (FDI).

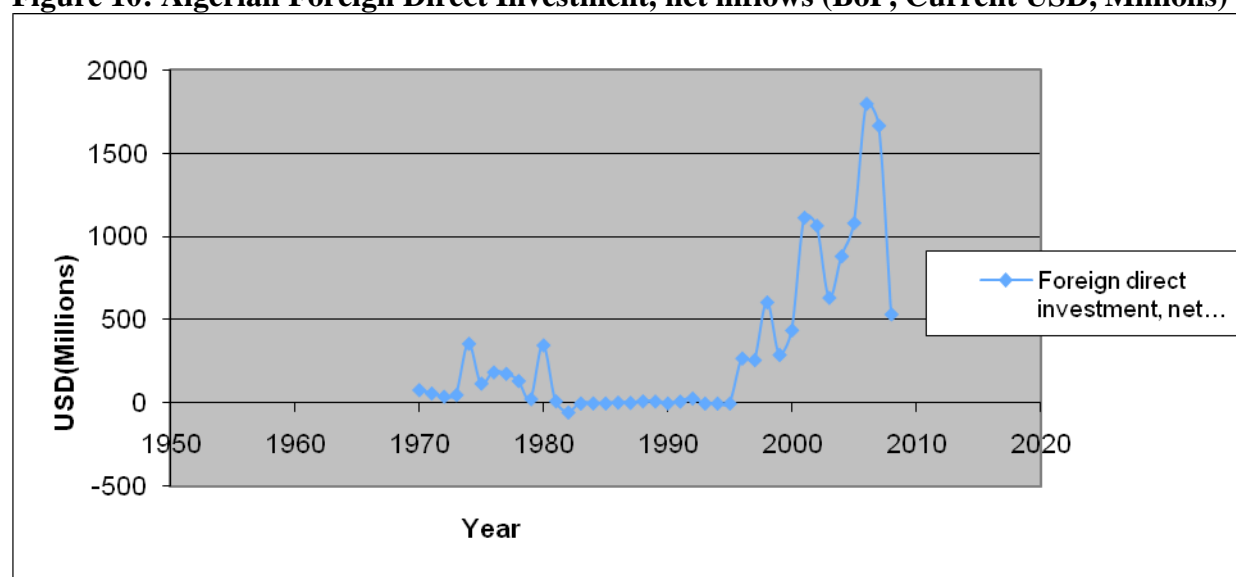
The latest global foreign direct investment estimates show a sharp decline of 21 per cent in 2008 that is likely to worsen in 2009. Total foreign direct investment in 2008 is estimated at USD 1.4 trillion. FDI inflow to Africa are currently steady at a relatively low level at USD 61.9 billion (2008), an increase of 16.8 per cent from 2007. In the short term, the financial and economic crisis is expected to cause FDI to fall further in 2009. Africa will not be spared, especially if commodity prices continue to fall. This will further increase Africa's financial marginalization and undermine growth in foreign capital dependent sectors such as natural resources. For specific countries, the effects are likely to be different. We briefly look at examples from specific countries where information is available.

**Algeria:** The Algerian private investment flows is expected to decline as more risk averse investors move their funds to perceived safer regions. This includes both portfolio and Foreign Direct Investment (FDI). The Reduced portfolio flows has affected government borrowing and hence investment. The costs of Algerian sovereign bonds and commercial debt which are both important sources of finance for governments have skyrocketed sharply.

In terms of foreign direct investment (FDI), Algeria attracted only USD 1.5 billion in 2008 because of the global economic crisis, mainly in oil and gas, as against USD 1.37 billion in 2007. These flows remain modest in relation to the country's potential because of a legal and regulatory business framework which, in spite of the reforms implemented, has room for improvement.

Despite these concerns, there is some encouraging news for the Algeria and other Maghreb countries. An increase in government investment programs has catalyzed Algeria's growth. The country had successfully reduced its external debt to three percent of GDP prior to the crisis, putting it in a better fiscal position to finance infrastructure and boost economic diversification now. In addition, it had accumulated large foreign exchange reserves, totaling nearly \$140 billion at the end of 2008, from high hydrocarbon prices, and can now use them (Figure 10).

**Figure 10: Algerian Foreign Direct Investment, net inflows (BoP, Current USD, Millions)**



Source: World Bank 2009

**Senegal:** In Senegal, the effect of the crisis through reduction in foreign direct investment (FDI) is also expected to affect employment. FDI is an important source of financing for external current account deficits and reached 3½ per cent of GDP in Senegal over the last three years. Projections suggest that FDI will diminish over the next few years, although it remains an important factor in countries like Senegal (Mueller et al. 2009). The proportion of FDI inflows to Senegal has remained below 0.5 percent of total inflows to Africa and declined to a minimum share of 0.1 per cent in 2007. The levels of FDI inflow declined from US\$ 220 million in 2006 to US\$ 78 million in 2007. FDI outflows was however highest in 2002 comprising 12.6 per cent of total outflows from Africa, but declined further over the period to stand at 0.2 per cent of Africa FDI outflows in 2007. With the crisis expected to diminish over the next few years, FDI inflows will be affected and thus the economy of Senegal will suffer due to the high contribution of FDI in its GDP. This implies that other than the reduced foreign investments which will have a negative impact on employment, current account deficits may worsen due to reduced financing, and this will result in increased macroeconomic instability resulting into further cases of unemployment as the government may opt for domestic borrowing and crowding out of private sector.

**Table 2: Foreign Direct Investment Flows in Senegal, 2002-2007 (USD million)**

	2002	2003	2004	2005	2006	2007
FDI inflows (US\$ mn)	78	52	77	45	220	78
<b>%Africa inflows</b>	<b>0.5</b>	<b>0.3</b>	<b>0.4</b>	<b>0.2</b>	<b>0.5</b>	<b>0.1</b>
FDI outflows (US\$ mn)	34	3	13	-8	10	9
<b>%Africa outflows</b>	<b>12.6</b>	<b>0.2</b>	<b>0.6</b>	<b>-0.3</b>	<b>0.1</b>	<b>0.2</b>

Sources: UNCTAD, FDI Online Database (March 2009) and World investment Report 2008.

The World Bank forecasts show that Senegalese economy will start recovering from the crisis in 2011 with the adverse effects experienced in 2009 where major indicators such as GDP,

investments, exports, imports, and consumption will be at their lowest growth levels. Recovery in growth levels will however be slow in certain areas like government consumption and exports which will not have recovered to their 2007 levels. As a share of GDP however, private and government consumption tends to be stable while fixed investment's share will slightly decline. But this may be because GDP will decline in 2009 and recover thereafter as shown by the trend in real per capita GDP. The financing of government activities will also be affected with the current account balance worsening further to -14.3 per cent of GDP. Within West African Economic and Monetary Union (WAEMU), the region's external current account deficit is expected to deteriorate less than the average for countries in SSA, but the changing world prices for gold is expected to worsen the terms of trade in Senegal because of falling prices for phosphate exports (Mueller et al. 2009).

**Table 3: Forecasts on Senegal Economy to 2011**

	2007	2008	2009	2010	2011
Real Expenditure Growth					
GDP at market prices	4.8	4.5	3.1	3.8	5.0
Private consumption	3.4	5.2	3.1	3.9	4.5
Government consumption	12.0	5.5	4.7	4.7	4.7
Fixed investment	18.0	4.8	3.8	3.9	7.3
Exports, GNFS	6.1	8.0	2.0	4.0	5.7
Imports, GNFS	5.5	9.0	3.8	4.7	6.7
Share of GDP					
Private consumption	76.2	79.2	78.8	79.3	80
Government consumption	10.1	10.4	10.6	10.7	10.9
Fixed investment	32.7	31.4	29.8	28.6	28.2
Real per capita GDP growth	2.2	2.4	1.0	1.8	2.9
Current account balance (% GDP)	-10.0	-12.2	-13.6	-13.8	-14.3
General government bal. (% GDP)	-6.2	-6.6	-7.1	-7.0	-5.8

Source: Prospects for the Global Economy Forecasts, World Bank

Financing of government activities will also be affected with the current account balance worsening further to -14.3 per cent of GDP. Within WAEMU, the region's external current account deficit is expected to deteriorate less than the average for countries in SSA, but the changing world prices for gold is expected to worsen the terms of trade in Senegal because of falling prices for phosphate exports (Mueller et al. 2009).

**Mauritania:** FDI inflows to Mauritania have outperformed FDI outflows since 2002. FDI inflows has remained above 0.3 per cent of total inflows to Africa with the highest proportion of 2.8 per cent recorded in 2005 which declined in subsequent years to 0.3 per cent. The levels of FDI inflow declined from US\$ 814 million in 2005 to US\$ 155 million in 2006. FDI outflows on the other hand has performed poorly and as a proportion of FDI outflows from Africa, ranged from -0.1 per cent to the highest of 0.2 per cent. In value terms, the highest value of FDI outflows is US\$ 5 million recorded in 2006, but this still constituted 0.1 per cent of Africa FDI outflows, implying that FDI outflows for Africa improved during this period.

**Table 4: Foreign Direct Investment Flows in Mauritania, 2002-2007 (USD million)**

	2002	2003	2004	2005	2006	2007
FDI inflows (US\$ mn)	67	102	392	814	155	153
<b>%Africa inflows</b>	<b>0.5</b>	<b>0.5</b>	<b>2.2</b>	<b>2.8</b>	<b>0.3</b>	<b>0.3</b>
FDI outflows (US\$ mn)	...	-1	4	2	5	4
<b>%Africa outflows</b>	<b>...</b>	<b>-0.1</b>	<b>0.2</b>	<b>0.1</b>	<b>0.1</b>	<b>0.1</b>

Sources: UNCTAD, FDI Online Database (March 2009) and World Investment Report 2008.

The World Bank forecasts of Mauritanian economy show that despite the global crisis, the economy is likely to experience recovery from the crisis after 2009. Nominal GDP and consumption will continue with an upward trend though the effect will be experienced on fixed investment, which will experience negative growth in 2009 and 2010. As a share of GDP fixed investment will remain relatively stable at about 13 percent while consumption (both private and government) will gradually increase from their low levels of 2008 going forward. Financing of government activities will however be affected further with the current account balance worsening to a high of -16.4 percent of GDP by 2011.

**Table 5: Forecasts on Mauritanian Economy to 2011**

	2007	2008	2009	2010	2011
Real Expenditure Growth					
GDP at market prices	1.0	2.2	2.7	4.1	5.0
Private consumption	2.1	2.0	3.3	5.0	5.0
Government consumption	3.8	3.2	5.0	5.1	5.1
Fixed investment	55.8	8.7	-5.5	-2.5	8.9
Exports, GNFS	4.9	-6.4	2.1	5.0	6.3
Imports, GNFS	-2.8	-2.2	0.9	4.1	6.9
Share of GDP					
Private consumption	55.6	49.7	54.3	59.4	60.6
Government consumption	18.3	16.6	18.5	20.3	20.9
Fixed investment	13.5	13.0	13.0	13.1	13.9
Real per capita GDP growth	-1.6	-0.3	0.3	1.6	2.5
Current account balance (% GDP)	-7.0	-11.0	-11.4	-16.2	-16.4
General government bal. (% GDP)	-4.1	-7.9	-4.1	-4.9	-5.7

Source: Prospects for the Global Economy Forecasts, World Bank

### **III. Implications of the current financial crisis on remittances and development**

#### **A. *Role of remittances in national economies***

International remittances are referred to as the money and goods that are transmitted to households by migrant workers working outside their countries of origin (Adams Jr., 2008). They are an important source of resource flows for developing countries and are seen as part of a private welfare system that transfers purchasing power from relatively richer to relatively poorer members of a family or community. This makes them play an important role in reducing poverty, smoothening consumption, affect labour supply, provide working capital and have multiplier effects through increased spending. Further, they affect labor supply, provide working capital, and have multiplier effects through increased household spending (Gupta et al, 2007). Remittances have become a major source of income and external financing for African countries, in particular Sub-Saharan Africa. In some countries they exceed ODA as a source of external financing, and sustain household livelihoods, including diverse socio-economic needs of the many poor home communities (Kasekende et al 2009).

Barajas et al (2009) notes that remittances represent a resource inflow that often exceeds a variety of other balance of payments sources for a large group of countries where they have been significant, while Gupta et al (2007) perceive remittances to be more stable than other external flows, and does not create any future liabilities such as debt servicing or profit transfers to the receiving economies since they are unilateral transfers. According to Aderanti (2008), the volume of remittances has kindled optimism about positive contribution of remittances to development in home countries and the role of the Diaspora in the development.

The ILO (2004) observes that, better off migrants are more likely to invest in their own country during adverse economic conditions. Since remittances go directly to migrant households which have a high prosperity to consume, their multiplier effects on a country's national income is considerable. Increased spending by migrant families on goods and services produced in sectors with excess capacity create jobs and incomes for others whose additional spending in turn benefits other citizens in any given country economy. Migrants abroad are now seen as investors, welfare producers and knowledge communities and technology harbingers to the home countries, The Tunisian Scientific Consortium, which is a professional association abroad provides a good examples (ILO, 2004).

Remittances are argued to have a tendency to move counter cyclically (Serdar, 2006; Gupta et al, 2007), with the GDP in recipient countries, as migrant workers are expected to increase their support to family members during down cycles of economic activity back home so as to help them compensate for lost family income due to unemployment or other crisis-induced reasons. This is also because remittance receipts are widely dispersed hence they may not cause the real exchange rate to appreciate (Gupta et al, 2007). In such cases, remittances serve as a stabilizer that helps smooth out large fluctuations in the national income over different phases of the business cycle (Serdar, 2006). Other than being a stabilizer, it is expected that fluctuations in

remittance flows have effects on short-term output given their effects on consumption (Barajas et al. 2009).

Ratha (2007) argues that migrant remittances are the most tangible and perhaps the least controversial link between migration and development. Remittances have become a major source of external development finance. In 2006 recorded remittances sent home by migrants from developing countries reached \$206 billions, more than double the level of 2001. It is further argued that remittances are evenly distributed across the countries than are private capital. Moreover, remittances directly augment the income of recipient households, and are associated with increased investments in education, entrepreneurship and health, all which have a high social return in most circumstances. In addition to providing financial resources for poor households, they affect poverty and welfare through multiplier and macroeconomic effects. Their importance is reflected in household survey data which show that remittances have reduced poverty head count ratio significantly in several low income countries (Ratha 2007).

Remittance receipts may also have effects on the rate of productive capacity in the receiving economies through a number of channels: capital accumulation, labour force growth, and total factor productivity (TFP) growth (Barajas et al. 2009). Inflows of worker remittances can affect the rate of capital accumulation in recipient economies in several ways, including: easing financing constraints of households; augmenting household collateral; by lowering the cost of capital in the domestic economy, or through its effect on domestic macroeconomic stability. The latter occurs by reducing the risk premium firms demand to undertake investment and make domestic investment more attractive (Barajas et al. 2009). In this respect, Adams Jr. (2008) found the level of per capita remittances received by a country to be positively related to investment returns at home.

Other authors maintain that remittances have an effect on growth. For example, Mansoor and Quillin (2007) notes that remittances can affect growth through a number of channels, either through the effects on poverty and inequality, or through influences on investment, growth, and macro-economic stability. Studies show that richer households receive more remittances as a proportion of all households, greater remittances on average in per capita terms than poor households, and that remittances constitute a considerable proportion of household expenditure and a higher proportion of consumption per capita for the poor households than for the rich (Mansoor and Quillin, 2007). They argue that remittances can reduce poverty and fuel high rates of household savings and investment, exert upward pressure on the real exchange rate and reduce the competitiveness of exports. They note that remittances are often an important source of foreign exchange, domestic consumption, and investment; and a source of income especially in the rural areas. Their results suggest that remittances have a mild positive impact on long-term patterns of macroeconomic growth, while evidence on their impact on distribution of poverty is mixed (Mansoor and Quillin, 2007). Remittances often serve as a key source of foreign exchange for the countries in the region. Due to this, they can therefore serve as a pillar to support and improve creditworthiness and access to international capital markets for many countries.

The importance of remittance is likely to be more in developing countries given that private flows to developing countries are expected to contract by 50 percent or more in 2009 (Ratha et al. 2009). Remittances also serve as a stabilizer that helps smooth out large fluctuations in the

national income over different phases of the business cycle (Serdar, 2006) and the fluctuations in their flows are expected to have effects on short-term output given their effects on consumption (Barajas et al. 2009). Singh et al. (2009) supports this by finding that remittances behave counter cyclically hence consistent with a role as a shock absorber.

Brajas et al (2009) observation is in line with Gupta et al. (2007) who argue that the impact of remittances on growth depends on how recipient households use them. Households with a high marginal propensity to consume will use remittance received to stimulate additional consumption rather than investment if they are perceived as permanent, in such a case remittance are also less likely to stimulate investment by relaxing credit constraints for a highly developed domestic financial system. Gupta et al. (2007) further argues that remittance may also have a negative effect on labour force participation as households may substitute unearned remittance income for labour income, and moral hazard problems may induce households to divert resources to the consumption of leisure thus reducing their labour market effort. Remittances can also create incentives that reduce the domestic work effort.

Mixed results have however been established on the economic impact of remittances. Some studies have found that they have a positive impact on growth (e.g. Mansoor and Quillin, 2007) while others find remittance to have no effect on growth (e.g. Gupta et al, 2007; Brajas et al. 2009). The finding of remittance not to be affecting growth is attributed to a number of factors such as the fact that many countries do not yet have the institutions and infrastructure in place that would enable them to channel remittances into growth-enhancing activities (Gupta et al. 2007) and partly because remittances are generally not intended to serve as investments but as social insurance to help family members to finance the purchase of life's necessities (Brajas et al. 2009).

According to some authors however, the impact of remittances is not clear and provides mixed effects (Mansoor and Quillin, 2007). They may not necessarily result in promoting growth (Brajas et al. 2009) as highlighted by Gupta et al. (2007). The study found remittances to have no impact on economic growth and concluded that this may suggest that many countries do not yet have the institutions and infrastructure in place that would enable them to channel remittances into growth-enhancing activities. Brajas et al. (2009) also did not find a robust and significant positive impact of remittances on long-term growth and attribute this to be partly because remittances are generally not intended to serve as investments but as social insurance to help family members to finance the purchase of life's necessities.

Other empirical studies have looked at another important aspect of remittances, the cost of remittances. Beck (2009), in a cross country study find that the number of migrants, the level of income in the remittance sending countries, and receiving countries, competition among the providers and the extent of bank participation are important in determining the cost of remittances. Receiving countries with high level of rural population and low access to financial institutions face higher remittance costs (Beck and Peria 2009).

Studies by Acosta et al. (2009) have also looked at the relationship of financial development and remittances and found that well-developed financial sectors can more effectively channel remittances into investment opportunities. They also find that remittances tend to put upward

pressure on the real exchange rate but the effect is weaker in countries with deeper and more sophisticated financial markets, which seem to retain trade competitiveness.

Among the North African region countries, remittances often serve as a key source of foreign exchange. Due to this, they can therefore serve as a pillar to support and improve creditworthiness and access to international capital markets for many countries. According to IMF (2007) the impact of remittances on growth depends on how recipient households use them. One view is that remittances would be mostly used for consumptions, and sometimes even conspicuous consumption, and that the same community characteristics that led to migration also dampen the productive use of incoming remittances. However, studies that link remittances to investment, where remittances either substitute for or improve financial access, conclude that remittances stimulate growth. Thus remittances can affect long term growth by fostering financial deepening. Indeed, when households use remittances for household consumption and social needs, the process releases other incomes generated by the household for other investments with implications on macroeconomics of any given country.

The case of Algeria demonstrates the macroeconomic usefulness of remittances. Remittances have been used partly for consumption and partly for investment and have had complex positive and negative effects on development. The huge amounts of migrant remittances are used as a substitute for the inadequacies of foreign exchange, resulting in lifting the growth process. Migration has been considered as an exchange of abundant unskilled labour for scarce foreign exchange in the form of remittances. Remittances in Algeria contribute to development and growth in their capacity as a source of foreign funds and as domestic income that raises savings. Thus, in addition to household consumption, they contribute to growth and the restructuring of the economy towards the imperative of international competition.

In Tunisia remittances is still experiencing steady increase in the midst of global economic crisis. Remittances from expatriate Tunisians account for a growing share of the current account balance. In 2007 Tunisians emigrants repatriated an estimated TND 2.21billions of which TND 1.7 billions was in the form of cash remittances. Remittances have doubled in seven years accounting for five percent of GDP and 23 percent of national savings in 2007. Over 85 percent of transfer comes from Europe primary France which is a home to some 600,000 Tunisians. Owing to the steady appreciation of the Euro against Dinar therefore remittances are Tunisians fourth largest source of foreign exchange.

Remittances in Tunisia have provided capital for small enterprises, reduced credit constraints and increase entrepreneurship (Mesnard, 2004). In addition to money transfers, Tunisia's expatriates have invested nearly TND 386 million in the last 20 years, only in service industries. The flow of remittance may be slowed by the economic crisis in Europe ([www.africaeconomicoutlook.org/en/countries/north.africa/tunisia](http://www.africaeconomicoutlook.org/en/countries/north.africa/tunisia)).

Research done by the Tunisian government on the contribution of the expatriate remittances to families back in Tunisia revealed an increment in remittances. It is argued that remittances of Tunisian migrants abroad are the lowest in North Africa countries despite the fact that tourism and remittances constitute increasing source of foreign currency for the Tunisia economy. The remittances seemed to be resilient in face of global economic crisis in Tunisia as the money

transfer by expatriates into Tunisia increased by six percent in the first half of 2009 compared to the same period the previous year (Yahya, 2009). The global economic crisis is however likely to affect the level of remittances through job losses and a decrease of out migration due to fear and increase in return migration.

**Morocco:** In Morocco, empirical research has projected that 1.17 million out of 30 million Moroccans would fall back to absolute poverty without international remittances, and the proportion living below the poverty line would increase from 19 to 23 percent (Teto 2001). The actual contribution of migration to income growth and poverty alleviation is likely to be higher, as this study only considered official remittances and ignored the income multiplier effects of remittance expenditure. However, the middle and higher income classes profit relatively more from remittances than the lowest income groups (Teto 2001), because migration itself has proved to be a selective process, and most Moroccan migrants therefore do not belong to the poorest groups (Schiff, 1994).

De Haas (2007) has highlighted that migrant remittances from Europe to Morocco have shown an upward trend over the past decades. Receiving \$4.2 billion in official remittances in 2004, Morocco was the fifth largest remittance receiver in the developing world and the largest remittances receiver in per capita terms. The inflow of hard currency remittances is crucial to the balance of payments. While remittances represented 6.4 percent of Morocco's GNP over the 1990s on average, they represented 20.1 percent of all imports in goods and services. In 2001, remittances were six times higher than official development aid, five times higher than FDI, and also exceeded revenues from tourism and the export of agricultural produce and phosphates (De Haas and Plug 2006; De Haas, 2007).

The structural solidity of remittances to Morocco has been explained by the unforeseen persistence of migration to northwestern Europe; new labour migration towards southern Europe; and the durability of transnational and trans-generational links between migrants and 'stay behinds'. The stable economic-political environment and new policies towards migrants explain why Morocco has been relatively successful in channeling remittances through official channels. (De Haas and Plug 2006; De Haas, 2007).

In regions with high international out-migration, the contribution to income growth can be far higher. In several communities in Morocco's three main migration belts — the Rif Mountains, the Sous valley and southern oases (de Haas, 2005a) — between one fifth to over a half of all households have at least one member who has migrated abroad (de Haas, 2003; Schoorl et al 2000). De Haas (2003) found that the average international migrant household's income was 2.5 times higher than the non-migrant household's income, and that this was largely the effect of remittances. International migration is a highly effective way of enormously improving the financial situation and living conditions of households (de Haas, 2003; Fadloulallah et al., 2000). It is a common assumption that migrants will become less inclined to remit with integration, family reunification and diminishing family obligations.

Wiladharna et al (2004) observes that remittances in the country can be a critical source of income for poor households, making up 40 per cent or more of a receiving household's income. Transfer averaged about \$ 200 in size, although anywhere between \$100 and \$ 1000 was

common. They highlighted that in countries where governments have a stake in a postal service or bank, investment in improving money transfer mechanisms could help improve remittances access and stimulate competition. More than 60 per cent of official remittances to Morocco go through a majority state owned bank, Groupe Banques Populaires, which allow Moroccans in Europe to move funds at a very low cost.

In the 1970s, Heinemeijer et al. (1976) concluded on the basis of a survey in two main migrant-sending areas (the Rif and the Sous) that migrants actually had a relatively high propensity to invest, although the unfavourable and uncertain economic conditions limited investment opportunities (see also Bonnet and Bossard, 1973). More recent studies have also indicated that migrants do not indulge in conspicuous consumption and that they are more prone to invest in non-housing sectors of the local economy – the service sector in particular – than was previously assumed (de Haas, 2003; Khachani, 1998; Refass, 1999). A recent survey claimed that over 70 percent of migrants had invested in Morocco (Hamdouch, 2000), although this figure is probably biased towards the more involved migrants, because only migrants on holiday in Morocco were interviewed.

De Haas (2007) further noted that in several migrant-sending communities in Morocco, remittances not only enable migrants' households to construct modern houses, but also permit the purchase of agricultural land and modern agricultural equipment, the introduction of state-of-the-art stock-raising, or the establishment of non-agricultural enterprises, such as those in the tourist sector, as well as the setting up of commercial establishments and small and medium-size industries in food processing and the supply of building materials (Nyberg-Sørensen, 2004; Bencherifa and Popp, 1990; 2000). Migrants are also said to have played a significant role in activating the stock exchange in Casablanca and are managing parts of the privatized transportation system, such as bus services (Nyberg-Sørensen, 2004).

## ***B. Characteristics and pattern of remittances***

According to World bank estimates, remittance inflows has been increasing over time, rising from US\$10,240 million in 1975 to US\$433,086 million in 2008 worldwide while for the developing countries, remittance inflows has increased from US\$3,343 million to US\$327,591 million over the same period (Table 6). From 1990, remittance inflows have increased by 531 per cent for the world, 956 per cent in developing countries, and 875 per cent, 963 per cent and 492 per cent in low income, SSA, and LDCs respectively.

**Table 6: Migrant Remittance Inflows (US\$ million)**

	1975	1980	1985	1990	1995	2000	2005	2006	2007	2008e
<b>World</b>	<b>10,240</b>	<b>36,032</b>	<b>35,050</b>	<b>68,584</b>	<b>101,561</b>	<b>131,519</b>	<b>270,504</b>	<b>309,137</b>	<b>380,050</b>	<b>433,086</b>
All developing countries	3,343	18,384	19,565	31,058	56,758	83,545	194,349	227,863	285,238	327,591
Low-income countries	201	1,010	1,083	3,153	3,524	5,654	16,098	19,928	24,546	30,757
<b>Sub-Saharan Africa</b>	<b>363</b>	<b>1,396</b>	<b>1,173</b>	<b>1,862</b>	<b>3,193</b>	<b>4,623</b>	<b>9,380</b>	<b>12,617</b>	<b>18,587</b>	<b>19,796</b>
LDCs	310	1,551	1,556	3,614	4,146	6,147	12,044	14,245	17,473	21,392
Senegal (% SSA)	8.8	5.5	6.7	7.6	4.6	5.0	8.4	7.3	6.4	6.5

Source: World Bank estimates

Remittance flows to SSA are relatively small comprising 6 percent of total remittances to developing countries and are on average about 2.5 per cent of GDP, compared to almost 5 per cent for other developing countries. In absolute terms, Senegal is one of the largest recipients of remittances in the region, the other countries being Nigeria and Kenya (Gupta et al, 2007).

The patterns of remittances, which have become a major source of external financing for African countries, have been adversely affected by the slowdown in developed countries. In some countries, remittances exceed official development aid as a source of external financing. The total volume of remittances to Africa stood at USD 38 billion in 2007. Remittances between African countries have fallen following job cuts and the decline of activity in the mining sector. The decline in the volume of remittances has a direct negative impact on the well-being of households since such transfers – unlike other types of transfers– are directly used to cover primary needs such as food, education and healthcare. While updated data on emigrant transfers remain incomplete, they tend to show signs of a negative impact of the crisis. Monthly data for December 2008 and January 2009 indicate some stagnation or a slight decline worldwide. Nonetheless, in the absence of data, it is too early to draw a definitive conclusion on the impact of the crisis on remittances in Africa.

In North Africa, as unemployment in Europe rises, remittances from North African migrants living in Europe have weakened, affecting household consumption at home. In Morocco remittance inflows equaled nine per cent of GDP in 2007, compared with 5.0 per cent in Tunisia and 2.2 per cent in Algeria.

The strong and consistent flow of remittances to North Africa largely reflects patterns of migration to Europe and the Middle East (Sander and Maimbo 2003). Most remittances to Africa over the past decade were received in North Africa (72 per cent), followed by East Africa (13 per cent), and Southern and West Africa (seven and five per cent). Central Africa recorded less than 1 per cent point in remittances. Morocco is one of the countries with the highest proportion of remittances as a share of GDP.

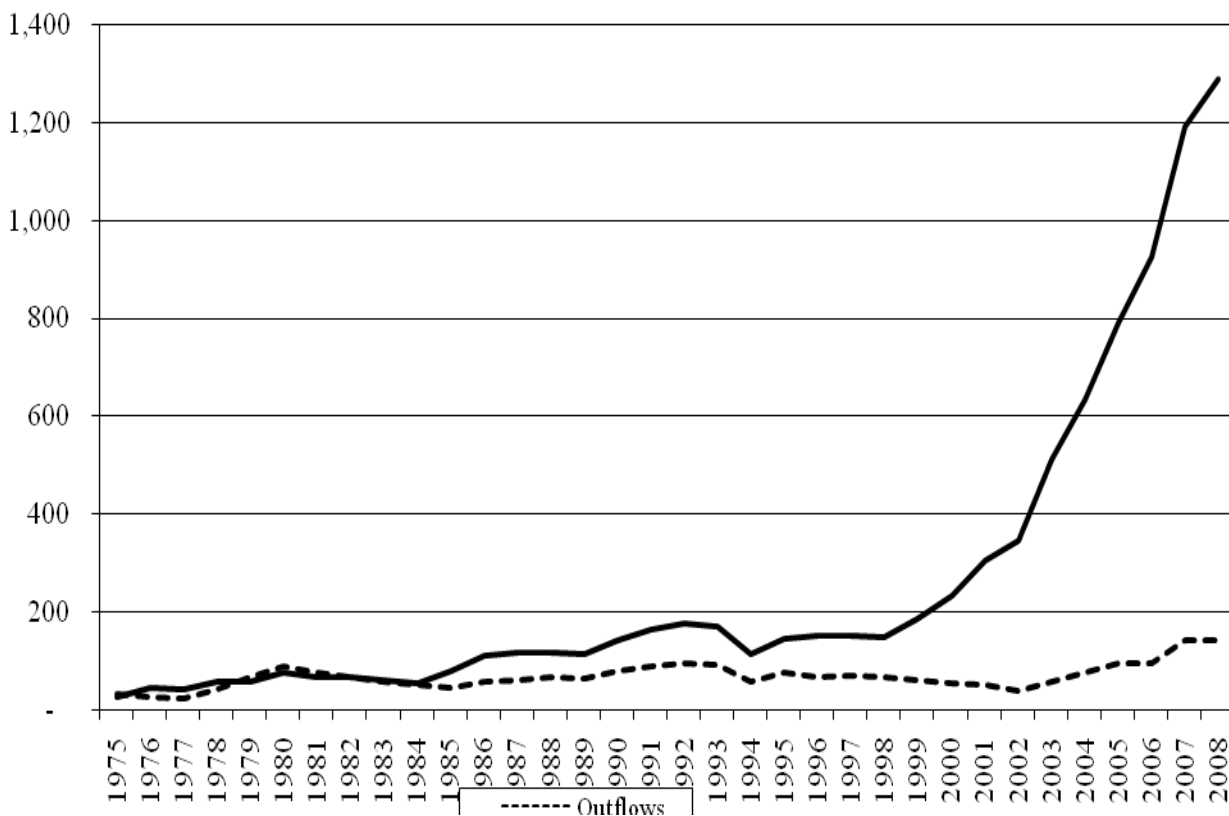
### *Senegal*

Remittance flows to Senegal have been having an upward trend since mid 1970s (Figure 11). It has recorded faster growth compared to outflows over the period, which is expected given that

Senegal is a source of migrants rather than recipient. Inward remittance flows to Senegal rose from US\$233 million in 2000 to an estimated value of US\$874 million in 2007 (Table 7). Remittance inflows to Senegal as a proportion of inflows to SSA has generally been above 5 per cent (but below 10 per cent) since 1975 and stood at 6.5 per cent of the total remittance to SSA in 2008 based on calculation from World Bank estimates (Table 3.1). While the proportion of workers' remittances and migrant transfers cannot be established from Table 3.2, in 2004 workers' remittances were about 88 per cent of the inward remittance flows to Senegal. Outward remittance flows on the other hand is estimated at US\$77 million in 2006. In 2004, the estimated 2.5 million migrants sent about US\$ 618 million home (excluding informal transactions) which was a third of the national budget (Adepoju, 2007).

**Figure 11: Migrant remittance flows in Senegal (US\$ millions)**

**Figure 3.1: Migrant remittance flows in Senegal (US\$ millions)**



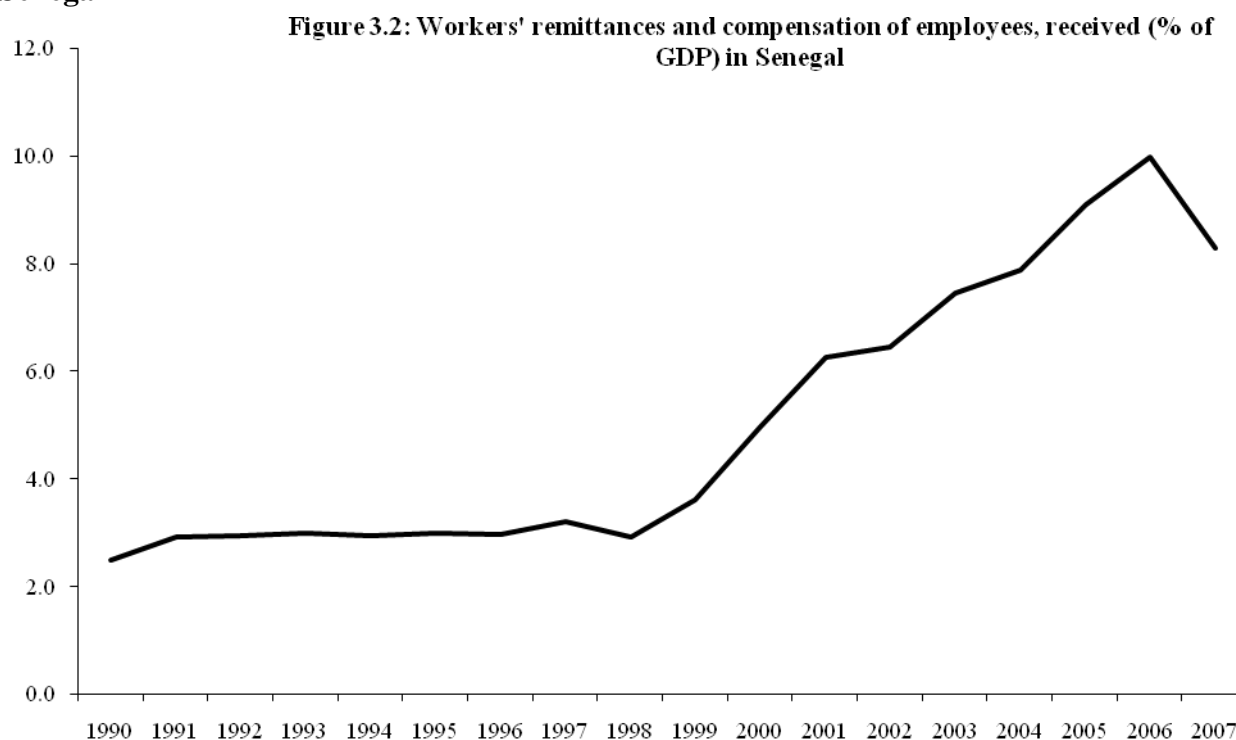
Note: Figure 11 represents more updated and current information than Table 2, providing the actual value for 2007 while estimates for 2008.

**Table 7: Remittance flows for Senegal**

(US\$ million)	2000	2001	2002	2003	2004	2005	2006	2007e
<b>Inward remittance flows</b>	<b>233</b>	<b>305</b>	<b>344</b>	<b>511</b>	<b>633</b>	<b>633</b>	<b>633*</b>	<b>874</b>
<i>of which</i>								
Workers' remittances	179	260	297	448	563	..	..	..
Compensation of employees	54	45	48	63	70	..	..	..
Migrants' transfer	-	-	-	-	-	..	..	..
<b>Outward remittance flows</b>	<b>55</b>	<b>51</b>	<b>39</b>	<b>57</b>	<b>77</b>	<b>77</b>	<b>77**</b>	<b>..</b>
<i>of which</i>								
Workers' remittances	48	43	34	48	67	..	..	..
Compensation of employees	7	9	5	9	10	..	..	..
Migrants' transfer	-	-	-	-	-	..	..	..

\* 7.1% of GDP in 2006. \*\*0.9% of GDP in 2006. This table reports officially recorded remittances. The true size of remittances, including unrecorded flows through formal and informal channels, is believed to be larger. Total flows may not always equal the sum of the components as they may have been taken from alternative sources.

Source: Migration and Remittance Factbook 2008, World Bank, compiled by Dilip Ratha and Zhimei Xu, available at [www.worldbank.org/prospects/migrationandremittances](http://www.worldbank.org/prospects/migrationandremittances)

**Figure 12: Workers' remittances and compensation of employees, received (% of GDP) in Senegal**

Source: World Development Indicators, World Bank.  
Source: World Development Indicators, World Bank.

The rise in remittance to Senegal is also evident when looked at as a proportion of GDP. Workers' remittance and compensation of employees as a proportion of GDP has been rising reaching a peak at about 10 per cent in 2006 before taking a decline. This shows that remittance has been a major component of contribution towards GDP in Senegal. The decline in the share

of remittance in GDP can however be attributed to an improvement in economic performance during this period as remittance inflows has been rising as evidence in Figure 12.

A household survey by Batchelor et al. (2007) in Senegal of over 650 households that investigated among other things, remittance flows and financial transactions, found that 18 per cent received remittances from relatives "closely associated with the household" but living away from it, majority (71 per cent) of whom were urban dwellers with fewer in the rural area (21 per cent, the balance being peri-urban). The study sampled four districts and the survey designed to dovetail with Senegal's national household survey (Demographic and Health Survey) to enable comparisons with a national sample of 69,000 people (7,400 households). Remittance deliveries are generally once a month and those receiving tended to be urban households receiving from abroad, they used Western union as the main mechanism for delivery and they received from \$40 to \$360. The profile of this sub-sample of households was not significantly different from the overall sample, having a range of education, wealth and age with a gender mix that reflects the whole sample. They note that remittance receivers are not necessarily wealthier than their neighbours which points to the fact that remittance flows to Senegal are meant to assist the household mainly to meet their basic expenditure needs.

The 2007 survey by ADB found that priority is given to household consumption (essential goods and services) and health in utilizing remittance proceeds within households. Senegal for instance, has a utilization rate of 98 per cent on family expenses (table 8).

**Table 8: Utilization Ratios per Budget Item (percent) of Remittances**

	Senegal	Mali	Morocco	Comoros
Family expenses	98	94	69	96
Health	81	87	30	77
Education/Training	55	59	26	39
Family Construction	19	47	10	52
Individual	14	29	6	17
Productive Investments	11	46	13	28
Social Project	5	25	1	39

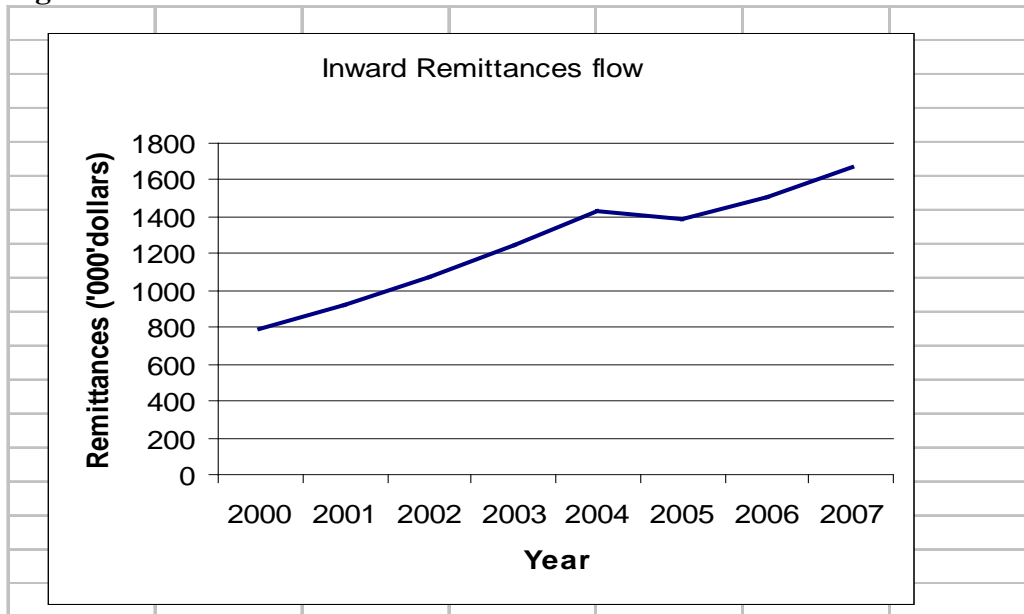
Source: ADB Survey, 2006

### ***Tunisia***

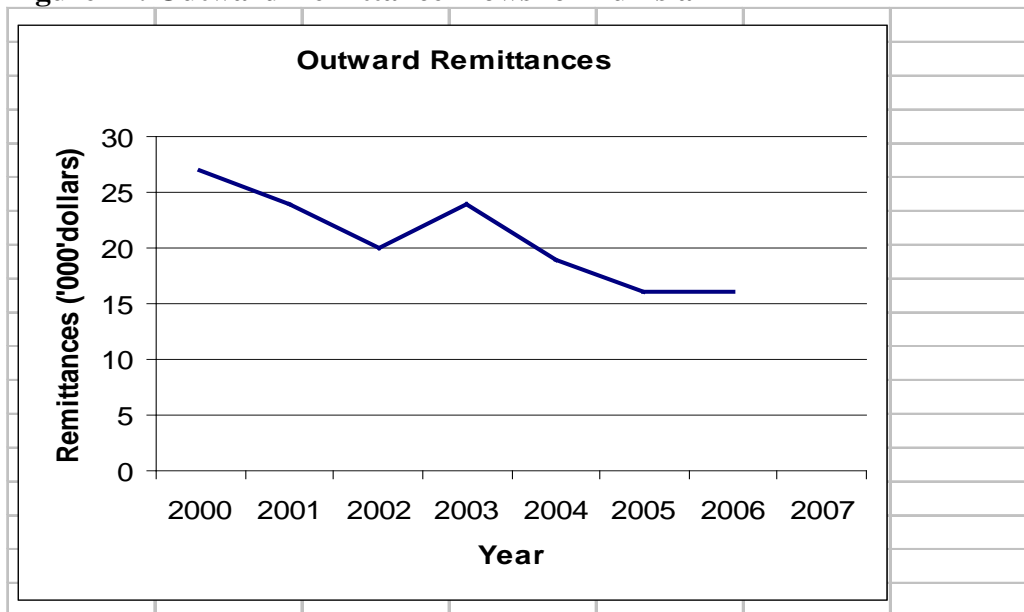
Tunisia remittances are still experiencing steady increase in the midst of global economic crisis. However, evidence shows that outward remittances from Tunisia have been declining. Remittances from expatriate Tunisians account for a growing share of the current account balance. In 2007 Tunisians emigrants repatriated an estimated TND 2.21billions of which TND 1.7 billions was in the form of cash remittances. Remittances have doubled in seven years, accounting for five percent of GDP and 23 per cent of national savings in 2007. Over 85 per cent of transfer comes from Europe primary France which is a home to some 600,000 Tunisians. Owing to the steady appreciation of the Euro against Dinar, remittances are Tunisia's fourth largest source of foreign exchange. In addition to money transfers, Tunisia expatriates have invested nearly TDD 386 million in the last 20 years, only in service industries. The flow of

remittance may be slowed by the economic crisis in Europe (www.africaeconomicoutlook.org/en/countries/north.africa/tunisia).

**Figure 13: Tunisian Patterns of Remittance Flow: 2000 - 2007**



**Figure 14: Outward Remittance Flows for Tunisia**



Remittances of Tunisian migrants abroad are the lowest in North Africa countries although it is one of the increasing sources of foreign currency for the Tunisia economy. Available research indicates that the expatriate remittances to families back home was on the increase as the 1.522 billion Dinars transferred in 2002 was a 14.2 percent increase over previous years. In 2003 remittances grew by another 4.1 percent of 1.584 billion Dinars (Mourel, 2005). The remittances

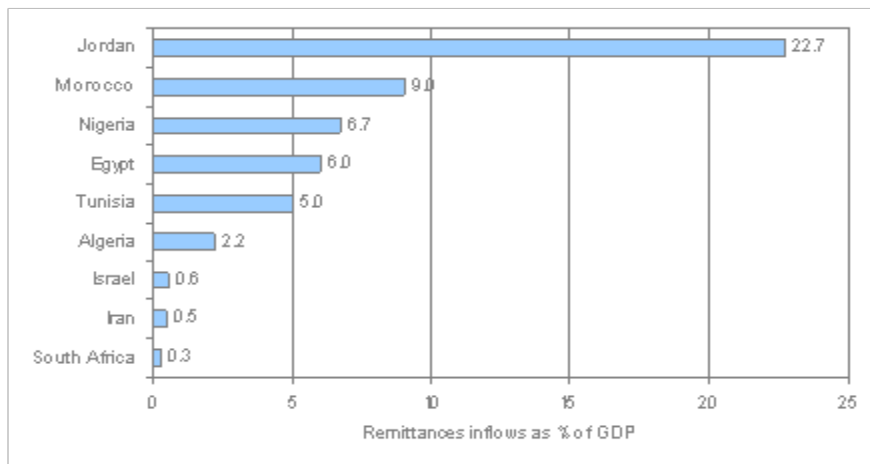
appear resilient in the face of global economic crisis in Tunisia. The money transfer by expatriates into Tunisia increased by 6 per cent in the first half of 2009 compared to the same period last year (Yahya, 2009). This is partly due to the fact that remittances make up a relatively small portion of migrants income so migrants keep sending money home even when their income takes a hit. The relative resilience of remittances would have direct impact on household income. Remittances tend to increase in time of economic hardship because families depend on them as a principal income source (UN, 2009).

It is still hard to identify the impact of global economic crisis on remittances to Tunisia since recent remittances studies show that Tunisian remittances have increased by six per cent in the middle of the economic crisis (Yahya, 2009). However, the global economic crisis is likely to affect the level of remittances through job losses and decrease of out migration due to fear and increase in return migration. This will have negative impact on economic development particular those sectors such as education, health and poor households that depended on remittances for their transactions. Again those small enterprises that depend on them as source of capital are likely to stall or seek for credit in the domestic market hence constraining domestic credit market. Finally the employments created due to remittances are also likely to reduce causing increase in unemployment.

**Morocco**

Morocco has been shown as being one of the top 20 developing countries with the highest workers’ remittances receipt had received \$ 3.3 billion. The remittances also constituted of 9.7 per cent of its GDP (Ratha 2003). Remittances and tourism represents the major source of foreign currency in Morocco. Remittances to Morocco mainly come from France, where 48.6 per cent of foreign currency flow is remitted from. Another 40.3 per cent of remittances come from other European countries (Mainly, Italy, Netherlands, Belgium/Luxembourg, United Kingdom, and Germany). A low percents of remitted money come from Arab Gulf countries and the United States of America, they represents about 4.6% and 4.2 per cent of total Moroccan remittances respectively (Zohry, 2005, Hassan, 2009).

**Figure 15: Remittance Inflows as a Percentage of GDP: 2007**



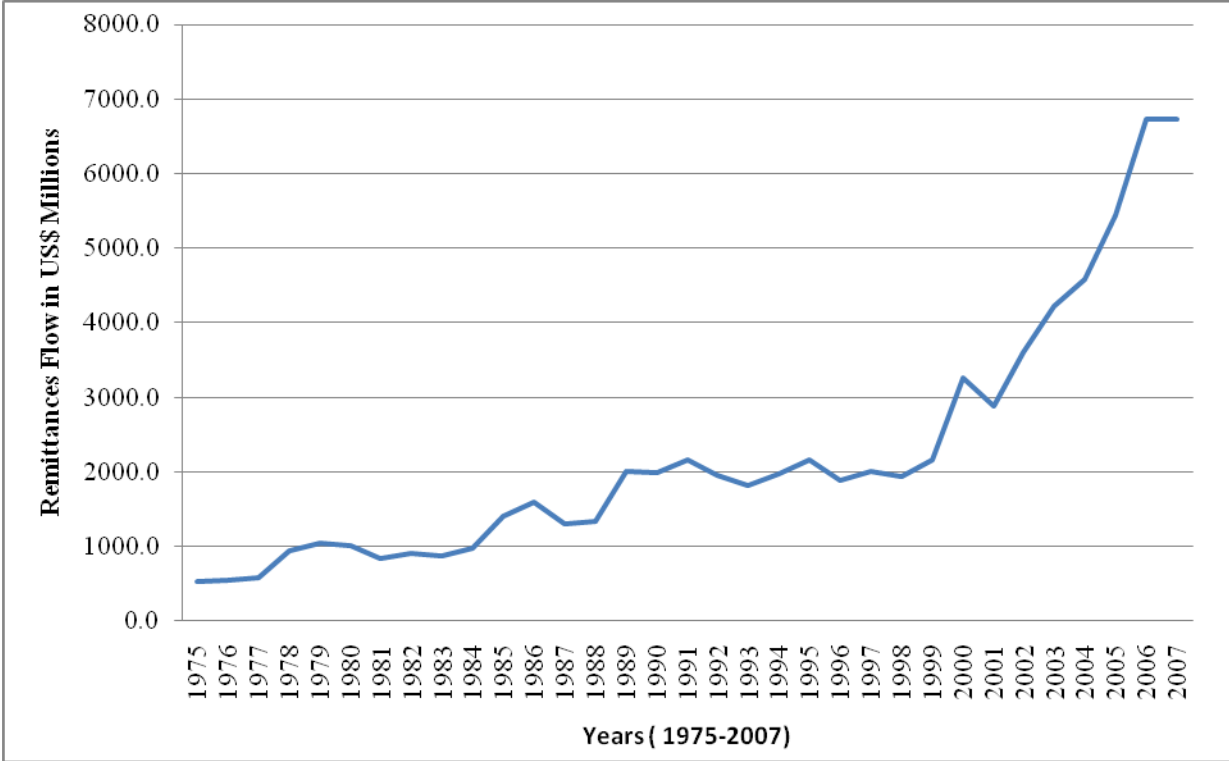
Source: World Bank; Eghbal (2009).

Wiladharna et al (2004) observe that in countries where governments have a stake in a postal service or bank, investment in improving money transfer mechanisms could help improve remittances access and stimulate competition. More than 60 per cent of official remittances to Morocco go through a majority state owned bank, Groupe Banques Populaires, which allow Moroccans in Europe to move funds at a very low cost.

The Moroccan government actively discouraged citizens abroad from integrating in the 1960s and 1970s, in part to forestall what could have support for the opposition at home and to maintain the flow of remittances. In early 1990s the government of Morocco changed its policy and it now encourages naturalization abroad so that Moroccans become dual nationals, and welcomes Moroccan migrants when they make return visits. One result is rising remittances, which are five to 10 per cent of GDP, more than ODA and FDI, and remittances have remained high in recent years even as outmigration slowed (de Haas and Plug, 2006; Martin, 2009).

Many Moroccans who returned invested in towns and cities in their region of origin rather than in the villages from which they came, encouraging those who did not migrate to Europe but are seeking more opportunity, to move to towns and cities. The spending of remittances in urban areas had multiplier effects that attracted rural-urban migrants from poorer areas of Morocco (Martin, 2009).

**Figure 16: Remittances Inflow for Morocco**



Source: World Development Indicators 2009.

From Figure 16, we note that for the last three decades, the remittances have risen gradually. Most of the tremendous growth has been show within the period 2001 and 2007.

Results from a survey has shown that 94 percent of 1,239 migrants who were interviewed during their holiday in Morocco said they had remitted money to Morocco during the five years covered by the survey and sixty percent reported that they had transferred at least one quarter of their income<sup>4</sup>. De Haas (2007) has observed that the survey was likely to be biased because only migrants visiting Morocco were interviewed. De Haas and Plug (2006) noted that in 2000, migrants in France, the Netherlands, Belgium, Germany, Spain and Italy remitted an average of 10,740 Moroccan dirham (approximately \$1,000) per year to Morocco. Other studies, (De Haas (2007; De Haas 2003) also highlighted that a recent survey in south Morocco revealed that the average remittance receiving household received 32,000 dirham (approximately \$ 3,000) annually. Much money is handed over personally and migrants take many goods (e.g., electronics, household appliances, furniture, cars, car spare parts and clothes) to Morocco as gifts or as merchandise (Refass 1999). Remittances in kind have been estimated at levels of 25-33 (Refass, 1999) and 30-50 percent (Khachani, 2002) of money transfers.

De Haas (2007) observe that it is a common assumption that Moroccan migrants will become less inclined to remit with integration, family reunification and diminishing family obligations. However, as has been mentioned before, remittances have been proven to be more stable than was previously assumed. Fadloullah et al (2000) mentioned that remittances in Morocco tend initially to increase with migration duration and the size of the household left behind, although they tend to decrease after family reunification. They also added that remittances tend to increase with the income of the migrant. On the basis of a survey conducted in Morocco Fokkema and Groenewold (2003) concluded that employed migrant remit four times more than unemployed migrants. For instance, the surge in remittances from the Netherlands in the late 1990s can probably be attributed to a significant decrease in unemployment among Moroccan migrants (De Haas and Plug, 2006).

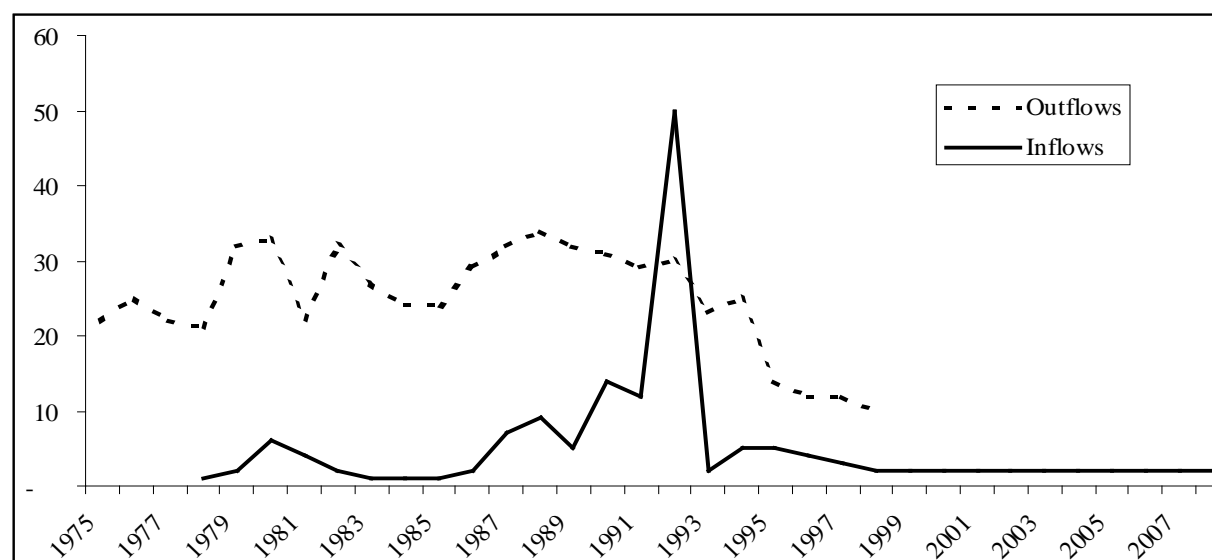
### ***Mauritania***

Remittance outflows in Mauritania have generally been higher than remittance inflows, suggesting the fact that Mauritania is more of a recipient than a source of migrants (Figure 17). Remittance averaged about US\$ 2 million within the last decade though the highest value of US\$ 50 was recorded in 1992, while remittance outflows has generally been above US\$ 20 million for most of the period but started a downward trend in 1995. Remittance inflows as a proportion of remittance inflows to SSA has remained at levels below one per cent since 1975 with a substantial decline recorded after 1990 based on calculation from World Bank estimates (Table 9).

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<sup>4</sup> As mentioned in Hamdouch, 2000

**Figure 17: Migrant remittance flows in Mauritania (US\$ millions)**



Note: Data for Mauritania is not complete hence the incomplete graphs.

**Table 9: Migrant Remittance Inflows for Mauritania(US\$ million)**

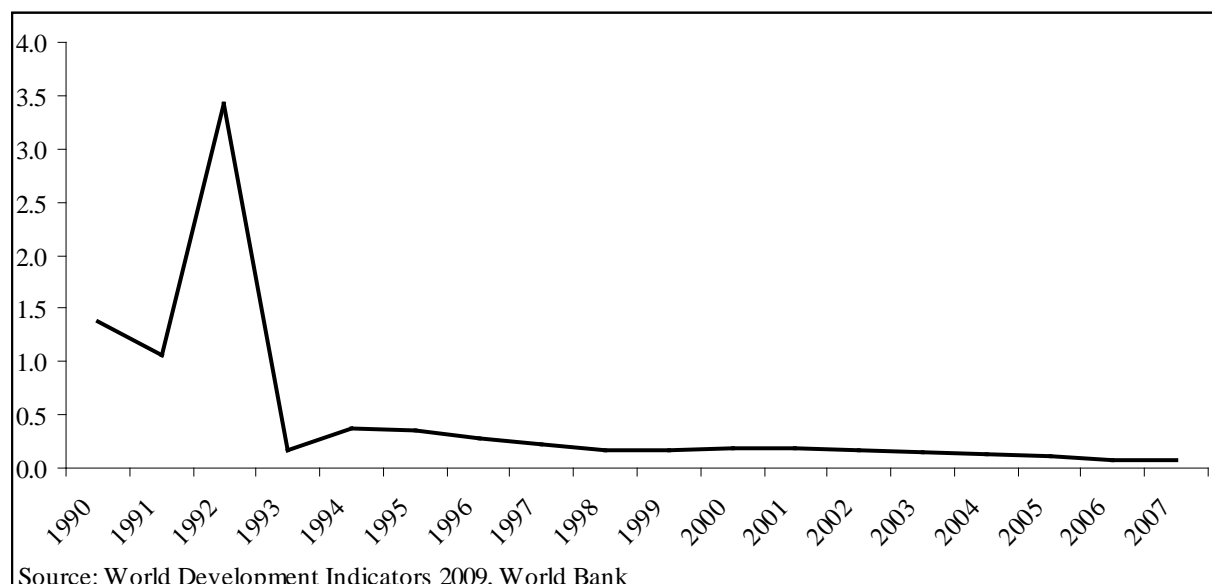
	1975	1980	1985	1990	1995	2000	2005	2006	2007	2008e
<b>World</b>	<b>10,240</b>	<b>36,032</b>	<b>35,050</b>	<b>68,584</b>	<b>101,561</b>	<b>131,519</b>	<b>270,504</b>	<b>309,137</b>	<b>380,050</b>	<b>433,086</b>
All developing countries	3,343	18,384	19,565	31,058	56,758	83,545	194,349	227,863	285,238	327,591
Low-income countries	201	1,010	1,083	3,153	3,524	5,654	16,098	19,928	24,546	30,757
<b>Sub-Saharan Africa</b>	<b>363</b>	<b>1,396</b>	<b>1,173</b>	<b>1,862</b>	<b>3,193</b>	<b>4,623</b>	<b>9,380</b>	<b>12,617</b>	<b>18,587</b>	<b>19,796</b>
LDCs	310	1,551	1,556	3,614	4,146	6,147	12,044	14,245	17,473	21,392
Mauritania (% SSA)	---	0.43	0.09	0.75	0.16	0.04	0.02	0.02	0.01	0.01

Source: World Bank estimates

Note: -- means no value available as data on migrant remittances was not available for Mauritania.

As a share of GDP, World Bank estimates show that workers' remittance and compensation of employees to Mauritania has been on a declining trend with the highest proportion of 3.4 per cent recorded in 1992 but this has declined over the period to about 0.1 per cent in 2007. This may depict the fact that Mauritania is not among the countries that have benefited from the increased remittance flows which has provided an alternative source of financing. The low proportion of remittance to Mauritania's GDP can be attributed to a number of factors such as an improvement in economic performance during this period and the low reliance in remittance inflows by the economy.

**Figure 18: Workers' remittances and compensation of employees, received (% of GDP) in Mauritania**



### **C. Determinants of remittances**

Remittance inflows are determined by a number of factors including migration opportunities, employment and levels of earnings (Awad 2009). At the individual household level, studies have established that skill composition of migrants matter in remittance determination, with countries exporting a larger share of high-skilled (educated) migrants receiving less per capita remittances than countries exporting a larger proportion of low-skilled migrants (Adams Jr., 2008). This they note, can possibly be explained by the fact that high-skilled migrants are more likely to bring family members and to remain in their newly adopted country, while migration of low-skilled migrants is more temporary in nature and thus they are more concerned with returning home (Adams Jr., 2008). The determinants of remittances vary across countries and among migrant workers. The general macroeconomic determinants of remittances include the number of workers, wage rates and economic situation in host country, economic situation in country origin the exchange rate and relative interest rate between the sending and receiving country and political risk and facilities to transfer funds.

On the policy/country environment determinants, Adams Jr. (2008) finds the level of poverty in labour-sending country not to have a positive impact on the amount of remittances received by a country. They establish an inverted-U shaped curve between level of per capita GDP income in a country and receipt of remittances and find that middle-income countries receive more remittance than low- or high-income countries. These arguments are extended by Singh et al. (2009) who note that remittances may be motivated by self-interest, by altruism or family arrangements with aggregate remittances depending on wages in the host economy, income in the home economy, and the total number of migrants. For instance, they find remittances to be larger for countries with a larger diaspora or when the diaspora is located in wealthier countries. They also find countries with more developed financial markets to attract more remittances relative to GDP. Sayan (2006) however finds remitting behaviour to be affected interest rate differentials between the home countries and the rest of the world or exchange rates between

home and host country currencies, than the desire to help out family members with their financing of current consumption spending.

Other determinants of remittances include; the accessibility of the country of origin, employment opportunities in destination country, cost of living of migrants in the destination country, ease of remitting money, and orientation of migrants (De Haan 2005). The effects of the global crisis is likely to affect the cost of living in destination country due to contraction on job market this may have negative effect on households that depend on remittances in Tunisia because migrants are not able to send money due underemployment. De Haan (2005) also listed the determinants of the use of remittances in the country of origin as follows; forms of migration, characteristics of migrants, those who stay behind, intended uses of remittances and returning migrants.

General risk in the home country such as political instability or lack of law and order may deter remittances. Investment opportunities in the home and host country may also have effect on remittances. Greater potential return to assets in the host country may encourage migrants to invest in the host country and reduce remittances for investment purposes. ETF (2007) survey recorded the return migrant workers stated that remittances are used to cover immediate living expenses of relatives at home. They also indicated that remittances are used for purchase of property and household items and investing in business. This however varies by specific country.

In Senegal, based on the household survey in Senegal by Batchelor et al. (2007), it can be inferred that remittance is determined by presence of a migrant household member or relative abroad, whether the household is staying in urban or rural area, and the mechanism for sending the remittance. A 2007 study by ADB in French West Africa (where Senegal was included) found age to be highly correlated to remittance and that the higher the migrant's status, the larger the remittance amount in relative terms, but there is a fall in absolute terms and regularity. This they note is because migrants from higher socio-professional categories invest more in real estate and the productive sector and less responsive to social pressures from relatives in their countries of origin. The amounts transferred are relatively stable for the 25-40 age group but increase over the age of 40 (median ranging from 39-45 years, depending on the country but 41 years for Senegal).

In Tunisia, remittances and transfers have increased during the past decade and constitute one of Tunisia's principal sources of foreign exchange, contributing significantly to the economy. Remittances occupy third place in terms of foreign exchange, after textile and tourism sectors. Over all remittances represented approximately 4.9 percent of GDP, almost two thirds (64.4 percent) of debt services and 23.8 percent national savings in 2003. Remittances are often considered of higher than foreign direct investment. The purpose and use of remittances depends on migration cycle.

Stock of migrants in host countries has been found to be a determinant of remittances in Tunisia. ETF (2007) survey estimated Tunisia remittances amounted to more than EUR.1.1 billion (TND1.8 billion) in 2004. Flows by country revealed that more than 90 percent of the transfers (EUR 950 million) came from EU countries and approximately 58 percent (EUR.588 million) of total flows originated in France.

The economic activity in the migrant workers host country is important because improved economic conditions in the host country allow migrants to increase their employment and earning prospects which in turn allow them to send more money home. With current global economic crisis affecting the economies of European countries where most of Tunisian emigrants find jobs, the effects are weakening the economic situation in host countries hence it will determine the amount of remittances to Tunisia since it has affected labour markets. This will reduce the number of emigrants leaving Tunisia to destination countries due to labour market uncertainty and loss of jobs in the host country. On the other side the loss of jobs in the host countries because of the global economic crisis may increase return migration which may increase remittances.

The state of the economy in the migrant home country is also important since negative shocks in the home may increase the need for remittances to be sent which may induce current migrants to send money or cause migration in the first place. The current economic situation in Tunisia may account for increasing remittances amid the global economic crisis. The ETF (2007) survey on Tunisian return migrants revealed that initially money is sent home to support family members and afterwards for purchases of real estate and for productive investment.

Economic policies and institution in the home country like exchange restrictions and black market premiums may discourage remittances from being sent and may also shift remittances from the formal to informal sector. De Haan (2007) observed that the ease and accessibility of remittances agencies determine the level of remittances in Tunisia.

In Morocco, Musette et al (2006) observes that Moroccan migrants overwhelmingly prefer property investments, as illustrated by the various surveys carried out over the past 35 years. Statistics compiled by the Club of Moroccan Investors Abroad (CIME) indicate that most companies set up by migrants in their home country tend to be small or micro businesses. This analysis is substantiated by a survey carried out by the Hassan II Foundation. According to the survey findings, 40 per cent of projects launched by Moroccans living abroad are backed by capital of MAD 500,000 or less. A mere 14 per cent manage to raise capital of MAD 5 million. An INSEA poll yielded some interesting data on migrant investment in Morocco. Property was once again the clear winner, accounting for 83 per cent of investments. Manufacturing received a meagre 1.3 per cent, farming 7.5 per cent and services 8.2 per cent.

#### ***D. Effects of the crisis on remittances***

According to ADB (2009), remittances appear to be relatively more resilient to the economic downturn in Africa, which they note may be partly because they make up a relatively small portion of migrants' income so migrants tend to keep sending money home even when their income are affected. However at the national level, Kasekende et al. (2009), note that remittances have been adversely affected by the slowdown in developed countries. Remittances between African countries have fallen following job cuts which have affected household welfare since they are used to cover primary needs. Existing data though incomplete, suggest a negative impact of the crisis.

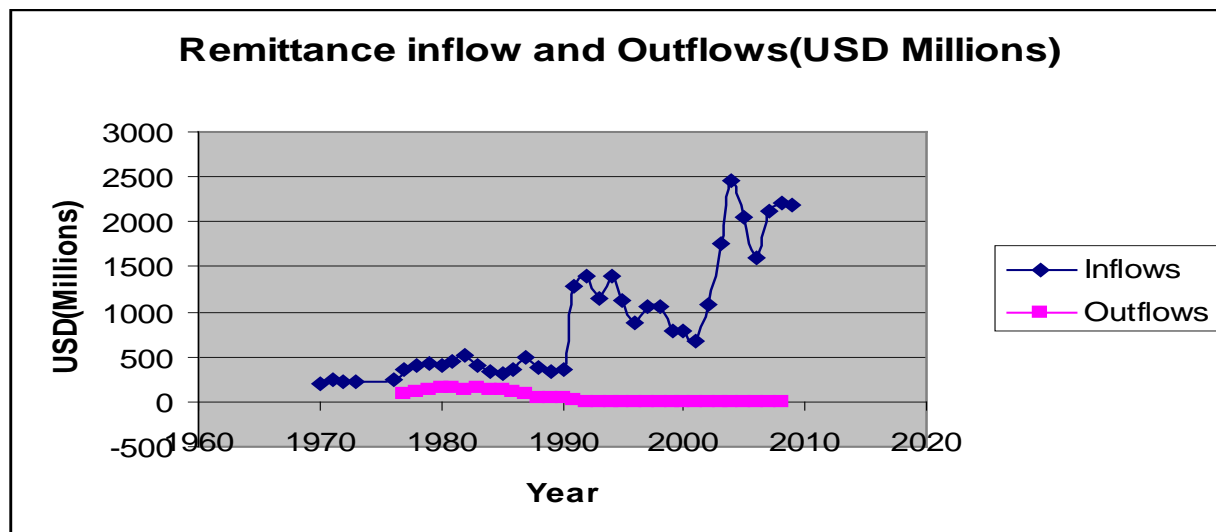
In a study, Sayan (2006) finds that remittances are procyclical/acyclical with the output for some countries within the group though remittances received by the group as a whole are countercyclical and lead the aggregate GDP cycle by one period. They interpret this to mean that savings remitted to the home countries of workers abroad tend to increase (decrease) after a period of stagnation/crisis (growth/boom) at home, as far as the entire group is concerned. This behavioral pattern is however not common across countries within the group (Sayan, 2006). If the findings by Sayan (2006) hold for Senegal, then it is expected that remittance levels will increase after the crisis which is likely to affect her economic performance.

Increase in remittance flows to developing countries was much slower than in previous years due to the growing unemployment and weakening economies in industrialized countries, and the overall remittance flows to developing countries are expected to decline by 6 per cent (ECA, 2009). This will result into reduction in households' disposable income and thus affect household consumption which translates into reduced demand.

Most of the literature about the impact of remittances on the economies of labour exporting countries looks at the visible side and leaves more or less unexplored the multiple indirect effects, thus giving an incomplete picture. The true impact of remittances on development may be evaluated only through the analysis of direct and indirect multiplier effects on investment, growth, and structural change, including the potential release of other domestic resources that would, without remittances, be used for consumption. The remittance feedback on the balance of payments by motivating more imports should also be accounted for (Glytsos, 1993).

However, in some countries like Algeria, the inflows and the outflows in the remittances have been affected by the global economic crisis. The inflow of remittances has increased steadily in Algeria since 1970s. However, in 1990s the inflows rose tremendously and stabilising between 1990s and 2000. The inflows peaked at its highest level for Algeria in mid 2000 and fell drastically in the year 2008 when the global economic crisis started to bite painfully. It's expected that as the global economic crisis continue, the inflows will even fall further. The data on outflows have not been continuous for Algeria since 1970s. However for the available data it is evident that the outflows have been portraying a downward trend. With the advent of the global economic crisis, the outflows are further expected to plummet. Therefore the global economic crisis has affected both the inflows and outflows of remittances since it started in 2008 (Figure 19).

**Figure 19: Remittance Inflows and Outflows in Algeria**



Source: World Bank

In Senegal, the combination of both the oil and food price shock in 2008 and the impact of the global economic crisis in 2009–10, has led to a balance of payments need that is larger and longer than initially expected, extending into 2010. Beyond 2010, however, Senegal’s balance of payments is expected to recover, illustrating the sudden and temporary nature of the two shocks. The cumulative impact of the two shocks is estimated at CFAF 389 billion during 2008–10. The food and fuel crisis dominates in 2008, while the global crisis is becoming the lead cause in 2009–10. As a result, Senegal’s overall balance of payments is projected to deteriorate by a cumulative CFAF 419 billion during the period, significantly affecting reserve levels. Remittance (net of induced imports) is expected to deteriorate by a cumulative CFAF 102 billion in 2008-09 and CFAF 61 billion between 2008-2010. In Morocco, the crisis has had a substantial effect on Moroccan remittances, where it reduced by 11 percent in 2009, compared to 2008 (Awad 2009).

#### **IV. The effect of the crisis on return migration and migrant workers**

Available research shows that in the year 2000 about three per cent of the world’s 6.1 billion population were international migrants. It is further noted that international migration is expected to rise as persisting demographic and economic inequalities that motivate migration interact with revolutions in communications and transportation that enable people to cross borders (Martin 2009). The world economic and financial crisis started in the countries and economies considered to be stable with more employment opportunities. This situation was however reversed with unemployment rates rising in the developed countries even though the unemployment rates may still have been below those in the developing world. This made most of the emigrants to these countries to lose their source of livelihood as competition for jobs with the

locals increased, thus making them more vulnerable. Migrant workers therefore faced the challenge of whether to hold on for the crisis to subside or to return to their home countries.

The global crisis has affected the employment sector in the migrant receiving countries, resulting into increase in unemployment levels. Jobs that were mostly considered low level and left for migrants have now become competitive, leading to a situation where the migrants may be negatively affected. With the crisis, it is expected that return migration may increase and this may result in increased unemployment rates in developing countries, which have already been affected by reduction in trade.

Since the 1960s, return migration and development in migrants' countries of origin have been subject to contrasting approaches, from different disciplines and schools of thought. A variety of empirical inquiries regarding this issue have tried to explain the manifold factors shaping migrants' patterns of reintegration in their country of origin.

Behrendt, Haq and Kamel (2009) outline three main factors influencing migrants' propensity to return. The first is based on the migrant's right to return home; the second factor relates to the circumstances and projection in the country of origin which is motivated by the status of the skilled migrants. The timing is always different for lower and highly skilled migrants. The highly skilled migrants may find it more difficult to find adequate employment opportunities in their countries of origin. Nevertheless, the concentration of crisis in industrialized countries presents an opportunity for countries of origin to think about attracting the highly skilled back. The third factor is related to the availability of assets and the possibility for migrants to sell their property. There are differences between the US and Europe, where migrants seem to have fewer opportunities for asset accumulation as evidenced by lower home ownership rates. However, in the Middle East, property acquisition for foreign workers has been relatively easy, but migrants have been reported to be leaving at present without being able to pay off their debts due to crisis.

The global financial crisis has affected international migration in various ways; a) return migration of some migrant workers to their homes as a reaction to unemployment or lower earnings<sup>5</sup>; b) reduced levels of migration from countries of origin to destination countries; c) attempts by governments to provide incentives to unemployed migrant workers to leave, which was received with mixed success<sup>6</sup>; d) specially large declines in irregular migration which is especially sensitive to availability of jobs<sup>7</sup>; e) reduced remittances from migrants to their home communities, leading to possible hardships in communities dependent on such transfers; f) increased hostility to migrants among majority populations, leading in some cases to conflicts and violence (Castles 2009).

Realising the potential contributions of return migration toward economic development in Africa will depend on the extent to which returning migrants are successfully reintegrated into society. Yet, research generally shows mixed social and economic fortunes of returning migrants after arriving in their home countries. For example, several studies indicate that returning migrants experience negative labor force outcomes compared to nonmigrants after arrival (Petras and Kousis, 1988; Muschkin, 1993; Thomas, 2008).

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<sup>5</sup> this has been observed in the case of Polish workers in Britain and Ireland

<sup>3</sup> For instance, Spain.

<sup>7</sup> Observed in the case of Mexico- US Migration

As new categories of returnees are taken into consideration, return motivations become more diverse. As a result, scholarly approaches to return motivations do not only concern labour migrants, migrant-students, and highly skilled migrants, and entrepreneur-returnees, but also refugees and asylum seekers, as well as illegal or clandestine migrants subject to a removal order (Cassarino 2008).

Cassarino (2008) further mentioned that the gradual broadening of the return migration spectrum has not only led to a growing complexity in the reasons for return, but also diversity in the methods of reintegration and in the patterns of mobilization of resources necessary for their resettlement in their homeland. These patterns are most certainly reflective of the returnees' migration experiences in their former country of immigration. They are also shaped by the post-return social, economic, institutional and political conditions at home. Such considerations are important if one wants to understand how and why returnees' patterns of reintegration differ from one another. Moreover, they are crucial to understand the prerequisites to strengthening the linkage between return migration and development.

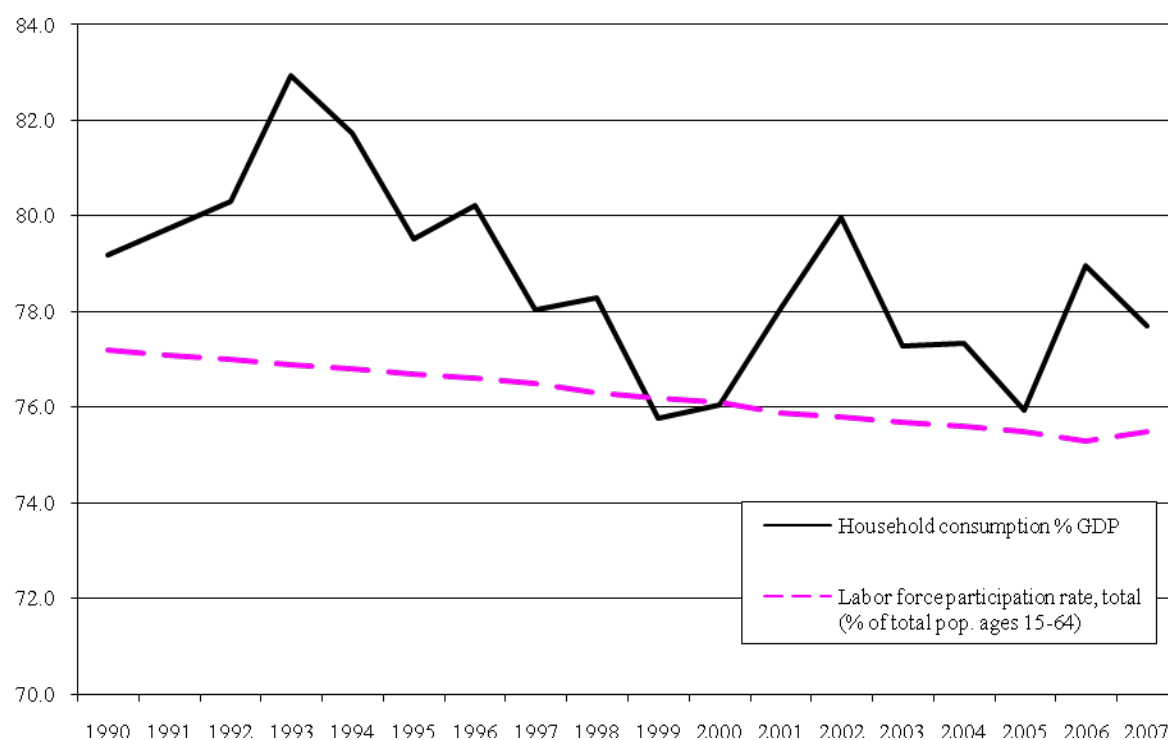
According to Adepoju (2008) migrants acquire skills, save capital to invest in ventures and boost local production by introducing modern techniques in farming or enterprises upon their return. The new arrival return migrants adapt and assert themselves in labour markets and mobilize members' capital for investment and for community development projects at home. Finally return migrants are sources of technology transfer and serve as bridge into home country for international ideas.

This section looks at the effect of return migration on the domestic economy in terms of labour market dynamics, investments, and expenditure. It also explores the issue of the effect of return migrants on skills development.

### *Senegal*

In Senegal, the household consumption as a share of GDP has been declining together with the labour force participation. The crisis is expected to affect remittance (and hence the source of income for the population segment that relies on it) and thus push the consumption rate further down as demand for commodities declines. The continued decline in labour force participation is likely to aggravate the problem of return migrants who will find much fewer opportunities in their countries of origin on return. This has the potential of increasing unemployment in the home country. Figure 20 shows a decline in labour force participation and consumption for Senegal.

**Figure 20: Trends in household consumption and labour force participation for Senegal**



The composition of labour market will also change with increase in return migrants as new skills will be brought in, but the wage differential or lack of opportunities may limit utilization of such skills. In this case the return migrants might find their skills redundant in their countries of origin.

### ***Morocco***

It has been observed that over the second half of the 20th century, Morocco evolved into one of the world's leading emigration countries. With over two million people of Moroccan descent living in Europe, Moroccans form one of the largest and most dispersed migrant communities in Western Europe. There is however a high level of internal differentiation and dynamism in Moroccan migration, in which emigration, return migration, internal migration and, recently, immigration, occur simultaneously, and in which the spatial focus of these migration movements shows clear shifts over time (De Haas 2005).

In times of economic downturns migrant workers are among the most vulnerable. Their movements across national borders are an expression and a consequence of the historical process of the ever progressive globalization of the world economy (Awad, 2009). The net emigration in Morocco conceals the fact that each year, tens of thousands of migrants actually return to Morocco. There has been an increase in return migration of Moroccan migrants, reaching its peak in 1991, with almost 40,000 return migrants (De Haas 2005). Since 1994, return migration has fallen to less than 20,000. An increasing proportion of retired or unemployed migrants belong to a new category of transnational "pendulum migrants" who commute between Europe and Morocco, living for a part of the year in both countries (De Haas 2005).

As many destination countries in West Europe and the Middle East have stopped or imposed restrictions on new admissions of migrants for employment, countries of origin, such as Morocco, which supply migrant workers, are already experiencing influxes of returning migrants, with potential results of economic and global instability in these countries. The global crisis with declining economic activity and rising unemployment in destination countries, is likely to aggravate this situation.

Data from OECD (2006) indicates that the traditional destinations of Moroccan international migrants such as Belgium, France, Spain, Italy, and the Netherlands continue to receive significant migratory flows. Thus in 2004, 8,000 Moroccans entered Belgium, 21,700 France, 4,600 Italy, 3,300 Netherlands, and 58,800 Spain, with 21.5 per cent of the foreign population living in Spain in 2002 being Moroccans. Moroccan Spanish represented the largest foreign community in Spain.

Karam and Decaluwe (2008) observe that whereas in the 1960s the priority of migration from Morocco to other countries was to look for more lucrative work (50 per cent), improvement of living standards (25 per cent) and unemployment (17 per cent), in 1990s the main cause of emigration was unemployment. They observe that data collected by Hamdouch (2000) show that 41 per cent of the Moroccans interviewed revealed unemployment as the first cause of emigration. Those who emigrated because of search for lucrative work were about 38 per cent while 14 per cent wanted to improve their standard of living.

Other sources indicate that of the 650,000 Moroccans living in Spain, more than 10 per cent were unemployed. According to an official Spanish report entitled 'Immigration and Labour Market', the number of unemployed Moroccans in Spain increased from 62, 085 in 2006 to 82,262 in 2007. This is mostly because the downturn in the Spanish construction sector has left many Moroccan immigrants without jobs. The Spanish government had introduced a compensation programme for those who were willing to return home (Touahri 2008). The compensation was to be given to immigrant from September 2008; it amounted to about 100,000 Moroccan Dirhams and microcredit support for the return migrants (Touahri 2008). As the unemployed migrants return to their countries of origin, there are implications for the countries' labour markets.

Cassarino ( 2008) studied a about 330 returnees to Morocco and found the returnees were predominantly male with ( 85 per cent male and 15 per cent female for those who decided to come back to Morocco ) and (91.9 per cent male and 8.1 per cent female for those who were compelled to return). The returnees to Morocco were relatively young with 55.1 per cent being under 40 years only. On the other hand the older generations only represented 7 per cent of the whole sample (over 65) and 15.2 per cent ( 50-64). The 75.7 per cent of the returnees who were compelled to return were under 40 years; more than half (53.6 per cent) of the other category of returnees were 40 years old. It is also worthy to highlight that only 1 per cent of the migrants who were compelled to return are 65 or more, against 9.5 per cent of those who decided to return.

### ***Effects of return migration on labour market dynamics in Morocco***

Economic performance and labour market situations have been seen as the major determinants of the impact of the global crisis on migrant workers. But there are other subsidiary factors that

affect the overall impact. The most important is the situation in sectors which employ migrant workers predominantly (Awad 2009).

According to Cassarino (2008), most of the returnees to Morocco before migrating belonged to the working population. The number was relatively significant with it being nearly 55.5 per cent. He further noted that 46.6 per cent of them had a job and 9.1 were officially unemployed. The rest of the sample i.e. nearly 37 per cent were mainly non-working migrants, essentially students (26.7 per cent).

Cassarino (2008) further analyzed that nearly 23.7 per cent of the study sample were permanently employed wage earners, legal independent contractors, family helpers or employers while 22.7 per cent of them had precarious occupations, mainly as seasonal workers. When the returnees were considering returning to Morocco, they identified their previous occupational status.

The returnees who were compelled to come back to Morocco (about 16.2 per cent against 6.1 per cent of those who decided to return) had been concerned about unemployment when they got back. This also applied to the precarious occupations, such as seasonal work (15.2 per cent against 6.1 per cent) and domestic help (11.1 per cent against 2.6 per cent).

Cassarino (2008) also looked at the occupation of the migrants when they return to Morocco. The employment situation shows that the percentage of the working population 56 per cent had decreased significantly with respect to the situation abroad, whereas the number of returnees who were unemployed or not working increased. Among the returnees who were not working, the percentage of retired immigrants, increased significantly, although it never went over 5.2 per cent at the time of return. Unemployment mainly affected those migrants who were compelled to return to Morocco which was 39.4 per cent. It is important to note that the percentages of retired returnees who decided to return willingly was higher than the compelled returning retirees.

Cassarino (2008) also notes that as far as independent occupations are concerned, whereas the proportion of employers/entrepreneurs amounted to only 3.3 per cent abroad, it reached 11.5 per cent when returning to Morocco. On the other hand, the migrants who decided to return appear to be far more resourceful than those compelled to return. Analysing the data on returnees sector of employment shows that most of the returnees shifted from the primary to the secondary and tertiary sectors. Trade alone occupies over 24.9 per cent of returnees to Morocco, followed by agriculture (13.8 per cent) and the transport and hotel/catering industries (12.6 per cent). The building industry concerns 7.9 per cent of the whole sample (Table 10) (Cassarino 2008).

**Table 10: Sectors occupied by Working Returnees to Morocco (%), at the Time of Survey**

Sector of Industry at the Time of the Survey	Type of Return		Total
	Decided	Compelled	
Agriculture , hunting, forestry	9.6	28,6	13.8
Fishing, aquaculture	1.0	0.0	0.8
Mining industries	1.5	0.0	1.2
Manufacturing industry	3.6	3.6	3.6
Electricity, gas and water production and supply	0.5	0.0	0.4
Construction industry	6.1	14.3	7.9
Trade, car and domestic appliance	25.4	23.2	24.9
Hotel and catering industry	6.6	1.8	5.5
Transports and Communications	7.1	7.1	7.1
Financial activities	4.1	1.8	3.6
Public Administration	3.6	1.8	3.2
Real estate, renting, and business services	5.6		4.3
Education	4.6	1.8	4.0
Health sector and social activities	3.6	0.0	2.8
Public, social and private services	3.0	3.6	3.2
Home services	0.5	1.8	0.8
No reply	13.7	10.7	13.0

Source Cassarino (2008)

When returning to Morocco, over half of the sample did not undertake any investments (57 per cent), against 43 per cent of the returnees who invested in carrying out at least one project.

**Table 11: Number of Investments Carried out by Returnees in Morocco**

Number of Implemented investment projects	Type of Return		Total
	Decided	Compelled	
None	48.5	76.8	57.0
Only one project	30.3	18.2	26.7
Two Projects	15.2	5.1	12.1
Three Projects	3.9	0.0	2.7
More than three projects	1.7	0.0	1.2
No Reply	0.4	0.0	0.3
Total	100	100	100

Source: Cassarino (2008)

The high number of returnees who did not invest in their homeland may be attributed to three factors: a) Insufficient of savings, which limits the availability of financial resources needed to start a business; b) Institutional constraints in Morocco, which do not facilitate investments; c) Successful integration in the host country and alignment with a certain way of life leading to greater consumerism. Among the investing migrants, 62 per cent realized only one investment project, 28 per cent two, and less than 10 per cent declared to have realized at least three projects. With regard to the decision to return, the data show that over half (51 per cent) of the migrants who returned on their own initiative carried out investment projects, 60 per cent of them realized

only one project. 11 per cent three projects. On the other hand, less than a quarter of the returnees whose return was compelled (23 per cent) carried out any investments (Cassarino 2008).

The main source of financial support for projects is still personal savings. In fact, 88 per cent of the sample declared that self-financing was their main financial support. 16.3 per cent referred to bank loans, which implies a certain reticence among local banks with regard to financing projects set up by returnees. This reticence sometimes forces migrants to resort to a loan from a relative or from a family member: this is true for 6 per cent of the migrants who decided to return and 22 per cent of those who were compelled to return; the latter rate clearly denotes the difficulties aggravating migrants' financial situation and return conditions. Institutional support is almost non-existent for most returnees who wish to carry out some investment. Only 8.5 per cent of the migrants who decided to return declared to have benefited from institutional support. None of those whose return was compelled benefited from this kind of support, owing to a lack of communication on the part of the official institutions.

The study further shows that economic investments could be supported by Regional Investment Centres and thus enjoy several advantages within the investment charter, or the SME (small and medium enterprise) charter. Family support in the homeland is essential as mentioned by over 45 per cent of the sample (against only 6.4 per cent in the former country of immigration) and it concerns the migrants who were compelled to return to a larger extent (48 per cent) than those who returned on their own initiative (45 per cent). Family support proves the lasting and unyielding solidarity between returnees and their families residing in the home country. The importance of this social capital in the country of origin is also reinforced by friendly support, which concerns 13 per cent of returnees in their homeland; among the migrants who were compelled to return, this percentage amounts to 17.4 per cent, and 10 per cent in the former country of immigration.

### ***Tunisia***

Since independence from France in 1956, until the slow down in the 1970s, Tunisia government used official bureau to address emigration largely in order to fill orders from abroad for qualified labour. The Tunisian government signed migration agreements with several labour importing countries, like France, Germany, Belgium, and others like Hungary and Holland. The Tunisian government created an agency called office *del' emploi et de la formation professionnelle* that organized the direct recruitment of unskilled Tunisia workers for industry and building sectors in European countries. In the agreement, the Tunisia government expected that individual workers would migrate temporarily to work abroad and eventually return to Tunisia to live with their families. During the same period out-migration started to expand towards Libya very often illegally due to good prospects linked to the exploitation of new oil fields.

The year 1974 marked a turning point in the evolution of Tunisian migration as most European countries closed their borders and started to encourage workers to return home. In the same period political problems between Libya and Tunisia led to the breakdown of the migration expansion towards Libya. This however changed later, characterized by more irregular out and return migration between Tunisia and traditional host countries as well as by a new political orientation of Tunisia migration towards the Gulf countries.

Temporary migrants have potentially important consequences for sending countries like Tunisia. Transfers sent by migrants to their country of origin represent a sizeable source of foreign currency and income for developing countries. Saving repatriated upon return under different types of goods allow poor workers to overcome credit constraints for investment into small projects.

There is however little documentation of return migration in Tunisia. A study of Tunisian return migrants by Mesnard (2004) observes that highly educated individuals may gain more from migration than lowly educated workers depending on skills differential between the two economies. Migrant workers acquire new skills in foreign countries which they use on jobs after return to their countries. About 15 per cent indicated they have improved the quality and efficiency on the job and another 15 per cent indicated they have increased speed in production upon the return. About seven per cent improved work organization after return and 3 per cent have improved creativity and better tools for use.

Return migrants have affected labour markets in various ways in Tunisia. A study by Mesnard (2004) in Tunisia showed how temporary migration affects the activities chosen by workers. Migrant workers are less likely to work in the building sector after return than before they left. They are significantly more likely to work in trade and transport sectors. About 70 per cent of workers in transport sectors are self employed. Migrant workers mainly use their own capital for investment after return while none of the self employed return migrants relied on bank credit. Migrant workers who invest into projects after return came more often from European countries and less frequently from Arabic countries.

The effects of return migration and migrant workers in Tunisia labour market could be both positive and negative. According to ETF (2007) survey, 51.9 percent of return migrants in Tunisia worked but spent an average of six months to find employment. Therefore, it is arguable that return migrants in this light put pressure on the Tunisia labour market. The proportion of those who worked upon return was much higher for those returning from Saudi Arabia and Libya than those from European countries. The survey also noted that those with highly skilled professional jobs were more likely to be employed upon return, while the probability of finding a job upon return depended on the sector in which migrants worked abroad. For instance those who worked abroad in the public administration, ICT, repair and manufacturing were more likely to find jobs upon returning than those who worked in mining, petty trade, hospitality and construction. However, the survey also showed that high percentage of those who worked as salaried and casual workers abroad became employers and self employed upon return. This has positive effects on labour market because they created more jobs at home.

The entrepreneurial behavior of return migrants is also important. Based on the expected characteristics of return migrants, Tunisian return migrants due to global economic crisis are likely to play a positive role in Tunisian labour market by introducing new entrepreneurial skills, and create more jobs at home. According to Mesnard (2004), the return Tunisian migrants were engaged in self employment production, with the potential to provide more needed jobs in Tunisia.

Gubert and Nordman (2008) observed that entrepreneurial behavior of return migrants differs according to the country of last migration. The Tunisian returnees from Italy portrayed more entrepreneurial behavior than other destinations. They observed that return migrants that opted to be trained were more dynamic and skilled and ventured in entrepreneurial activities upon return than those who did not train.

**Table 12: Distribution of return migrant’s investment project in Tunisia by industry**

<b>Sectors</b>	<b>Percent</b>
Agriculture, hunting, forestry	10.5
Fishing agriculture	1.0
Extractive industry	4.8
Manufacturing	14.6
Electricity, gas and water supply	2.9
Wholesale, and retail trade	27.0
Hotel and restaurants	28.4
Transport and communications	7.5
Real estate	4.7
Education	1.9
Health and social work	2.9
Community, social and personal services activities	8.7
Extra territorial activities	3.8

Source: MIREM@EUI Author’s calculations

Return migrants to Tunisia invested in both hotels and restaurants as well as wholesale and retail trade. Those who invested in hotel and restaurants were in tourist industry, which has been negatively affected by the global economic crisis.

In terms of employment creation, most enterprises owned by return migrants in Tunisia are small with less than 10 employees. About 87 percent of employment created by return migrants in Tunisia employed less 10 employees (Gubert and Nordman, 2008). Most jobs created by return migrants in Tunisia are in small scale informal sector characterized with low wages. According to Dyer (2005) unemployment rate in Tunisia among those with less than a primary education are low because of lower wage expectation and relative abundance of lower skilled jobs.

The effects of return migration and migrant workers on Tunisian economy are therefore mixed. Those who return to compete in the local labour market have put pressure on local labour market especially, high skilled professional laborers. However those who return as entrepreneurs have contributed positively to Tunisia labour market by creation of jobs, however their effects on real wages is marginal because most jobs created were in informal sector which required less differentiated skilled. The skilled workers from abroad look for jobs and were favored and made it for hard for new entry to labour market by locals.

### ***Algeria***

The global economic crisis has made many Algerian international migrants to return home every year, many remaining permanently, while others emigrate again (International Organization for Migration, 2009). However, return migration has been there even before the Global Financial

Crisis emerged. Since the onset of the global economic crisis the number of return migrants in Algeria is estimated to have soured up (IMF, 2009b).

The Algerian return migrants bring expertise and savings back home. The migrants use their savings to start businesses that contribute to job creation. Some of them can form part of a new critical mass of skilled workers that may launch new ventures in their countries and promote economic development (IMF, 2009a). In those labour receiving countries, the sectors hit hardest by the layoffs include construction, real estate and financial services. Other sectors with a high proportion of migrant workers, such as health care, education and other services are mildly hit. Undependable evidence from sending countries in the Maghreb region particularly Algeria suggests that a number of labour migrants have returned from the Gulf and other European countries (UNFPA, 2009).

The job creation therefore enhances investments and creates effective demand that encourages expenditure on locally manufactured products. The principal benefits of the Algerian return migration is the “brain gain” involved in the return of skilled nationals who have gained additional work experience, skills and know-how while abroad. The assessment of the labour market needs with policy tools, such as special visa regimes and other incentives in cooperation with the private sector attracts qualified nationals from abroad. Returning migrants therefore brings entrepreneurial initiatives, translational contacts, investment capital and intercultural competencies to Algeria (International Organization for Migration, 2008). The return migrants invest in infrastructure, enterprises or other productive activities which produces a positive multiplier effect on the economy, including on the creation of jobs. Though return migrants entails a loss of remittances, returnees often bring back savings and other financial assets, which may also bring development benefits to Algeria.

Conclusive statistical evidence regarding the return migrants has however not been easy to come by. This is because the reliable statistical evidence on previous levels of labour migration and recent changes is scarce. The estimates of labour migration have relied on the estimates by the World Bank to illustrate the possible effects of the financial crisis. While these estimates should be interpreted with the necessary caution, they constitute the most comprehensive approximation of bilateral labour migration (Ratha and Shaw, 2007). Algerian migrants also have the opportunity of acquiring or improving skills and experience abroad which they bring back home when they return. They are therefore, able to employ their skills to their country of origin and thus contributes to economic development (Unitar, 2009).

## **V. Impact of the crisis on development assistance**

Several African countries depend on official development assistance (ODA) for the financing of government programmes as this enables them to bridge their budget deficits. ODA flows to Africa have increased since the 2002 Monterrey Consensus from US\$ 21 billion in 2002 to US\$ 38.7 billion in 2007. This increase may however be reversed by the effects of the financial crisis, which has also affected the economies of donor countries.

The global economic crisis has affected the financial systems and destabilized domestic economies. Due to this, the rates of unemployment has increased, economic growth has declined, budget deficits widened and thus more and more developing countries are on the verge of facing balance of payment problems. The capacity of the countries in meeting their interest payments on external borrowing is also affected, which may result into debt sustainability issues and thus problems with accessing more external funding that may help them come out of the situation. The indirect effects of the financial crisis are also expected to be significant, with falling Overseas Development Assistance (ODA) flows and lower FDI and remittances. The reason attributed to the possible decline in ODA is the recession in the donor countries, which is likely to affect aid flows (ECA, 2009). It has however been pointed out that aid flows form a relatively small share of budgets of donor countries and they may be able to accommodate them (IMF, 2009c).

The World Bank estimates that developing countries face a financing gap of \$270-\$700 billion depending on the severity of the economic and financial crisis and the strength and timing of policy responses (World Bank, 2009). The widening of the financing gap will affect the economic performance of developing countries as they will not be able to implement their programs thus resulting into decline in economic performance, since most of them are heavily dependent on official concessional flows, which will be under pressure as donor countries are facing their own fiscal challenges (World Bank, 2009). Aid would be particularly useful in the current environment of fiscal problems to prevent undue compression of investment budgets and make it possible to maintain the scope and size of social safety nets (IMF 2009c).

Global Official Development Assistance (ODA) from all donors in 2007 was \$117.6 billion according to the Organization for Economic Cooperation and Development (OECD). The European Union and its 27 member states are by far the largest ODA providers, supplying half the global amount. Because of a downward trend, their ODA fell to \$59.4 billion or 0.38 per cent of GDP in 2007, down from 47.7 billion \$61.4 billion, or 0.41 per cent of GDP, in 2006.

The importance of aid to Africa cannot be underestimated. According to African Economic Outlook (AEO) 2009, the net ODA to Africa amounted to USD 38.7 billion in 2007, representing 37 per cent of total aid. This corresponds to a fall of 18 per cent in real terms, mostly due to the end of exceptional debt relief operations. Excluding debt relief grants, ODA to Africa rose by 12 per cent in real terms.

ODA is therefore one place that is likely to be severely affected by the crisis. ODA commitments are increasingly shaky, with pressure mounting in major donor countries to recapitalize financial institutions, support other ailing industries and revive domestic demand leaving less available for ODA. Among the recipients likely to suffer most from falling ODA are the least developed countries, of which many are in the African region and vulnerable populations in conflict-affected member states throughout the world (UN, 2009).

The crisis underscores the paradoxical need to enhance aid effectiveness during times of economic downturn to help accelerate global economic recovery. The downturn has dealt a double blow to developing countries: giving is being restricted while, simultaneously, the negative economic impact has led to an increase in demands for the services and work of

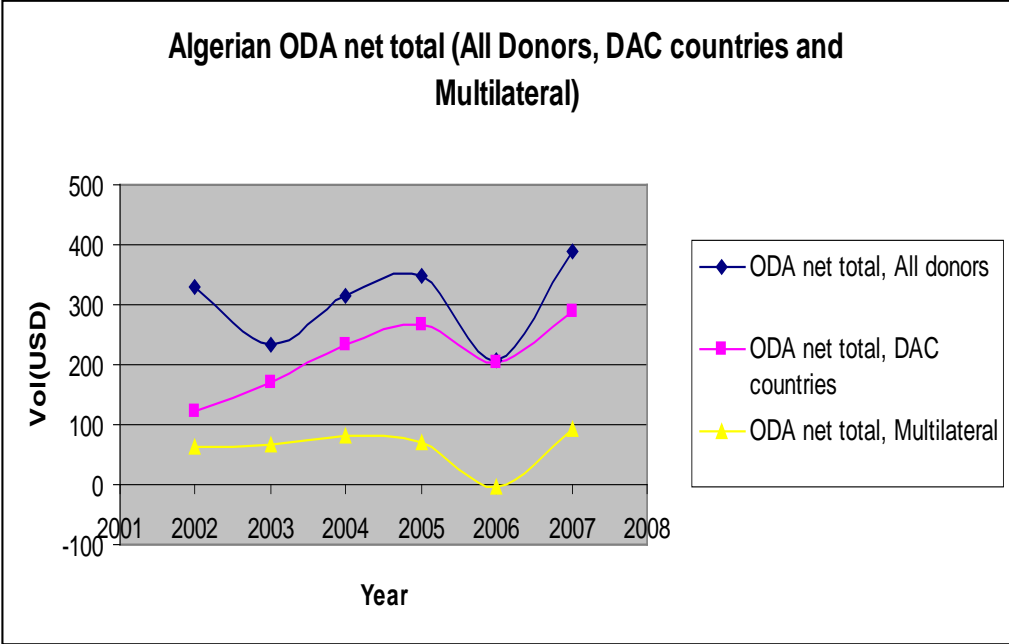
development and humanitarian aid agencies. More must be accomplished with even lower levels of aid.

One objective of ODA is to push economic growth through infrastructure, agriculture, other sectoral investments, or new technology. Other objectives are to strengthen education, health, environmental, and governance/ political systems; support relief and humanitarian work; and stabilize an economy following shocks.

**Algeria**

The patterns of development assistance in Algeria from 2002 to 2007 shows a steady trend. However, the year 2006 recorded the lowest ODA in all the three categories. In the year 2007, the ODA shot up again in all the three categories.

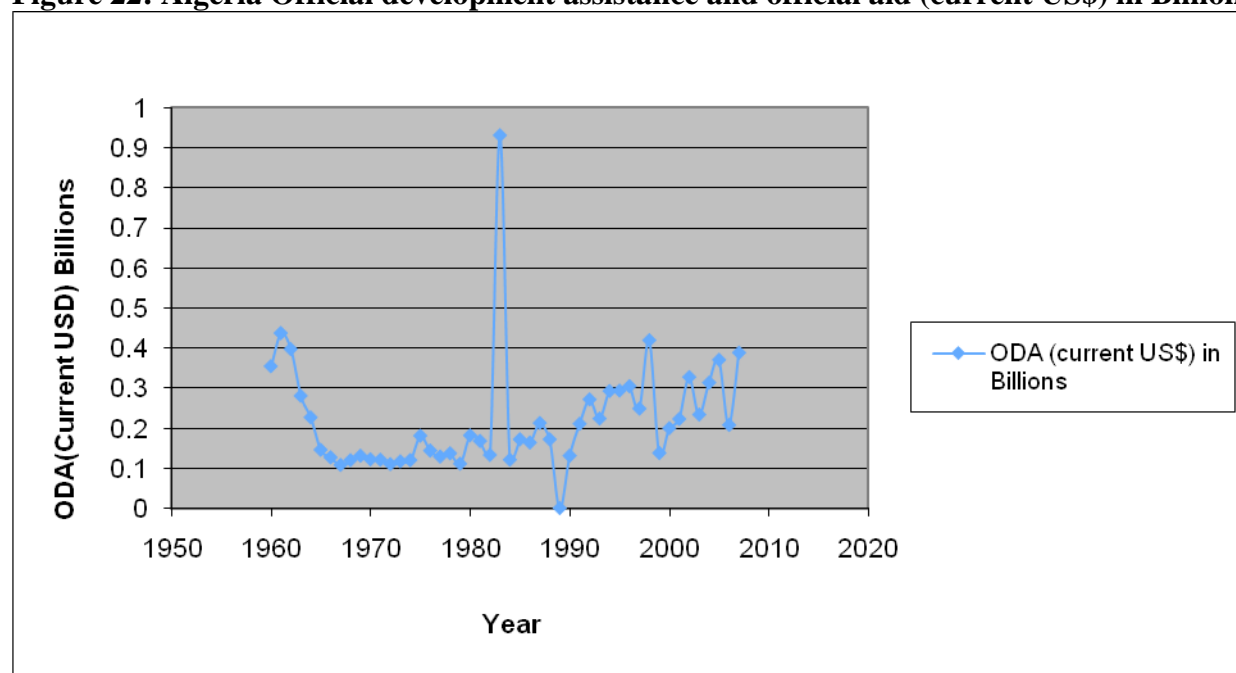
**Figure 21: Algerian Net total ODA**



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Algeria has nevertheless reported declines in the ODA in the recent past. The OECD countries are expected to respond to the global economic crisis by reducing ODA to Algeria. Such action will further reduce the fiscal space available to African countries to cushion the impact of the crisis.

**Figure 22: Algeria Official development assistance and official aid (current US\$) in Billions**



Source: World Bank Migration and Development Briefs, 2009

The official development assistance has been fairly stable in Algeria since 1960s. However in mid 1980s it sky rocketed to its highest value and since then it has been volatile. The global economic crisis is expected to lower the ODA in Algeria.

### ***Morocco***

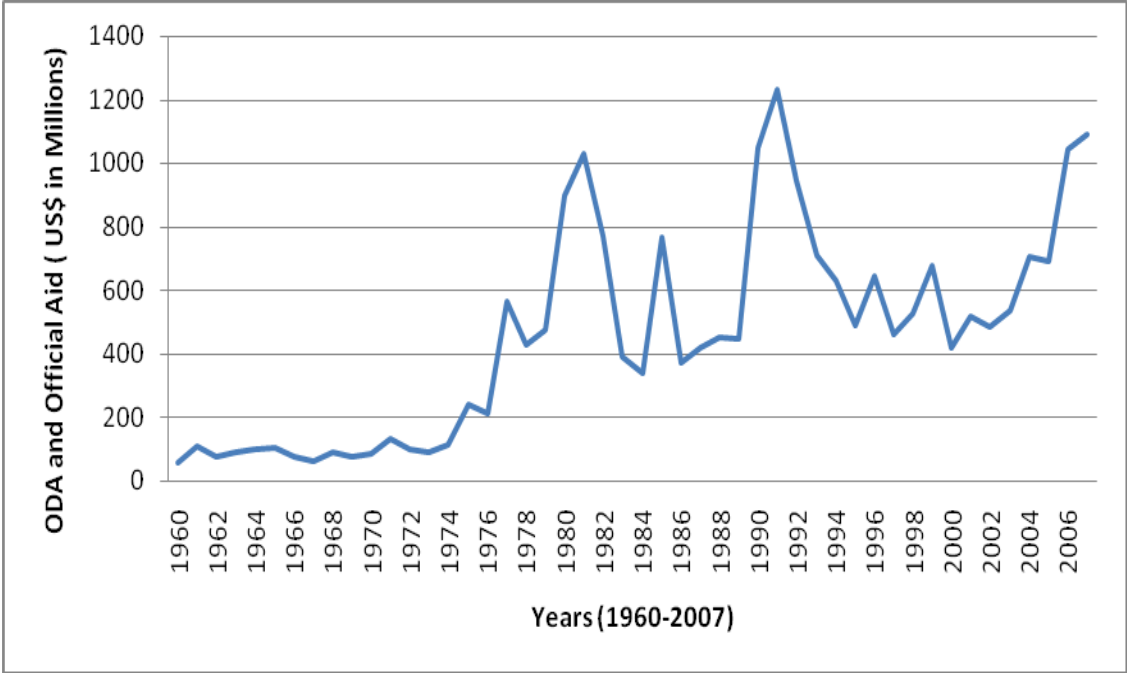
According to AEO8 (2009) donors have continued to focus on Morocco which has historically benefited from large aid flows. The European Commission has overtime advanced aid to Morocco. The country has also received aid from USA. One of the grants from the United States has been Middle East Partnership Initiative (MEPI). MEPI's core areas of action include political, economic, and education reform as well as women's empowerment. In Morocco where MEPI has its largest program, the United States directly fund projects with less government interference (Malka and Alterman, 2006).

Other grants to Morocco have also come through United States Agency for International Development (USAID) (Malka and Alterman 2006). USAID funded two multiyear projects in Morocco, which promoted parliamentary reforms and local governance with budgets of \$ 3.7 million and \$ 12.2 million respectively in 2007. The current programmes of USAID in Morocco provide funds for multisectoral development such as economic growth and job creation, education and workforce training, and government accountability. The USAID funding to Morocco for the year 2005 was about \$ 28.2 million, and the funding for the five-year budget cycle 2004-2008 was approved at \$ 99.4 million.

<sup>8</sup> African Economic Outlook ( accessed online)

Malka and Alterman (2006) also highlighted that individual country in Europe bilateral aid to Morocco such as France which in 2003-2004 fiscal year provided about \$ 302 million in aid to the country.

**Figure 23: Official Development Assistance and Official Aid for Morocco ((current US\$ in Millions)**



Source: World Development Indicators (2009)

**Senegal**

Official support (comprising program and project loans and grants) to West Africa Economic and Monetary Union (WAEMU) to which Senegal belongs, ranges between 2 and 39 per cent of GDP, while official grants and loans are projected to increase to nearly 6 per cent of GDP in 2010, up from five per cent in 2008 (Mueller, Yackovlev and Weisfeld, 2009). Net aid flows to Senegal have generally been increasing since 2002, with the Official Development Assistance (ODA) increasing from US\$449 million to US\$843 million in 2007. Aid flows from DAC countries increased to US\$451 million while that of multilateral donors increased to US\$360 million by 2007.

**Table 13: Aid Flows to Senegal, 2002-2007 (USD million)**

	2002	2003	2004	2005	2006	2007
ODA net total, All donors	449	454	1053	686	826	843
ODA net total, DAC countries	243	314	755	444	509	451
ODA net total, Multilateral	196	143	299	243	305	360

Note: ODA: Official Development Assistance; DAC: Development Assistance Committee of OECD. The table shows net disbursements.

Source: African Economic Outlook 2009, IMF

The developing partners and countries have responded positively in ensuring that the effects of the crisis are mitigated and that the gains realised by the developing countries is not reversed. The World Bank Group has stepped up its financial assistance to around \$35 billion in 2009, and lending volumes could potentially reach \$100 billion over the next three years. The IDA has commitments amounting to nearly \$42 billion over the next 3 years and a scope for front-loading this support over the next year (World Bank, 2009).

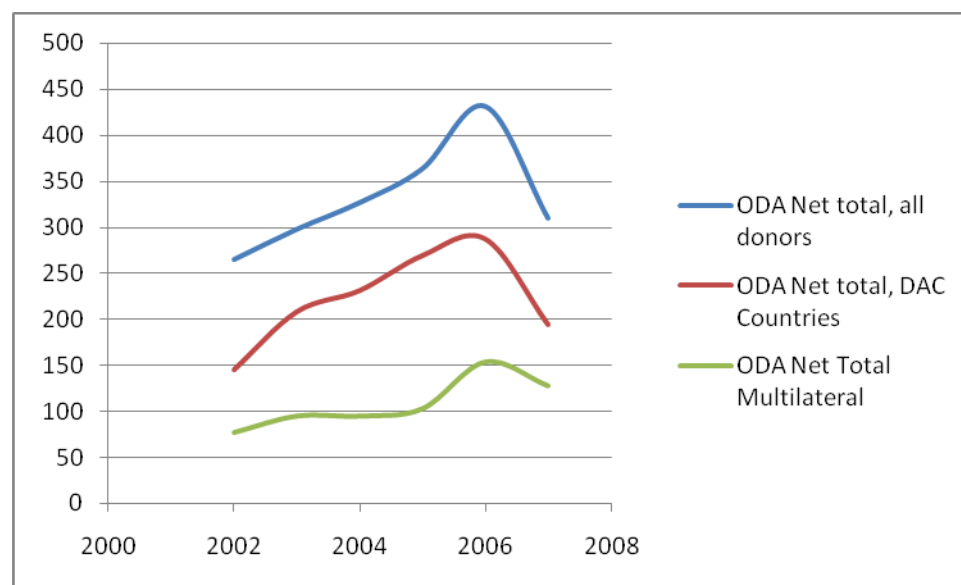
In the IMF review early in the year, the government of Senegal requested the augmentation of the Exogenous Shock Facility (ESF) approved in December 2008 from 30 to 75 per cent of quota (SDR 121.35 million) and its extension from 12 to 18 months to help the government cope with the impact of the global economic crisis (IMF, 2009a).

The level of debt outstanding in Senegal as at 2007 was US\$ 4786 million with a higher proportion of this coming from private and multilateral donors. It is projected that the proportion of debt outstanding to GDP will increase from 43 per cent in 2007 to about 52 per cent in 2010, while debt service as percentage of exports will increase from 6.5 per cent to 7 per cent over the same period. Senegal will therefore increasingly rely on debt financing which may be due to the negative effects of the crisis on the economic progress it had achieved and thus constraint in raising enough revenue for financing.

### ***Tunisia***

From the analysis of Tunisia aid flow trends between 2002 and 2007, the aid flow has been on increase since 2002 up to 2006. However, 2007, was marked by a sharp decline in all aid flows to Tunisia a sign that global economic crisis will have negative effects on Tunisia. The decline on aid flow will affect Tunisian economy as some of development will have to be postponed due to lack funds and government budget will be constrained. This will not only affect the overall economic growth but also employment generation.

**Figure 24: Tunisia Aid flow from 2002 to 2007 in US\$ millions**



### **Mauritania**

A number of African countries, Mauritania included, have ODA representing more than 10 percent of gross national income over the period 2000-2007, with net official development assistance disbursements to Mauritania represented 16.5 percent of GNI over the period 2000-07.

Net aid flows to Mauritania have taken a U-shape since 2002, first declining from US\$355 million to US\$183 million in 2005 and then rising again to US\$364 million in 2007. Both the ODA flows from DAC countries and those from multilateral donors have been volatile but a higher proportion of aid has been coming from the multilateral donors except in 2003 and 2005. Aid received from DAC countries in 2007 was lower than that in 2003 unlike that from multilateral donors which shows a slight increase. But the political crisis in Mauritania in August 2008 that led to suspension of all aid, except humanitarian aid, could worsen the effects of the crisis if it continues.

**Table 14: Aid Flows to Mauritania, 2002-2007 (USD million)**

	2002	2003	2004	2005	2006	2007
ODA net total, All donors	354.77	249.2	188.57	182.66	190.19	363.77
ODA net total, DAC countries	146.6	136.1	83.13	105.24	93.69	133.21
ODA net total, Multilateral	209.73	115.84	104.56	76.81	95.88	229.38

Note: ODA: Official Development Assistance; DAC: Development Assistance Committee of OECD. The table shows net disbursements.

Source: African Economic Outlook 2009, IMF

The IMF's third review under the Poverty Reduction and Growth Facility (PRGF)-supported program was concluded in 2008, the outcome of which enabled the release of an amount

equivalent to SDR 1.93 million (about US\$ 3.1 million), bringing total disbursements under the arrangement to SDR 10.31 million (about US\$ 16.6 million). The three-year PRGF arrangement was approved on December 18, 2006 in an amount equivalent to SDR 16.1 million (about US\$ 26 million) (IMF, 2008).

The aid flows to Mauritania seems to comprise a higher proportion of GDP if the level of debt outstanding can be inferred to reflect on aid flows. The total debt outstanding recorded as a proportion of GDP in 2007 is 95 per cent and is projected to decline further to 69 per cent in 2010. Debt service as percentage of exports is projected to increase from 0.8 per cent in 2007 to 2.7 per cent in 2010. This shows that Mauritania will be experiencing more cost to the economy due to debt servicing than before, and this is likely to affect the economy further given the effects the economic crisis is likely to have.

**Table 15: Forecasts of debt outstanding and debt service for Mauritania**

	2007	2008 (e)	2009 (p)	2010 (p)
Total debt outstanding (as % of GDP)	95.47	56.59	61.55	69.43
Debt service (as % of exports of good and services)	0.75	1.00	2.33	2.72

Source: African Economic Outlook 2009, IMF

## VI. Response of the developed and developing countries to the global economic crisis

With the crisis affecting the financial sector and constraining the ability of countries to meet their budget needs, an approach is necessary either to control or to contain the impacts of the crisis. Countries have therefore attempted to address the crisis through the adoption of massive financial rescue measures and the announcement of fiscal stimulus packages. Rescue efforts undertaken by countries can be divided into three categories: financial rescue efforts, monetary rescue efforts and fiscal rescue efforts (Khatiwada, 2009).

Much of the focus on the crisis to date has been on stabilizing financial markets and attempts to restore credit liquidity, fiscal rescue packages and mitigating the labour market and social consequences of the crisis. It is however noted that commitments towards financial rescue measures have been for the most part far in excess of fiscal tools deployed to stimulate demand, output and employment (ILO 2009). Fiscal stimulus plans for all advanced economies and a majority of developing countries in the G-20 as of end January 2009 amounted to almost US\$1 trillion for 2008 and 2009 combined, with a further US\$650 billion in 2010, more than four-fifths of which is undertaken by advanced economies (World Bank, 2009).

Given the scope of the crisis, interventions have either been system-wide or focused on specific areas/ sectors. The United States and European governments have, for instance, injected capital into individual banks or induced mergers to strengthen bank balance sheets and involved bank funding through explicit government guarantees on retail deposits and other bank liabilities,

There has also been attempts to reduce bank leverage through government purchases of distressed assets or capital injections (ILO 2009). At the G20 Summit, the consensus was to allocate more financing to the main financial institutions (AfDB, IMF and the World Bank Group) and commitments to increase Official Development Aid (ODA) to Africa from US\$ 42 billion in 2008 to US\$ 66 billion in 2010 (West Africa Observer, 2009).

Faced with the prospect of a prolonged global increase in unemployment, poverty and inequality and the continuing collapse of enterprises, the International Labour Conference adopted a Global Jobs Pact designed to guide national and international policies aimed at stimulating economic recovery, generating jobs and providing protection to working people and their families. Within this front, countries of origin have responded to the crisis by formulating programmes to facilitate the reinsertion of returnees in their labour markets or expanded existing ones, ensuring the protection of the rights of their migrant workers, and some have explored new labour markets for their workers (Awad, 2009).

Examples of countries that have implemented these policies include the Philippines where the Overseas Workers' Welfare Association (OWWA) established an Expatriate Livelihood Support Fund to provide loans to returnees to start businesses or other livelihood activities. The government is also committed to assisting returnees in finding lucrative employment in the Philippines through the creation of jobs or in new external labour markets. There has also been the setting up of economic assistance packages by the Department of Labor (DOLE) which also announced plans to set up retraining programmes and opened up existing entrepreneurship programmes for return migrant workers. Spending on rural infrastructure increased and programmes of micro-credit and cooperative development expanded. DOLE also announced it was providing legal services to Filipino migrant workers who had lost their jobs in claiming unpaid salaries and other benefits (Awad, 2009).

Sri Lanka on the other hand gave responsibility to its ambassadors to follow developments affecting its workers and to explore possibilities of avoiding repatriation of workers who lost their jobs by finding them alternative employment. Sri Lanka's Ministry of Expatriates' Welfare and Overseas Employment set up a special task force comprising a wide stakeholder representation to monitor developments and propose action (Awad, 2009). Initial research on responses to the crisis have suggested that while other countries especially the developed countries have initiated responses to the crisis, very few developing country governments appear to have given significant thought to how to respond to the impact of the crisis in the real sector, either in the form of fiscal stimulus, or the implementation of appropriate forms of social protection for those most affected (McCulloch 2008). Among the study countries, there have been generally few initiatives to respond to the crisis. Attempts have been made to identify responses at different levels within the continent.

According to AfDB (2009), Africa governments' efforts to minimise the impact of the global economic crisis included preserving and strengthening endogenous growth drivers aimed at improving macroeconomic conditions and the investment climate. This is expected to boost domestic investment in order to attract foreign private capital. African governments are also to promote growth based on domestic investment and consumption. Strengthening banking sector

regulation and pursuing prudent capital flow management and consolidating political stability and improving governance is another measure.

According to Achy (2009), when some countries especially in Asia admitted the impact of the crisis in their economies and looked forward to recovery packages, Algeria was only on the threshold of launching its response package. The government had initially denied the international impact of the crisis in the economy. Its economic indicators for 2009 showed early signs of deterioration as economic growth fell. This was manifested in the severe decline of the country's exports which are mainly hydrocarbon products.

The Algerian government responded promptly with rescue package. The government adopted a complementary financial law, alongside several measures restricting foreign investments. Restrictions were imposed which required a minimum local ownership of 51 per cent on foreign investments. Imports were also restricted and credit banned to consumers. This triggered widespread dissatisfaction among businesses and consumers alike. Other policies which were adopted were economic diversification, administrative constraints on imports and foreign investment as well as giving consumption loans to support domestic demand. The Algerian government therefore resorted to several responses immediately, both short run and the long term in nature.

**Immediate Responses:** The Algerian government resorted to policies aimed at guaranteeing bank deposits and interbank loans and providing liquidity to their banks. Just like other developing countries, Algeria advocated for an essentially private sector-based financial system. This is characterized by sufficient competition but with strong oversight and sufficient capital adequacy.

**Short-term responses:** The short term responses involved the introduction of countercyclical fiscal expansion packages. The government took the opportunity to strengthen their social safety-nets which included both unconditional and conditional cash transfers to poor households, and public works programmes (Ravallion, 2008). Since Algeria is facing much higher inflation rates, pressure on the exchange rates to depreciate, and an outflow of international capital, the government resorted to taking care that positive real interest rates are maintained.

**Long-term responses:** In the long term, the Algerian government aims at promoting financial development more vigorously, and pressing for the reform of the international financial system more urgently. This involves the deepening of the financial sector, providing greater access to credit, as well greater efficiency of the financial system.

In Morocco, the IMF (2008) report highlighted that Morocco has made major progress in recent years to increase economic growth and strengthen the economy's resilience to shocks, although important challenges remain. Importantly, the gains made reflect sound macroeconomic policies, sustained structural reforms, and taking advantage of opportunities provided by globalization. The result has been a gradual improvement in living standards and per capita income. At the same time, overall economic growth is still vulnerable to agricultural volatility, and despite the improvements in social indicators, unemployment especially among the youth remains a challenge.

Morocco is well-positioned to weather today's more difficult global economic and financial climate. With a more diversified economy, stronger public finances, and a sound financial sector, Morocco can largely avoid negative effects from the current period of turbulence, and continue its strong macroeconomic performance, provided policy making remains proactive. Morocco's political stability continues to serve the country well as it modernizes and reforms the economy. The country has also adopted fiscal stimulus measures that emphasize infrastructure development. The stimulus plan adopted by Morocco includes measures to improve access to credit, tax incentives, vocational training for workers, and reducing red tape and corruption.

Morocco also reacted swiftly to the crisis, in early 2009, with rescue packages focused on employment, easing bank credit and support and market initiatives, but ineffective implementation and the narrow scope led to its limited effects.

In Senegal, the scope for using fiscal policy to counter the crisis and stimulate aggregate demand will depend on the structure of the economy and the availability of domestic and external financing (Mueller et al. 2009). Countries with low to moderate risk of debt distress like Senegal are well positioned to tolerate a temporary fiscal expansion. This is based on the fact that Senegal has large secondary and tertiary sectors, low risk of debt distress, may have available financing and the government appears on track to settle its payment delays vis-à-vis the private sector.

In Tunisia, some of the responses, which have been initiated to address the crisis have included: Lowering of the interest rates, the central bank has also set up new deposit and credit facilities to improve the flow of credit and increase liquidity in the banking system. The country has also adopted fiscal stimulus measures with emphasis on infrastructure developing. Tunisia has increased allotment for export business travel and has also created a national commission in October 2008 to monitor international economic conditions and their possible repercussion on Tunisia economy.

## **VII. Lessons and recommendations**

### **A. Lessons**

The initial expectation was that the crisis would not affect African countries due to its isolation from international financial markets. This led to a slow approach in addressing the potential effects of the crisis. However, the vulnerability of the continent to fluctuations in the international markets has been exposed by the crisis. This is mainly due to the continent's dependence on international trade in a small range of primary commodities. An important lesson from the crisis is therefore the need for African countries to diversify Africa's exports in order to reduce its vulnerability to international markets. Most African countries have been slow in responding to the crisis, which may have contributed to the limited information on the impact of the crisis and hence the response.

Other lessons that can be drawn from the effects of the crisis are the need to provide economic stimulus mechanisms since such downturns affect the labour market, which in turn spills over to the welfare of the population. The effect on the labour market is both directly through the sectors and indirectly through mechanisms like return migration. African countries also need to embrace regional integration. This is important due to the small size of some individual domestic economies.

It is important to that however that there is still lack of comprehensive data at county level to facilitate comprehensive analysis of the impact of the crisis. Inter country comparison is therefore likely to be made difficult.

## ***B. Recommendations***

At the national level, African countries have taken various steps to alleviate the impact of the financial crisis on their economies. However, their range of policy measures is limited by financial constraints. The international community will therefore need to provide appropriate assistance to prevent the financial crisis turning into a regional humanitarian crisis. The main areas for international action will involve ensuring the availability of resources and reforming international financial institutions. One important observation that comes from a review of responses to the crisis in Africa is the fact that most initiatives have been by the international financial institutions like the Bank, the African Development Bank and the Economic Commission for Africa. There are little if any initiatives by individual governments themselves or even the regional economic bodies.

A number of recommendations have been suggested as being essential for addressing the financial crisis. However, some have argued that it is still too early to draw fast conclusions from the crisis.

In order to increase global aggregate demand, Africa must be fully integrated into the coordinated effort (ECA, 2008). Possible sources of finance for increasing demand and growth in Africa should include ensuring that advanced economies meet existing commitments on aid and debt reduction, improving access to existing finance facilities and accelerating disbursements, urging the IMF, during this crisis, to put in place a new facility with relaxed conditions to support African economies and selling IMF gold reserves to release additional resources to help developing countries deal with the financial crisis and issuing new Special Drawing Rights.

From the responses in the developed world, Africa can draw one very important lesson which is the need for pragmatism instead of dogmatism in economic policy. African governments and their development partners should therefore not dogmatically rely on market mechanism, Rather, they should be free to pragmatically combine market and government intervention mechanism in addressing the challenges that will confront them as a result of the direct and indirect impact of the current financial crisis. In light of the inevitable reduction in aid and FDI flows to Africa resulting from the financial turmoil, the regional financial institutions like the African Development Bank should be ready to provide support to the individual countries to enable them continue with the implementation of ongoing infrastructural projects and human capacity development projects, especially in education and health sectors.

Some authors (Ngowi 2009) recommends that current global financial and economic crisis can be addressed by implementing appropriate monetary policy instruments that include appropriate increased money supply and reduce interest rates. The fiscal policy instruments include appropriately reduced tax rates and increased subsidies for both producers and consumers of goods and services. According to Ngowi (2009) the policy measure to be implemented must stimulate the supply side of the economic positively.

Some countries like Morocco need to ease its monetary policy and cut interest rates. So far, interest rate cuts, along with reduced reserve requirement ratios, have had only a limited impact. However, it is observed that there is room to further cut the cost of credit—which has held at 3.25 percent in Morocco since March since February—without risking inflation. Further more in Morocco, the cost of living index and the underlying inflation indicator both decreased in June 2009 by 0.9 percent (Lahcen 2009).

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