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REIMAGINE THE WORLD

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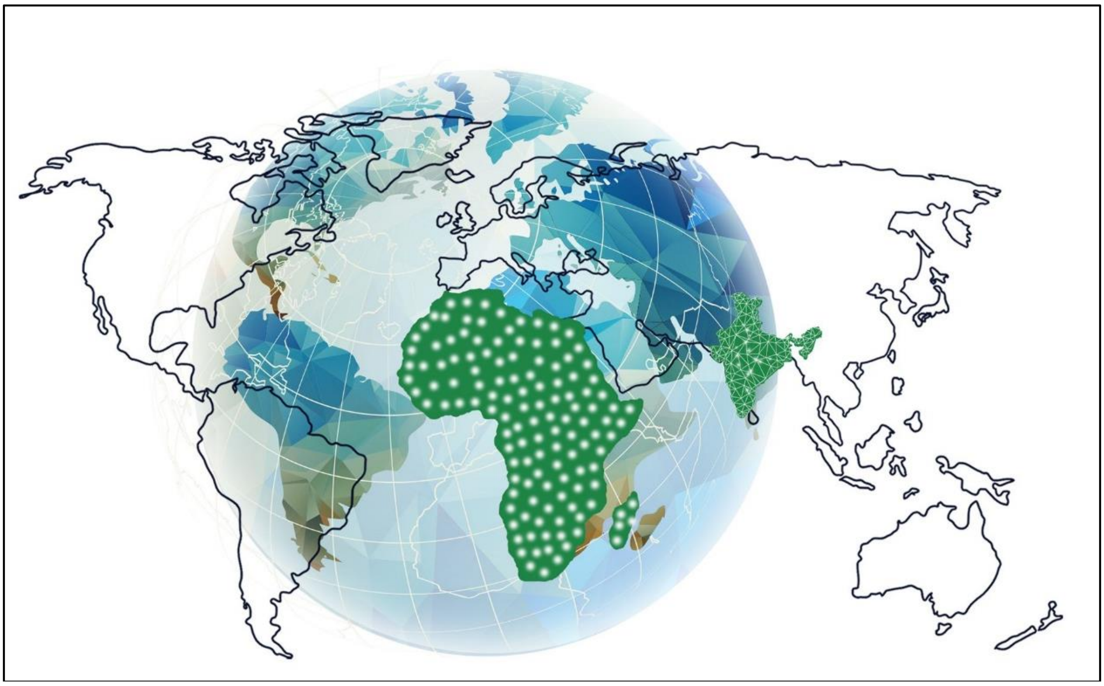

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WHY AFRICA?

Over the last 20 years, Africa has grown to be an interesting prospect for emerging market investors. Africa as the "final frontier" as other emerging markets like China and India continue to mature. The cost of living in Africa is the lowest in the world. Africa is known to be a place where labour can be sourced at a very cheap rate. The continent has extensive natural resources, a young and increasingly educated workforce, more stability in terms of governance, and more prospects for economic growth than in years past. The continent has been growing in popularity among investors over the decades.

- ***Africa needs 'connectors':*** It is estimated that Africa will require an investment of about $130-$170 billion in new infrastructure every year to meet its infrastructure gap.

- ***African trade barriers are falling, and intra-African trade holds enormous potential:*** With the 54-nation Continental Free Trade Area – Africa's own mega-trade deal – even the smallest African economies could see a lift. That could lead to development in electronics, machinery, chemicals, textile production and processed foods.

- ***Growth of Africa's middle class:*** would lead to development of new expectations. Educated, urban professionals are young, brand-aware and sophisticated in terms of their consumption. There is requirement of international standard supply chains to meet the growing demand.

- ***Digital transformation:*** Africa leads the world in mobile adoption, which continues to offer the biggest cross-sectoral economic opportunities.

- ***Africa is diversifying*** African economies are finally beginning to diversify beyond commodities, though this is still in the early stages. This population supports local economic growth with their skills and talent, by acting as "first movers", investing back in their communities.

- ***Africa can lead in sustainable development:*** *M*ost African countries have significantly made progress, over the past decade, in building strong economies, strengthening democratic institutions, improving agriculture and reducing poverty, pressing challenges such as climate change, population growth, and inadequate employment opportunities continue to undermine efforts towards sustainable development.

- ***Extractive Industries:*** Africa is home to a vast variety of mineral resources and thus can set up a lot of extractive industries. Africa can thus garner foreign direct investment into extractive industries as well as manufacturing.

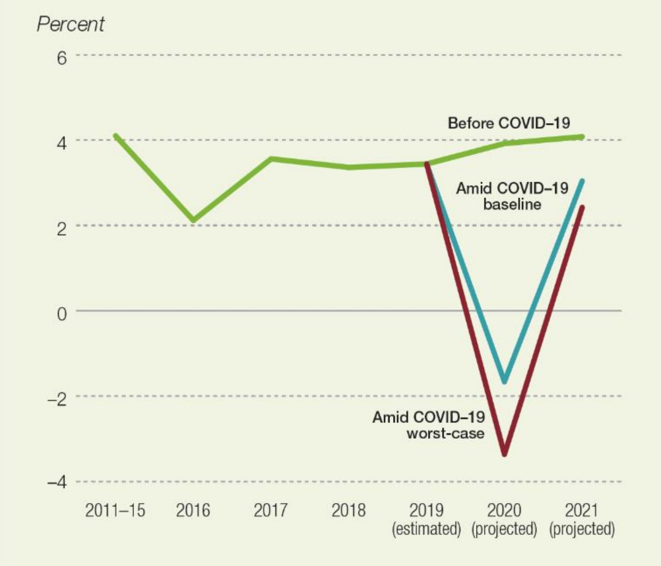
CURRENT SCENARIO OF AFRICAN ECONOMY

Africa's economic prospects are weak

Real GDP in Africa is projected to contract by 1.7 percent in 2020, dropping by 5.6 percentage points from the January 2020 pre-COVID–19 projection, if the virus has a substantial impact but of short duration. If it continues beyond the first half of 2020, there would be a deeper GDP contraction in 2020 of 3.4 percent, down by 7.3 percentage points from the growth projected before the outbreak of COVID–19.

Cumulatively, GDP losses could range between $173.1 billion and $236.7 billion in 2020–2021

Figure 1: Africa's GDP is projected to contract amid COVID-19



Source: African Development Bank statistics.

With the projected contraction of growth, Africa could suffer GDP losses in 2020 between $145.5 billion (baseline) and $189.7 billion (worst case), from the pre-COVID–19 estimated GDP of $2.59 trillion for 2020. Some losses are carried over to 2021, as the projected recovery would be partial. For 2021, the projected GDP losses could be from $27.6 billion (baseline) up to $47 billion (worst case) from the potential GDP of $2.76 trillion without the pandemic.

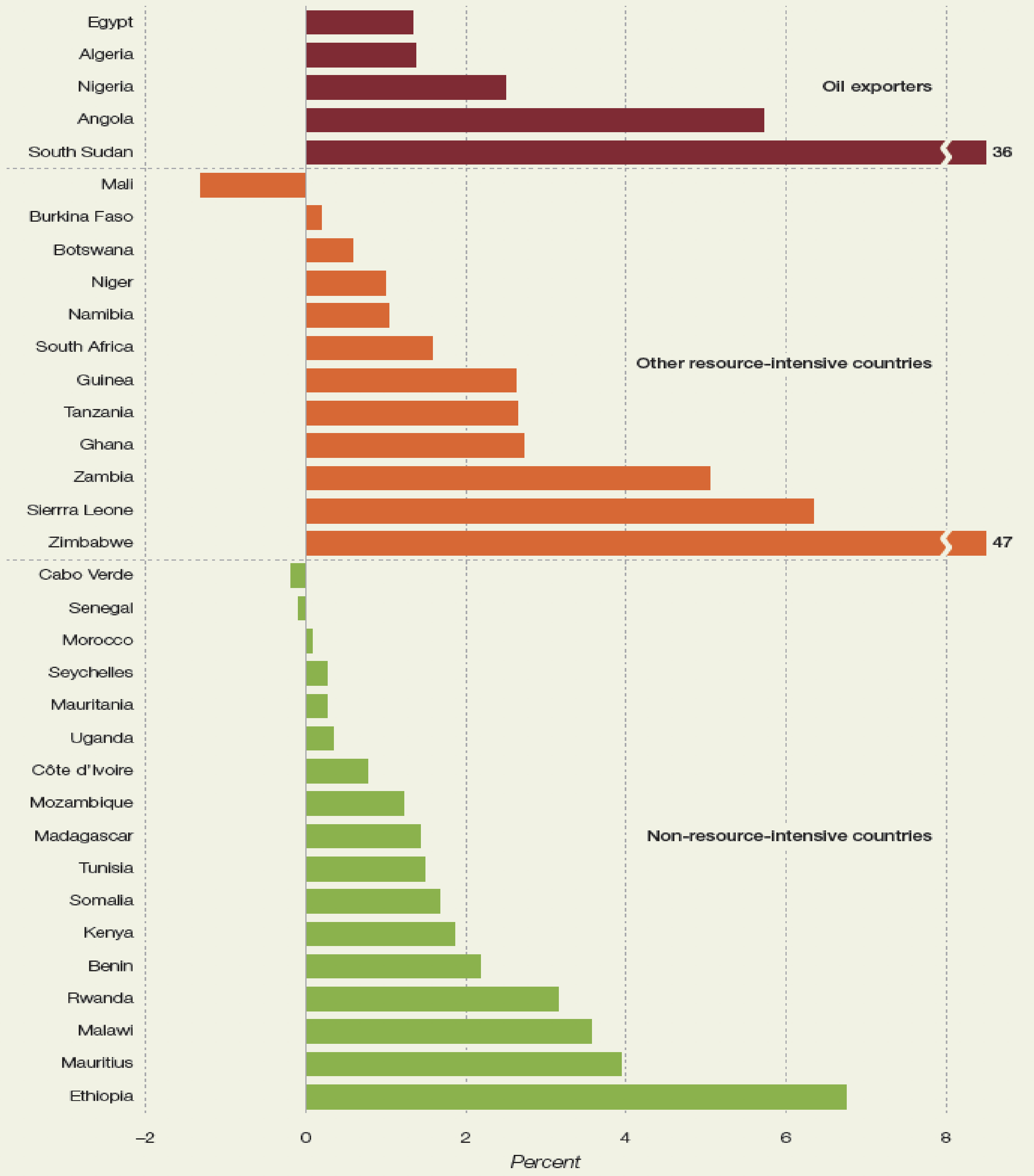
The most affected economies are those with poor healthcare systems, those that rely heavily on tourism, international trade, and commodity exports, and those with high debt burdens and high dependence on volatile international financial flows. The overall impact of the pandemic on socioeconomic outcomes remains uncertain, however. It will depend crucially on the unfolding epidemiology of the virus, the extent of its impacts on demand and supply, the effectiveness of public policy responses, and the persistence of behavioural changes.

The pandemic has triggered a sudden uptick in inflation

The pandemic has already triggered an increase in inflation in the continent, in some cases by more than 5 percent in the first quarter of 2020. This has mainly been caused by disruptions in the supply of food and energy, the bulk of which are imported. But for many other countries, the drastic fall in aggregate demand due to the lockdown and other containment.

Measures has eased inflationary pressures, especially among non-resource-intensive economies. Overall, although headline inflation, which includes food and basic energy prices, would be expected to rise, core inflation might remain stable until demand picks up after the pandemic.

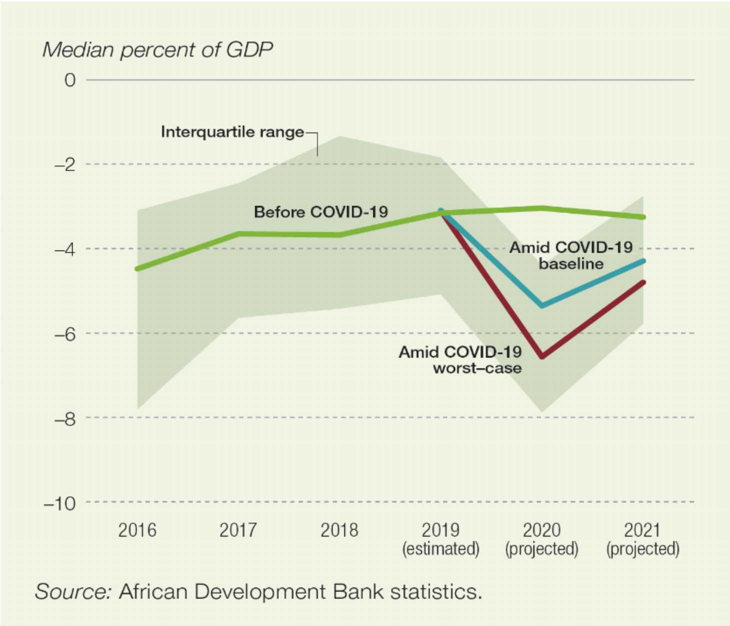
Figure 2: **The pandemic has already triggered inflation**



Note: Changes in consumer price index, from December 2019 to March 2020.
Source: African Development Bank statistics.

Expansionary fiscal spending could double already high fiscal deficits

Figure 3: Fiscal deficits are projected to at least double



The pandemic and its economic consequences are expected to trigger expansionary fiscal policy responses across all categories of economies in Africa. The implied expansionary fiscal stance would further widen fiscal deficits in the continent. In 2020, deficits are projected to increase twofold, to 8 percent of GDP, in the baseline scenario, and to go as high as 9 percent in the worst-case scenario. This worsening fiscal position would be the result of above-the line increases in budgetary outlays on COVID–19 related health spending, unemployment benefits, targeted wage subsidies and direct transfers, and tax cuts and deferrals.

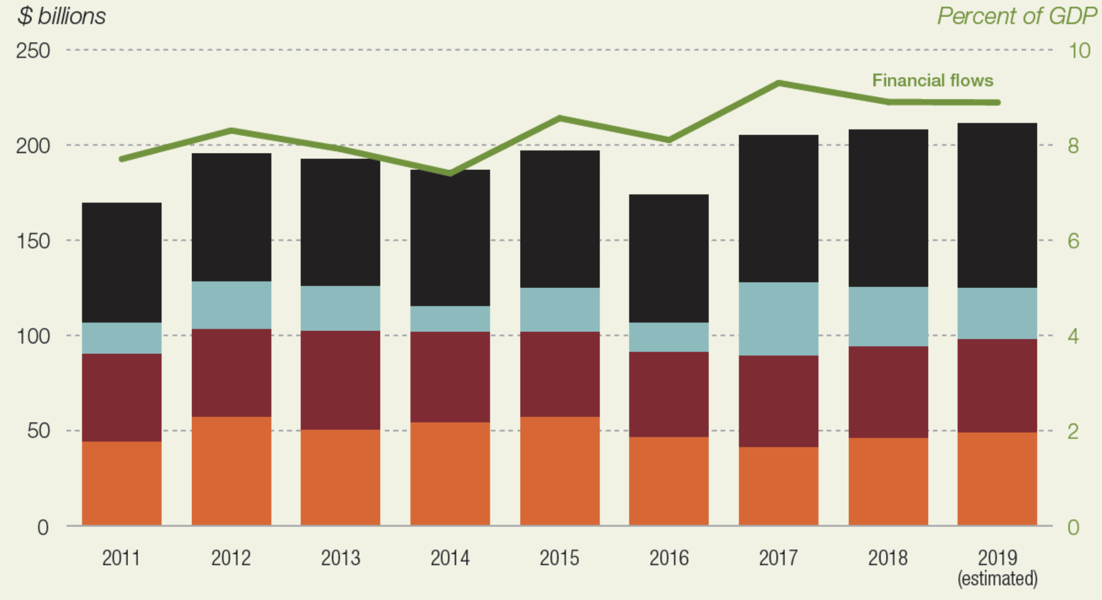
COVID–19 will add to sovereign debt burdens

COVID–19 heightens the likelihood of a widespread and far-reaching sovereign debt crisis if debt is not properly managed. Many countries in Africa entered the crisis period with high debt-to-GDP ratios, which are projected to increase further by up to 10 percentage points beyond the pre-COVID trajectory in 2020 and 2021. The sovereign debt buildup is particularly worrisome because of its changing risk structure in Africa as a result of the increasing share of commercial debt— Eurobonds and other private creditors— and the high foreign currency denomination of Africa's debt.

Remittances and foreign direct investment could plunge

Remittances took the lead in external financing, up by 7 percent from 2017, to $82.8 billion in 2018, and increasing further to $86.2 billion in 2019 on the back of a pickup in global economic growth and rising migration. This has become a vital source of foreign financing for many African economies, accounting for more than 10 percent of GDP of Cabo Verde, Comoros, Gambia, Lesotho, Liberia, and Senegal. In turn, these countries have become exceptionally vulnerable to shocks to remittances caused by COVID–19, especially in high-income economies where migrant jobs and incomes are threatened.

Figure 4: Foreign direct investment and remittances flows will be disrupted



Source: African Development Bank statistics; UNCTADSTAT.

Foreign direct investment— which picked up in 2018 by 10.9 percent, reaching $45.9 billion, and improved further to an estimated $49 billion in 2019— is also expected to fall in 2020 as investors reduce or postpone their investments amid uncertainties. Official development assistance, which has risen since 2016 (by 1.2 percent in 2018), could be constrained by the impact of the crisis on advanced economies. And portfolio flows, which have declined since 2017, standing at $27.1 billion in 2019 for Africa, are experiencing severe pressures as emerging market capital flows suddenly stop, with forecasts predicting a fall of more than 50 percent in 2020, driven by the COVID–19 shock to global growth and a more risk-averse sentiment among investors.

An estimated 25 to 30 million jobs could be lost

About 773.4 million Africans were employed in 2019, projected under the pre-COVID–19 assumptions to grow to 792.7 million in 2020. Under the baseline scenario of a 1.7 percent GDP contraction, employment is projected to decline by 24.6 million jobs in 2020. Under the worst-case scenario of a 3.4 percent GDP contraction, up to 30 million jobs could be lost. The brunt will be mostly felt by the working poor, who account for almost half of the employed. And the crisis would also affect the nature of surviving jobs, since wages and working hours for those in the formal sector could be downgraded, and the number of workers switching to informal sector jobs could increase as a survival strategy to maintain incomes in the face of lockdowns and restrictions.

Main transmission channels of COVID–19 impacts on African economies

Trade

COVID–19 is contracting the volume of the trade in goods and services that African economies exchange with the rest of the world. Africa’s trade is dominated by oil, minerals, and agricultural products. Only 15 percent is with other African countries, and the rest offshore. Europe, China, and the United States accounted, respectively, for 36 percent, 14 percent, and 6 percent of Africa’s total trade in 2018. The slowdown in global demand due to COVID–19 is expected to depress the demand for African commodities and thus to lower commodity prices. For African countries, the overall impact will depend on whether a country is a net oil exporter or importer. Net oil exporters will encounter a serious revenue decline, but net oil importers might gain.
Agricultural and intermediate goods–exporters would face lower demand from international buyers, and both exporters and importers would face disruptions in transport logistics. The trade channel is measured by using

trade indicators linking African countries to their main trading partners (China, Europe, and the United States). 15 Countries are classified as having high or low vulnerability to trade disruptions based on their trade intensity (ratio of trade to GDP) with the rest of the world. Countries in the fourth quartile are classified as having a high vulnerability or exposure to the impact of COVID–19 through the trade channel. The most vulnerable are Congo, Libya, Mauritania, Morocco, Seychelles, and Tunisia.

Financial flows

Financial flows to Africa— including foreign direct investment (FDI), official development assistance (ODA), portfolio investments, and remittances— are expected to contract and reverse as a result of the outbreak. In 2018, total financial inflows to Africa represented 10 percent of GDP, and the continent recorded the world's fastest growth in FDI inflows (11 percent). This trend is likely to slow considerably and be reversed as a result of the pandemic— as investors divest, seek safe havens, and postpone investment due to travel restrictions and increased global uncertainty. Financial inflows to Africa are expected to shrink, especially from China, which has become one of the main investors and development financiers in Africa, providing sovereign and private loans and investing directly in a variety of such sectors as infrastructure and mining. Chinese loans to Africa jumped from $130 million in 2000 to $11 billion in 2018— increasing 85-fold in about 20 years. This trend is expected to reverse temporarily and could cease completely in the worst-case scenario. Countries that could be particularly vulnerable to the reduction of financial flows include Congo, Liberia, Seychelles, and Zambia, where Chinese FDI as a share of GDP was the highest between 2014 and 2018. The most vulnerable sectors are those receiving the most Chinese FDI: construction, transportation (roads, railroads, airports, and harbors), energy, and mining.

Remittances from the African diaspora are also likely to be depressed due to the pandemic. Diaspora remittances have become the largest source of financial inflow to Africa, surpassing aid and FDI.16 By depressing economic activities in migrant destinations, especially developed countries, the pandemic reduces migrants' remittance capacities due to job losses, salary cuts, household expenditures, and increased healthcare costs. In countries such as Cabo Verde, Comoros, Gambia, Lesotho, Liberia, and Senegal, where remittances represent more than 10 percent of GDP, the economic consequences of a sudden cessation would be substantial Other countries highly vulnerable to a contraction in remittances include Egypt and Nigeria, which received on average $21 billion between 2014 and 2018 , making them the largest recipients in Africa in absolute terms.

Tourism

Africa has the world's second-fastest- Growing tourism sector, representing 8.5 percent of the continent's GDP. The COVID–19 outbreak has brought the sector to a standstill, along with associated economic activities around hospitality, entertainment, and logistics. Between 2017 and 2018, the travel and tourism sector in Africa grew by 5.6 percent, compared with the global average of 3.9 percent. The sector contributed about $194.2 billion to Africa's GDP in 2018, employing an estimated 24.3 million Africans, or around 6.7 percent of total employment. The International Air Transport Association has estimated that the fall in travel in 2020 due to the coronavirus outbreak could translate into an 11 percent worldwide passenger revenue loss— equal to $63 billion if the spread is limited and up to a 19 percent loss of $113 billion if the spread continues. African tourism and travel sectors will be affected, particularly in countries where the tourism industry's contribution to the economy is large. Countries highly dependent on tourism for export revenues will be more vulnerable than others (figure 2.5). For instance, in São Tomé and Príncipe and Cabo Verde, 50 percent of export revenues come from international tourism, and in Botswana, Egypt, South Africa, and Zimbabwe international tourism accounts for more than 9 percent of GDP.

RECOMMENDATIONS

- Businesses in Africa have to suffer from Expensive Buyer's Credit, Limited presence of Indian National Bank, Lack of Forex Availability so FICCI proposed AFRICA GROWTH FUND (AGF). Africa Growth Fund (AGF) would ideally follow a model anchored by an Indian Financial Institution along with participation from International Financial Institutions (IFIs), institutional investors with best-in-class governance and a strong team with international exposure in African Market. AGF through its funds will invest in viable commercial projects including, trade finance, long-term & short-term capital, insurance & guarantee schemes, SME financing etc. It intends to be a key channel of investment into Africa's potential sectors. To improve the bilateral trade between both the nations.

- Several of African countries suffer from insufficient foreign exchange to meet their import commitments. Creation of Escrow mechanisms, in such circumstances, help creating win-win situations between the two trading nations. Escrow mechanism is immune from the volatility of the national currencies, lack of trade finance lending facility in domestic currencies. Avoiding high risk of default in import payment commitments by correspondent African banks thereby ensuring payments to Indian exporters.

- Digital technologies were flourishing even before the pandemic hit. Teleworking, remote learning, teleconferencing, online health services, e-commerce and digital payments really made the world go round in many regions in the first half of 2020. In the months and years to come, digital facilities will no longer be optional. Consumers, clients, business partners and workers will come to expect them as a matter of course. Yet the move towards digital technologies must be accompanied by technical assistance, skill building and infrastructure support to ensure that it is inclusionary and equitable. Companies from all industries are doubling down on investments in advanced technologies - from blockchain to artificial intelligence (AI), to machine learning and intelligent automation– which has proven to be the lifeblood of the organization.

- *Ensure that robust national-level Nerve Centers are in place, with representatives from across relevant ministries and the private sector.* Many countries have set up food-security or agricultural response units in the face of COVID-19 as centralized strategic and planning hubs. Kenya, for example, has already set up a food-security "war room" and is deploying digital tools and data-gathering approaches to manage food availability, accessibility, and affordability—as well as providing support to value-chain players. Kenya is proactively gathering pricing and availability data on about ten food commodities at a subnational level on a weekly basis through a digital tool and maintaining dashboards on trends to identify any "hot spots" where interventions are required.

- *Create digital data rooms to track and forecast food availability, pricing, and accessibility, both during and after the crisis.* This type of data room should go beyond the tracking and forecasting of production based on food stocks and yield forecasts that are currently captured in many ministries of agriculture. It could track trade flows, food pricing at the retail level, and availability at food shops in urban and rural areas. It could also bring together multiple sources of data, including surveys of retail shops from consumer goods or e-commerce players, trade data from commodity traders, and stock data from processors.

- *Prepare to transform Nerve Centers into standing crisis response units after the crisis.* Even as economies open, the ongoing threats of pests, climate change, and isolated security events mean that food systems in Africa might face ongoing crises. Governments can draw on the lessons of COVID-19 to build longer-term capability to proactively manage and diminish such threats through setting up agile Food Crisis Response Units that proactively monitor and mitigate risks in the agricultural and food value chain, leveraging the data room mentioned above. This is analogous to the pandemic health response units that many countries have set up.

- *Transform agricultural and food systems.* While the immediate concerns of protecting the health of citizens may be taking precedence during the crisis, governments need to keep their foot on the pedal of agricultural transformation and can take this opportunity to strategically rethink their agriculture and food systems. For example, traditional open-air food markets may benefit from structural changes to mitigate the risks of disease transmission. Countries could also take the opportunity to reexamine the management of their Strategic Food Reserves, their policies on regional trade of agriculture and food, and mechanisms to reduce the overall risks faced by farmers, such as value-chain financing and crop insurance. They can also decide whether to reconsider biotech seeds, which might provide greater resilience against climate and pest threats to improve the overall health of the system in the longer term.

- For India and African nations, creating an inclusive, sustainable and equitable socio-economic architecture is critical.

Transformative Partnerships

- "There should be a multi-polar world and that India and Africa should look to create zone partnerships." Developing countries and regions such as India and Africa should strive to not get caught in the crosshairs of the emerging cold war between the United States and China.

- Youba Sakona (Vice President, Intergovernmental Panel on Climate Change) said, "India and Africa should collectively work towards creating social and technological transformations in a climate-compatible manner." They are capable of forging a "defining partnership" in the next decades by jointly combating the pandemic and coalescing their strengths to address challenges of the post-COVID-19 world as well as those of climate change, extremism, terrorism and transnational crimes.

- According to Hassanatu Mansaray (Senior Policy Specialist, Strategy Operational Policies Department, African Development Bank, Cote D'Ivoire), India can be a tremendous provider of sector-specific knowledge and best practices, which can kickstart the economic revival measures in several African countries.

- Mohua Mukherjee (Former Ambassador of the International Solar Alliance), observed that since Indian and African economies are still heavily reliant on agriculture, they can partner in the field of climate-smart/resilient agriculture. "Through their unique experiences, India and Africa can help fill in the global knowledge gaps in the sector and also address the data paucity in the field."

- Shirish Sinha (Director, Climate, Children's Investment Fund Foundation, India) remarked that India and African nations have the potential to partner in areas of urban-planning and management of mega-cities. Since the countries have a commonality of problems, they could also have a commonality of solutions. He stressed on the role that the Coalition for Disaster Resilience Infrastructure can play in fostering partnerships between India and African nations and promoting mutually beneficial collaborations between them.

- India has already provided substantial assistance to African countries in their fight against the pandemic, in the form of critical pharmaceuticals.

Regardless, the pandemic will fundamentally reshape how we do business from now on. Even if lockdowns end soon and the virus is staunchly suppressed never to return, its effect will linger. Now that the whole world has experienced the VUCA that only emerging markets used to face, it can never again be treated as an abstraction . The Region will have to adopt digitalization to sustain and grow in the new normal. While the pandemic remains a colossal challenge, it has provided opportunities and avenues to bring India and Africa closer.

HOW CAN INDIA COLLABORATE WITH AFRICA

- Africa could be an answer to the food security needs of the world, huge agriculture land of Africa can be used through G2G mechanism, then India can fulfil the food security need of our Nation and the world. Thus, becoming a strategic partner for making Africa resilient is important for India.

- Minerals, financials services, industrial activity, healthcare & ecommerce are the next pillars of growth in Africa for making Africa Resilient. Resurgent Africa & Rising India can bring prosperity to the world. Indian Govt should partner with industry and share the risk, to capitalise on these opportunities.

- Digital Africa is an opportunity for India. Penetration of broadband, internet and mobile telephony is very important in globally interconnected world.

- USD 25-30 billion new investment will be needed for healthcare demand in Africa for the next decade. This is absolute necessity & will come into play not only from physical infrastructure of health centres, hospitals, better medical facilities but also from Digital Health Connect.

- The Intra-Africa FTA which has been negotiated and is waiting to be implemented anytime will be of great support to increase India-Africa Trade.