CHECK-AGAINST-DELIVERY

African Economic Conference

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Financing Africa's post-Covid-19 Development

Sal, Cabo Verde

Remarks by

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Distinguished delegates, ladies and gentlemen,

Welcome to the 16th edition of the African Economic Conference, which is being held in hybrid form in Sal, Cape Verde over the next three days.

A year ago, we were in the grips of a pandemic that took countless lives, destroyed livelihoods and derailed progress towards the SDGs.

Nonetheless, we continued the African Economic Conference tradition by organizing the first exclusively virtual conference on the theme *Africa beyond COVID-19: acceleration towards inclusive sustainable development*.

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As we begin deliberations on this year's theme, *Financing Africa's post Covid-19 development* it is worth noting that our recovery has been marked by divergent fiscal responses, divergent access to vaccines and consequently, divergent recovery pathways.

For instance, as of March 2021, African countries have spent less than 1 per cent of GDP in the form of equity, government loans, and guarantees in support of the recovery from the pandemic. In contrast, the equivalent amount for advanced economies was 11.3 per cent while the global average was 6.1 per cent.

Indeed, the emergence of the Omicron variant is a consequence of an uncoordinated global response to the pandemic. At the heart of reversing the asymmetric responses to the crisis by advanced and developing countries is equitable access to affordable finance. This underlines the importance of the theme of the AEC this year.

Excellencies, distinguished delegates, ladies and gentlemen,

The financing needs to achieve the Sustainable Development Goals (SDGs) estimated at $2.5trillion for developing countries, was substantial even before the COVID-19 pandemic. The pandemic has exacerbated the financing challenges.

According to the 2021 OECD Global Outlook, the annual SDG financing gap in developing countries is estimated to have increased by $1.7 trillion, or roughly 70%, in 2020[1].

Meanwhile, Foreign Direct Investments fell from 4.46 percent of GDP in 2015 to 3.54 percent of GDP in 2019, with a potential decline in 2021 due to the pandemic.

The private sector was expected to contribute more than a third of the required financing for the SDGs, but the actual contributions have been significantly lower, at only 4 to 8 percent[2].

We must do more to leverage private financing especially as the fiscal buffers of developing countries come under extreme pressure.

Increased expenditures coupled with declining revenues have worsened Africa's fiscal deficits which deteriorated from -4.2 percent of GDP in 2019 to -7.6 percent of GDP in 2020.

Following a contraction of 3.2 percent in 2020, real GDP is projected to rebound to 3.6 percent in 2021 and 3.8 percent in 2022 according to our own estimates (ECA, 2021).

However, these rates of growth are only slightly higher than Africa's annual population growth of 2.3 percent. And, we cannot assume that the positive growth rates will be sustained.

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[1] https://www.oecd.org/about/secretary-general/global-outlook-on-financing-for-sustainable-development.htm
[2] Begashaw (2020): https://www.brookings.edu/wp-content/uploads/2020/01/ForesightAfrica2020_Chapter1_20200110.pdf

Of particular concern is that many developing countries are unable to meet the essential health and humanitarian needs of their people and to recover from the socio-economic crisis, owing to growing fiscal constraints and rising debt servicing obligations.

As of June 2021, over 22 of the 54 African countries were either in or at high risk of debt distress[3], and many developing countries faced currency depreciation.

In addition, inflationary pressures are on the rise threatening to erode the purchasing power of households already reeling from the pandemic.

Policymakers are now faced with the daunting task ensuring sustained socio-economic recovery while mobilizing resources to finance rising fiscal deficits and debt obligations.

At the same time, countries are tasked to meet their commitments to the 2030 Agenda and Agenda 2063 as well as tackle the emerging climate emergency.

Excellencies, distinguished delegates, ladies and gentlemen,

The pandemic did not create Africa's economic, health and climate related vulnerabilities. It only exacerbated them.

Nevertheless, the pandemic has brought into sharp relief, the urgent need to address the continent's underlying vulnerabilities and to use the crisis as an opportunity to build back better.

It has also exposed gaps in the global financing architecture and reinforced the importance of a multilateral approach to combatting global shocks such as Covid-19.

The possibility of new and more virulent variants coupled with imminent climate shocks call for a more coordinated global response to the pandemic underpinned by bold and innovative financing mechanisms that not only scale up public financing, but also leverage private investments.

[3] AfDB, and IMF-World Bank (2021)

Even though advanced economies have been significantly affected by the pandemic, their fiscal response to the crisis has been more robust due to their unlimited access to foreign reserves.

This reality underlines the asymmetric policy responses of advanced and developing countries to the crisis.

The global financial architecture has not been effective in addressing the underlying asymmetries in policy responses. Development finance mechanisms such as the IMF's SDR allocations for instance, are linked to the size of an economy and not to the relative size or impact of the shock on an economy.

As a result, only 5 percent of the unprecedented allocation of $650 billion in Special Drawing Rights went to Africa the region.

This occurred even though the continent has weakest fiscal space to recover from the crisis, the highest poverty rates and comprises 70 percent of all Least Developed Countries.

Meanwhile, global response initiatives largely target low-income countries. But given the pervasive impact of the pandemic on all countries, regardless of income status, such initiatives have left behind vulnerable middle-income countries which currently account for 70 percent of the world's poor.

Scaled up financing from external and domestic sources is therefore essential to addressing the rising risk of African debt defaults amid COVID-19 pandemic.

On the external front, Africa needs a new deal to recover from the ravages of the pandemic.

The Roosevelt's New Deal cost $41.7bn at the time it was instituted. This translates to $653 billion in current US dollars; roughly equal to the total new issuance of SDRs of $650bn.

Given Africa’s current population of 1.37 billion, a New Deal would have to deliver $7.1 trillion in financing to equate the US New Deal on a per capita basis.

The resources required to financing a New Deal are enormous and cannot be funded exclusively through public resources. Private funding will be critical.

Yet we are all aware of the cost of private financing is high. At the same time private direct capital investments are motivated more by economic rates of return than by social welfare considerations.

Blending public financing with private resources can redirect more private investments and financing to social and other orphaned sectors through risk-sharing and risk-mitigation.

ECA and PIMCO launched the Liquidity and Sustainability Facility (LSF) at the margins of CoP26 with the objective of lowering the cost of portfolio investments in emerging markets and crowding in a new class of investors into the continent.

The Liquidity Sustainability Facility (LSF) seeks to use on-lent SDRs to leverage private financing by making it possible for holders of African sovereign bonds to access short term financing using such instruments as collateral.

This enhances the attractiveness of such instruments, increases their demand and lowers their yields.

Furthermore, the LSF can incentivize green investments in Africa by providing preferred interest rates for green bonds issued by African sovereigns.

In addition to financial support, policy support and commitments to promote value-addition in Africa, facilitate technology transfer and limit illicit financial flows from Africa should be critical elements of a New Deal for Africa.

Ultimately, the success of the continent's recovery from the pandemic hinges on the effectiveness of the health response. To this end, improving access to vaccines and waiving patent rights to spur local vaccines production are vital.

Failure to address the pandemic through universal access to vaccines will spawn more resilient and potent variants threatening the global effort to fight the virus. The recent emergence of the Omicron variant of the Covid-19 virus illustrates my point.

It is therefore in the enlightened self-interest of developed countries to facilitate increased vaccine access to the continent and to support local vaccines manufacturing.

Complemented by appropriate regional and national policy measures, such initiatives will not only boost the continent's low vaccination rates but promote job creation and scientific research in vaccines development.

Without scaled up financing for productive investments in Africa and developing countries, the divergent recovery paths reinforced by the pandemic will continue to widen, exacerbating inequalities and undermining already weakened progress towards achievement of the SDGs.

Excellencies, ladies and gentlemen,

Despite the new challenges, the pandemic has also provided an opportunity for us to reconsider our policies and strategies and to more effectively mobilize and align our resources with our development priorities.

We have also learned that we are more connected now than ever before in our history; we are only as strong as the weakest link in our development eco-system.

This is a time for us to come together, debate and converge on the key issues that matter – which is getting back on track and accelerating to achieve the SDGs and working towards a net-zero pollution future.

I am optimistic that the future is bright for Africa, and it is up to all of us to deliver. I look forward to engaging deliberations over the coming days. I hope that it sets us on a path to deliver forward together better.

Thank you for your attention. I wish you a very successful Conference.