

African economies and overlapping crises: How to respond to the rising global headwinds?

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African economies under multiple headwinds

The COVID-19 pandemic triggered a profound setback after a quarter-century of economic and social progress. Insecurity and political instability are becoming pervasive across Africa. The Russian-Ukrainian war is exposing millions of people to food insecurity, and the most vulnerable are the hardest hit as a large share of their income goes to food and transport spending. This is compounded by a harsh drought in the horn of Africa¹ that has affected food supply and food security. In parallel to these shocks that will likely have lasting consequences, African economies still suffer from several structural challenges including the effects of climate change.

As of the end of October 2022, the COVID-19 pandemic cost the lives of around 175,000 people, with more than 9 million reported cases in the continent according to the World Health Organization (WHO).² Thanks to effective policies and “good luck,” the health impact is lower than initially predicted. However, even though Africa is less affected compared to the other regions of the world, the economic impacts remain one of the highest. The real Gross Domestic Product (GDP) declined by 1.8 percent in 2020³—for the first time in more than 25 years—pushing 23 million people into extreme poverty according to the World Bank,⁴ exacerbating inequality, and shrinking fiscal space. Africa’s Human Development Index also fell for the first time in nearly three decades.⁵ The recovery itself is dragged and uneven because of unequal access to vaccines and slow vaccination progress, protracted conflicts and political instabilities, and the Russian-Ukrainian war. GDP growth is expected to slow down in 2022 (3.7 percent) compared to 2021 (4.8 percent).

According to Institute for Economics and Peace (IEP)’s Global Terrorism Report 2022, six out of the 10 countries most impacted by terrorism in the world are in Africa.⁶ Four of the six deadliest countries are located in Africa (Mali, Niger, Somalia, and Burkina Faso) and they accounted for 77.3 percent of total terrorism deaths in 2021 (3,223 deaths). This terrorist insecurity triggers political instability. Between 2020 and 2021,

1 NASA-Earth Observatory. 2022. “Worst Drought on Record Parches Horn of Africa”. National Aeronautics and Space Administration.

2 WHO. 2022. “WHO Coronavirus (COVID-19) Dashboard.” World Health Organization.

3 IMF. 2021. “Regional Economic Outlook Sub-Saharan Africa”. International Monetary Fund.

4 Abay Kibrom A., Nishant Yonzan, Sikandra Kurdi, and Kibrom Tafere. 2022. “Africa might have dodged a bullet, but systemic warnings abound for poverty reduction efforts on the continent.” World Bank Blogs.

5 UNDP. 2022. Human Development Report 2021/22 <https://hdr.undp.org/content/human-development-report-2021-22>.

6 IEP. 2022. “Economics and Peace Global Terrorism Report Measuring The Impact Of Terrorism”. Institute for Economics & Peace.

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at least six successful and one attempted coup were perpetrated in Africa⁷ (two in Burkina Faso, one in Chad, two in Mali, one in Guinea, one in Sudan, and one attempted coup in Guinea-Bissau).⁸ This political instability not only impedes economic recovery, but sets back more than 30 years of democratic progress.

The Russian-Ukraine war further compounds the challenges to economic recovery. The war and subsequent economic sanctions against Russia increased energy prices, triggered food inflation, tightened financial conditions, and caused global uncertainty. Brent oil price went above the \$100/barrel mark for the first time since 2014, creating a ripple effect on other prices and challenging the green energy transition.

Although the imports from Ukraine and Russia—as a share of Africa's total imports—are small, many countries rely on these countries for critical imports including wheat and fertilizers. For example, about 30 percent of Kenya's imported wheat comes from Russia and Ukraine, and in 2021, 44 percent of Cameroon's fertilizer imports came from Russia.⁹ As a result, 346 million people (a quarter of Africa's total population) are facing severe food insecurity.¹⁰ In Kenya, the supply disruption and the increase in wheat price will affect the production and the price of bread, which is the third most consumed food item in the country.

Moreover, the pandemic and war in Ukraine have created a highly polarized world—unprecedented since the Cold War, which undermines the international community's capability to come together and address the world's most pressing issues. Under such circumstances, how can African policymakers properly navigate the multiple headwinds?

How African countries can deal with multiple headwinds

Addressing food insecurity diligently

Africa is home to 60 percent of the world's uncultivated arable land. This contrasts sharply with the African continent's incapacity to feed itself.¹¹ In 2022, the African population will be equivalent to the Chinese and Indian populations. Figure 5 displays the historical evolution and projections of the population of Africa, China, and India based on the U.N.'s medium fertility scenario. As shown on the graph, Chinese and Indian populations reach a tipping point and will decrease over the coming years.

7 The Conversation. 2022. "Vague de coups d'État en Afrique : on les appelle désormais des réinterprétations constitutionnelles."

8 Assogba, Henri. 2022. "Vague de coups d'État en Afrique : on les appelle désormais des « réinterprétations constitutionnelles." The Conversation.

9 Sen, Ashish Kumar. 2022. "Russia's War in Ukraine Is Taking a Toll on Africa." United Nations Institute of Peace."

10 FAO, ECA, and AUC. 2021. "Regional Overview of Food Security and Nutrition 2021: Statistics and trends." Food and Agriculture Organization.

11 Plaizier, Wim. 2016. "2 truths about Africa's agriculture." World Economic Forum, Davos.

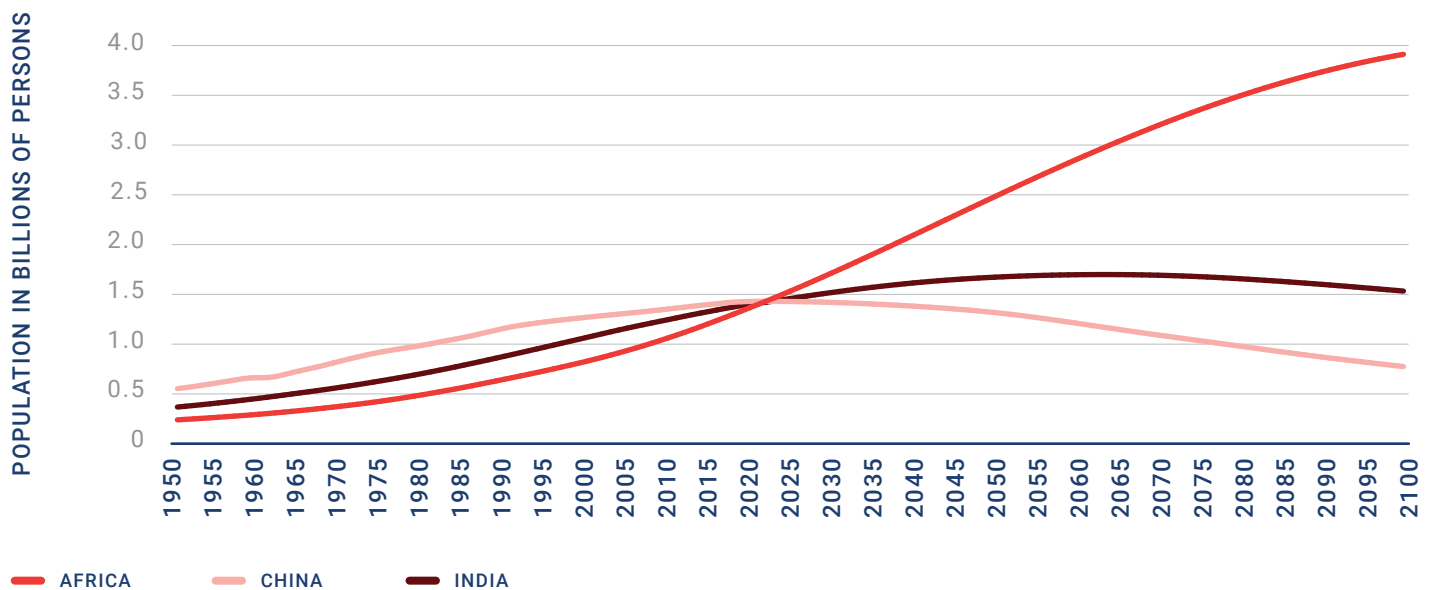
By contrast, the African population will continue to grow over the next eight decades. In less than 40 years, the African population is expected to be greater than the Chinese and Indian populations combined. Feeding this population under climate change is one of the greatest challenges for Africa.

Beyond the short-term emergency to address the threat of food insecurity caused by the Russian-Ukrainian war, African countries have an opportunity to draw lessons from this crisis and bring their agricultural sector up to par. This includes, but is not limited to, investing in supporting technologies, building fertilizer factories, and building climate resilience by investing in climate-smart agriculture and adaptation. Food security and climate change should be developed into a strategic policy design. Education is also key to improving agricultural labor productivity. Failing to feed a young and fast-growing population can turn the expected demographic dividend into a demographic time bomb.

FIG.5

HISTORICAL POPULATION AND PROJECTIONS BASED ON THE UN'S MEDIUM-FERTILITY SCENARIO: AFRICA, CHINA, AND INDIA

By the time Africa's Agenda 2063 comes to a close, Africa will have as many inhabitants as China and India combined. It will also have a third of the world's working-age population.



Source: United Nations World Population Prospects 2022. 2022.

Fostering macroeconomic stability

The pandemic and the successive negative shocks dramatically deteriorated macroeconomic fundamentals in many African countries, particularly the sovereign debt balance. As of February 2022, 23 African countries were either in debt distress or at risk of it.¹² Fiscal space and sound macroeconomic conditions will be key to properly respond to the various shocks faced by African economies. Improving efficiency in public spending, and mobilizing more domestic revenue by increasing tax administration efficiency, can contribute to building fiscal space and a sound macroeconomic framework, which is fundamental to sustaining economic recovery. However, achieving this (i.e., improving tax revenue collection and public spending efficiency) may entail structural reforms including technology adoption and fighting against corruption.

Inclusive and equitable recovery policies

Crises and recovery are uneven within and between countries. While the most vulnerable are hit the hardest, they also experience slower recovery than the others. To ensure that no one is left behind, recovery policies need to be inclusive and equitable. For instance, governments should pay attention to people falling into extreme poverty due to the COVID-19 pandemic and to those at risk of falling under the poverty line, and design policies that could help people to bounce back. Governments can also leverage digital financial services to improve access to finance for the most vulnerable population.

People's vulnerability, political unrest, and political instability

Insecurity, vulnerability, and social unrest hinder political stability and development prospects. The current food insecurity and terrorism in the Sahel heighten the risk of social unrest on the continent. Governments need to take adequate measures to avoid setbacks in democratic progress. To support an inclusive recovery, governments should engage in reducing people's vulnerability and developing social safety nets.

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12 Harry Verhoeven. 2022. "China has waived the debt of some African countries. But it's not about refinancing". The Conversation.