CoM 2022

Financing Africa's Recovery | Financement de la relance de l'Afrique

BREAKING NEW GROUND
TROUVER DES SOLUTIONS INNOVANTES

United Nations
Economic Commission for Africa

Daily Bulletin

MAY | MAI 15

#CoM2022

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Poverty and vulnerability rise in Africa even as pandemic recedes

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ideas for a prosperous Africa

The Economic Report on Africa, being launched yesterday, highlights the severe impacts on the continent wrought by the Covid-19 pandemic.

Poverty and vulnerability rise in Africa even as pandemic recedes

Adam B Elhiraika reads The Economic Report on Africa

The Economic Report on Africa, being launched in Dakar yesterday, highlights the severe impacts on the continent wrought by the Covid-19 pandemic.

The UNECA estimates that the disruptions caused by the pandemic pushed an estimated 55 million Africans into extreme poverty in 2020 and reversed more than two decades of poverty reduction on the continent.

The 2021 edition of the ECA's Economic Report on Africa' was launched during the 54th Conference of Ministers in Senegal, setting out several policy recommendations to tackle increased poverty and vulnerability across the continent in the wake of Covid-19.

The report, 'Addressing poverty and vulnerability in Africa during the Covid-19 pandemic', found that the global health crisis "exposed the fragility of health and socioeconomic systems across Africa".

The 133-page document takes a comprehensive look at the effects of the pandemic in Africa and lays out key policy recommendations to ensure that Africa bounces back from Covid-19.

"In this report we analyse the effect of Covid-19 on poverty, but we also look at new dimensions of those who are highly vulnerable, not only those who are below the poverty line, but those that are close to that line and can easily move in and out of poverty due to exogenous shocks," said Hanan Morsy, Deputy Executive Secretary ECA, at the launch of the flagship report.

"We need to ensure that vulnerable populations are protected in terms of social safety nets and policies, especially as the situation is even more profound with the war in the Ukraine. What we are discussing today is therefore even more critical than when the report was prepared, before the conflict".

Key findings

The report found that metrics to measure poverty and vulnerability have generally worsened over the last year in Africa.

Poor people with few assets, limited access to credit, informal employment and low wages are particularly vulnerable and have been severely hit by pandemic-containment measures.

People who rely on the informal economy – particularly women, people living with disabilities, refugees and displaced people – have suffered the most from the economic shocks of the Covid-19 pandemic.

Roughly 58 million non-poor Africans whose consumption is $1.90 - $2.09 are extremely vulnerable to falling into poverty because of the pandemic, unless supported by cash or food transfers.

Ethiopia and Nigeria are the source of the most "new poor" created by the pandemic where-

ECONOMIC AND SOCIAL TRENDS – COVID-19

POVERTY

22% Poverty of the population would still be in extreme poverty in 2030, even before the pandemic

INFORMAL EMPLOYMENT

86% of total employment in Africa is informal and remains the main source of income

Poverty and vulnerability rise in Africa even as pandemic recedes (continued)

as Egypt, Mauritius and the Seychelles are likely to experience low poverty and vulnerability.

On the fiscal side, there are 15 countries that are at risk of debt distress. Chad, Ethiopia and Zambia have already applied for debt relief under the G20 Common Framework.

The Covid-19 pandemic has heavily disrupted the movement of people, goods, services and capital, and its impacts led Africa's GDP to contract by an estimated 3.2 per cent in 2020.

The pandemic is expected to weigh further on already slow economic growth, immediately declining oil and commodity prices and growing fiscal deficits and external debt, which together are likely to narrow the fiscal space required to tackle pandemic-related challenges.

The poverty effect of the Covid-19 pandemic also varies. The report finds that countries with the capacity to generate good jobs and have low youth and old-age dependency ratios, a highly educated labour force and good internet are likely to fare much better. These include Egypt, Mauritania and Seychelles, the report notes.

On the positive side, despite limited resources African government responded rapidly to the Covid-19 pandemic by adopting targeted policy interventions or stimulus packages to reinvigorate growth, boost productivity and employment, protect poor and vulnerable people and offset the socioeconomic impact of the pandemic, the report said.

In South Africa, 47% of employed women in the poorest bracket reported losing their jobs compared with 36% of employed men in the same bracket.

The pandemic has also made women more vulnerable to falling into poverty, with government policy accentuating gender inequalities.

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On the fiscal side, there are 15 countries that are at risk of debt distress.

ECONOMIC AND SOCIAL TRENDS – COVID-19

GENDER INEQUALITY

Gender inequalities have been widened by governments' economic and social policy responses

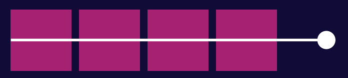
SLOWED GDP

3% growth

in 2019

FISCAL DEFICIT

Africa's fiscal deficit could take until 2024 to return to its pre-pandemic level and its debt-to-GDP ratio until



2025

HEALTH

Private household spending remains the largest component of total health expenditure in Africa

Policy recommendations

- Governments need to put in place mechanisms to give vulnerable groups access to targeted social protection linked to productive employment.
- Tie social protection to improved access to labour markets and active labour programmes.
- In the immediate term, governments should put in place policies and support programmes to prevent vulnerable people from falling into permanent poverty.
- Introduce cash and in-kind transfers to people with unstable employment.
- Build longer-term resilience by investing in health protection for all, including upgrading health infrastructure and systems, building capacity and prioritising equitable access to healthcare services through tax levies and health insurance schemes.
- Build domestic capacity for vaccine production to reduce high import levels.
- Leverage the African Continental Free Trade Area and other Africa-wide initiatives to create decent jobs.
- Aligned to this, improve labour mobility across national borders.

Understanding realities of SMEs is key to interventions

Understanding the needs and challenges of small and medium enterprises in Africa is critical to building an ecosystem that will help them to succeed, speakers at yesterday's session on Innovative SME Financing for Africa's resilient recovery: A gender and youth lens.

This economic segment, which also includes micro businesses, is a critical underpinning of the continent's economic structure, making up the majority of businesses in most countries.

The agility and innovative approaches of young people is what the continent needs in its efforts to recover from the pandemic and build inclusive economies, said Karima Bounemra Ben Soltane, Director of the Institute of Economic Planning and Development.

Women also need to be properly empowered to play a leading role in wealth creation in Africa, but challenges they face undermine their ability to contribute.

Various speakers called for surveys for policy makers to better understand the environment in which SMEs operate in Africa and the realities they face on the ground. This would enable policy makers to create a more effective and supportive ecosystem.

One of the biggest drawbacks for both women and young people in creating and building businesses was access to finance, Ben Soltane said, echoing the view of most other speakers on the session panel.

Innovative financing mechanisms need to be developed, given the aversion to lending to this segment by banks.

The rise of fintechs over the pandemic, and even before, is a positive development, given their potential to solve problems of financial inclusion and reduce transaction costs.

Governments also need to turn their attention to creating conditions favourable to the growth of women- and youth-led SMEs and micro businesses.

Panellists spoke about innovative approaches to financing.

Thérèse Faye Diouf, Director General of the Trust Fund for Priority Investments (FONGIP) said 95% of the economy in the country is informal and it had become essential to find creative ways to assist businesses in this sector.

In rebuilding the economy over the pandemic, sectors had been prioritised for attention, and the government had worked with the banking sector to establish a system of guarantees for funding SMEs, among other measures.

Proactive interventions had resulted in 23,000 jobs being saved.

Alaya Bettaieb of Smart Capital in Tunisia talked about the benefits of the Startup Act passed in 2020, which identifies a legal framework of 20 measures in favour of investors and startups. It has helped to shape an entire digital ecosystem and already 700 startups have benefited.

Grakolet Gourène, Research Fellow from the Sub-Regional Office for West Africa with the ECA, highlighted the importance of supporting family firms in the SME sector, which are common in North Africa. One of the benefits is that they bring more women into businesses by virtue of their place in the household.

SMEs in Africa: Call to Action

How can we enable the environment, with an emphasis on women and youth entrepreneurs?

Africa needs to clearly identify actions to address the challenges faced by small and medium enterprises in Africa, says the Director-General of the UN Women Regional Office for West and Central Africa, Oulimata Sarr.

"How can we enable the environment, with an emphasis on women and youth entrepreneurs?" she asked, making three suggestions.

- Proactively make women and the youth part of the public procurement supply chain. Kenya, she said, dedicates 30% of its public procurement budget to this end. She urged other countries to do the same or create different models to the same end. The private sector should be encouraged to follow suit to create supplier diversity.
- Introduce gender-responsible budgeting, dedicating a percentage of the budget for women and youth spending. In this regard there are several centres of excellence, including Rwanda, Uganda and South Africa.
- Build climate-resilient agriculture, which puts women at the heart of food security.

She highlighted other areas of importance in building SMEs in Africa. These included capacity development and skills creation, access to finance, access to markets and access to information.

Key enablers of a dynamic SME and start up ecosystem include technology, energy, water, road and data. "You cannot make public policy if you don't know your numbers."

Le financement climatique doit inclure le secteur privé

« Le secteur privé dispose d'importantes ressources pour aider les pays à lutter contre le changement climatique, mais les investisseurs ont besoin d'être rassurés par des politiques claires et déjà testées », a déclaré Ronen Gani, associé chez Pegasus Capital Advisors, lors d'un évènement en marge de la 54e session de la Commission Économique pour l'Afrique (CEA).

À Dakar ce samedi 14 mai 2022, plusieurs experts se sont réunis pour discuter du financement de l'adaptation au changement climatique, notamment après la parution en avril, d'un rapport du GIEC mettant en lumière les écarts croissants dans ce domaine.

Le rapport souligne l'opportunité énorme que représente le secteur privé dans l'atténuation des conséquences du réchauffement climatique, qui affecte désormais des millions de personnes en Afrique.

7%

Le financement de l'adaptation au changement climatique doit augmenter de 7 % chaque année pour répondre aux besoins.

Nisha Krishnan, directrice de la résilience climatique à la World Resources Institute, a réagi aux propos de Ronen Gani en affirmant : « Les allocations du secteur public pour lutter contre le réchauffement climatique ne peuvent pas rivaliser avec la capacité de financement du secteur privé ».

Pour autant, les investisseurs privés ont besoin d'être convaincus par la rentabilité de leurs investissements. « Pour attirer une quantité importante de fonds privés vers le financement de la résilience climatique, les responsables politiques doivent garantir la sûreté des investissements », a insisté Ronen Gosi.

« Aujourd'hui, seule une entreprise sur cent est assez confiante pour investir dans l'adaptation climatique », a-t-il déploré.

En Afrique, le financement de l'adaptation au changement climatique doit augmenter de 7 % chaque année pour répondre aux besoins.

Selon des estimations récentes, les coûts annuels d'adaptation pourraient atteindre 35 milliards de dollars d'ici à 2050, et quelque 200 milliards de dollars d'ici à 2070.

Les experts présents ont souligné l'urgence d'augmenter le financement de l'adaptation climatique en Afrique et, pour ce faire, l'importance de surmonter les obstacles liés à la réticence du secteur privé.

Ukraine crisis: Self-reliance needed

The major shocks that Africa has had to contend with these last two decades have been exogenous ones which have all been beyond the control of African governments. And they appear to be increasingly frequent.

Following the financial crisis of 2008/9, the pandemic of 2020/21 – which saw economies in southern Africa contract by 6.3% – African economies are now having to grapple with the effects of the Russia Ukraine conflict.

The impact of this latest crisis has been rising soft commodity prices, notably wheat and edible oils, and the rise in the price of energy, fertilisers and some hard commodities. But it's very much a mixed bag when it comes to individual countries.

The rise in the price of oil will be a boon for crude exporters such as Angola and Nigeria, and an issue for importers, such as Tanzania, which has turned to subsidies to curb price increases.

The head of the IMF in Angola says that it is not as clear cut as that. "Higher prices of oil brings with it challenges because at the same time, the Kwanza has appreciated. So when you convert dollars into kwanzas, what looks like a windfall in dollar terms is less so in local currency, which is what most government expenditure is in."

Zahira Virani, head of the UN mission in Angola, said tools are needed to deal with these shocks to enable countries to come out of this crisis stronger and more resilient.

The toolkit, according to all panellists, is economic reform, economic diversification and greater self-reliance. "We produce what we don't consume, and consume what we don't produce," said Matia Kasaija, Minister for Planning and Economy in Uganda.

The Minister for Economy and Planning for Angola, Mario Augusto Caetano Joao said the economy is today much less dependent on oil. It represents today 27% down from 43% of the economy in 2018.

But the conflict is destabilising many sectors and it is having an impact on balance of payments, although IMF support has helped balance government budgets, provided stability and averted a recession, he added.

Kasaija says his country has managed to withstand the impact of the latest crisis, but it is not immune from it. In terms of food security and food price inflation the situation is manageable. It is a net exporter of food.

However, bi-lateral trade with Russia and Ukraine has suffered. The coffee sector has performed well which has helped stabilise the currency, but coffee exports to Russia have taken a steep dive and inflation has crept up from the 2.2% to 3.2%.

As a result, they are planting sunflowers, palm trees and other seeds to produce edible oils and further improve self-reliance.

Africa loses more than $84bn in illicit financial flows annually

UNECA estimates that more than $84bn is lost in illicit financial flows from Africa each year.

"This is more than the annual health financing gap, twice the needs of the education finance gap and it is almost equal to the amount Africa receives in remittances each year," said Hanan Morsy, Deputy Executive Secretary at UNECA.

She was speaking at the panel Illicit Financial Flows in Africa: Regional Efforts to track, recover and return assets.

However, efforts to curb the illicit practice continue to yield muted results, underscoring the need for a collaborative and comprehensive approach.

Corporations and government officials, both local and international, are the main channels for the leakages that result in a significant portion of Africa's wealth being smuggled out of Africa each year which makes it especially hard to crack down on illegal practices.

Rebeca Grynspan, Secretary General of the UN Conference on Trade and Development (UNCTAD), said that Africa needs to improve its data collection and monitoring systems to crack down on financial flows.

"We need data to shed light on the activities, sectors and channels that are most prone to illicit financial flows," she said.

A representative of Senegal's director of budget and financial reforms said that the West African country has made important strides to counter illicit financial flows in recent years.

In 2012, Senegal's President Macky Sall created a national oversight office to strengthen governance, security and the rule of law.

A national office of illegal wealth was created in 2021 to "find a solution to illicit financial flows and improve its system of recovery in Senegal".

Bolaji Owasanoye, Chairperson of the Independent Corrupt Practices Commission in Nigeria, reminded the audience that it is a global problem but unfortunately there is not a "global framework, inclusive enough and broad enough to address the issue seriously".

He named murky corporate entities such as shell companies as being common ways in which individuals can remain anonymous while transferring millions of dollars to offshore havens.

Senegal makes headway in combating illicit financial flows

But the lack of political will by African leaders to investigate complicated corporate structures is a key barrier in securing the upper hand in the fight against illicit financial flows.

Gillian Dell, Head of Conventions Unit at Transparency International, said that members, owners and shareholders in companies found to be involved should be made public.

She added that the government will only start taking illicit financial flows seriously in Africa if civil society and the media put pressure on the public sector to act.

HOST PROFILE

Le Sénégal vise l'électricité pour tous

Le Sénégal figure parmi les pays ayant réalisé les plus grandes performances en matière d'accès à l'électricité en Afrique de l'Ouest, avec un taux de 96 % pour la population urbaine et 78% à l'échelle nationale.

Parmi les objectifs clés de son programme énergétique, le gouvernement veut atteindre l'accès universel à l'électricité d'ici à 2025.

La transition vers les énergies renouvelables reste modeste. En 2019, le Sénégal disposait d'environ 864 MW de capacité électrique, dont 13 % étaient renouvelables (7 % provenant de l'hydroélectricité et 6 % du solaire photovoltaïque).

Selon le plan national de développement économique et social du pays, les énergies renouvelables représenteront 23 % de la production totale d'électricité en 2030.

L'ensoleillement exceptionnel du Sénégal favorise le développement de projets d'énergie solaire.

En mai 2021, deux nouvelles centrales photovoltaïques financées par la SFI ont fait leur apparition dans l'ouest du pays, injectant 60 MWp dans le réseau national.

Le pays abrite également le plus grand parc éolien d'Afrique de l'Ouest. Le village de Taiba N'Diaye compte 46 turbines avec une capacité de 158,7 MW, qui alimentent 2 millions de personnes en électricité.

En parallèle, le Sénégal se prépare à devenir le plus grand producteur de pétrole et de gaz d'Afrique de l'Ouest. Après la découverte d'importantes réserves dans l'océan Atlantique entre 2014 et 2017, des investissements massifs ont été réalisés dans ces secteur, et l'exploitation des premiers gisements est prévue pour l'année prochaine.

ACCÈS À L'ÉLECTRICITÉ

URBAINE

96%

NATIONALE

78%

Africa's population faces a worrying set of social trends

Africa's population of 1.4 billion people face a worrying set of economic and social trends as the dual shocks of Covid-19 and rising commodity prices drives up inflation, putting pressure on many citizens who were already struggling.

The ECA's 2022 Economic Report on Africa found that Covid-19 caused job losses, reduced income and further limited households' ability to manage risks.

"Households move into and out of poverty because of exogenous shocks like the Covid-19 pandemic and that their inability to manage uninsured risks only increases their vulnerability," it continued.

The report found that private household spending remains the largest component of total health expenditure in Africa (at 36% in 2019, the most recent year with data), making it hard for low-income households to access and afford healthcare.

Beyond that, few informal workers have insurance, bearing the costs of Covid-19 testing and treatment themselves.

In Africa, social assistance covers only 7% of people identified as vulnerable. In 2020, an average of 3.6% of worldwide GDP was spent on non-health social protection. In Africa, the share was just 1.1%.

More than 80% of Africans work in the informal sector which was particularly affected by lockdowns.

Africa's education system shows mixed results: solid gains in enrolment, from pre-school to tertiary levels, but still-weak inclusive access and learning outcomes.

The continent continues to suffer from wide country differences in access to secondary school.

For example, 80% of students in Botswana, Cabo Verde and South Africa attended secondary school in 2018 compared with 20% in the Central African Republic, Chad and Niger. Gender gaps have also widened.

EXPENDITURE ON SOCIAL ASSISTANCE

AFRICA **$10**

WORLD **$197**

Slow return to recovery – ERA report

Per capita growth fell from 1.7% in 2020 to less than 1% in 2021.

Africa's fiscal deficit could take until 2024 to return to its pre-pandemic level and its debt-to-GDP ratio until 2025, says the Economic Report on Africa launched by the ECA in Dakar yesterday.

Debt will remain just above the nominal 60% threshold that the International Monetary Fund considers sustainable for African countries.

African countries have increased spending to cushion the health and socioeconomic impacts of the pandemic, while the major sources of revenue were put on hold as most countries provided income tax exemptions, food subsidies, aid and donations to individuals, households and small and medium enterprises.

Since the COVID-19 pandemic's onset, however, fiscal space in Africa has faced headwinds, and fiscal deficits were estimated to have reached a record 8.1% of GDP in 2020 before narrowing to 5.4% in 2021.

East, Southern and West Africa were estimated to be the most affected in 2021.

The challenges were the result of increased inflationary pressures, primarily because of supply chain disruptions, rising commodity prices (including oil and food) and macroeconomic vulnerabilities.

"These issues now pose real difficulties for most countries in Africa," the report says.

Expansionary monetary policies introduced to curb the effects of the pandemic pushed up the continent's average inflation, from 11.0% in 2019 to 14.5% in 2020, with a projected decline to about 9% in 2021. In some countries, food prices rose by more than 50%.

However, across the continent, some industries–such as transport, insurance, fishing, financial intermediation, post and telecommunications, public administration and defence, and agro-livestock and forestry–have bounced back strongly or are still buoyant.

Snapshot of Today's Upcoming Events

Digital Earth Africa – Earth observations for sustainability in Africa
9am – 10.30 am

Towards 10 per cent annual economic growth
11 am – 12.30 pm

High-level event to launch ECA reports on the African Continental Free Trade Area (AfCFTA) and the private sector
11 am – 12.30 pm

Financing social protection and accelerating coverage in times of crisis and beyond: options for a human-centred recovery
4pm – 5.30 pm

Financing African development through sustainable and innovative mechanisms – public-private partnerships, cryptocurrencies, remittances, and diaspora investments
4pm – 5.30 pm

Voices from CoM2022

Demba Diarra
Head of Strategic Planning and Results Monitoring, ECA

"We need more collaboration. Working in silos is no longer acceptable."

Stephen Karingi
Director for Regional Integration and Trade Division, ECA

"We need to review how we measure inequality & vulnerability."

Oulimata Sarr
Director General, UN Women Regional Office for West and Central Africa

"You cannot make public policy if you don't know your numbers."

Launch of the The Economic Report on Africa yesterday