Rebuilding the Global Economy
A series outlining policy priorities and solutions

MEMORANDUM ON

THE HEALTH AND ECONOMIC CRISIS IN AFRICA

To: The Executive Secretary of the United Nations Economic Commission for Africa (UNECA)
From: Adnan Mazarei
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Background: Africa faces a significant combination of health and economic crises. The health toll of the COVID-19 pandemic has been lower than in many other regions, but the human cost is significant and will continue to rise. More resources are needed to address the public health needs of the people in many African countries.

In addition, largely as a result of the global pandemic, the continent's already difficult economic conditions are being strained by lower commodity prices, tourism revenues, and remittances. Sub-Saharan economies are projected by the International Monetary Fund (IMF) to contract by 3 percent in 2020. Some of the gains in economic development and living standards made by Africa in recent years could be reversed. Quick steps must be taken to address the pandemic and ease the continent's resource constraints, enabling African policymakers to provide greater fiscal support for health and social goals without further eroding medium-term financial sustainability.

While the situation may differ country by country, the United Nations Economic Commission for Africa (UNECA) could focus on some broad priorities, especially by helping to mobilize international financial support. Given the UNECA's limited mandate and resources, success depends on working together with the continent's other agencies, especially the African Union and the African Development Bank, as well as with the IMF and World Bank.

KEY PRIORITIES

- **PRIORITY 1: Distribute food and vaccines rapidly to fight COVID-19.** Greater emphasis must be placed on fighting the pandemic through strengthening health systems and food security, as well as making sure (including working with global civil society) that poor countries receive a vaccine as soon as available. Getting the vaccines without delay is not only a moral issue but one that effects the bottom line of economic performance and fiscal space. Given debt issues, the longer the pandemic spreads in Africa, the less ability governments have to fight pandemic-induced economic recessions.

- **PRIORITY 2: Relax financing constraints for governments.** Many African countries are already in debt distress or at high risk of such distress, especially if capital flows to Africa reverse anew. External financing needs are large: According to the IMF, sub-Saharan Africa may need about $290 billion in external financing during 2020–23.[1] Absent new external financing, debt standstills, or reduction, countries may have to sacrifice pandemic response or needed public investment to service external debt. It is therefore first necessary to rapidly assess whether a country's debt is *sustainable or not*. If not, creditors—official and private, in the Paris Club or not—need to participate in debt restructuring. Delaying debt restructurings has proven to be costly. Many African countries have benefitted from participation in the G20 Debt Service Suspension Initiative (DSSI), but several countries have opted out of it, fearing damage to their credit ratings and market access. Also, DSSI will expire at the end of June 2021, well before the crisis will end in even the best case scenario. Efforts are needed to extend DSSI's coverage to vulnerable middle-income African countries and to lengthen the suspension period.
  - The UNECA could, together with the African Union, African Development Bank, and United Nations Development Program, convene private creditors—who have not participated in the DSSI—not only to support the DSSI but also to consider ways for private creditors to encourage the flow of funds to African countries.
  - African countries have been borrowing heavily from China. Pre-pandemic, these resources had contributed to the continent's economic development. China should participate in a multilateral framework to address disruptive debt issues. Although China participates in the DSSI, it does not, as a general rule, offer debt relief within multilateral frameworks, such as the Paris Club. The UNECA also needs to play a greater role in improving the transparency of African countries' debt to China and its terms.
  - There will likely be increased pressure from the United States and other governments to prevent international financial institutions and multilateral development banks' resources from being used to service debt to China and private creditors. That would in turn block needed aid and finance to African countries. So the UNECA has to prevail upon private and Chinese creditors to participate as a priority issue.

- **PRIORITY 3: Mobilize domestic government resources.** Low-income African countries still derive the largest part of their domestic revenues from indirect taxes (and to some extent from tariffs). Designing and implementing an effective value-added tax (VAT) and getting basic administration and compliance issues under control is critical to raising the revenues for inclusive and equitable spending. That said, the focus of world attention in the last few years has been on a process of reforms to international corporate taxation. Low-income countries do stand to benefit from the adoption of international corporate minimum taxes, one of the approaches under international

1 International Monetary Fund, *Sub-Saharan Africa Regional Economic Outlook*, October 2020.

discussion, and they should press for the adoption of such taxes in the Inclusive Framework process.[2]

- **PRIORITY 4: Promote trade and investment in Africa.** To help recover from COVID-19, Africa must attract foreign direct investment and aid, generate employment, and facilitate economic integration. Accordingly, the UNECA should continue to emphasize implementing the African Continental Free Trade Area (AfCFTA), which was agreed in 2018 to create the world's largest free trade area connecting 1.3 billion people in 55 countries. African countries can promote trade facilitation (e.g., through better infrastructure and customs facilities), modernize their regulatory systems, remove barriers to investment and—especially—fight corruption to improve their investment climates and trade opportunities.

2 The Inclusive Framework is the 140-country organization, run by the Organization for Economic Cooperation and Development, for developing a new international tax structure.