AFRICAN DEVELOPMENT BANK GROUP

Presentation by MRS. NNENNA NWABUFO, Director General (Ag.), AfDB's East Africa Regional Office, Nairobi

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Chairperson ICPAK Council, ICPAK CEO, ICPAK Members, Excellencies, Distinguished Participants, Ladies and Gentlemen,

I am glad to join you all virtually. I look forward to the day when we will be able to meet in person. Today, I am tasked with speaking on "**Africa's Economic Agenda During and Post the Pandemic – Is it a Looming Depression or Resilience?"**

In a span of just over seven months, our lives have changed in ways we could not have imagined at the beginning of this year. The things that we took for granted are no longer fully possible. International travel restrictions, school and workplace closures, cancellation of public events, restrictions on public gatherings and closures of national borders and non-essential businesses have had an unprecedented impact on Africa's socio-economic landscape.

What started as a healthcare crisis in Asia and subsequently in Europe escalated to a major global crisis that has adversely affected livelihoods and many people across the world continue to be diagnosed with COVID-19 daily. Indeed, this pandemic knows no respect for any nation, people, status, age etc. The direct and indirect consequences of the pandemic have upended the strong upward growth trajectory that many African countries enjoyed up till 2019. Our analyses at the African Development Bank and forecasts reflect a sharply changed socio-economic landscape across the continent.

After demonstrating resilience during the 2008 global financial crisis and the 2016 Ebola outbreak, Africa is once again facing a severe test of its strength and agility because of the COVID-19 pandemic. The good news is that the continent entered this crisis in reasonably good shape following decades of progression in health, education and economic reforms.

At the beginning of 2020, macroeconomic indicators in Africa pointed to a positive economic outlook, with investments, rather than consumption, accounting for more than half of the continent's growth. Inflation was falling and the continent was making impressive strides towards the United Nations Sustainable Development Goals. Despite the adverse effects of Covid-19, Africa must continue to build on that momentum and strive to prevent COVID-19 from reversing all the gains of the past 20 years.

Undoubtedly, this is easier said than done. Despite best efforts, many African countries still struggle with fragile health systems, high debt levels, weak external balances, as well as high rates of poverty and unemployment.

Whereas Africa might escape the most severe health effects of COVID-19, in part due to the swift health and other containment measures put in place by national authorities, the continent is expected to face brutal socio-economic costs from the pandemic. African economies rely heavily on external flows from oil, commodities, foreign direct investments, tourism and remittances, which have significantly been affected by the COVID-19 crisis. High debt burdens and tighter global financing conditions have diminished any potential access to funding for the much-needed economic recovery.

The African Development Bank now projects that Africa will fall into a recession in 2020 with economic growth projected to **contract by 3.4% i**n a worst-case-scenario. **Sub-Saharan Africa's economic growth is projected to fall sharply from 2.4% growth in 2019 to a contraction of about 5.1% in 2020. This is the first recession in the region over the past 25 years.**

Among the five regions of Africa, East Africa is projected to remain the most resilient. This is partly due to the strong growth momentum experienced in the region over the last decade, and the higher level of regional integration in the region, particularly within the East African Community.

Cumulative losses in gross domestic product across the continent could range between US$173.1 billion to US$236.7 billion in 2020 and 2021. The COVID-19 crisis threatens to increase the debt burden of African countries from 60 to 70% of GDP, escalating the likelihood of a sovereign debt crisis. Additional financing required to cushion the consequences of the crisis could be in excess of US$150 billion.

In Africa where 85% of the population earn their living in the informal sector, unemployment induced by COVID-19 could push an additional 28 to 49 million people into extreme poverty. Informal sector workers, unlike their counterparts in the formal sector, do not have access to safety nets and have limited ability to harness the possibilities offered by the digital economy. Natural disasters like locust and army worms invasions, flooding and drought, among others, have affected agricultural production particularly in East Africa, compounding the food security risks. In the absence of decisive actions, the impact of these crises on food security and malnutrition may be worse than anticipated.

The COVID-19 induced socio-economic deprivation could escalate social tensions. Whereas containment measures like restrictions in public gatherings and curfews might have held back civil disturbances, sustained containment and the resulting subdued socio-economic prospects could catalyse protests and other forms of violent manifestations, which could increase political risks and further hold back economic activity. Therefore, reviving inclusive growth is necessary to ease any tensions and provide decent jobs in the continent especially for the youth and women.

What can be done to support African economies?

To counter the fallout from the COVID-19 crisis, Africa needs robust policy responses from every country on the continent, paired with strong support from development partners.

In the short term, African countries should prioritise COVID-19 healthcare related spending including the provision of essential personal protective equipment, testing kits, training of healthcare personnel in the management of disease outbreaks. Support to local manufacturers of associated medical supplies will save scarce foreign exchange and resuscitate economic activity.

Targeted safety nets like cash transfers and subsidies for vulnerable households and tax relief or deferment for severely affected businesses have been used and should remain high on the agenda. However, citizens also need to understand that the COVID-19 induced reductions in economic activity has reduced tax revenues and constrained the fiscal space, making it difficult to support much needed spending for healthcare and poverty mitigation.

Monetary policy stimulus packages are beneficial but should be applied cautiously to prevent possible macroeconomic imbalances. On one hand, reducing central bank policy rates could assist companies with credit exposure, but this and injection of liquidity into the economy could on the other hand, increase inflation particularly in the absence of a rigorous monetary policy framework. Reducing interest rates could also depreciate the currency exchange rate, resulting in additional consequences like higher external indebtedness and financial distress.

In the longer term, countries should seize the imperative provided by the COVID-19 pandemic to revive growth and build resilience to future crises.

Before I outline the main policy recommendations to spur growth in the aftermath of COVID-19, let me briefly explain the fiscal challenges that African countries will need to deal with

COVID-19 related spending needs are expected to remain elevated amidst diminishing fiscal space due to reduced economic activity and consequent weak performance of domestic revenues. This will undermine the fiscal consolidation efforts that were already underway in many African countries.

Access to international financial markets is expected to be limited due to the global economic slowdown and domestic financing options like accumulation of arrears with domestic suppliers and creditors are increasingly becoming untenable due to their negative impact on domestic local economic activity.

COVID-19 has aggravated public debt distress and deteriorated sovereign credit ratings for a number of African countries. In East Africa region, Kenya and Rwanda are among the countries whose rating of risk of debt distress were downgraded in 2020. As of September 2020, about 40% of countries on the continent were at debt distress levels. These significant debt burdens could trigger defaults, like we witnessed recently in Zambia[1], further plunging African countries in public debt crises similar to the 1990s and early 2000s. This will certainly hold back Africa's progress towards shared prosperity. Debt restructuring without policy reforms only provides a partial solution as it often happens late and offers minimal relief than is required to place countries on a sustainable debt path.

Development partners have acted swiftly by providing just-in-time financing for healthcare and anti-poverty spending to sustain livelihoods. However, it is unlikely that development partners will continue to provide financing at the scale we have seen in 2020 due to their own limits in terms of prudential requirements and ability to mobilize capital on the already tight international financial markets.

So, what should be done in this context to avert the looming depression and build back towards a steady recovery to resilience?

A package of bold and swift reforms is necessary to revive growth and financing for the continent's development. This package includes preserving livelihoods by investing in health systems, protecting consumption and productive capacities; diversifying development financing sources; and accompanying debt restructuring with economic governance reforms.

Let me elaborate on each of these measures.

<u>First, preserving livelihoods by investing in health systems, protecting consumption and productive capacities.</u>

Governments must focus on improving the capacity of health systems to respond to the COVID-19 case load and enhance capacity to manage such pandemics in the future. Considering that the much-needed increased healthcare spending is constrained by the subdued economic activity, additional fiscal space could be generated by improving the efficiency of public spending,

[1] Zambia failed to make a payment of a Eurobond coupon on October 14, 2020 and is currently negotiating with its creditors.

reducing leakages in public spending and empowering local entrepreneurs to substitute imported medical suppliers with domestic production. This will boost employment creation and preserve the scarce foreign exchange.

Emphasis should also be placed on preserving and protecting consumption and production capabilities. Targeted support to vulnerable households through cash transfers and social safety net programs remains critical to preventing escalation of extreme poverty. Alleviating constraints in key sectors that have been severely affected by the pandemic and containment measures, notably services sector, small businesses, vulnerable groups like youth and women through targeted tax relief—waivers, reductions and deferments, increased access to credit, active labour market policies to protect workers and their jobs is equally important.

Governments have received support from development partners in form of loans and grants to support these immediate health and anti-poverty spending. These resources must be spent transparently and for the intended purposes. Governments should also adhere to the required policy reforms attached to some of these loan and grant resources in order to ensure that capacity and resilience is strengthened. I will come back to this issue of economic governance shortly.

Second, diversifying the sources of development financing.

Due to weaknesses in domestic revenue mobilization, African countries have largely relied on government borrowing to finance public investments, which has contributed to a rise in the risk of public debt distress. In addition to sustaining reforms to expand the tax nets, mitigating the over reliance on external borrowing will require diversification of development financing sources, including the use of public private partnerships and securitization of infrastructure assets. Complementary measures to boost domestic savings mobilization like the development of domestic debt and equity markets are equally important.

I want to emphasize here that as good citizens, we all have a role to play in strengthening domestic resources mobilization by accurately declaring our tax liability. As accountants, you also have a professional responsibility to ensure that the firms you work for, either as employees, consultants or auditors, file accurate statement of accounts and fully comply with statutory obligations.

Third, accompanying debt restructuring with economic governance reforms.

Debt restructuring can resolve public debt crises and create fiscal space for development spending if accompanied by economic governance reforms.

Previous efforts at debt restructuring have not been effective, as illustrated by the current spike in debt burdens, in part due to the absence of rigorous economic governance reforms. Successfully implemented reforms to improve efficiency in public spending and public investment management, reduce pillage of public resources, ensuring that relief from debt restructuring or deferment will benefit majority of the population and also expand the fiscal space to respond to immediate socio-economic needs. Therefore, emphasis should be placed on rigorous planning and budgeting; fact-based project selection informed by robust technical and financial feasibility analyses; and strong infrastructure governance, including contract management and technical implementation capabilities. What I am really saying by all these is that in the midst of reduced fiscal space, our governments have no choice but to ensure that every Shilling or Dollar is stretched to the last mile. Options for borrowing to replace maturing debts are shrinking, we have to look inward to reduce wastage and spending that brings no economic benefit to the government agenda and improvement for citizens in general.

Reforms to improve the business regulatory environment can spur competition, innovation and adoption of improved technologies including digitalization. For example, competition enhancing reforms in key enabling sectors like ICT and finance can reverse rent seeking behaviour, improve access to ICT and financial services, catalyse business growth and job creation. This will also boost domestic resource mobilization by increasing savings and expanding the tax net.

Countries should consider issuing some state-contingent debt instruments like GDP-indexed debt or inflation linked bonds to reduce exposure to fluctuations in business cycles. These instruments allow Governments to vary their debt repayments in line with changes in economic activity, thereby insulating countries from unsustainable debt paths and mitigating debt crises. However, rigorous governance systems to protect creditors from moral hazard are necessary to incentivize creditors to swap traditional financing with state-contingent debt instruments.

Sustaining the complementary reforms that were being implemented prior to COVID-19 is equally important. This includes reforms to accelerate economic diversification and structural transformation, and build resilience to future shocks. Addressing weaknesses in the business regulatory environment, investing in human capital to build a workforce with the right skills for high-productivity sectors and bridging the infrastructure deficit to advance Africa’s industrial development are important objectives.

Before I conclude, let me briefly highlight the role played by development partners in restarting growth in Africa.

As I mentioned earlier, development partners acted swiftly to help African countries navigate the crisis and place them on the road to economic recovery. The African Development Bank is playing its part through its USD 10 billion COVID-19 Rapid Response Facility (CRF). The CRF offers immediate relief to African countries to address the crisis by providing additional resources for public health interventions, social protection programs, and liquidity and budget support to affected sectors of their economies.

In the East African region alone that comprises thirteen countries, the African Development Bank has, between May and October this year, approved the disbursement of US$514 million from the Bank's COVID-19 Rapid Response Facility to support the authorities' responses to the COVID-19 pandemic. The Bank stands ready to continue working with other multilateral financial institutions and wealthier nations to alleviate the impact of the pandemic on African countries.

Other international financial institutions and bilateral development partners have also strongly supported Africa to mitigate the impact of the COVID-19 crisis.

In this context, we at the African Development Bank have a reason to remain optimistic that the 2020 subdued outlook will eventually transform into economic resilience for our countries.

The continent's youthful and innovative population, its growing middle class, its value addition to the abundant natural resources and its nascent but improving governance systems, give us plenty of reason to be confident that Africa will overcome the ravages of the COVID-19 crisis.

This year will mark the first time the continent has entered a recession in more than half a century. Over the past two decades, Africa has boasted some of the highest growth rates in the world on the back of prudent economic policies, positioning the region as the next investment frontier post–COVID-19.

The level of cooperation in Africa is encouraging, as illustrated by the ratification of the African Continental Free Trade Agreement in 2019. Whereas more needs to be done to realize the ambitions of this initiative, the trade agreement presents an opportunity for Africa to deepen regional integration and economic cooperation, which will enable the continent to reduce the impact of global shocks.

Distinguished Participants,
Ladies and Gentlemen,

As I conclude, let me reiterate that private or public sector, international financial institutions, development partners and non-state actors, now is the time for all of us to act swiftly to support the design and implementation of genuine economic governance reforms. Doing so will enable Africa to arrest the “seemingly looming depression” and build socio-economic resilience.

I hope, therefore, that your discussions will stimulate new ideas and concrete suggestions that would help enhance accountability in Africa and accelerate economic growth that is sustainable, equitable, and resilient going forward. This is because, Accountants, Civil Society Organization and Think Tanks have a useful role to play to help build trust, solidarity and uptake of COVID-19 prevention and containment measures.

I am also hopeful that the responses governments across the Continent are taking, in partnership with the African Development Bank and the wider international community, will leave the African economies, stronger, not weaker, to better confront the further emerging challenges.

These are extraordinary times, and the African Development Bank will continue working with the African Countries to take extraordinary actions to ease the immediate pain of the Covid-19 crisis while promoting enabling conditions for a strong and sustained economic recovery.

Thank you for your kind attention and I wish you continued successful and fruitful discussions.

Nairobi, 25 November 2020