THEMATIC RESEARCH DECEMBER 2022 BIANNUAL RESEARCH WORKSHOP

Plenary Session Concept Note

African Economies:

Recovery Agenda from Multiple Shocks

December 2022

African Economic Research Consortium
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1. Introduction

African economies by and large weathered multiple negative global shocks in the last two decades and remained resilient even when the Covid-19 pandemic hit hard the core of key macroeconomic indicators. Previous shocks, such as the global financial and economic crisis of 2008/9, the collapse of commodity prices in 2013 and the Covid-19 pandemic that begun in early 2020 all led to a V-shaped like impact where most African economies recovered a year after a dip in their economies. In the case of Covid-19 pandemic, African economies recovered from a recession of around -4.8% in 2020 to estimated GDP growth of 1.6% in 2021 and projected growth of 6% in 2022 (this projection was made before the war in Ukraine)[1]. However, the frequency and intensity of multiple shocks could erode economic fundamentals and cause permanent damage that could take years to mend. The war in Ukraine precipitated inflationary pressures, increased debt-service burdens, disrupted further global value chains and elevated the risk of another recession in many African countries. Most importantly, the frequency and severity of climate related shocks are increasing in Africa. Recent studies have shown that average temperature in Africa crossed the 1-degree centigrade increase in 2015 from a base line of climatology prevailing during 1950-1980 and continues to rise. The impact on GDP growth is large and significant. A 1°C rise in temperature after 30°C could lead to a 2 percentage points decline in real GDP growth, undermining positive shocks, such as commodity price booms, and amplifying negative shocks[2] and most importantly diminishing domestic resource mobilizations, hence increasing debt.

Most importantly the economic fundamentals of most African economies have not changed much in the last three decades. Investment[3], domestic savings, government revenue and economic structure remained unchanged, while factors such as urbanization, population and unemployment are rising. We also observe today an overstretched resource envelope to mitigate COVID-19, low productivity in agriculture arising from climate change, low value addition from manufacturing sectors and persistent trade barriers in the region that globally calls for new approaches in handling structural shocks. The outcome is declining economic activity, rising poverty and inequality, in fact, the Covid-19 has wiped the efforts in the last two decades or so on growth, fighting poverty and inequality. With low adaptation and implementation of dynamic structural transformation strategies emanating from lower capital accumulation, some of the development initiatives that could have spurred Africa out of poverty trap have been elusive. For instance, the failure of import substitution strategy for Africa's industrialization was due to lack of capital accumulation to upgrade industries and was based on capital intensity in a capital-scarce region. Unfortunately, when incentives to raise capital accumulation are rolled out institutional bottlenecks emerge that result in underachievement in economic growth trajectories. What we now observe are new challenges of youth unemployment, declining food production, institutional problems that lead to policy failure. Where there is institutional failure, rents and capital flight deny the citizens much needed economic stability. Strong institutions improve allocative efficiency of the economy, as property rights and right valuation to factor endowments attracts high valued investments. Some initiatives are looking up, for instance the 2000 decade witnessed the formation of longterm visions – Vision 2025 in Rwanda, Vision 2030 for Kenya, etc. – A promise of long-term periods of policy clarity and coordination.

1 AEO (2022)
https://www.afdb.org/sites/default/files/documents/publications/african_economic_outlook_2022_web.pdf
2 Asafu-Adjaye et al (2022)
3 Between 1990 and 2021, the share of Gross capital formation in GDP remained almost flat hovering around 22% with huge variation across countries
(https://data.worldbank.org/indicator/NE.GDI.FTOT.ZS?locations=ZG) . The same for domestic savings (https://data.worldbank.org/indicator/NY.GDS.TOTL.ZS?locations=ZG) and revenue which remained unchanged over the last three decades.

2. Objectives of the AERC December 2022 Biannual Plenary

The AERC's Biannual Plenary is one of the most respected and highly regarded events that over three decades continued to attract world class development economists and experts on African economies. The insights presented in this plenary offer fresh perspectives and define new frontiers of research that respond to the pressing needs of policy makers. It does mean that the AERC network can generate papers on diverse topics that will serve as inputs to the discussions and policy choices. There are several issues here: debt, domestic and external, taxation models and instruments and the outcomes either measured in terms of tax effort or matching required expenditures – that debate across the continent will ignite new ideas for innovative mechanisms of resource mobilization mix. Resource mobilization strategies for funding African productive and social sectors are arguably orthodox in nature. The question now is how research can inform a new thinking on taxation, diverse domestic resource mobilization options, debt management and resolutions that will support practical choices of financing development. Narrow tax bandwidth[4] and repayment of debts from the budgets is a persisting headache to resource mobilization. Approaches such as private sector engagement in financing development in public -private partnerships in the social and productive sectors provides a paradigm shift in the economic recovery agenda.

The extent of African economies resilience to shocks of climate change is yet another critical challenge. Resource mobilization to maintain integrity of the African green space is dependent on external funding with miniscule allocation from African governments. This trade-off between exploiting the forests, low carbon emission development approaches are likely to muffle African growth prospects in industrialization. Additionally, in economic sense the productivity shocks on agriculture, food security and land productivity due to the climate change cannot be taken lightly. There is evidence that points to increasing poverty and inequality induced by climate change and this is beyond the argument of marginal areas, the totality of the economies in the horn of Africa for example. The commitments by international development partners to finance the climate change initiatives are not coming forth as fast as expected to provide a stopgap to resource challenges in Africa. There are areas that can be harnessed with domestic resources, like creating shallow water wells for pastoralist that would safe their wealth and minimize conflicts in those marginal areas. In this premise, the deliberations on Africa's economic recovery agenda must weigh in the benefit and cost of 'act now' and 'act later' which might be costly to future generations.

Even after regional integration agreements and treaties the African regional trade has not grown substantially as had been premised or expected. Currently intra-Africa trade stands at 15.4%, and Africa's share of global GDP trade estimated at 2.6%, despite a population accounting

16.3% of the world population. But there are some notable progresses in some sub-regions where integration in trade, finance and labor mobility is improving fast. The COVID-19 pandemic restrictions of movement across borders, the low development in the manufacturing sector, and meagre value addition of primary resources in Africa and dependency on food and durable goods imports outside the continent are evolutionary bottlenecks that cannot be wished away. Harnessing the full benefits of AcFTA (Africa Continental Free Trade Area) agreements and strengthening the regional integration and regional trade prospects are new avenues for exploiting the limitless opportunities. There are emerging concerns about value addition and value chains that particularly touches on global value chains. Projecting innovative pathways to unlock the free movement of goods and service, people and capital and global competitiveness are imperative for economic recovery agenda in African economies.

4 Fewer citizens in the formal sector are heavily taxed.

From the above set of points and arguments, the December 2022 Biannual Plenary theme encompasses the following topics of interest to forge the agenda of recovery and resilience and initiate a brainstorming event between academics, practitioners, and policy drivers:

1. **Profiling multiple shocks in Africa and how they will affect the path to recovery**
   - The recovery agenda from shocks is better understood by profiling the multiple shocks and examining the variations in responses between countries. At the continental level, close to 60% Africa's GDP growth is explained by temporal, cyclical factors, but with large variance across countries. What is common and unique about different shocks experienced by African countries in the last two decades in terms of impact, persistence, and frequency? For instance, Annex Figure 1 illustrates some countries are more prone to natural disasters than others, but the impact may not be uniformly distributed. Hence it is helpful to explore what explains most the vulnerability of countries to shocks? Beyond policies, how do political economy factors shape responses to shocks, preparedness, early warning systems and institutional readiness to mitigate future ones?

   - What is the emerging experience with regards to recovery from the Covid-19 pandemic shocks and how is the war in Ukraine impeding this recovery?

   - One of the significant differences between countries on the consequences of global shocks, such as Covid-19 pandemic, climate induced shocks or the war in Ukraine is the availability of social protection to the affected population. What are the pros and cons of instituting and expanding social protection coverage in Africa, which has seen some growth recently? According to ILO statistics[5], currently only 17% of Africa's population is covered at least under one form of social protection which is significantly lower than any other regions of the world. How has the Covid-19 shaped the uptake on social protection by policy makers in Africa?

2. **The path to recovery: debt resolution and fiscal sustainability**
   - Estimates put that the debt-GDP ratio for Africa increased from about 63% in 2019 to over 73% in 2020 and is projected to increase further. The number of countries at high risk of debt distress and risk of default has increased significantly. The approach so far pursued by creditors is proclivity to business as usual: debt restructuring, reprofiling followed by an IMF-program. Experience has shown that this approach has failed multiple times. What new approaches can be explored for Africa's debt resolution? The war in Ukraine has further complicated the situation by increasing the risk of debt repayment leading many countries to risk of default. How in this scenario SDR reallocation6 could be used to cushion most countries to accelerate recovery and forge inclusive growth?

   - In addition, could there be an avenue for a new debt-sustainability framework that is forward looking, predicated on debt-investment-growth nexus that also accounts for shocks?

3. **State capacity and domestic resource mobilization (DRM)**
   - Strong fiscal stance is required to absorb multiple shocks. Most African countries have taken steps to improve the capacity of the state to mobilize resources. Are they adequate? What institutional reforms can leverage an efficient and optimal DRM model.

   - What kind of shift in social contract is needed to build trust in taxation structure for the government to mobilize domestic resources?

4. **Building resilience to withstand future shocks**
   a. Within the framework of existing regional economic communities, how have countries benefited in coping with the Covid-19 pandemic through regional coordination? Are there lessons on opportunities lost for future management of shocks?

   b. Going beyond the traditional view of regional integration, how could African countries harness untapped economic benefits of regional integration and regional trade agreements in African economies, particularly in designing smart industrialization that hinges on productive knowledge nodes, economic complexity to map comparative advantages?

   c. Global and regional value chain restructuring – How to enhance value addition to ignite domestic production and strengthen prospects of integration in global value chains and competitiveness in Africa economies.

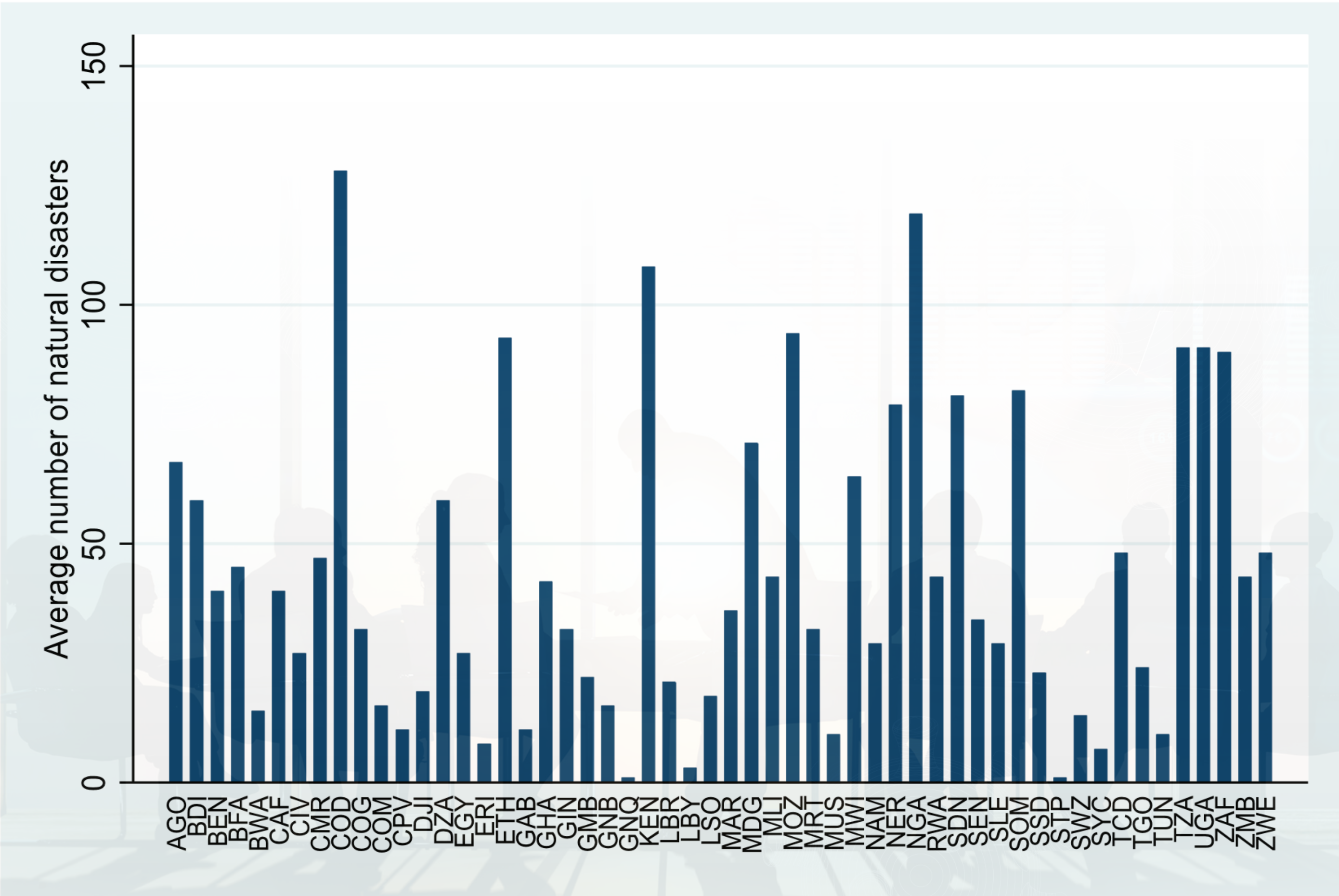
5 See ILO https://ilostat.ilo.org/topics/social-protection/

6 See the compelling discussion on SDR reallocation by Herman (2020), https://www.tandfonline.com/doi/pdf/10.1080/05775132.2020.1802178?needAccess=true and Gallagher, et al (2020)

3. Expectations

This theme and the panel discussions will set the stage for frontier research by lead academics by charting out the profile of multiple shocks, their impacts, the path to recovery and building resilience to prepare for the future. The AERC commissions papers that provide a better understanding of the shocks-recovery-resilience nexus in Africa and provide policy recommendations. The commissioned papers will explore areas that previously either have been under investigated or are overlooked for various reasons to provide a comprehensive perspective on the importance of shocks and the opportunities they present for implementing innovative, bold, and comprehensive policy reforms. The December Biannual Plenary will be followed by the June 2023 Biannual where fully developed papers that benefitted from the interactions with policy and decision makers will be presented to a wider community of researchers, practitioners, and policy makers. The papers will be published as Working Paper Series of AERC as well as special issue of the Journal of African Economies in the fall of 2023. Through this practice, the AERC hopes to inspire young African researchers by exposing them to emerging topical and policy relevant issues on themes and learn from senior academics as they exposit challenging and intractable development problems.

Annex Figure 1: Average number of natural disasters in Africa by country: 1990-2020



Source: AERC computations based on data from FAOSTAT

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