Introduction

Rémy Rioux, CEO of AFD

So far,[1] Africa has thwarted the predominantly pessimistic forecasts regarding its capacity to withstand Covid-19. Beset with the presumption of fragility, the continent has nonetheless demonstrated its resilience, buoyed by its youthful population, its leaders' responsiveness and its experience with pandemics. This contrast confirms the persistent mismatch between how Africa is perceived and the changes happening there, and this needs to challenge the view that we have of the continent. One of the aims of this new edition of *L'Économie africaine*, designed by Éditions La Découverte and the Agence française développement (AFD), is to provide readers with the keys to a deeper understanding of the dynamics operating in Africa.

As with the first edition of *L'Économie africaine*, the chapters have been designed in line with the "All Africa" approach which AFD Group has been promoting for several years now in order to address the entirety and diversity of the continent's challenges. This continent-wide approach makes it possible to grasp the extent of the ongoing changes by pointing up one of Africa's most distinct features: its entrepreneurship. To complement the analysis of the major macroeconomic trends of Africa and its regions, we have chosen to show those who are building Africa. Foremost among these are African entrepreneurs, in a context where young people's entry into the labour market is a major challenge for the continent given its demographic growth.

1. This text was authored in October 2020.

This edition also captures what drives the singular nature of Africa's growth, which is happening against a backdrop of resilience. This should lead us to rethink the notion of "emergence" beyond the traditional macroeconomic indicators, particularly by taking into account social or governance criteria. To achieve this, the book highlights African initiatives likely to encourage sustainable and inclusive development models. Agroecology and schemes to promote labour market participation for all — knowing that one in two young people in the world will be African by 2070 — are some of these initiatives and serve us a source of inspiration.

The challenge of sustainable development is all the more acute during this period of crisis. In the short term, the situation requires strong international responses to build up the often overly weak capacities of African States, their central banks and their public development banks so that they can pursue countercyclical policies and also heighten their vigilance to promote a sustainable recovery that will further the attainment of the Sustainable Development Goals. The ninety-five African public development banks have a key role to play in financing development in future years.

In Chapter I, Rima Le Coguic and Yasmine Osman underline that, while the epidemic's negative impacts on the economic and social spheres are significant, the turndown in business activity has been smaller in Africa than in other parts of the world. In fact, the crisis has foregrounded the real resilience of African players. The youthfulness of the population has clearly helped to check the spread of Covid-19. However, the scale of the economic shock caused by the epidemic varies considerably across regions. Southern Africa has paid a heavy toll, while the greater Sahel region has once again shown itself to be one of the most economically resistant. Africa's capacity to bounce back in 2021 will depend on the recovery of the global economy, the degree of economic destabilisation and the mobilisation of international support to shore up the African economies. In the longer term, a lasting recovery will need major structural transformations.

Half of the African economies have drawn up a national plan to achieve "emergence" in the short, mid- or long term. In Chapter II, on the criteria for assessing emergence, Meghann Puloc'h and David Chetboun question the notion of "emergence" in Africa. The authors examine the criteria for emergence. They highlight the difficulty of identifying emerging countries in Africa on the basis of the criteria typifying the first emergent countries, particularly those in Asia. Although it seems that very few African countries can be qualified as emerging at this point, some economists are proposing a new broader definition of emergence that includes social, governance and infrastructure quality criteria. This reworked definition helps to identify the next emergent countries in Africa by evaluating the continent's assets, such as the dynamism of its domestic market.

The agricultural sector also deserves special attention given the role it plays in poverty reduction. The growth of agricultural production in Africa seems to be about three times more effective in reducing poverty than growth in other sectors. In Chapter III, Philippe Roudier and Djiby Dia study the case of agroecology in Senegal as being a third avenue to increasing yields by limiting negative environmental externalities as far as possible. After describing the successful agroecological strategies in West Africa, particularly in Senegal, the authors examine the factors that hamper the scale-up of agroecology.

The choice of the change regime is critical for promoting investment and facilitating trade and monetary stability on the continent. In Chapter IV, Vincent Fleuriet and Maëlan Le Goff study the ways in which central banks intervene on the foreign exchange market, as well as the advantages and disadvantages of the different regimes (fixed/flexible exchange rates). While greater currency stability provides for more stable growth, greater flexibility in foreign exchange policy allows countries to react more promptly in the event of shocks. Given that many African countries are extremely vulnerable to deteriorating terms of trade (linked to their reliance on commodities exports), they are exposed to a high risk of seeing a decline in their international reserves. The effectiveness of a regime based on a more autonomous monetary policy nonetheless requires a certain level of development of the banking and financial system. This goes to explain the predominance of fixed exchange rates in Africa.

Integrating young people into the labour market is one of foremost challenges for the African continent: between 2018 and 2035, Africa's labour markets will need to create around 20 million jobs a year, twice the average number created between 2012 and 2017. In Chapter V, Kenneth Houngbedji and Claire Zanuso give a panorama of what characterises the continent's working population over the years 2010–2018. They highlight the highly precarious work conditions for those aged 15–24 years, especially for women, who are overrepresented in informal employment, which is at odds with their aspiration to public sector employment. The authors study various schemes geared to promoting labour market participation for all within a more inclusive system.

Entrepreneurship in Africa is a major challenge for job creation, basically for youth employment, as the growth of the working population on the continent will be the highest in the world between now and 2050. Yet in many countries, the development of the formal private sector is hampered by a deteriorating business environment. In the final chapter, Pierrick Baraton, Sébastien Fleury and Florian Léon show that the State can play a critical role in enhancing the business climate. They identify three ingredients for sound public governance and show how poor governance can produce short- and long-term harmful effects on entrepreneurship. They go on to outline possible avenues for developing Africa's private sector, which should not be limited simply to reforms to strengthen the government and its administration.

At the end of the book, a timeline prepared by Lou Bachelier-Degras and Hélène Picart lists the major African events planned for 2021. Africa's key economic and social data are also presented in a series of statistical tables produced by Laura Marie.

To round off, I wish to express my utmost gratitude to all of the authors who, by advancing knowledge, also make a contribution to the pressing need for us to change our views of the African continent.

I / The major macroeconomic trends in Africa and its regions

Rima Le Coguic and Yasmine Osman (AFD)

In 2020, only five years on from the shock triggered by the fall in oil prices, the Covid-19 crisis plunged Africa into an unprecedented economic recession. Despite the swift responses of many African governments to contain the spread of the epidemic, the negative economic and social impacts of the shock are considerable. Real GDP declined for the first time in over thirty years (-2.6% in 2020) and the contraction of GDP per capita was even more marked (-4.7%) due to the continent's high population growth. This recession raises concerns that Africa will see a sharp rise in poverty rates.

What economic impact has the crisis had in Africa and its constituent regions? Through which channels has the crisis spread? Which countries have become more fragile as a result and which have been more resilient? This introductory chapter takes a look these questions and revisits the outlook for the year ahead, a little less than one year after the onset of the shock.[1] While the Covid-19 crisis is jostling economic developments, it is also leading us to reconsider the continent's development challenges.

1. The figures announced for 2020-2021 have not yet stabilised at this stage and should be treated with caution.

An unprecedented economic shock

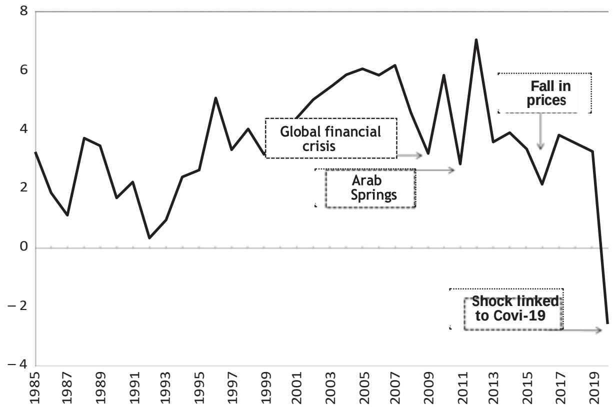
The Covid-19 crisis in Africa: first and foremost an economic shock

Despite observers' initial fears of a major health shock, most African countries have so far shown an unexpected resilience to the virus. Certainly, the number of detected cases has reached high levels in some countries — mainly in South Africa, Morocco, Egypt, Ethiopia, Nigeria, Algeria and Ghana (these countries account for 75% of total Covid-19 cases in Africa) —, but the spread of the epidemic has been overall lower in Africa than in the rest of the world. By mid-October 2020, the continent accounted for only 4.2% of the world's reported infections, whereas it is home to 17% of the world's population. Yet, there is still some uncertainty as to the scale of the epidemic due to the low number of tests carried out in several countries. What's more, the risk of a resurgence of the pandemic is not to be ruled out. All the same, the crisis has brought to light a certain resilience of African players, particularly that of governments which very quickly put in place border closures and lockdown measures, despite the constraints inherent to informal housing and employment. Other characteristics may also have helped to slow down and/or limit the spread of the virus, such as the youthfulness of populations —the elderly being more vulnerable to the virus — and their previous experience with other epidemics.

Nonetheless, Africa has been hit by an exceptional economic shock. The continent has experienced a brutal fall-off in economic activity, down by 2.6% (i.e., more than 6 percentage points below pre-crisis forecasts), which marks a clear break with the growth seen in 2019 (+3.3%) and recent decades. None of the shocks recorded over the past thirty years, including the most recent ones (the 2009 financial crisis, the 2011 Arab Springs and the fall in commodity prices in 2015–2016), had such a dramatic impact on activity (see Figure 1). Above all, never before has a crisis plunged so many African countries into recession all at the same time: more than forty countries in 2020.

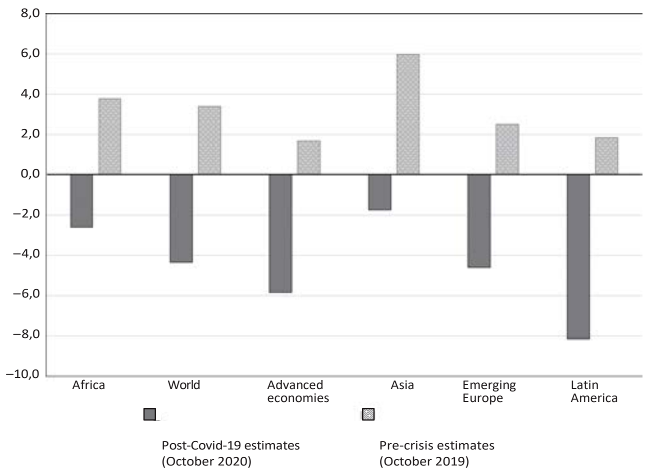
For all this, economic activity has declined less in Africa than at the global scale (–4.4%). With the exception of Asia, growth shrank to a lesser extent in Africa compared to other major regions in the world. The latter faced a more severe economic shock and had been exhibiting a weaker dynamism even before the crisis (see Figure 2).

Figure 1. **Real GDP growth in Africa**
(%)



Sources: International Monetary Fund(IMF), World Economic Outlook Database, October 2020; AFD calculations.

Figure 2. **Real GDP growth forecasts for the world's major regions**
(%)



Sources: IMF, World Economic Outlook Database, October 2020; AFD calculations.

Three main transmission channels for the economic shock…

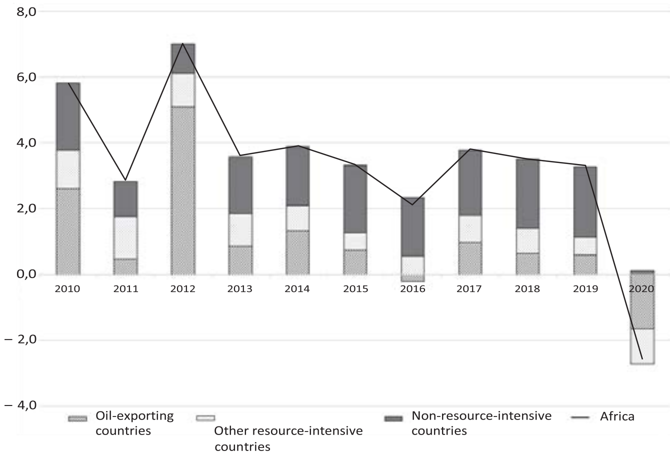
The recession stems partly from the lockdown measures introduced to contain the spread of the epidemic, but Africa seems to be hit more widely by the shock on the global economy. Though a minor player in international trade, the continent is still highly dependent on the rest of the world both for its economy — goods and services exports represent over a quarter of GDP in some two-thirds of African countries —, and its imported supplies.

More specifically, the economic shock in Africa is the result of three key phenomena:

1) *The fall in commodity prices:* Africa still depends on its exports of extractive commodities. These account for over one-quarter of total exports in twenty-five countries representing 55% of Africa's total GDP. In early March 2020, the breakdown of negotiations between Saudi Arabia and Russia on the production quotas required to tackle the decrease in oil demand led to the collapse of oil prices. Faced with an accelerating crisis, the main oil producers then reached an agreement, but this was not enough to drive prices back up: the oil price fell from 61 dollars a barrel in 2019 to 42 dollars in 2020, the lowest price since 2004. In parallel, coal prices also fell (–21%), as did some metals (e.g., aluminium, tin, zinc and lead), which recorded decreases ranging from –7% to –12%. Coupled with the decline in export volumes, the drop in commodity prices led to a sharp contraction of activity in resource-intensive countries (–5% on average). Among these, four of the six largest African economies in terms of GDP were severely affected: Nigeria, South Africa, Algeria and Angola, all of which had already been weakened pre-crisis by several years of sluggish growth. However, the countries less dependent on commodity exports also recorded a marked slowdown in growth (+0.2% in 2020, against an average +4.6% a year between 2015 and 2019) (see Figure 3).

2) *Border closures and their effects on the countries' foreign currency earnings and their supply of inputs:* border closures have adversely affected African economies, particularly the two key sectors of transport and tourism, both of which were heavily impacted by the suspension of air travel into Africa. The continent has nearly fifteen countries (Cabo Verde, Comoros, Egypt, Ethiopia, Gambia, Madagascar, Morocco, Mauritius, Rwanda, São Tomé and Príncipe,

Figure 3. **Contributions to real GDP growth in Africa**
(%)



Sources: IMF, World Economic Outlook Database, October 2020; AFD calculations.

Seychelles, Tanzania and Tunisia) in which tourism represents a hefty share of GDP (over 5%) and is a key source of foreign exchange inflows (over one-quarter of goods and services exports). This is particularly the case in Egypt and Morocco (the third and fifth largest African economies respectively). Foreign exchange earnings have also suffered from a decline in migrants' remittances (–20% according to the IMF), following decreases in their incomes in their countries of residence. These remittances are the main source of foreign revenue in Africa (an average 4% of GDP and as much as 25% in Lesotho, for example), ahead of foreign investment and development aid. Finally, in some places, border closures have led to the disruption of supply chains, with critical consequences for sectors such as industry and agriculture, whose production relies on imports of foreign inputs.

3) *Lockdown measures in some countries and the halt of economic activity:* lockdown measures — generally involving the closure of

schools and markets, curfews and the prohibition of public and religious assembly — have been applied varyingly across countries. However, this has impacted productive activity and household consumption in all African countries. Informal sector workers in particular (many of them day labourers or self-employed accounting for over 70% of the continent's workers) have had to cope with sizeable losses as they have had to stay home.

... coupled with governments' limited capacities to respond

The public health response has gone hand in hand with economic and social measures mainly geared to compensating loss of income due to lockdown and to supporting small and medium-sized enterprises (SMEs) as well as the most vulnerable households (through in-kind support and cash transfers, etc.). These fiscal measures represented an average 2.5% of the region's GDP. This is a substantial effort given the limited fiscal space for tackling the scale of the shock and compared to the stimulus packages rolled out elsewhere in the world. Apart from a few cases, the capacity of countries to implement counter-cyclical policies has proved weak. The foremost constraint in many of these countries (see below) has been the shortfall in government revenues, which have been further impacted by the slowdown of economic activity. What has also proved punishing is the high cost of borrowing and the impossibility of contracting further debt due to greater risk aversion and international capital outflows towards assets deemed safer. Capital flight has reached particularly high levels in Africa's emerging and frontier-market countries (estimated at 4 billion dollars in sub-Saharan Africa since the onset of the crisis), especially South Africa. Lastly, although African central banks have introduced monetary easing measures (lowering key interest rates, providing liquidity to the banking system, etc.), the transmission of monetary policy to the real economy is still uncertain in most countries. In fact, the action of the central banks has been constrained by the threat of dwindling international reserves or a currency depreciation, as well as the risk of mounting inflationary pressures and their effects on the purchasing power of the most vulnerable households.

Beyond the impact on growth, the shock sparks fears of in-depth fragilisation of economies and societies

The consequences on the fiscal situation of States have already been felt. Everywhere, the impact on economic activity has led to a deterioration of public finances, as public revenues have decreased and higher expenditure is required to tackle the situation. Some governments have even had to cut back capital expenditure to finance their stimulus packages (e.g., Algeria and Nigeria). Coupled with the decline in growth, public deficits in Africa rose by an average 4 percentage points of GDP to reach –8.7% in 2020. As a result, public debt ratios have increased, by over 10 percentage points of GDP in one-third of African countries, and in some of them, the risk of debt distress has been reappraised under the IMF and World Bank's joint debt sustainability analysis (e.g. in Kenya and Rwanda) and arrears have accumulated (as is the case in Central Africa countries). The microeconomic effects will also be consequential. The scale of the shock on the most fragile SMEs and VSEs (very small enterprises), which have no access to financing facilities, is so far unknown. It could nonetheless be significant and lead to heavy job losses (SMEs and VSEs account for 60% of formal employment and the bulk of informal employment), bearing in mind that employment is a major issue for youth and the future of the continent (see Chapter V). Like the informal sector, formal businesses are by no means spared, particularly in the key sectors hit by the crisis (tourism, transport, minerals, hydrocarbons, etc.). In these conditions, the banking and finance sector will inevitably be impacted.

The economic shock also prompts fears of a large-scale social crisis. The fall in per capita income (averaging –4.7% in Africa) risks wiping out ten years of economic progress according to the IMF. This would plunge millions of people into extreme poverty (up to 43 million in Africa according to the World Bank), while the continent already concentrates over half of global poverty. According to the United Nations, poor countries are also the most threatened by the long-term consequences of the crisis, particularly with respect to the other dimensions of development (education, health, quality of life).

The impact of the economic shock on Africa's major regions

While all African regions have been affected by the economic shock triggered by the Covid-19 epidemic, its scale differs significantly from one region to another.

North Africa: apart from Egypt, a sharp contraction of economic activity in the region

Egypt was the first country in Africa to report a case of Covid-19 in February 2020, and it also counts a large number of infected people. However, the country is one of the very few that were able to maintain positive growth in 2020 (+3.5%). The robustness of its internal market helped to cushion the impact of the shock, even though the country's main sources of foreign exchange shrank: tourism (one-quarter of total export revenues and 7% of the labour force), oil exports (Egypt again became a net exporter in 2019) and transit activity through the Suez Canal. The resilience of Egypt — North Africa's leading economy with 40% of the region's total GDP — hides a deep recession in the other more oil-dependent countries of the region (Algeria and Libya) or more reliant on European demand (almost three-quarters of Tunisian and Moroccan exports go to Europe).

The crisis has led to a further increase of the public debt ratios, which had stabilised since 2017 following a strong increase in the wake of the Arab Springs. This new shock has brought Egypt's fiscal consolidation efforts and Morocco's stabilisation efforts to a standstill and contributed to a rise in Algeria's debt ratio (+11 percentage points of GDP, mainly following the drop in oil revenues). In Tunisia, public debt has reached 85% of GDP and managing it is complicated due to unfavourable factors (weak growth outlook, currency risk exposure as 70% of the debt is denominated in foreign currencies). In Libya, public debt has topped 95% of GDP. Reduced fiscal leeway following the increase in the debt burden is a major challenge for countries in the region, while at the same time the situation could well deteriorate on the employment front.

Southern Africa: a more marked recession than elsewhere on the continent

South Africa, weakened by several years of sluggish growth since the 2009 crisis, has been severely affected by the effects of this new shock. Hit early on by the epidemic, the government declared a "state of emergency" and put in place strict lockdown measures. The shortage of input supplies and frequent power outages have further hampered production, particularly in the industrial sector, which is one of the largest on the continent. The external shock has also been considerable as the country is reliant on global demand, mineral and metal prices (their export contributes 10% of GDP), tourism (2.5% of GDP) and foreign capital. The decline in investor confidence – even more so since rating agencies downgraded the country's sovereign rating –, led to massive capital flight in the first quarter of 2020.

The recession in South Africa (–8%) — the leading economy in southern Africa with 65% of GDP — has negatively impacted the region's performances. But the other Southern Africa countries have also been greatly affected by the crisis. The region concentrates some of Africa's most resource-rich countries, such as Angola (Africa's second largest oil producer), Zambia (the largest copper producer), Namibia, Zimbabwe and Botswana (one of the world's leading diamond producers). Tourism is also a key sector for some countries (Namibia, Botswana and Zambia). The recessionary impact of the crisis has also been heightened in the region by ripple effects between the countries, as they are more commercially integrated than the rest of the continent. In the most heavily indebted countries or those with arrears (Angola, Mozambique, Zambia and Zimbabwe), the possibilities for a fiscal response have been very limited. The economic shock, combined with particularly high levels of inequality — the region is one of the most unequal in Africa — raises fears of a deterioration of the social situation.

Gulf of Guinea countries: apart from Nigeria, the other large countries of the region are showing resilience

As the continent's leading oil-producer, Nigeria is strongly impacted by this new downtrend in prices and global demand for petroleum products. Growth shrank to –4.3% in 2020, far below the average rate in Africa. The oil shock also weakened the country's external position and its public revenues (oil represents 90% of the country's exports revenues and 60% of its fiscal revenues). The difficulties of the oil sector also spill over to the non-oil sector, which plays a larger role in the economy (in the share of GDP) but remains highly dependent on foreign exchange earnings and the recycling of petrodollars.

The other major countries in the region managed to sustain some of the highest growth rates in Africa, but this is still insufficient. Four countries — Ghana (the region's second largest economy after Nigeria), Côte d'Ivoire, Benin and Guinea — are among the ten African economies with the highest growth rates in 2020. Their performances helped to support regional growth, but this still worsened substantially and prompts fears of a rise in the region's poverty rate — which already exceeds Africa's average rate in over half of the countries. What's more, the resilience of these large economies hides the increasingly fragile situation of the smaller economies, which depend heavily on the exterior for their outlets and supplies, as in the case Sierra Leone and Liberia. These two are the only countries in the region, along with Nigeria, to have experienced a recession in 2020.

East Africa: a more contained shock overall, but greater fragility in certain areas

Economic activity in East Africa has resisted better than elsewhere on the continent, with sluggish growth in 2020 (compared to negative growth in the other African regions) despite the impact on certain key sectors. In fact, the region has fewer economies that depend on extractive commodities and global demand (the share of goods and services exports accounts for less than 30% of GDP in eight of the region's eleven countries). Nonetheless, in parallel to the Covid-19 crisis, the agricultural sector had to face a locust invasion that had severe consequences. Border closures have impacted other key economic sectors, particularly tourism and transport, which represent nearly half of the region's services exports. These both play a key role in several economies — notably Ethiopia and Kenya, which have some of the continent's largest airline companies (Ethiopian Airlines and Kenya Airways). Likewise, port and transit activity in Djibouti and the horticulture sector, which is a large formal job provider in Ethiopia and Kenya, have also been hard hit by the global economic crisis

The crisis is also greatly heightening the fragility of the region's poorest countries, as they have few resources with which to tackle it. Somalia, Sudan, Burundi and Eritrea — some of the poorest African countries in terms of GDP per capita — are the only countries in the region, along with Djibouti, to have sunk into recession in 2020. Still politically and economically fragile, their governments have little financial leeway to respond to the shock. These countries are all debt-distressed: Eritrea and Sudan are also the last two African countries eligible for the "HIPC" debt relief initiative which have not yet benefited from it; Somalia's debt is being processed.

Central Africa: a second oil shock, only five years after the first

Still reeling from the 2015 crisis, the Central Africa countries had to face a second major economic shock. Most of the countries in the region are oil exporters (Congo, Equatorial Guinea, Gabon and Cameroon) and thus particularly exposed to price fluctuations. However, economic activity also shrank in the region's non-oil countries: in the Democratic Republic of the Congo, which was hit hard by the crisis given its dependence on copper and cobalt exports (90% of the country's total exports) and its trade with China (40% of its exports); in São Tomé and Príncipe, which suffered from the drop-off in tourism; and also in the Central African Republic.

The fall in prices has again put pressure on the fiscal and external balances of the region's oil-producing countries. After a period of continual borrowing in the wake of the 2015 shock, these countries had managed to significantly reduce their public deficits under the programmes concluded with the IMF. These fiscal adjustments gave them some leeway to deal with the shock linked to Covid-19. Yet, the crisis has impeded their efforts considerably - notably the progress of their discussions with the IMF on programmes both ongoing (Equatorial Guinea and Congo) and upcoming (Gabon and Cameroon) - and has led to further deterioration of their public finances. More importantly, the Central Africa countries have had to address this new shock with a much lower level of international reserves than in 2015. This decrease in reserves is thus a major challenge for the region, and the needs for external financing are still high (the current account deficit reached 6% in 2020).

Greater Sahel: a contained recession, but social challenges persist

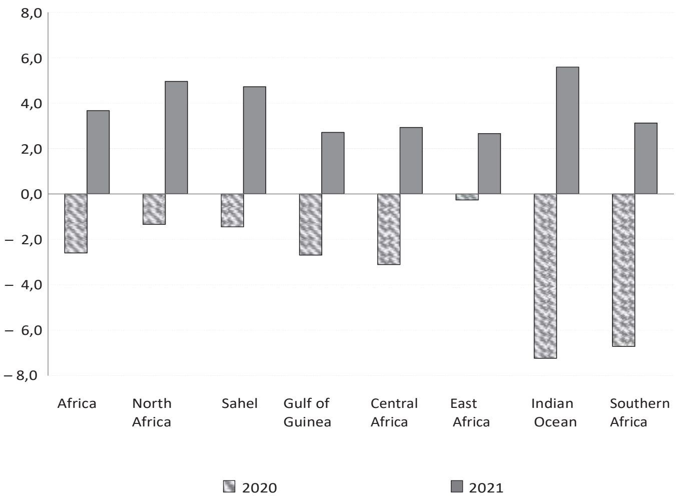
The greater Sahel region was not spared by the 2020 crisis, but the recorded recession was relatively contained (–1.4%), almost twice as low as the African average. The region's four largest economies — Senegal, Burkina Faso, Mali and Niger —, which represent nearly three-quarters of the region's total GDP, were buoyed up by the rise in gold prices (a safe haven investment in times of crisis, which marked up an increase of almost 30% in 2020). On the whole, they also rely very little on tourism (less than 1.5% of GDP on average) and foreign capital. The economic weight of the countries most exposed to the shock is in fact relatively limited: Chad and Mauritania, which depend on their oil and iron exports respectively and were thus hard hit by the fall in prices, represent less than one-fifth of regional GDP; Cabo Verde and Gambia, the two countries most dependent on tourism, only 4%.

The Covid-19 crisis nonetheless has put a stop to the growth dynamic recorded thus far and is threatening the region's fragile balance and its hard-earned development gains. In fact, economic growth declined sharply compared to its previous levels (it stood at +5,1% on average in 2017–2019, which is one of the highest levels in the African regions). Moreover, the shrinkage of GDP per capita spurs concerns about a rise in the poverty rates in the region, after several years of reduction. The economic crisis has thus come on top of three other crises that the Sahelian region has to face — the security, food and climate crises. This makes managing them more complicated and risks aggravating their consequences. As government fiscal resources are weak and public expenditure has in part been redirected into the fight against terrorism (security expenditures averaged 17% of GDP in 2019), the scope for support to fragile populations is limited.

The Indian Ocean: a deep recession after the fall-off in tourism

Indian Ocean countries have suffered greatly from international border closures and the drop-off in tourism. This sector accounts for a large share of the region's economies: around 7% of GDP in Madagascar and the Comoros, more than double that in Mauritius,

Figure 4. **Economic growth forecasts for 2020 and 2021**
(comparison of African regions)



Sources: IMF, World Economic Outlook Database, October 2020; AFD calculations.

and up to 40% in the Seychelles. While the Comoros managed to contain the recession (–1.8%), the shock was more powerful in Madagascar (–3.2%) and more so in the Seychelles (–13.8%) and Mauritius (–14.2%). These last two countries are particularly exposed to the global crisis given their high level of trade openness and financial openness.

Africa in 2021: support and sustain the recovery

Looking ahead to 2021, the IMF anticipates a rebound of growth in Africa, which could average +3.7%. This is expected to return to positive levels across all the regions (see Figure 4). The possibility of a swift or so-called V-shaped recovery nonetheless depends on several short-term challenges. While most African economies are able to absorb the consequences of such a scenario, others forms of recovery are not to be ruled out. For example, a (slower) U-shaped recovery, an L-shaped scenario (a stagnating crisis) or even a W-shaped one (temporary recovery followed by a relapse) would have considerably more destabilising effects on the continent's economic balances. The crisis has clearly brought to light long-term challenges that will also be decisive for a sustainable recovery of African economies.

Three short-term challenges affecting recovery

The trend of the pandemic and the recovery of the global economy. — Africa's rebound will depend in the short run on the development of the health situation and an upturn in demand. If the epidemic continues or accelerates in 2021, in Africa and worldwide, this could lead to new lockdown measures and border closures, with adverse impacts on economic activity and tourism. Conversely, a swift recovery of global demand, higher commodity prices and renewed confidence from foreign investors could have a positive impact.

The scope of economic destabilisation. — The countries' ability to rebound will also depend on the extent of economic destabilisation. At the moment, the magnitude of the economic shock and its deeper effects on the industrial fabric (following company closures), on the financial system and on employment are unknown. One thing, however, is certain. The depth of these effects will largely determine just how quickly economies are able to kick-start again. In addition, as far as public finances are concerned, a strong post-crisis deterioration of debt ratios could further constrain the possibilities of supporting the economy, even though this is critical during the recovery phase. For the moment, the IMF predicts a stabilisation of debt ratios in 2021 following an increase in 2020 (of about 7.5 percentage points on average in Africa, up to 66% of GDP), but this depends on many factors (recovery of growth, fiscal consolidation, updated debt sustainability analyses, etc.).

The mobilisation of international financial support in a context of uncertainty. — International support to accompany the recovery of African economies will remain a crucial ingredient. The initiative to suspend debt servicing, advocated by France and coordinated by the Paris Club, was an effective tool to free up fiscal space without increasing debt. Its extension into 2021, announced last October by the G20, is thus good news. The emergency financial support provided by multilateral and bilateral institutions (including 26 billion dollars from the IMF and 18.2 billion from the World Bank) has also provided States with additional resources. However, given the depth of the shock, additional financing will undoubtedly be needed: according to IMF estimates, Africa's financing needs will reach some 1,200 billion dollars for the period 2020–2023. Even though these needs are critical, they have been only partly met and sustainable financing solutions for African growth must be found. This is the objective of the summit to be held in May 2021 in Paris on "Financing African Economies", which will convene numerous Heads of State and governments, together with international donors.

Four long-term economic challenges for a sustainable recovery

Strengthen healthcare and social protection systems.
— The crisis has helped to raise a new awareness of the issues related to health and social protection on the continent. It has not only confirmed health as a "primary good", but also served as a reminder of the fragility of the healthcare and prevention systems, as well as the vulnerability of populations who have little access to basic water and sanitation infrastructure (one-third of Africans still have no access to a basic water supply and two-thirds no access to basic sanitation facilities). Inadequate social protection schemes have been another source of fragility in Africa, whereas in other regions of the world they have helped to cushion the consequences of lockdowns. If healthcare and social protection systems were improved, this would not only help to boost the balance and resilience of societies, but also increase human capital, which is a crucial driver of long-term growth.

Diversify to achieve greater economic resilience. — The dependency on commodities of many African countries and the role this has played in transmitting the shock have highlighted the need for economic diversification. This doubtless means developing industry — which represents less than 15% of the continent's GDP — but the agricultural and agri-food sector (which employs over half of Africa's working population) can also help to drive this diversification by promoting the local production of processed products through the creation of integrated activities and/or value chains. Private sector growth is also pivotal to tackling this challenge and is unquestionably one of the keys to the continent's prosperity as it will help to foster employment and value creation (see Chapter VI).

Make the most of the internal market and strengthen regional integration. — More broadly, the crisis has revealed Africa's dependence on foreign demand and the need to accelerate optimal exploitation of its internal market, as well as the need to strengthen regional integration. Apart from its immediate effects on demand, the crisis could potentially lead to a preference for short supply chains and a rise in protectionism on the continent's main export markets. To deal with this, Africa has an important asset: its own internal market – 1.2 billion people representing a GDP of 2,500 billion dollars —, which offers a potential outlet for its output. Accelerating regional integration could help to make the most of this internal market, particularly once the African Continental Free Trade Area (AfCFTA) has been set up as planned in 2021 (note that the Economic Commission for Africa estimates that the AfCFTA could boost intra-African trade by 52.3%).

Reinforce the financial capacity of the States. — The economic shock has exacerbated the fiscal challenges for many African countries and served as a reminder of the need to strengthen the States' financial capacities. For many African countries, these challenges existed before the crisis and reflect more particularly the shortcomings of public finance management and domestic resources mobilisation: public revenues account for less than 20% of GDP in nearly two-thirds of African countries. To remedy this, the States have several levers such as broadening the tax base and strengthening the tax authorities, improving the management of debt and state-owned enterprises, transparency, etc. These reforms will be crucial to achieving long-term improvements of the countries' debt trajectory and to freeing up the funds critically needed to finance a sustainable recovery.

Conclusion

Although the capacity of many African States to react swiftly is one of the main lessons of the crisis, its economic and social consequences are no less important. Exceptional both in its scope and depth, this shock has affected all of Africa's regions and all economic strata, with short and long-term impacts. But, like all crises, the Covid-19 crisis has had the effect of more clearly pointing up the priorities for the continent and the conditions for a sustainable recovery. The economic and social challenges are considerable and combine with other major challenges that the crisis has revealed a little more (e.g., the response to climate change, the challenges concerning young people or digital development). The continent has multiple assets that can serve to tackle these. Yet, to do so, the States need to rapidly work on integrating these challenges into their response to the crisis. If priority is indeed to limit the impacts of the shock, the real yardstick of their success will be the coherence between the immediate responses deployed and these long-term challenges. The major international and African events scheduled for 2021 are an opportunity to revisit these challenges and the solutions to be applied (see the timeline at the end of the book).

Definition of the regions

North Africa: Algeria, Egypt, Libya, Morocco, Tunisia.
Southern Africa: South Africa, Angola, Botswana, Eswatini (ex-Swaziland), Lesotho, Malawi, Mozambique, Namibia, Zambia, Zimbabwe.
Gulf of Guinea: Benin, Côte d'Ivoire, Ghana, Guinea, Liberia, Nigeria, Sierra Leone, Togo.
East Africa: Burundi, Djibouti, Eritrea, Ethiopia, Kenya, Uganda, Rwanda, Somalia, Sudan, South Sudan, Tanzania.
Central Africa: Cameroon, Congo, Gabon, Equatorial Guinea, Central African Republic, Democratic Republic of the Congo, São Tomé and Príncipe.
Sahel: Burkina Faso, Cabo Verde, Gambia, Guinea-Bissau, Mali, Mauritania, Niger, Senegal, Chad.
Indian Ocean: Comoros, Madagascar, Mauritius, Seychelles.

Definition of country categories

The IMF distinguishes several groupings of African countries.

1) On the one hand, the **resource-rich countries**, that is:

— the *oil-exporting countries*, which are the countries where net oil exports make up 30% or more of total exports (Algeria, Angola, Cameroon, Congo, Gabon, Equatorial Guinea, Libya, Nigeria, South Sudan, Chad);

— the *other resource-intensive countries*, which are those where nonrenewable natural resources represent 25% or more of total exports (South Africa, Botswana, Burkina Faso, Ghana, Guinea, Liberia, Mali, Namibia, Niger, Central African Republic, the Democratic Republic of the Congo, Sierra Leone, Tanzania, Zambia, Zimbabwe).

2) On the other hand, the **non-resource-intensive countries**, which are not classified as either oil exporters or resource-intensive countries (Benin, Burundi, Cabo Verde, Comoros, Côte d'Ivoire, Djibouti, Egypt, Eritrea, Eswatini, Ethiopia, Gambia, Guinea-Bissau, Kenya, Lesotho, Madagascar, Malawi, Morocco, Mauritius, Mauritania, Mozambique, Uganda, Rwanda, São Tomé and Príncipe, Senegal, Seychelles, Somalia, Sudan, Togo, Tunisia).