EXECUTIVE SUMMARY

United Nations
Economic Commission for Africa

ECONOMIC REPORT ON AFRICA 2023

Building Africa's Resilience to Global Economic Shocks

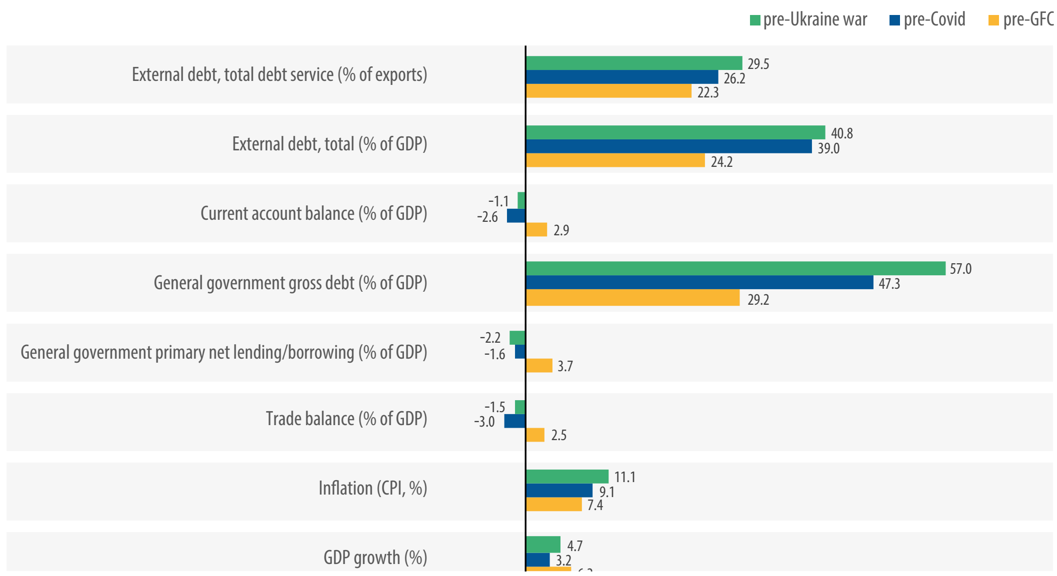
The theme of the 2023 Economic Report on Africa is "Building Africa's Resilience to Global Economic Shocks." The report focuses on the impact of multiple and recurring global shocks on African economies. It examines how these shocks impede Africa's prospects of reaching the targets set in the Sustainable Development Goals (SDGs), how to achieve inclusive economic transformation and how to build resilience.

The analytical and conceptual framework used in the report outlines a typology based on the magnitude of the shocks and on the resilience or preparedness of economies to withstand and buffer the shocks and identify pathways for sustainable recovery.

Shocks of various magnitude, duration and recurrence have shaped economic performance in the last several decades. They have undermined Africa's aspirations for sustained growth and rapid economic transformation and benefiting from demographic (youth bulge) and geographic (urbanization) trends. They have also had scarring effects that make it difficult for African economies to recover fully even after a short-lived shock such as the global financial crisis. More important, their damage could morph into other domains such as political instability and conflict, thus undermining recovery and the resilience to future shocks.

The report also emphasizes the opportunities to implement long overdue structural and public finance reforms—and to take full advantage of regional initiatives such as the African Continental Free Trade Area—to reduce Africa's exposure to external shocks.

AFRICA'S CONDITIONS BEFORE THE UKRAINE WAR AND BEFORE PREVIOUS CRISES



Source: IMF World Economic Outlook

KEY FINDINGS

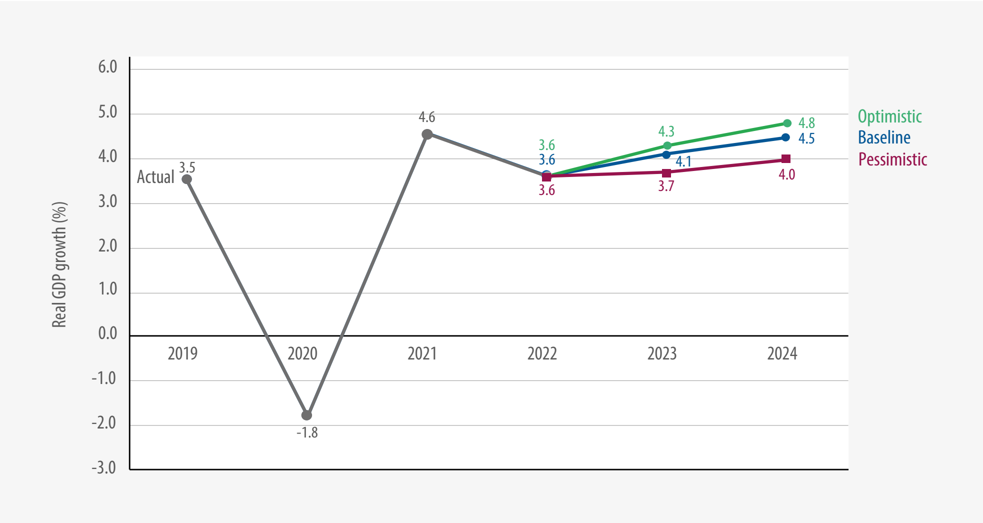
- African economies have in the last two decades been shaken by multiple and recurring global shocks that hit key macroeconomic indicators. Though fragile, recovery has also been observed in many cases.

- The global financial and economic crisis of 2008–09, the collapse of commodity prices in 2013, the COVID-19 pandemic that began in early 2020 and the war in Ukraine (2022–present) have led to various patterns of recovery across African economies, with some countries recovering faster and more robustly than others.

- The COVID-19 pandemic had a bigger impact on African economies than the global financial crisis. It is even expected to have long-term effects on the key drivers of growth, trade, and capital flows. Per capita GDP declined by about 6 per cent, pushing more than 20 million people into extreme poverty in an unprecedented reversal. A similar trend is expected from the consequences of the war in Ukraine.

- The global economic slowdown, elevated inflationary pressures, climate change and worsening international economic and financial conditions reduced Africa's growth from 4.6 per cent in 2021 to 3.6 per cent in 2022, but it is projected to rebound to 4.1 per cent in 2023. But the frequency and intensity of multiple shocks could erode economic fundamentals and cause long-term damage that could take years to mend.

REAL GDP GROWTH IN AFRICA, 2019–24



Source: Based on data from UNDESA (2023) and ECA (2023).

Note: Data are estimated for 2022 and projected for 2023

The war in Ukraine indeed hampered recovery from COVID and hit African countries that depend on Russia and Ukraine for imports of oil, fertilizers and grains. It brought soaring inflationary pressure and severe food insecurity and sent many vulnerable people back into poverty. Indeed, in addition to the higher absolute numbers of food insecure people in Africa, the rates of food insecurity are much higher than in other regions: 56 per cent compared with the 28 per cent world average. Food insecurity is most pronounced in Central Africa (72 per cent three-year average over 2019–21) and Eastern Africa (66 per cent).

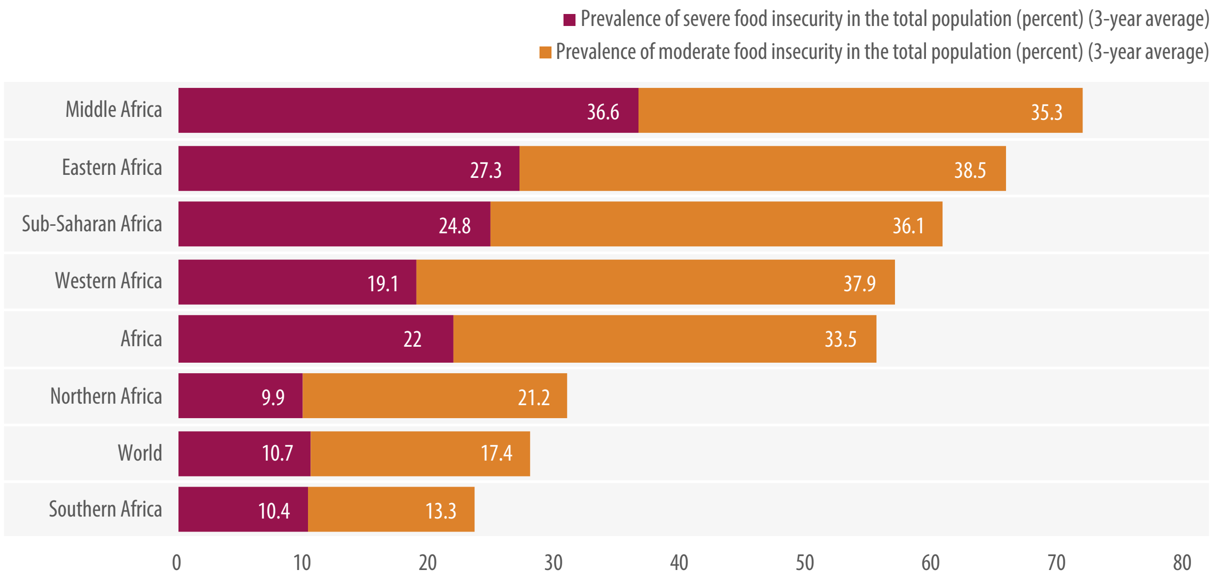
In Central Africa, the Central African Republic is the most affected with about 62 per cent of the population experiencing severe food insecurity. In Eastern Africa, the most affected countries are Comoros with moderate or severe food insecurity reaching 80 per cent, the Democratic Republic of Congo (72 per cent) and Ethiopia (57 per cent).

Except for 10 countries, Africa has experienced higher inflation since the outbreak of the war in Ukraine, mainly driven by food inflation. The 10 exceptions are Libya, Niger, Algeria, Côte d'Ivoire, Guinea, Benin, Togo, Zambia, Angola and Ethiopia, where inflation has been stable or declining.

The war in Ukraine also increased the debt-service burden, further disrupted global value chains and increased the risk of another recession in many African countries.

PREVALENCE OF FOOD INSECURITY IN THE TOTAL POPULATION, 2019–21

(PER CENT, THREE-YEAR AVERAGE)



Source: FAOSTAT.

RISK, EXPOSURE AND VULNERABILITY TO CLIMATE-RELATED SHOCKS IN AFRICA BY REGION

	WORLD RISK INDEX	EXPOSURE	VULNERABILITY	SUSCEPTIBILITY	LACK OF COPING CAPACITIES	LACK OF ADAPTIVE CAPACITIES
World	4.11	1.05	20.39	15.86	11.77	44.35
Africa	4.33	0.7	31.26	30.18	14.8	60.43
Central Africa	4.72	0.86	51.21	33.12	58.49	62.89
East Africa	3.86	0.55	32.74	34.12	15.38	61.93
North Africa	10.21	3.91	37.38	21.72	49.12	47.74
South Africa	1.82	0.14	25.04	26.37	11.96	54.19
West Africa	3.58	0.44	29.74	30.79	13.46	61.3

Source: Compiled from the World Risk Report (2022: 47).

- Other major shocks destabilizing Africa are related to climate change, with the frequency and severity of climate shocks increasing. The impact on GDP growth is large and significant. A 1C rise in temperature above 30C could lead to a 2-percentage point decline in real GDP growth, undermining the gains from positive shocks, such as commodity price booms, amplifying the impacts of negative shocks, and diminishing domestic resource mobilizations, thus increasing debt.

- That the economic fundamentals of most African economies have not changed much in the last three decades is a major concern for the continent's capacity to withstand and recover from shocks. Investment, domestic savings, government revenue and economic structure remained unchanged, while urbanization, population density and unemployment are rising.

- Combined with an overstretched resource envelope to mitigate Covid-19, low productivity in agriculture—persistent trade barriers in the region—financing for recovery has become increasingly difficult. And countries are struggling to find the resources necessary to respond to shocks. The level of debt in developing countries has increased, and the cost of borrowing has risen.

All of this calls for new approaches to structural shocks on a global scale.

THE WAY FORWARD

IMPROVING RISK MANAGEMENT AND BUILDING RESILIENCE STRATEGIES

Global crises have become a new normal. Successive shocks have had scarring effects, and it has become difficult for African economies to recover fully even after a short-lived shock. It is difficult to isolate the individual impacts of these shocks to draw specific policy implications due to their overlapping occurrence and recurrence. But the report identifies strategies and policy reforms needed to improve the capacity of African countries to counter the impacts of multiple and recurrent shocks on short-term and long-term economic performance, business development and household welfare. The guiding principle is to develop strategies that enable countries to move to a state where the magnitude and recurrence of shocks are minimized through mitigative and adaptive actions, while building resilience that alleviates the impacts of shocks and speeds up the recovery.

DEVELOPMENT PLANNING AND GOOD GOVERNANCE

Strengthening the capacity to design development plans that anticipate shocks and formulate proactive response measures is a primary factor in developing a country's resilience to shocks. National development plans provide a coordinated framework for countries to design, implement and monitor strategies that advance their development priorities in accordance with their international obligations. Invariably, well-designed national development plans must anticipate and proactively respond to disruptions. Through the development of risk-informed macroeconomic and sector strategies, resilience-building can be hard-wired into the national planning framework, and sectoral strategies can promote and sustain growth without compromising macroeconomic stability.

STRUCTURAL TRANSFORMATION THROUGH SMART INDUSTRIAL POLICIES

Achieving sustainable growth and building resilience require structural transformation. Successful industrial policy requires both sectoral focus as well as getting the basics right. Separating the two may be hard, but it is essential for countries to identify optimal combinations of policy actions to nurture an industrial program. The broad lessons are that the current global economic architecture affords opportunities for African countries to leapfrog and accelerate industrialization through careful experimentation of what has worked elsewhere and adapting it to local conditions.

Firm survival and growth in Africa are closely linked with exporting, working with international capital and international or global firms, adopting international managerial norms and standards as well as developing industrial clusters. These elements come in different shades depending on the type of firms and their technology intensity. Broadly, however, three economic fundamental gaps require attention to get the basics right: skill gaps; infrastructure gaps and overall institutional quality gaps.

PROMOTING REGIONAL VALUE CHAINS

The African Continental Free Trade Area (AfCFTA) signed in 2018 encapsulates Africa's aspirations for greater integration. It builds on previous efforts to promote intra-Africa trade with a proposal for deep integration in trade and investment, which could create millions of jobs and reduce poverty significantly. But other opportunities less explored in the AfCFTA could build enormous resilience to shocks and provide opportunities for accelerating Africa's drive for industrialization and agricultural transformation. One clear example is the potential for engaging in regional value chains, of high significance in the current environment where global value chains have been severely disrupted by the Covid-19 pandemic and more recently the war in Ukraine.

In addition, the simmering multipolar geopolitics could also create potential disruptions for which African countries need to be prepared and take advantage of the emerging opportunities, rather than suffer from the risks. Some sectors amenable to the creation of value chains are already emerging where collaborations in services, particularly those driven by technological advances, could be harnessed. The potential for regional value chains exists in agricultural products (agro-processing) and light and medium manufacturing processes.

Countries could collaborate in creating, for example, regional agricultural commodity markets that would help to connect surplus economies with net importers for wheat, sugar and rice. This certainly would reduce dependence on Russia and Ukraine, which is shaking up macroeconomic stability in most countries. Financial integration could also protect the continent from the vicious cycle of debt distress and liquidity crunches through regional bond markets that would enhance savings mobilization, risk pooling and funding for regional and national infrastructure.

ENHANCING GLOBAL COOPERATION

There is a unique opportunity for Africa to forge a new global cooperation framework to bring collective prosperity. African economies have severely suffered from global shocks, leaving most countries in high risk of debt distress. Some have already entered preemptive default (Ghana and Zambia), and many others may soon follow—this, while the globe is still lush with excess liquidity. It is time to seek and explore new mechanisms for Africa's debt resolution.

The war in Ukraine has further complicated the situation by increasing the cost of debt repayment, leading many countries to risk default. Special drawing rights could be reallocated to help indebted countries accelerate recovery and move to a path of inclusive growth. African countries also need a new debt-sustainability framework that is forward looking, predicated on the debt-investment-growth nexus that also accounts for the countries' growth potential and future shocks. That would make the cost of borrowing commensurate with their resource potential and development.

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EMPLOYMENT STRATEGIES, ESPECIALLY YOUTH EMPLOYMENT AND NON-AGRICULTURE RURAL EMPLOYMENT (TO STEM RURAL MIGRATION)

Africa has reached the cusp of an employment crisis, compounded by global shocks. The continent accounts for only 7.8 per cent of the global wage employment, with 14.3 per cent of the global labor force. In addition, 62 per cent of the world's working poor live in Africa, the largest concentration in the world. The youth suffer disproportionately in being unemployed and earning low wages or incomes from self-employment. Existing active labor market policies mostly focus on the supply side of the labor market where efforts are concentrated on schooling, skill upgrading and similar interventions. Policymakers now have to turn their attention to the demand side of the labor market by removing the constraints facing firms to enhance the quality and quantity of jobs they create. In efficiently working markets, competition and innovation govern firm entry and exit allowing the most productive ones to thrive, as the inefficient ones readjust or exit the market. This process also generates the conditions for the creation and destruction of jobs, the net effect of which is highly dependent on the speed and sustainability of resolving the constraints to firm growth.

DEVELOP ROBUST RESOURCE MOBILIZATION STRATEGIES TO FINANCE SUSTAINABLE DEVELOPMENT

Mobilizing resources for development is essential in building resilience to shocks.

STEMMING CAPITAL FLIGHT

Reversing capital flight alone would free close to 40 billion USD a year to finance enormous public and private projects, more than Official Development Assistance, and significantly stimulate Africa's growth. Based on preliminary estimates, stemming capital flight fully would add close to 1.3 percentage points to current investment as a share of Africa's GDP. And note that a one percentage point increase in investment would add at least a 0.02 percentage point increase in long-term growth. So, just imagine the enormity of growth lost due to capital flight in the last five decades.

Compared with the total external debt the continent owes to its creditors, the amount lost to capital flight would be more than sufficient to expunge Africa's debt and make the continent debt free. In addition, the widespread prevalence of capital flight suggests deeply seated institutional and policy failures that can derail Africa's prospect of prosperity. Various strategies that can stem capital flight, starting from establishing verifiable measures to ensure that debt is used for its intended purpose and other mechanisms of debt transparency, including:

Centralize all debt data and management activities into a Debt Management Office equipped with an efficient electronic debt management portal. This would build a comprehensive view of the country's contractual debt obligations. It would also allow countries to dynamically manage their debt positions by improving, for instance, the matching of debt currencies with expected export or FDI receipts, thus reducing exposure to foreign exchange risk. Ideally, debt management should be accompanied by an early warning system to alert governments and key stakeholders of any slippage in debt sustainability. Equally important is ensuring that the Debt Management Office has appropriate human and financial resources for effective delivery of its mandate. The office should centralize all debt data and management activities, with an efficient electronic debt management portal, as well as provide capacity-building at all levels of government, including subnational authorities when relevant.

Increase transparency by committing to make public all data on old and new debt in real time. This will require efforts to standardize data-gathering practices and to develop data collection systems to address data gaps (notably in accounting for state-owned enterprises-related liabilities and contingent liabilities arising from sovereign guarantees to individual projects). That would consolidate government accounts across regional levels, agencies, ministries and institutions. Comprehensive debt data management would ensure more accuracy of fiscal policy projections. While data standardization efforts have already been undertaken in most African countries, all countries need to adhere to best practices in reporting and making publicly available information on public and publicly guaranteed debt.

Consolidate public revenue and expenditure management. This would go a long way to reassure multilateral lenders and private investors, reduce leakages of public funds, and fight corruption and embezzlement of public funds.

ENHANCING DOMESTIC SAVINGS AND TAX MOBILIZATION

In the past several decades, private consumption has played a significant role in driving economic growth in Africa. Domestic saving plays a lifesaving role for households, governments, and businesses by smoothing consumption and avoiding production disruptions. There has been some progress in mobilizing savings in the last two decades, increasing from 11 per cent of GDP in 1980 to about 18 per cent in 2020. But this progress is neither substantial enough to achieve high and sustained growth, nor sufficiently complementary to remove the foreign exchange constraint facing most African countries. Governments could increase domestic saving and tax revenue by leveraging digital technologies to reach millions of households and enterprises through mobile banking and improving tax administration so that it is transparent, fair, and equitable. Such measures instill trust and confidence in the government and the tax system, thus increase tax compliance.

DIVERSIFYING FINANCIAL INSTRUMENTS TO FINANCE LONG-TERM INVESTMENT

A big challenge is translating savings into productive investment. Large public investments remain essentially unfunded for lack of suitable financial instruments. Most financial instruments available are short to medium in term and concentrated in a few geographic areas, such as South Africa, which accounts for more than 80 per cent of the capitalization of Africa's stock markets. For far too long, African countries have not had an opportunity to tap into the global saving glut partly because of a risk perception bias towards Africa, which alone increases borrowing cost by more than 2 percentage points.

African governments could work closely with rating agencies to improve their creditworthiness by taking concrete and credible measures to reduce risk perception by institutional investors. This includes strong macroeconomic management, transparent debt management, credible public investment program, and demonstrable capacity to implement growth strategies and development visions. Still, as African economies transition to middle-income status and as domestic private saving increase, public debt can provide a safe long-term outlet for excess savings, if public expenditure does not crowd out private investment, thus fueling inflation and financial repression. The role of public debt as a safe asset is most relevant when domestic financial markets remain largely undeveloped, to avoid capital flight and unproductive hoarding of liquidity. But public liabilities should be viewed as a "kick-start" engine for flourishing private funding instruments in equity and bond markets.

REFORMS TO THE GLOBAL FINANCIAL ARCHITECTURE

The current international architecture for development funding is profoundly unjust and inadequate. The method for allocating funds does not adequately support the agreed-on transformation to sustainable development in the face of multiple concurrent crises. The current multilateral architecture and governance for development funding thus needs to be reevaluated. To avoid losing the gains of decades of development, the international community should urgently deploy a range of financial and policy instruments to promptly provide additional liquidity and policy space for African nations to support their populations and preserve social stability. As the region of the world most exposed to a debt crisis, Africa should also continue its advocacy for changes in the global financial architecture to ensure a more equitable and representative international system.

PANDEMIC PREVENTION AND EARLY WARNING SYSTEMS

The COVID-19 pandemic provided valuable lessons about the preparedness of Africa's health systems to counter deadly infectious diseases. The continent needs to implement pandemic prevention and early warning systems to face future shocks and build resilience. The elements of preparedness include epidemic prevention; threat identification and surveillance; emergency preparedness and response operations; emergency manufacturing, procurement, and supply chain management; and access to innovation. These elements function and thrive in an environment supported by technology and data, robust public communication, the availability of finance, and effective partnerships.

Beyond healthcare systems, the Covid-19 pandemic also exposed the fragility of livelihoods to such shocks in the absence of functioning and adequate social protection systems. African countries could leverage informal social protection and risk-sharing mechanisms to build more robust, sustainable and resilient systems to protect households and businesses from succumbing under the pressures of global shocks.

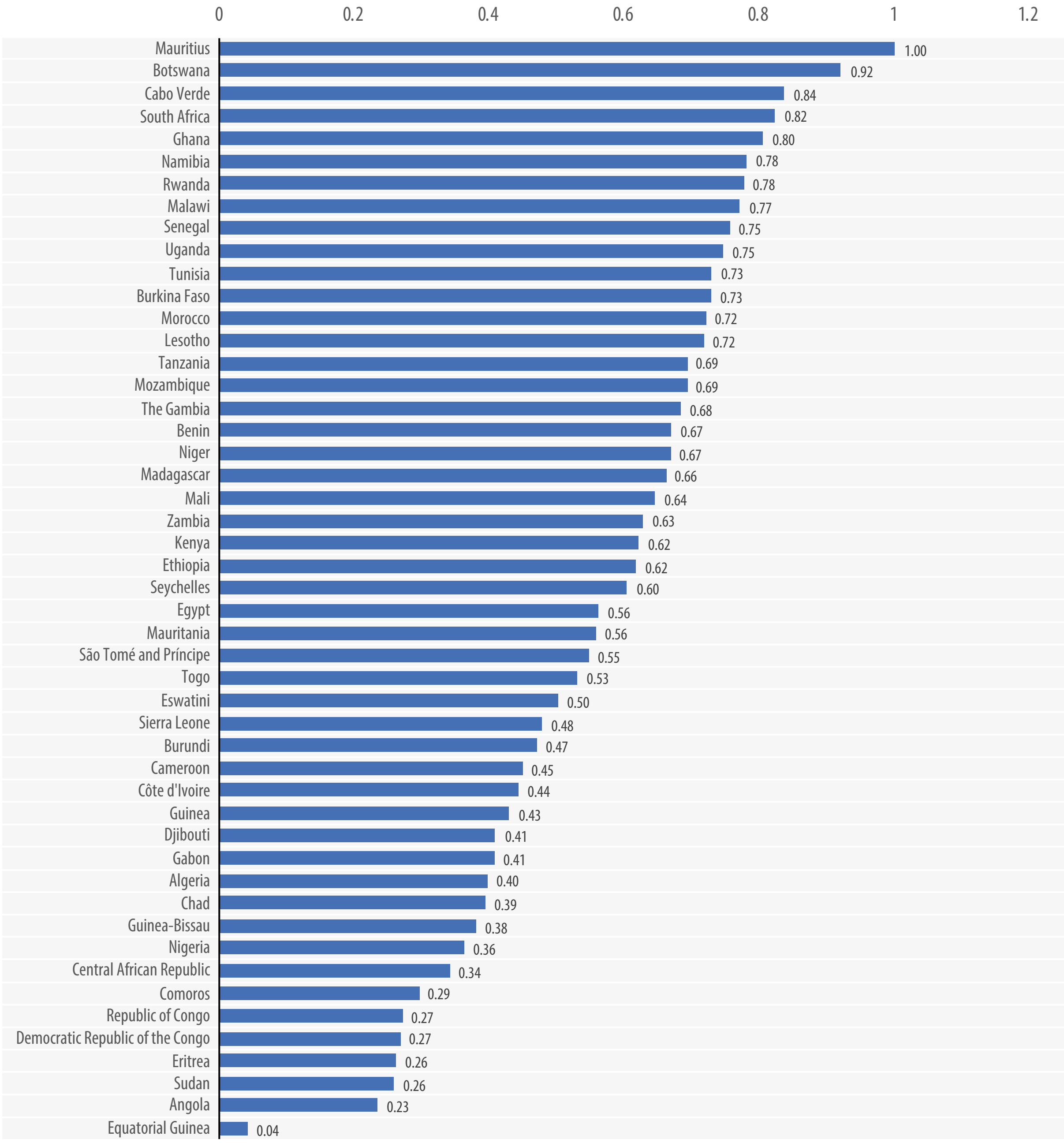
However, the pandemic not only caught Africa off guard but also the world, revealing significant gaps in early warning capabilities to detect and respond to emerging pathogens before they cause global damage. This provides an opportunity for global cooperation on mitigating shocks and risk-sharing. The same is true for climate-related shocks.

GREEN GROWTH AND MITIGATION AND ADAPTATION POLICIES

Today's challenges and disruptions require an in-depth and high scale economic transformation. Rebuilding towards more equitable societies requires protecting the environment, social welfare, and the economic wellbeing of all. This will involve adapting economies to climate change and avoiding the high-carbon growth path that advanced countries followed earlier. Ambitious green growth plans will offer opportunities for economic growth, diversification, industrialization and job creation. And promoting innovative, resource-friendly technologies to achieve long-term structural changes—such as transforming supply chains and transitioning to a circular economy—will foster green and equitable growth. Moreover, harnessing the large renewable energy potential of African countries offers an opportunity for diversification, industrialization and job creation while strengthening the continent's economies against future energy price shocks.

> “ **Today’s challenges and disruptions require an in-depth and high scale economic transformation.** ”

RESILIENCE INDEX FOR AFRICAN COUNTRIES: AVERAGE OVER 1996–2020



Source: ECA computations based on data from WDI, WEO and Povcalnet.

The theme of the 2023 Economic Report on Africa is “Building Africa’s Resilience to Global Economic Shocks.” The report focuses on the impact of multiple and recurring global shocks on African economies and the extent to which these shocks impede Africa’s prospects for achieving the targets set in the Sustainable Development Goals. The principal lessons are that shocks of various magnitude, duration and recurrence have played a major part in shaping economic performance in the last several decades, undermining Africa’s aspirations for sustained growth and rapid economic transformation that could benefit from demographic (youth bulge) and geographic (urbanization) trends. In addition, successive shocks have had scarring effects that have made it difficult for African economies to recover fully even after a short-lived shock such as the Global Financial Crisis. More important, the damages caused by shocks could morph into other domains such as political instability and conflict, undermining recovery and resilience to future shocks. The report also emphasizes the opportunities presented by the shocks to implement long overdue structural and public finance reforms that take full advantage of such regional initiatives as the African Continental Free Trade Area.