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PROGRESS REPORT ON SOCIOECONOMIC IMPACT OF THE COVID-19 PANDEMIC ON AFRICAN ECONOMIES: AFRICAN POLICY RESPONSES FOR STRONGER AND SUSTAINABLE ECONOMIC RECOVERY AND DEVELOPMENT

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1.0 Introduction

This report is an update of the briefing on the impact of the COVID-19 pandemic that poses an unprecedented challenge to African economies as they entered their first recession in more than half a century presented to the Permanent Representatives Committee meeting on 29th September 2021.

In this respect, the brief presents an updated assessment of the socio-economic impact of the pandemic on Africa and propose some of the strategic actions to assist Member States towards a stronger, resilient and sustainable continental recovery.

This brief is structured as follows:

- Impact of the COVID-19 Pandemic on African Economies with special focus on the economic, financial and social effects of the crisis;
- Continent-wide economic and financial responses to facilitate strong and sustainable recovery from the pandemic;
- International responses to assist Africa mitigate the impact of the COVID-19 induced economic crisis;
- Prospects for Economic Recovery and Medium-Term Outlook and Inclusiveness Challenges,
- Conclusion and policy recommendations to improve the chance to build back better.

2.0 Impact of the COVID-19 Pandemic on African Economies

- Following a rebound in 2021, the global economy is entering a pronounced slowdown amid fresh threats from COVID-19 variants and a rise in inflation, debt and income inequality that could endanger the recovery in emerging and developing economies (World Bank, 2022).
- Global growth is expected to decelerate markedly from 5.5 percent in 2021 to 4.1 percent in 2022 and 3.2 percent in 2023 as pent-up demand dissipates and as fiscal and monetary support is unwound across the world.
- While advanced economies are forecasted to return to their pre-pandemic growth by 2023, Africa on the other hand, would not regain the lost ground any time soon.
- Africa would have to grow twice as fast until 2026 to return to its pre-pandemic share of 3.8% of world's GDP.
- In 2020 Africa's economic growth contracted by 2.1 percent. However, the continent slightly bounced back in 2021, experienced growth of 3.4%, fueled by a rebound in commodity prices, partial resumption of tourism and ease of strict pandemic measures. Though this marginal growth is anticipated to continue in 2022, it remains susceptible to the emergence of new variants and inadequate vaccines, which may derail progress.
- The slowness in Africa's growth trajectory continues to hamper the attainment of the aspirations and objectives of Agenda 2063 and Sustainable Development Goals.
- Vaccination rates remain low, with at least 10% of the African population fully vaccinated, more than 11% partially vaccinated, and 0.4% received booster doses

These low figures will impact economic activity, tourism rebound and fiscal space of nations.

- Preliminary assessment of the social impact of the pandemic suggests that globally, during the first two quarters of 2020, more than 103 million full-time jobs were lost, with an estimated average loss of income of 10.7 percent with women accounting for 54 % of COVID-19- related job losses.
- While in 2019, 478 million people lived in extreme poverty, it is estimated that in 2021, 490 million people in Africa lived under the poverty line of 1.90 PPP$/day, which is 37 million people more than expected projected without the pandemic. In 2022, the figure is predicted to increase as the stringent covid-19 measures to curb new variations remain (UNCTAD, 2021).
- Forecasts also suggest that Africa’s capital accumulation could remain below pre-COVID 19 trajectories until 2030.
- The most consequential disruptions in national economies could be productivity decline, reduced capital utilization and increased trade costs.
- Added to these are losses in educational achievements and health, which could hinder the ability of the current generation to earn higher incomes and improve its well-being. All these disturbances will slow down Africa’s productive transformation and, consequently, the achievement of the African Union’s Agenda 2063.
- The pandemic also poses an unprecedented threat to financing Africa’s development by creating new risks and exacerbating pre-existing vulnerabilities.
- Africa's total national savings fell by 18% between 2019 and 2020, and the general government revenue ratio to gross domestic product (GDP) fell by a percentage point to 21% in 2021. A rebound to 22% is expected in 2022, which will remain consistent throughout 2023.
- Remittances to Africa fell from $83 billion in 20202 to $77 billion in 2021, and a continuous decrease is expected to $76 billion in 2022. Projections for 2022 will be based on widespread vaccination distribution, increased production, and technological advancements. As a result, economic activity, international travel, and cross-border investment will increase, all of which are drivers of remittance growth.
- FDI fell by 16 percent in 2020 to $40 billion from $47 billion in 2019. In 2021 FDI was expected to continue to grow, with a 5 to 10 percent increase year on year. The investment picture for 2022 is bleak, with a likely downward trend due to rising inflation and a global economic slowdown (UNCTAD,2021).
- As social spending substantially increased and peaked at 154 billion in 2020, the fiscal stimulus packages have had direct and immediate effects on countries budgetary balances, borrowing needs and debt levels. Continental fiscal deficit climbed up to 6.4% in 2020, though slightly decreased in 2021 to 4.9% and projections for 2022 are at 3.7%.
- Debt to GDP ratio rose by 10 and 15 percentage points, from 60 percent in 2019 to 70 percent in 2020 and 75 percent in 2021. The figure is expected to decrease in 2022 to 67.8
- The monetary cost of lifting the extreme poor to the $1.90 per day poverty line is estimated at $4.5 billion for 2021—about $90.7 million on average per country.

- The AfDB estimates that African governments need additional gross financing of about \$154 billion in 2020/21 to respond to the crisis. The figure is expected to increase in 2022 due to the uncertainties surrounding the pandemic.
- The pandemic also pushed total global debt to the highest level in half a century and it could complicate future coordinated debt relief efforts, the report said. The World Bank called for “global cooperation” to help developing economies expand their financial resources needed for sustainable development.

Outlook for 2022 and beyond are favorable but weak to achieve Agenda 2063

- Estimates by the African Union/OECD and the AfDB underscore that outlook for 2021 is positive, as the continent grew by about 3.4 percent, after a 2.1 contraction in 2020 and more positive figure is expected for 2022.
- This expected growth rebound is well-below pre-crisis 4.6 percent levels and far short of the required 7 percent growth in the long run to achieve Agenda 2063 goals and targets and the United Nations Sustainable Development Goals.
- The overall current account deficit for Africa is estimated at 5.5 percent of GDP in 2020 and is projected to narrow to 4.1 percent in 2021 and 2.7 percent in 2022.
- The narrowing largely reflects the expected recovery of GDP and of Africa’s major commodity exports. Weak domestic demand and fewer capital projects are also expected to lower import demand in the medium term.
- The projected improvement in current account balances is, however, particularly uncertain for countries with contact-intensive sectors such as tourism, hospitality, entertainment, and transportation. The current account has been driven primarily by trade deficits and net factor payments abroad.

3.0 Continent-wide economic and financial responses for strong and sustainable recovery from the pandemic

- The vast majority of African Union Member States and regional economic communities (RECs) have designed and implemented COVID-19 recovery strategies to mitigate the socio-economic impact of the COVID-19 pandemic.
- From the start of the COVID-19 pandemic, African Union Member States put in place containment measures. This ranged from closing their borders to complete country lockdowns. This had significant effects on peoples’ livelihoods, free movement of people, trade flows and investments; among others.
- According to the AfDB (2021), African governments have put in place fiscal stimulus packages ranging in cost from about 0.02 percent of GDP in South Sudan to about 10.4 percent of GDP in South Africa.
- These fiscal stimulus packages have largely had immediate, direct implications for budgetary balances, borrowing needs, and debt levels.
- In support of international resources and bridging the fiscal space gap, the continent would need innovative ways to mobilize resources domestically and advocate for immediate local production of covid-19 vaccines.

- The African Union Commission will provide technical support to the Champion on AUFIs and the Special Envoys in their advocacy efforts with the developed countries for the reallocation of the SDRs and to negotiate for a longer extension.
- Efforts should be made to secure additional US$100 billion of the reallocated SDRs to support the post-pandemic recoveries of African economies.

4.0 Responses of the International community to Africa's economic and financial challenges

- The COVID-19 pandemic has reaffirmed the interconnectedness of the world's economies. This has necessitated collective global responses to stop the heath crisis and the huge socio-economic challenges brought about by the COVID-19 pandemic.
- African countries had been particularly hard hit by the pandemic yet lacked the fiscal buffers to respond adequately. The DSSI and multilateral finance have proven beneficial, but they are insufficient to meet the financing needs of emerging nations. Concessional funding must be increased to accomplish agenda 2063 and SDGs and reduce poverty and inequities, especially in developing countries.
- DSSI does not include the suspension of the servicing of private commercial and debt owed to non-Paris Club countries. This means US$ 221 billion of debt is excluded from the application of DSSI, including US$ 155 billion of commercial debt related to the issuance of Eurobond in the international capital market. The commercial debt which represented 17 % in 2000, was worth 40 % at end 2019.
- In addition to DSSI, the Paris Conference on Financing of African Economies held in May this year forged a collective response to cope with the COVID-19 pandemic by mobilizing US$ 100 million in Special Drawing Rights to contribute towards meeting the financing needs of African countries.
- The Paris Summit on the Financing of African Economies served as a global platform for launching a New Deal for Africa. The Summit assessed the huge financial needs of the continent, estimated at US$ 285-400 billion between now and 2025. This is massive compared to the US$ 33 billion expected for the SDR allocation to Africa in 2021. The Summit also reaffirmed that Africa's development should rely on African capacities to mobilize domestic resources and maximize partnerships.
- Further, H. E. Mr. Alassane Ouattara, President of the Republic of Côte d'Ivoire, convened a meeting of African leaders to discuss the replenishment of IDA 20 on 15 July 2021 in Abidjan, Cote d'Ivoire. The meeting called for donors to support a $100 billion IDA 20 replenishment by the end of 2021.
- The unprecedented, allocation by the IMF of US$650 billion in special drawing rights offers a major opportunity but disproportionately benefits developed countries that them the least.
- A reallocation of the new issuance to low- and middle-income countries is vital to bridge their financing gap, and different scenarios can be explored. Further, reallocation modalities should address the needs of both low and vulnerable middle-income countries.
- On-lending SDRs via market mechanisms can lower the cost of borrowing and leverage critical investments in countries with market access and reallocation through PRGT will target the specific needs of LIC countries.

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- On Friday 14th, 2022, the IMF discussed the creation of an "Resilience and Sustainability Trust for $30 to $50 Billion." This new vehicle proposes to use wealthy countries SDRs surplus to assist developing countries with pandemic response, poverty and challenges faced from climate change with low-interest, long-term loans.

6.0 Conclusion and policy recommendations

6.1. Conclusion

Building on past achievements, lessons learned and the need for structural reforms aimed at unleashing Africa's potential, African policy makers need to accelerate a broader continental reform agenda to facilitate recovery from the economic crisis caused by the COVID-19 pandemic and build more diversified and resilient economies.

6.2 Key policy recommendations

- **The first one is to fast-track the implementation of the African Financial Institutions.** The African Union Financial Institutions (AUFIs) continue to play an essential role in the continent's economic development. The establishment of the African Financial Stability Mechanism under the AUFIs will buffer the continent from future shocks and foster financial autonomy as the continent grapples with insufficient fiscal space and rising debt levels. The AfCFTA's operationalization will be bolstered by the formation of the African Payment and Settlement System and a single currency, making intra-African trade easier.

- **The second one is to accelerate Africa's quality infrastructure development.** As you are all aware, Africa is a large continent that is currently fragmented by borders and lack of transport, communication and energy interlinkages. Investing in infrastructure is essential to stimulate economic activity, link producers to markets, increase intra-African trade and accelerate growth and regional integration. Africa's infrastructure deficit today is estimated at $ 130 billion and $ 170 billion annually. The creation of an environment conducive to the development of public-private partnerships is crucial for the implementation of PIDA, phase 2, which started this year.

- **Three: there is need to accelerate Africa's productive transformation through industrialization and regional value chains.** Africa needs to accelerate her industrialization by strengthening participation of local private sector to process raw materials locally, exploit agricultural, mining and marine sectors and develop integrated and complementary value chains reflecting comparative advantages and specialization across the continent. It is not acceptable that Africa continues, to this day, to import food products approximately 50 billion per year despite its strong agricultural potential. Focus areas should be on key sectors such as agriculture, mining, industry (food and drug and vaccine) and services in order to accelerate and sustain growth, create decent jobs for millions of her youth and achieve rapid economic transformation. This will also contribute to increase Africa's share of global trade;' The AUC wishes to conduct a study to come out with an action-oriented and practical intervention to drive African countries towards growth on the African continent that exceeds 7% levels in a period of 10 to 30 years in order to achieve structural transformation and inclusive sustainable development.

- **Four: there is need to increase investments in innovation through research and development**. In the era of the 4th industrial revolution, digital innovation constitutes an important lever for productivity, competitiveness, the diversification of economies, and the creation of quality jobs for young people and women and the development of human capital in order to meet the needs of the future of work.

- **Five : Deepening regional integration** through accelerated implementation of the Agreement Establishing the African Continental Free Trade Area to boost intra-African trade and achieve export diversification.

- **Six: Supporting knowledge-based growth by promoting skills development is key to African economies' structural transformation.** Investing in skills upgrading is essential for ensuring that Africa poses the quantity and quality of a skilled labour force that is critically needed to accelerate structural transformation and achieve inclusive and sustainable growth. Upskilling the labour force is also vital in aligning skills development with changing priorities of competitiveness and structural transformation.

- **Seven: Financing Africa's transformation for inclusive growth beyond the COVID-19 pandemic requires stemming illicit financial flows (IFFs) from the continent.** The illicit financial flows drain and deny the continent access to domestic resources that are essential for productive investments. Africa should improve domestic resources mobilization, creation conditions to attract external financing and address illicit financial flows. This is particularly important when we factor in the need to mobilize US$150 billion for post-pandemic recovery. We must add to this to the DRM required to achieve Agenda 2063 and the annual financial gap of $200 billion to implement the Sustainable Development Goals (SDGs). We need also to enhance governance, effective spending and accountability. Improved economic governance is an essential tool for improving the ability of states in achieving strong and equitable growth. Strong and accountable institutions are vital in ensuring good governance.

- **Eight: there is also the need to step up international cooperation to end the COVID-19 pandemic and in the process, avoid unbalanced global recovery that leaves African countries behind and make the next ten years, a lost decade for development in the continent.** Africa is already falling behind in terms of growth prospects. This year, projections exhibit that the global economy will grow by 5.6 percent, with Africa recording 3.4 percent, half that of the world in 2021. As of July 2021, Africa has also received a small share of global vaccine doses (1.6 %) administrated globally, despite accounting for nearly 18 % of the world's population.

Africa therefore remains the world’s least vaccinated region and this may lead to an unbalanced global recovery as no “herd immunity” will be achieved on the continent until at least 60 percent of the countries’ populations are fully vaccinated. Member States should support the institutionalization of the AVAT mechanisms to strengthen their ability to produce and procure quality and affordable pharmaceuticals, essential medicines and vaccines and with the support of AVAT partner institutions, develop appropriate and targeted vaccine-related communication strategies aimed at reducing vaccines hesitancy in African countries with an appropriate use of social media platforms.

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