



Africa charts a course out of the debt crisis

The pandemic has put a spotlight on the continent's fragile economy, but there is a path forward to help vulnerable countries climb out of a debt pit.

As COVID-19 rages across the world, African countries are bearing the brunt of the economic fallout from the pandemic.

The continent's GDP shrank 2.1% in 2020, its first recession in more than half a century, and this is projected to grow by 3.4% in 2021, a lower growth rate than what was achieved in much of the past decade.

"The pandemic shock and ensuing economic crisis have had direct implications for budgetary balances and debt burdens," the African Development Bank (AfDB) said in its 2021 outlook. "The average debt-to-GDP ratio for Africa is expected to climb by 10 to 15 percentage points in the short to medium term."

COVID-19 cases in most African countries have not been as severe compared to other parts of the world, yet it exposed the continent's fragile status. Lack of healthcare infrastructure, meagre government reserves and a precipitous drop in commodity prices hurt revenues and foreign investments.

In addition, more than 85% of African trade is with the rest of the world, which was in lockdown for much of last year. The continent's tourism sector, which was soaring pre-pandemic, also took a hit as global air travel was suspended for most part of the year, according to AfDB.

Indeed, COVID-19 has arrested Africa's impressive growth achieved over the past few decades. The hope is that this is a temporary setback for a continent that holds a lot of promise.

GROWING RISK OF POVERTY

Africa's GDP growth was above the global average for much of the past decade, while poverty rates had declined to 41% (or 400 million) of the population from 54% in 1990, further dropping to 23% by 2030, according to a World Economic Forum forecast published in February 2020.

But the AfDB now estimates around 39 million Africans could fall into extreme poverty this year. As many as 14 countries in Africa were rated at high risk of debt distress, while six were already distressed. Another 16 countries have a moderate risk of debt distress, while only two are considered at low risk. Zambia defaulted on its debt last November, highlighting those concerns even more.

Worryingly, credit rating downgrades loom for many countries that could further exclude them from tapping international capital markets and deteriorate their financial stability, leading to a 'lost decade' for the continent.

Most likely, African states will need to take on more debt, with AfDB pegging the number at USD 154 billion in 2021 alone to respond to the crisis.

"Unless we take decisive action on debt and liquidity challenges, we risk another 'lost decade' for many developing countries, putting the achievement of the SDGs by the 2030 deadline definitively out of reach", according to UN secretary-general António Guterres.

While G20 nations and other multilateral institutions have granted temporary debt relief to many African countries, the regional countries still need to find ways to manage their economies, support growth, look after their people and eventually service the debt.

Oxfam International, the social activist firm, says G20 nations should cancel debt payments of the 76 poorest countries that could save USD 40 billion immediately and support almost 500 million of the world's poorest to survive this crisis.

THE PATH FORWARD

This is no time for half measures. Luckily, there are building blocks to take the continent forward despite the headwinds.

The continent's 54 nations launched the African Continental Free Trade Area (AfCFTA) in 2018, which created an intra-Africa trading bloc.

The World Bank says the pan-continental trade union could generate USD 450 billion in additional income, increase exports by USD 560 billion, lift 30 million Africans out of extreme poverty and raise the incomes of 68 million.

The need of the hour is to strengthen that network.

The AfCFTA can be a "game-changer," says the Africa Finance Corporation's chief economist Rita Babihuga-Nsanze, adding that it could help Africa break its debt cycle.

The Brookings Institution recommends countries curb capital flight to create fiscal space and ensure government programmes reach their targets, and deploy domestic resource revenue to finance green energy and digitalisation infrastructures.

"Resource mobilisation should not be restricted to tax revenue, in part because tax increases would be procyclical," according to the Washington-based institute. "Resource mobilisation should also be about a better allocation of savings toward productive investments."

Second, vaccine rollouts will be crucial to accelerate future growth.

The Africa Centres for Disease Control and Prevention (CDC) says the continent needs 1.5 billion vaccines to inoculate 60% of the population. Procurement and effective rollouts are key for African states to stabilise their economy towards normalcy.

While austerity will be key, African governments will also need to rethink infrastructure developments and proceed with projects that are in line with job creation and sustainable economic policies.

GOVERNANCE RESET

It is also a time for the Great Reset in Africa. Good governance and sound policy measures rooted in data and the needs of a country are vital for African nations' future prospects.

Finally, African states must proceed with digitalisation of their economies. While there are a number of success stories of digital innovation in the continent, the Internet needs to be available across the region to unlock growth.

Only 28% of the region's population has access to the Internet, while mobile downloads are, on average, more than three times slower than its global peers, according to the International Monetary Fund.

Extending Internet access to 10% more of the population could increase real per capita GDP growth by 1 to 4 percentage points, boost business sales by 2.6 times and enable digital firms to create eight times more higher skilled, full-time jobs.

Never let a crisis go to waste – the COVID-19 curse could be a turning point for the continent.