

BUILDING RESILIENCE: THE FUTURE OF SOCIAL PROTECTION IN AFRICA

FINDINGS FROM AFRICA'S PULSE VOL. 25, APRIL 2022



**World Bank Tokyo Office
Morning Seminar Series**

Office of the Chief Economist, Africa Region, The World Bank

20 May 2022



OUTLINE OF THE TALK

1. Main Messages
2. The Global Environment
3. COVID-19 in Sub-Saharan Africa
4. Exposure to Russia and Ukraine
5. Economic Outlook in Sub-Saharan Africa
6. Thematic section: Social protection

PULSE 25: MAIN MESSAGES

MAIN MESSAGES

1. Sub-Saharan Africa facing multiple challenges, uncertainty and high volatility
 - a. Outbreak of new coronavirus variants (Delta and Omicron);
 - b. Continued supply chain disruptions;
 - c. Rising international food prices and global inflation;
 - d. Rising financial risks due to high and increasingly vulnerable debt levels
 - e. Climate shocks.
 - f. **Invasion of Ukraine** compounds the factors (a.-e.) holding back recovery in the region.
2. Sub-Saharan Africa struggling to pick up momentum in an environment of multiple and covariate shocks:
 - a. 2021: The region expanded by 4%, fueled by a recovery in global trade, elevated commodity prices, and the relaxation of Covid-related stringent measures.
 - b. 2022: Growth is expected to decelerate to 3.6% amid a global environment with multiple (and new) shocks, high volatility, and uncertainty.
 - c. The 0.4 percentage point slow down in SSA growth is attributed to all shocks facing the region (1.)

MAIN MESSAGES

1. The war in Ukraine is likely to impact Sub-Saharan African economies through a series of direct and indirect channels:
 - a. Trade linkages, commodity prices
 - b. Higher food, fuel and headline inflation
 - c. Tightening of global financial conditions
 - d. Reduced foreign financing flows
2. Given the sources of growth in the region and the nature of economic linkages with Russia and Ukraine, the war in Ukraine might have a marginal impact on economic growth and overall poverty—as it is affecting mostly the urban poor.
3. The largest impact of the war in Ukraine is on the increasing likelihood of **civil strife** as a result of food- and energy-fueled inflation amid an environment of heightened political instability.

MAIN MESSAGES

1. Sub-Saharan Africa's recovery is multi-speed, with wide variation across countries
 - a. Sluggish recovery of 3 largest economies (Nigeria, South Africa, Angola)
 - b. Growth in the rest of the region projected at 4.1% in 2022
 - c. Resource-rich countries' growth is propelled by favorable terms of trade
 - d. Non-resource-rich countries adversely affected by rising commodity prices
2. Economic activity in Sub-Saharan Africa projected to grow at 3.9 and 4.2 percent in 2023 and 2024, respectively.
3. As a result of supply shocks predating the war in Ukraine, emerging signs of stagflation are posing challenges to monetary policy making.
 - a. Dilemma: Support sluggish economy vs. Fighting Inflation
 - b. Number of SSA central banks hiking policy rates is on the rise.
 - c. How effective is monetary tightening in bringing down inflation across AFR countries?
 - d. Some governments imposing a series of measures to contain prices (price regulation, waiving import duties, subsidies, etc.)

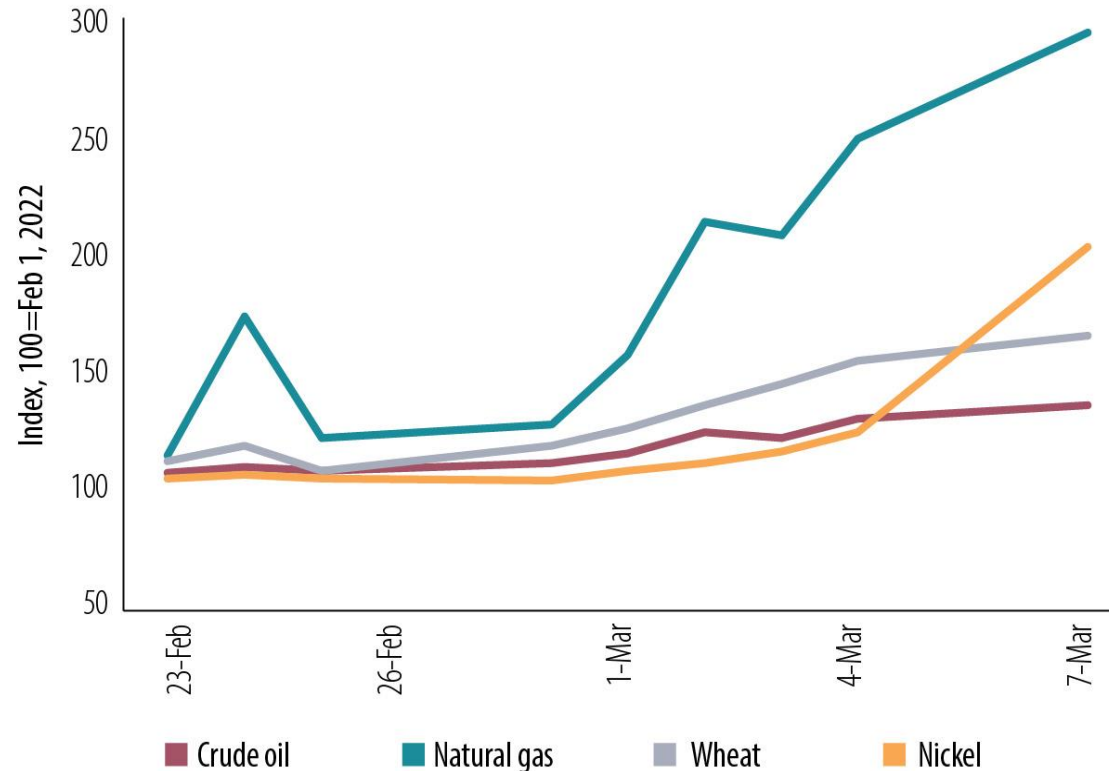
MAIN MESSAGES

1. Tightening global financial conditions pushing up sovereign spreads and weakening currencies, reflecting fears about debt sustainability.
 - a. IDA-eligible countries in the region are at moderate or high risk of debt distress.
 - b. Share of countries at high risk of debt distress at 60.5% in 2022.
2. Existing debt restructuring mechanisms have been insufficient to bring down debt levels or reduce the vulnerabilities of eligible countries.
 - a. Improvements are needed to avoid large wave of debt crisis
 - b. Need clear guidelines and timeline for the treatment process, clear rules for implementation
 - c. Expansion of eligibility criteria of the Common Framework: include LMICs?
3. Looming threat of stagflation amid an environment with multiple covariate shocks put emphasis on the implementation of policies that accelerate structural transformation
 - a. Building resilience in agriculture (food systems, staple food productivity, digital solutions)
 - b. Job opportunities in manufacturing (within-firm productivity growth, address market distortions, participation in RVCs and GVCs)
 - c. Build social protection programs to create greater resilience, more opportunities and equity.

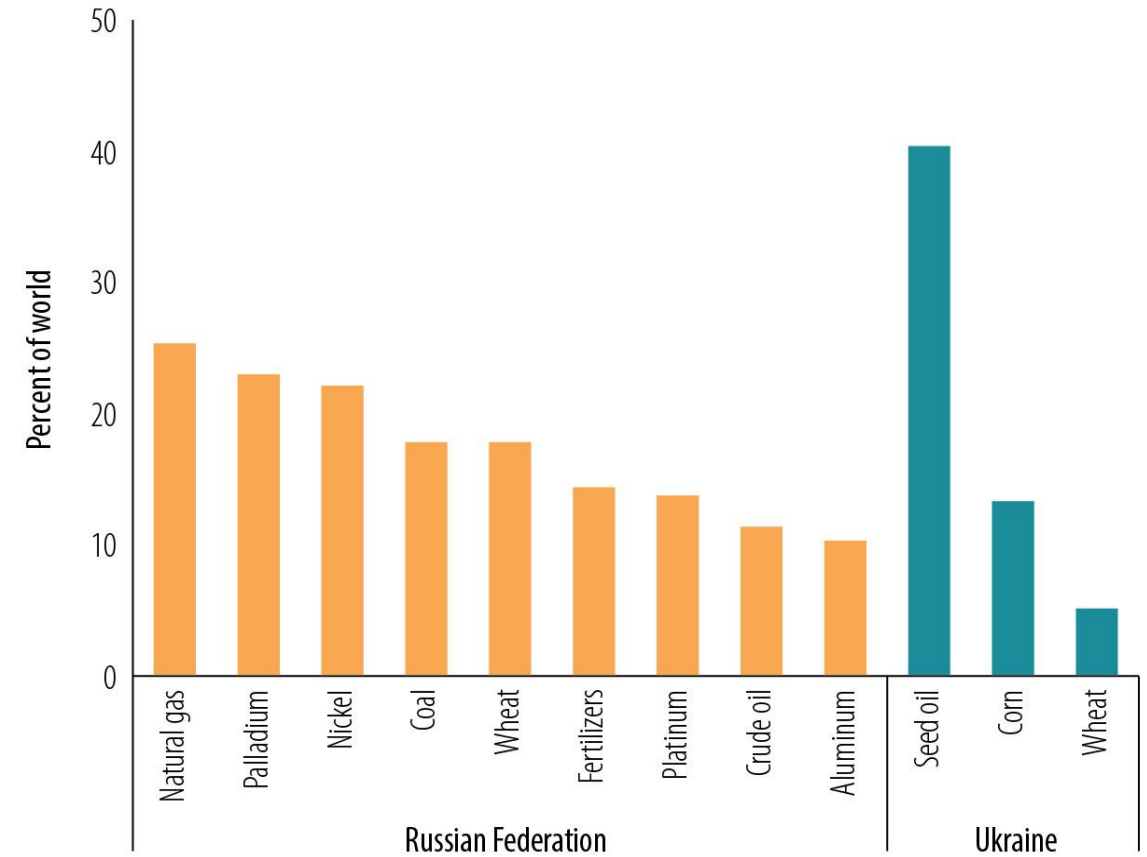
THE GLOBAL ENVIRONMENT

INCREASE IN COMMODITY PRICES ACCELERATED WITH THE RUSSIA-UKRAINE CONFLICT

Commodity Prices since outbreak of RUS-UKR conflict



Russia and Ukraine Commodity Exports

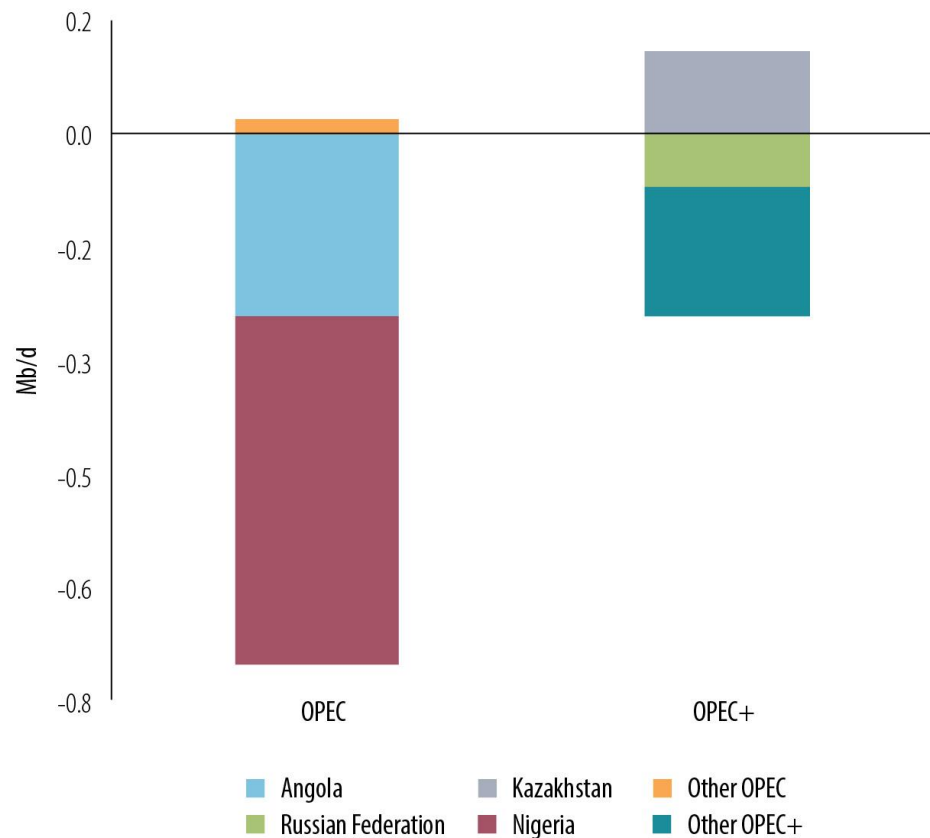


Sources: [1] Bloomberg, World Bank. [2] UN COMTRADE, World Bank

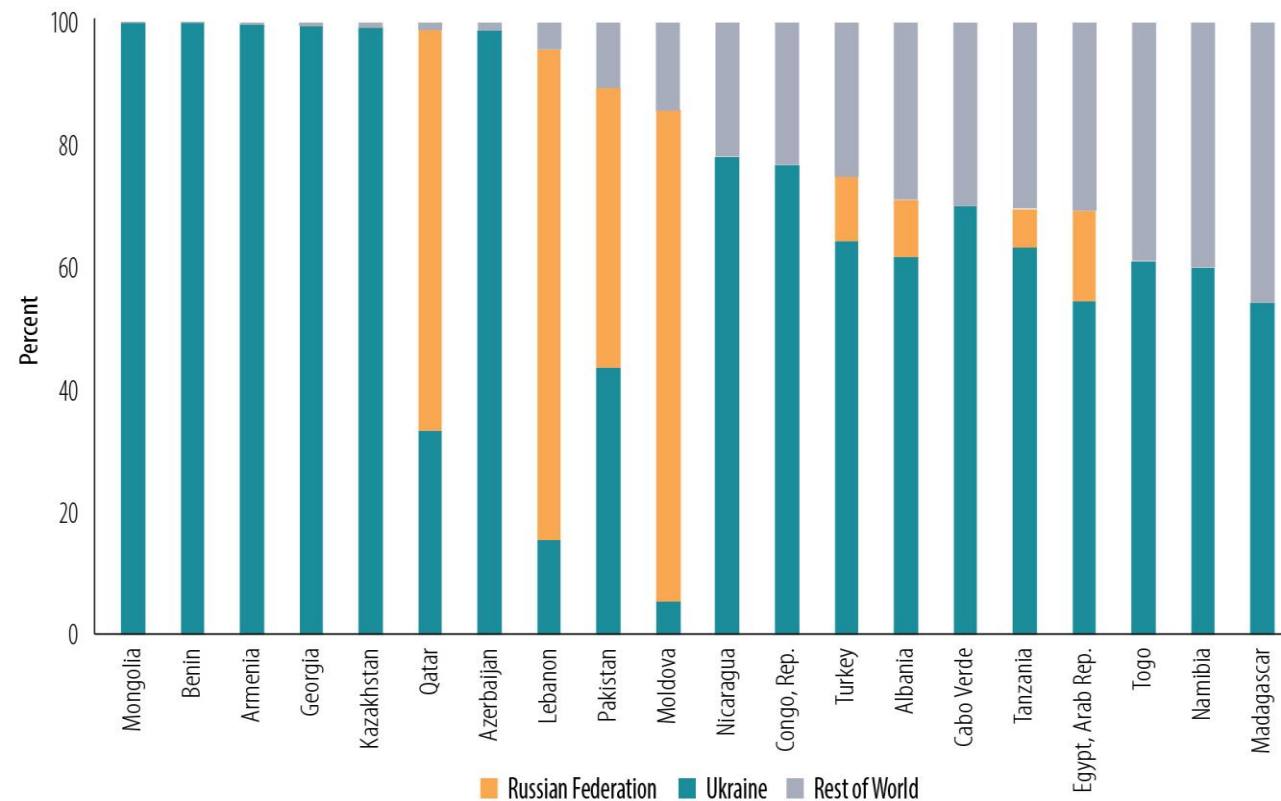
Note: [2]: Data are for 2020. Export shares for energy commodities are in volume terms; those for non-energy commodities are in value terms

INCREASE IN COMMODITY PRICES ACCELERATED WITH THE RUSSIA-UKRAINE CONFLICT

OPEC and OPEC+ production relative to targets



Geographical Composition of Wheat Imports



Sources: [1] Haver Analytics, International Energy Agency, World Bank. [2] UN COMTRADE, World Bank

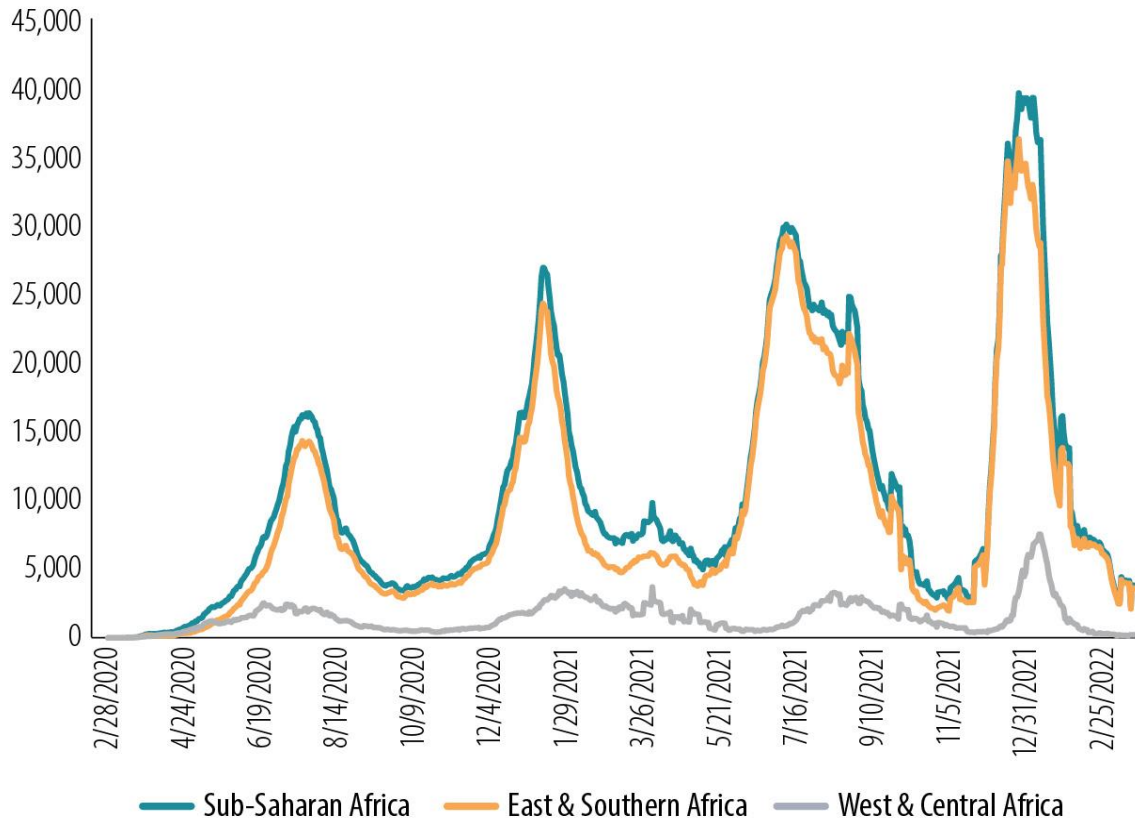
Notes: [1] Change in crude oil production compared to targets set by OPEC countries for December 2021. Others include Bahrain, Brunei, Malaysia, Sudan, and South Sudan. Mb/d = Million barrels per day. [2]: Data are for 2020.

COVID-19 IN SUB-SAHARAN AFRICA

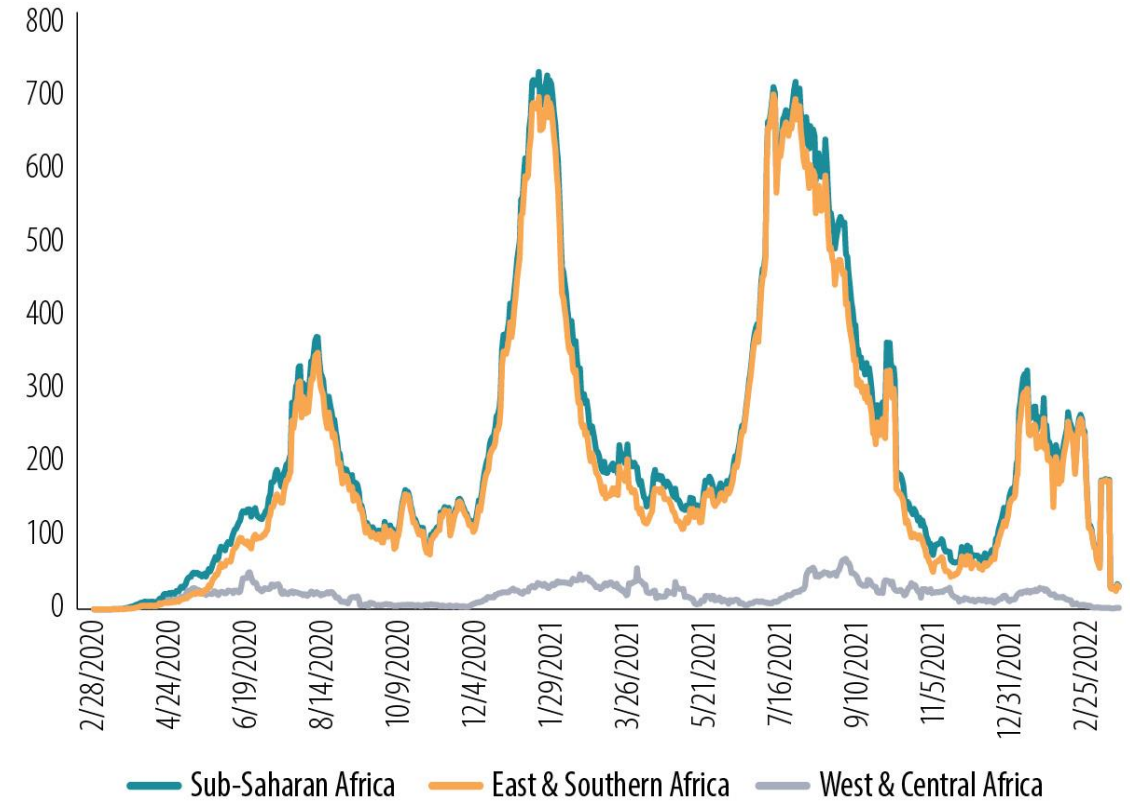


SUB-SAHARAN AFRICA IS EXITING THE 4TH WAVE OF COVID-19 PANDEMIC

Covid-19 daily new cases in SSA and subregions (7-day rolling average of cases)



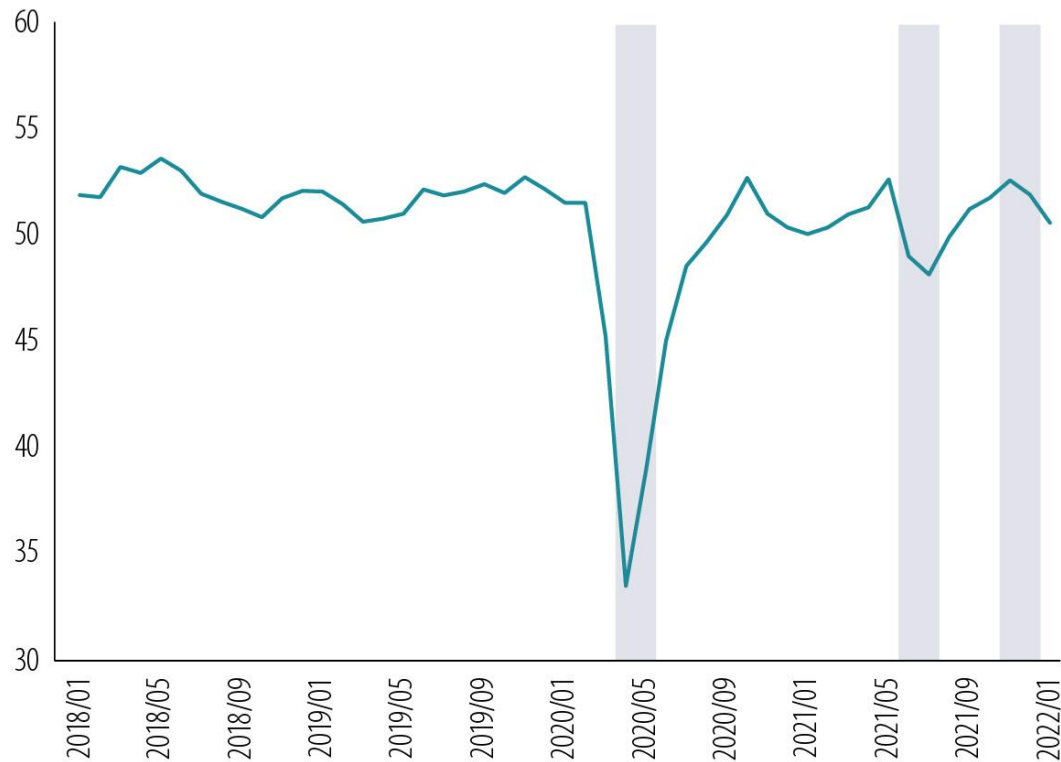
Covid-19 daily new deaths in SSA and subregions (7-day rolling average of cases)



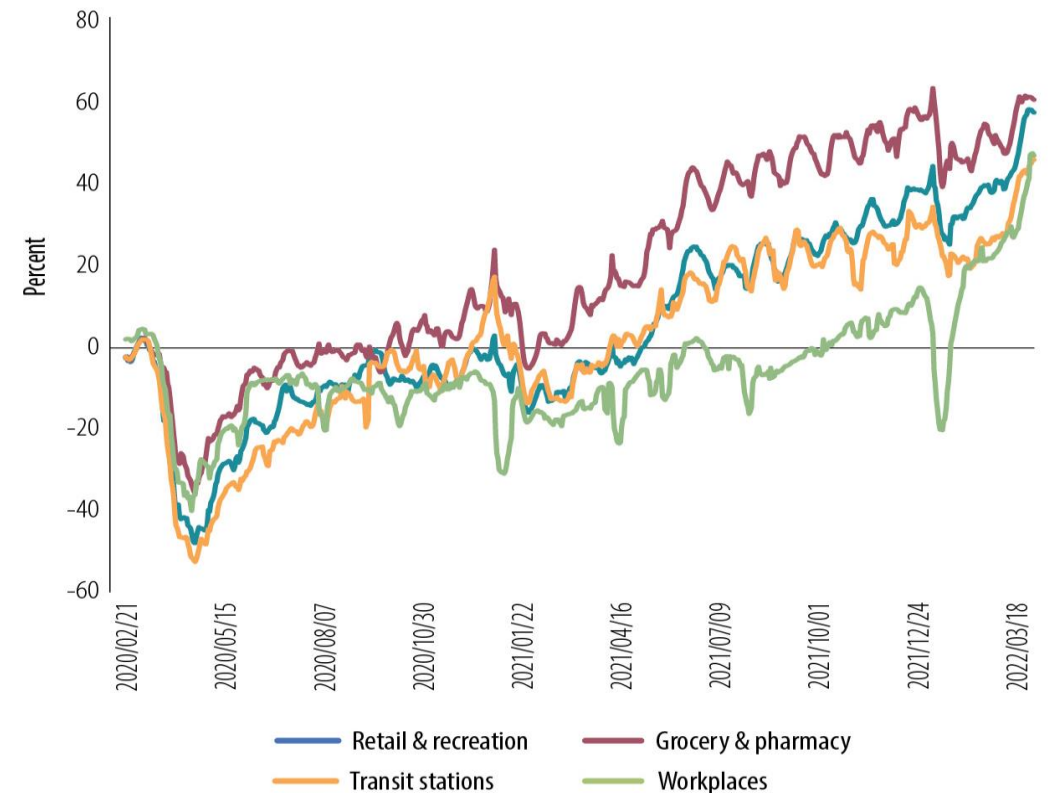
Note: Data as of March 20, 2022. Source: Our World in Data (OWID)

AFRICAN GOVERNMENT STEER CLEAR OF TIGHTENING RESTRICTIONS AMID THE OMICRON WAVE

Purchasing Managers' Index in Sub-Saharan Africa



COVID-19 community mobility (% change from baseline, 7-day rolling average)

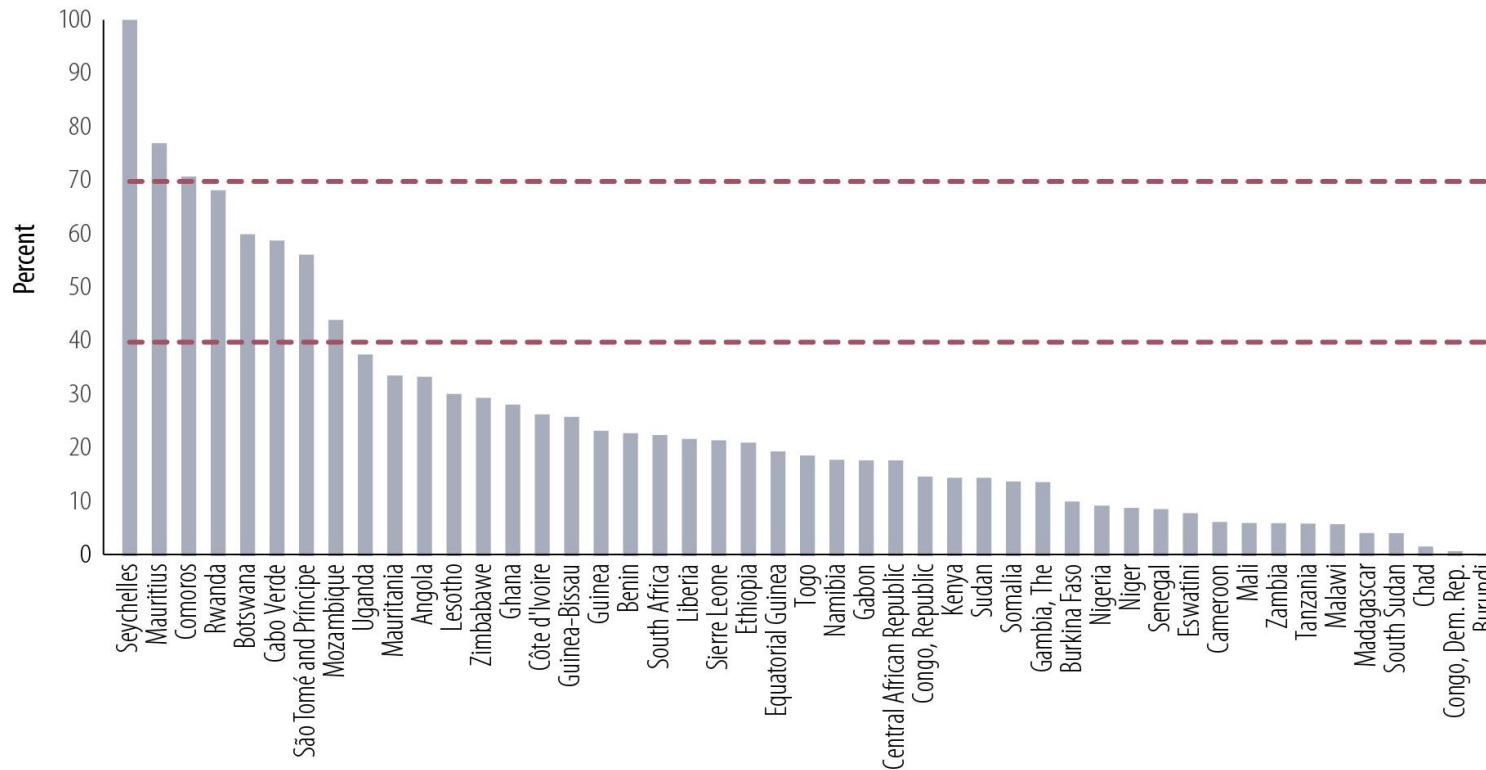


Sources: [1] Haver Analytics. [2] Google COVID-19 Community Mobility Reports

Notes: [1] The graph reports the average Purchasing Managers' Index (PMI) index of the following countries: Ghana, Nigeria, Kenya, Mozambique, South Africa, Uganda, and Zambia. The monthly PMI data are seasonally adjusted, and values that exceed 50 represent an expansion in economic activity. The shaded areas represent the start of lockdowns to contain the spread of the pandemic (April-May 2020) and the periods around the peaks of the Delta (June-July 2021) and Omicron (November-December 2021) waves of the pandemic. [2] Mobility data are as of March 18, 2022. The figures plot the changes in community mobility for each day compared to the baseline value for that day of the week. The baseline is the median value for the corresponding day of the week during the five-week period from January 3 to February 6, 2020.

MANY COUNTRIES IN THE REGION STILL HAVE LOW VACCINATION RATES

% Population with at least one dose of the COVID-19 vaccine



Source: Africa Centers for Disease Control and Prevention.

Note: Vaccination figures are as of March 17, 2022. The dotted lines represent the World Health Organization targets of full primary immunization against coronavirus of 40 percent by end-2021 and 70 percent by mid-2022.

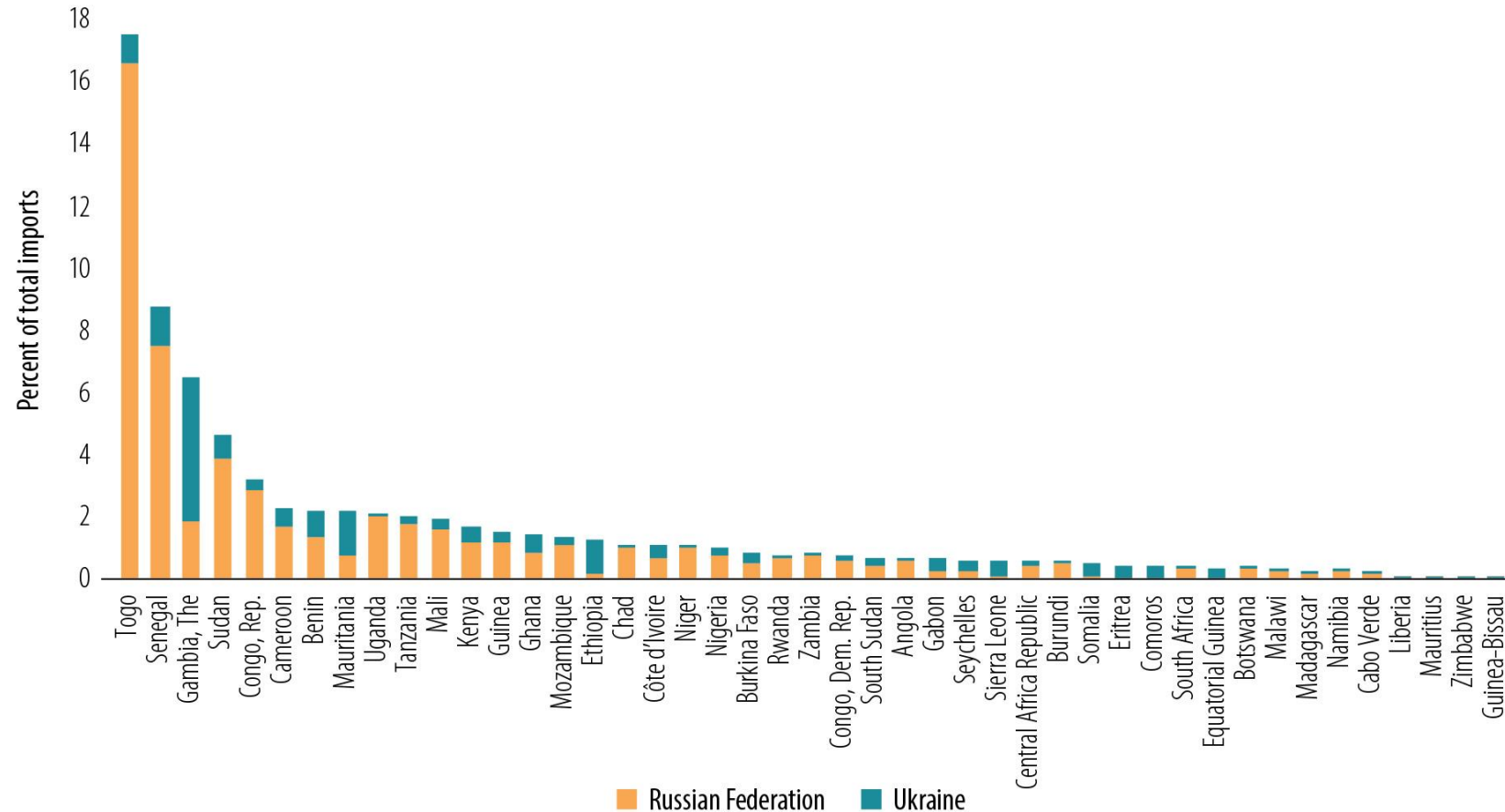


SUB-SAHARAN AFRICA EXPOSURE TO RUSSIA AND UKRAINE



MOST AFRICAN COUNTRIES HAVE SMALL DIRECT TRADE LINKAGES WITH RUSSIA AND UKRAINE

Import dependence on Russia and Ukraine across SSA countries (% total imports)

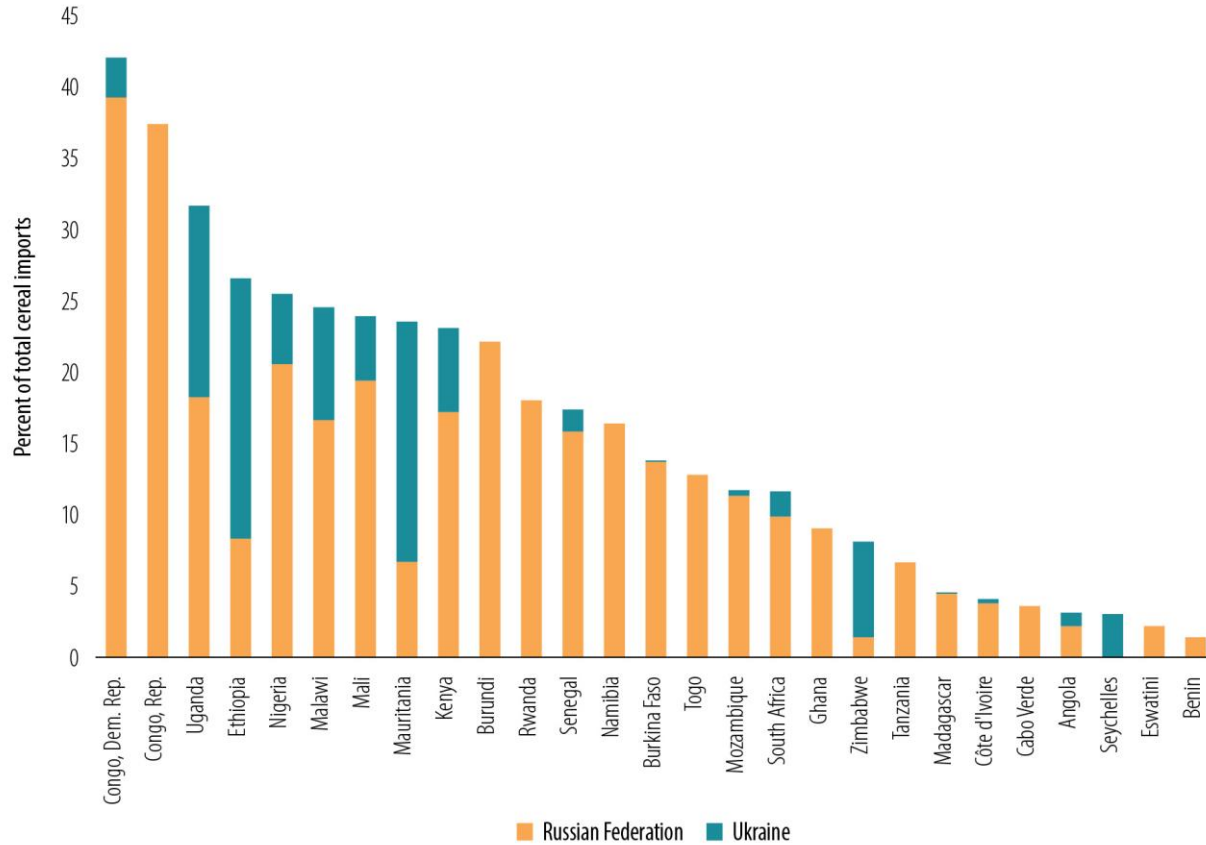


Source: International Trade Centre (ITC) data.

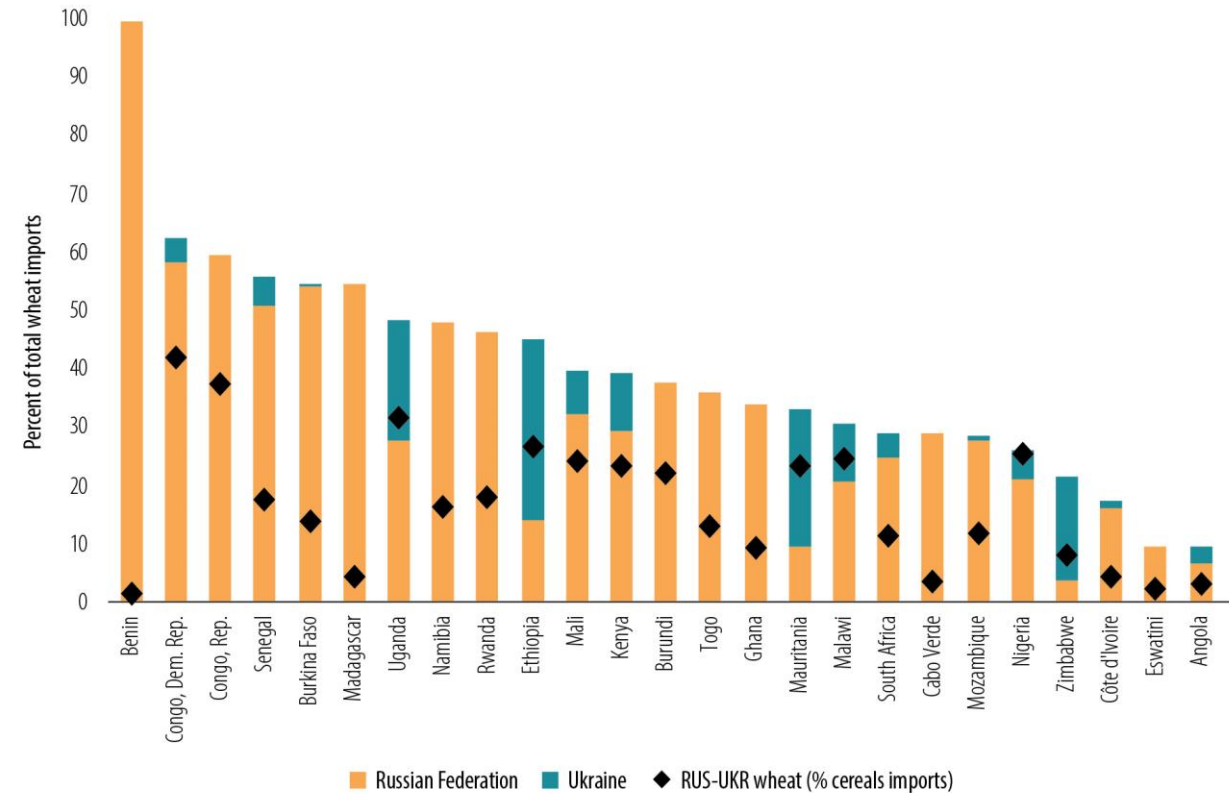
Note: The figures depicted are average shares for 2019-2020.

THE SHARE OF CEREAL AND WHEAT IMPORTS IS LARGE FOR SOME SUB-SAHARAN AFRICAN COUNTRIES

Import dependence on Russia and Ukraine in Cereals (% of total cereal imports)



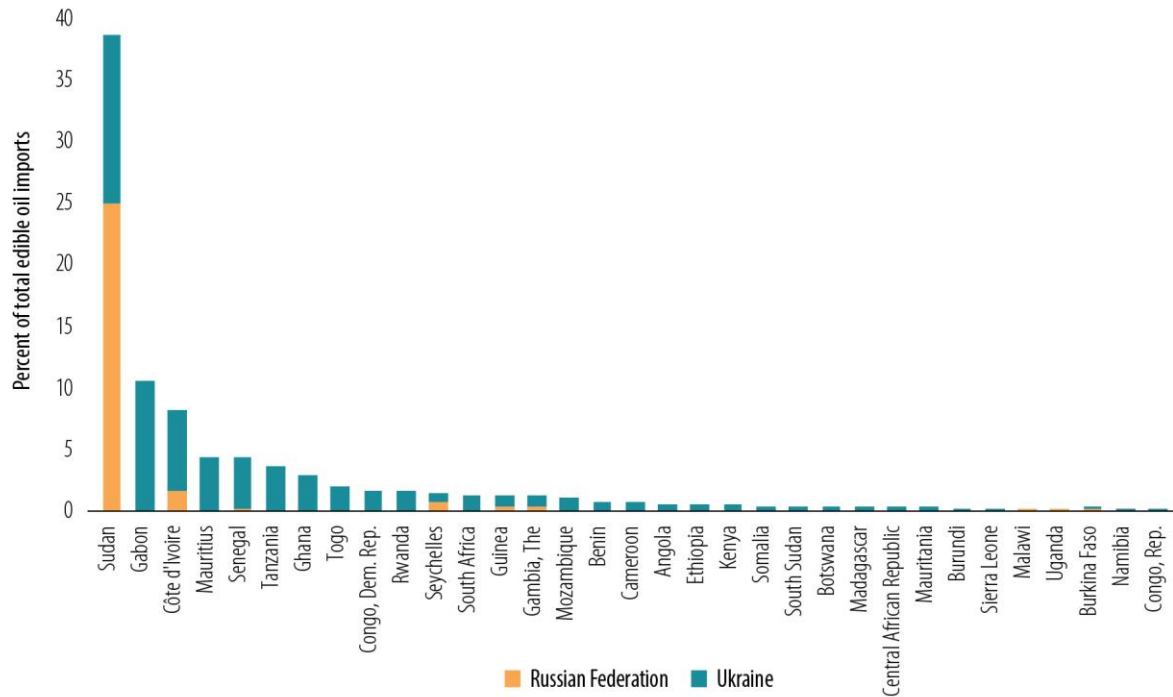
Import dependence on Russia and Ukraine in Wheat (% of total wheat imports)



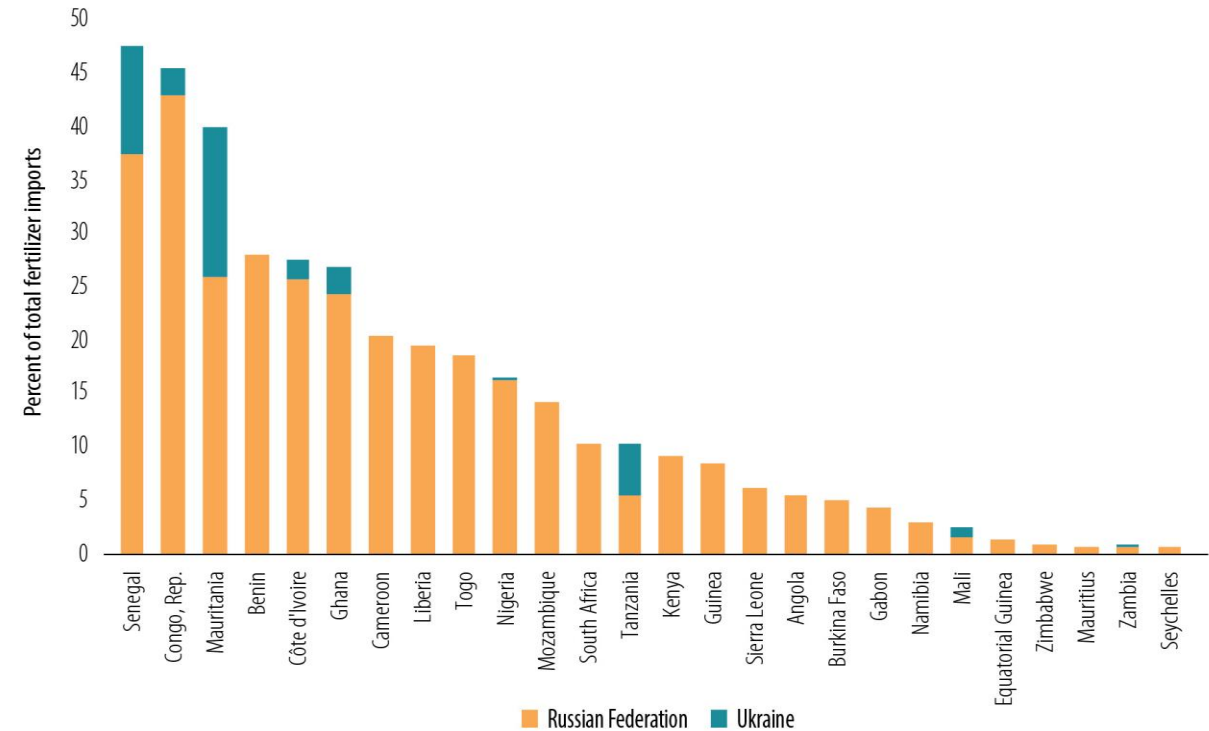
Source: International Trade Centre (ITC) data. Note: [2] The black diamonds in the second figure of the slide depict the share of wheat imports from Russia and Ukraine in total cereal imports for each Sub-Saharan African countries.

IMPORT DEPENDENCE IN FERTILIZERS CAN BECOME A RISK

Import dependence on Russia and Ukraine in Edible Oils (% of total edible oil imports)



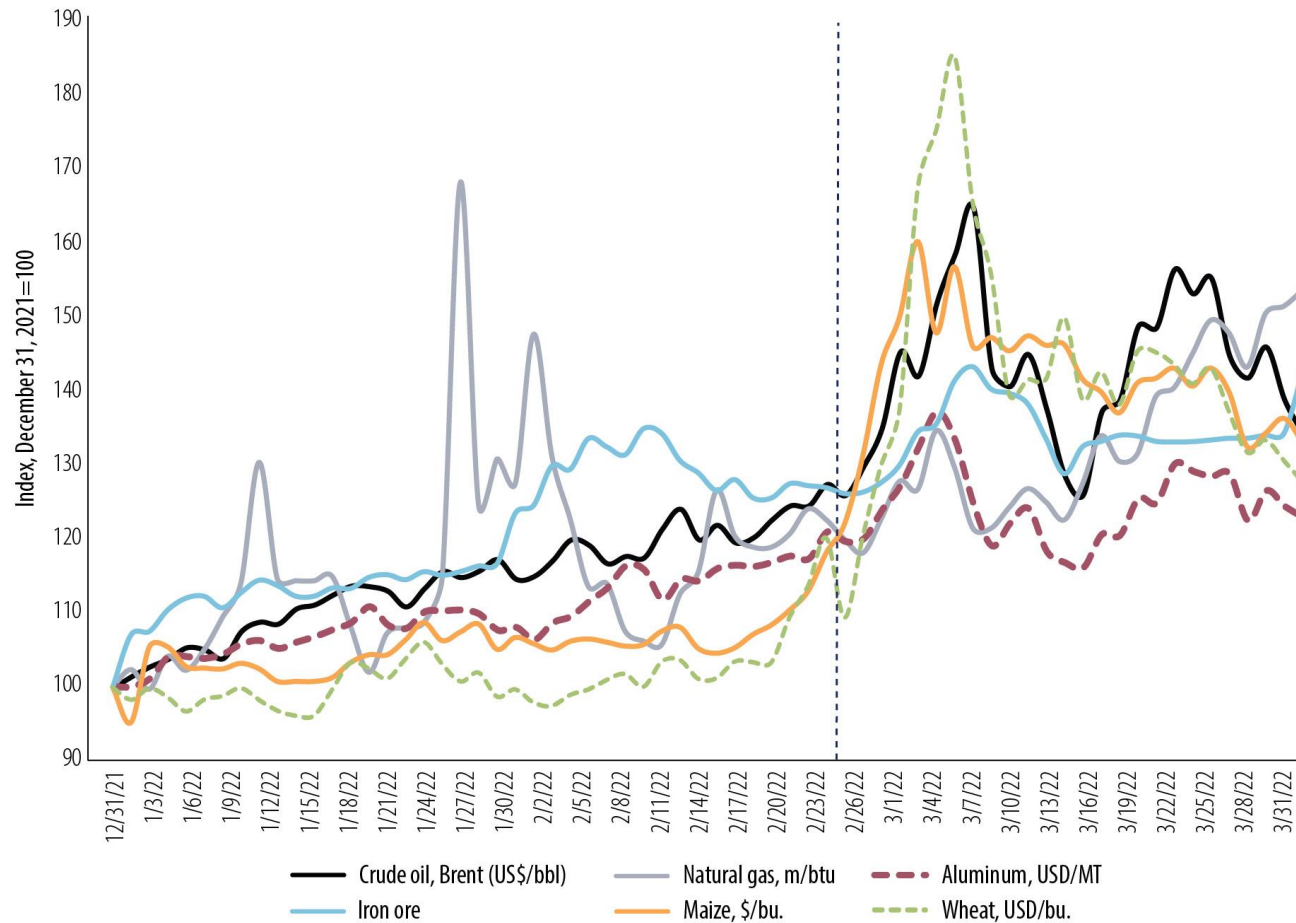
Import dependence on Russia and Ukraine in Fertilizer (% of total fertilizer imports)



Source: International Trade Centre (ITC) data. Note: Values are average shares for 2019-20

IMPACT OF THE TRADE CHANNEL IN THE REGION IS MAINLY THROUGH HIGHER GLOBAL COMMODITY PRICES

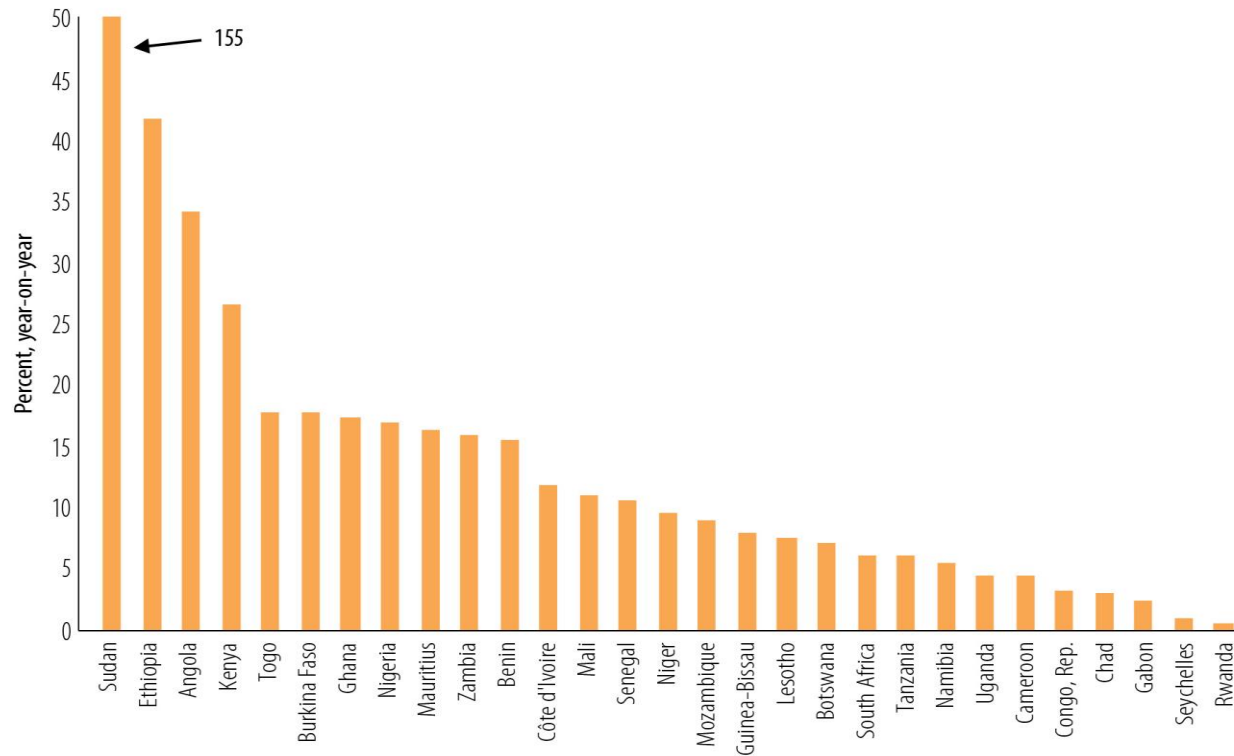
Evolution of selected commodity prices in 2022 (Index, 12/31/2021=100)



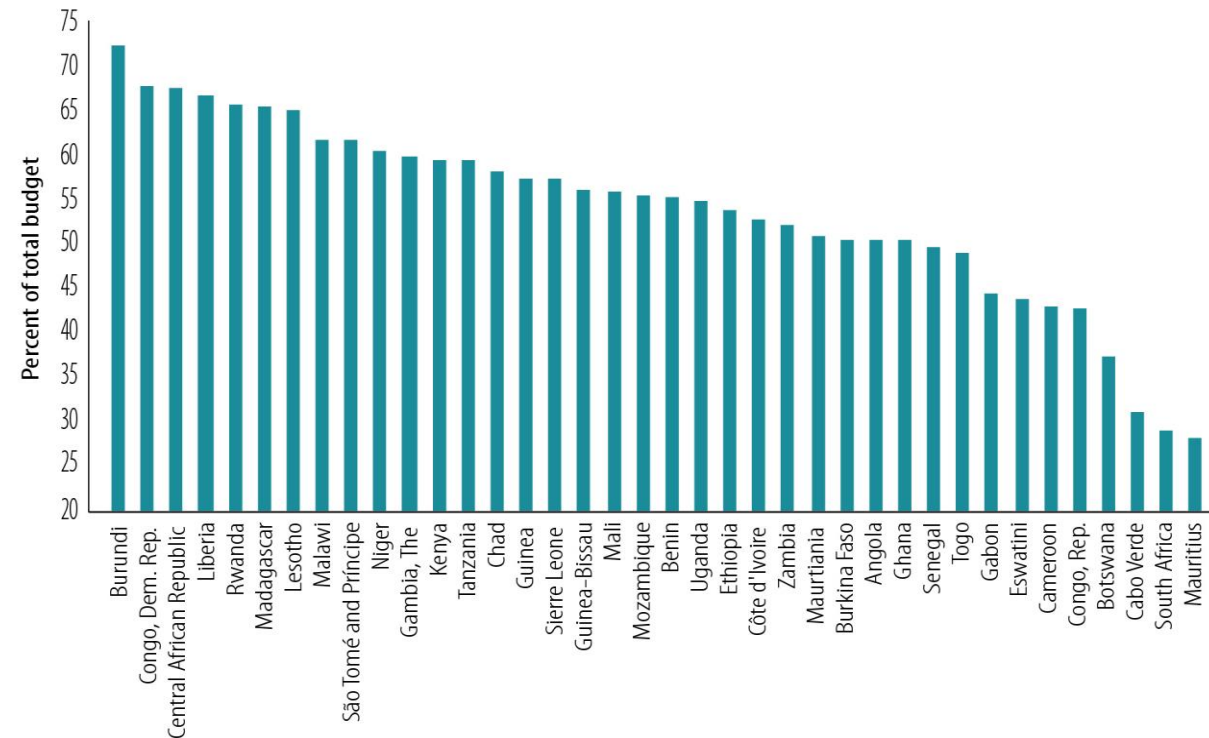
Source: Bloomberg Analytics. Note: Information for the EMBI sovereign spreads and exchange rates as of March 31, 2022. bbl=barrel; bu=bushel; m/btu=million British thermal units; MT = metric tons.

INFLATION CONTINUES RISING IN SSA COUNTRIES, AND THE IMPACT IS REGRESSIVE

Domestic Food Inflation, February 2022 (% , y-o-y)



Food Share in Household Budgets' across SSA countries (% of total budget)

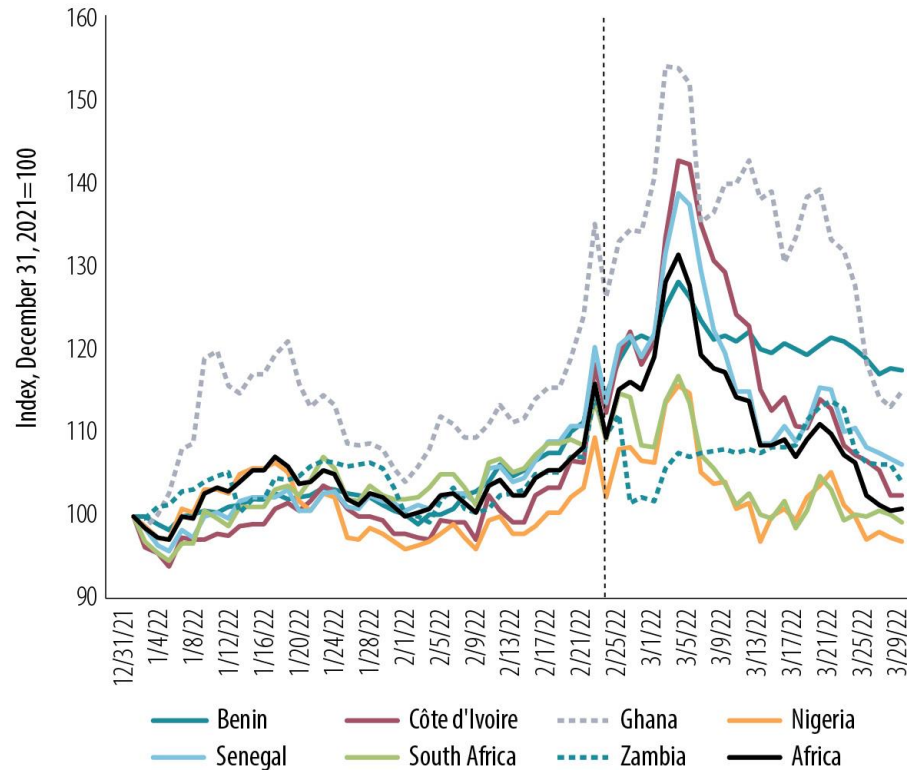


Source: [1] Haver Analytics. [2] International Household Survey Network.

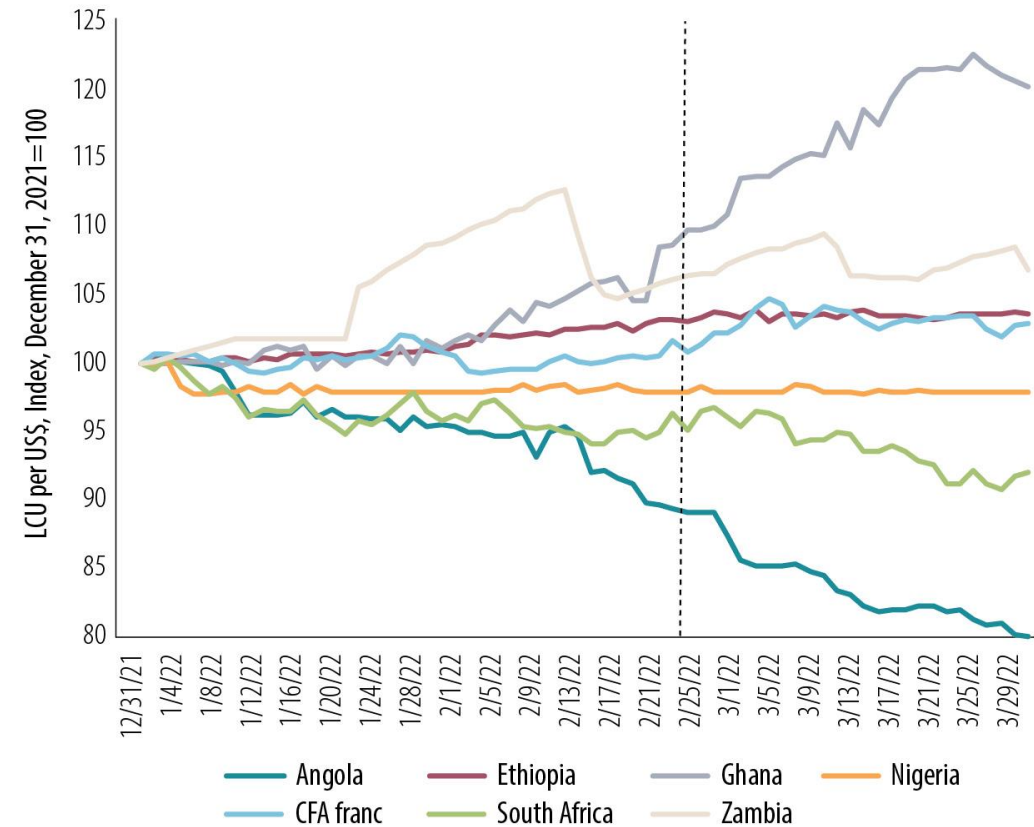
Notes: [1] The figure depicts the year-on-year inflation of the food and non-alcoholic beverages component of the Consumer Price Index in February 2022 or the latest data available. [2] Budget shares do not account for household production.

GREATER VOLATILITY IN SPREADS AND EXCHANGE RATES SINCE THE START OF THE RUSSIA-UKRAINE CONFLICT

Sovereign Spreads in Selected Sub-Saharan African countries (*Index, 12/31/2021=100*)



Exchange Rates in Selected Sub-Saharan African countries (*Index, 12/31/2021=100*)



Source: Bloomberg Analytics.

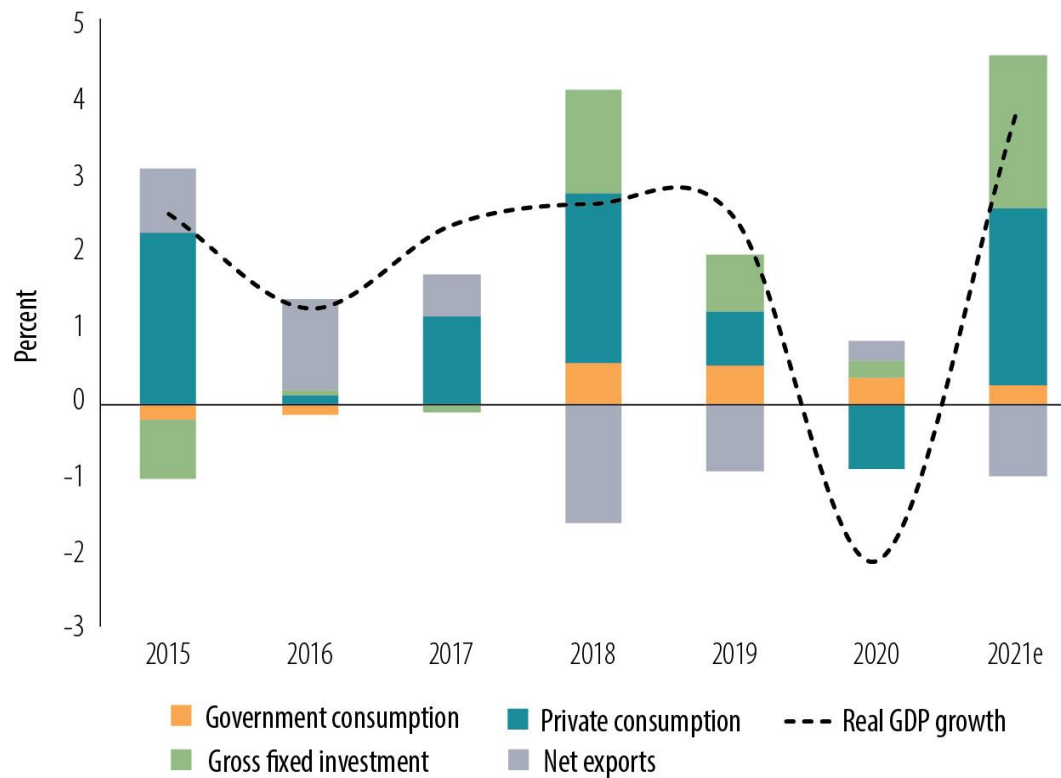
Note: Information for the EMBI sovereign spreads and exchange rates as of March 31, 2022. EMBI=Emerging Market Bond Index; LCU=local currency unit.

ECONOMIC OUTLOOK OF SUB-SAHARAN AFRICA

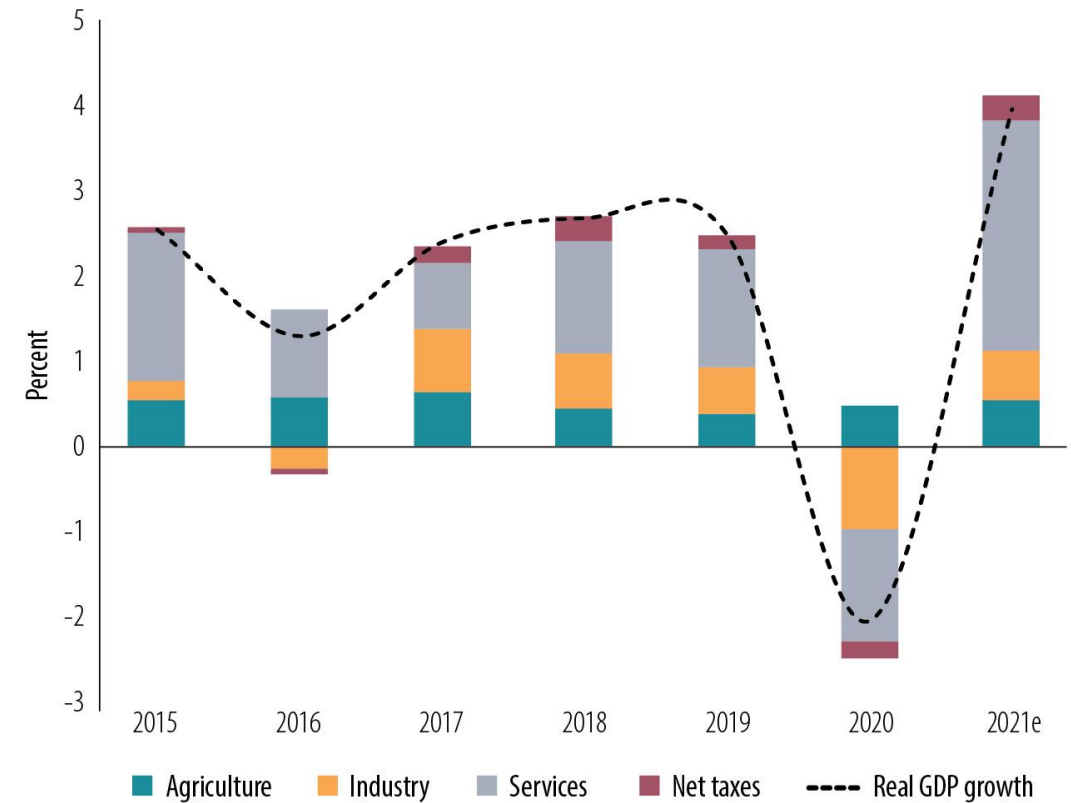


SUB-SAHARAN AFRICA EXITS THE RECESSION, AND GROWTH REBOUNDS TO 4% IN 2021

GDP Growth (Expenditure)



GDP Growth (Production)

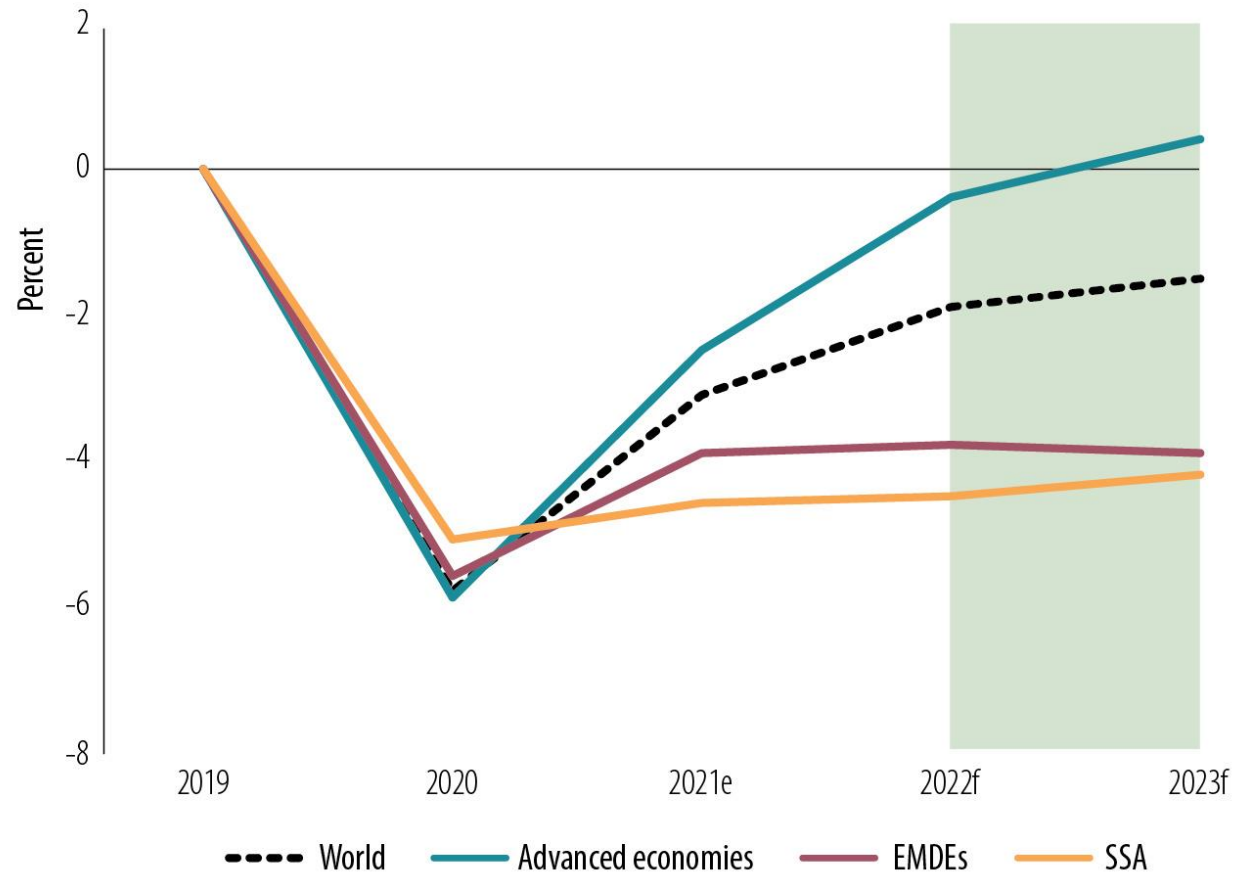


Source: World Bank staff estimates.

Note: On the expenditure side, change in inventories and statistical discrepancy are not displayed. e = estimate; GDP = gross domestic product.

SCARRING EFFECTS OF COVID-19 ON ECONOMIC ACTIVITY IN SUB-SAHARAN AFRICA

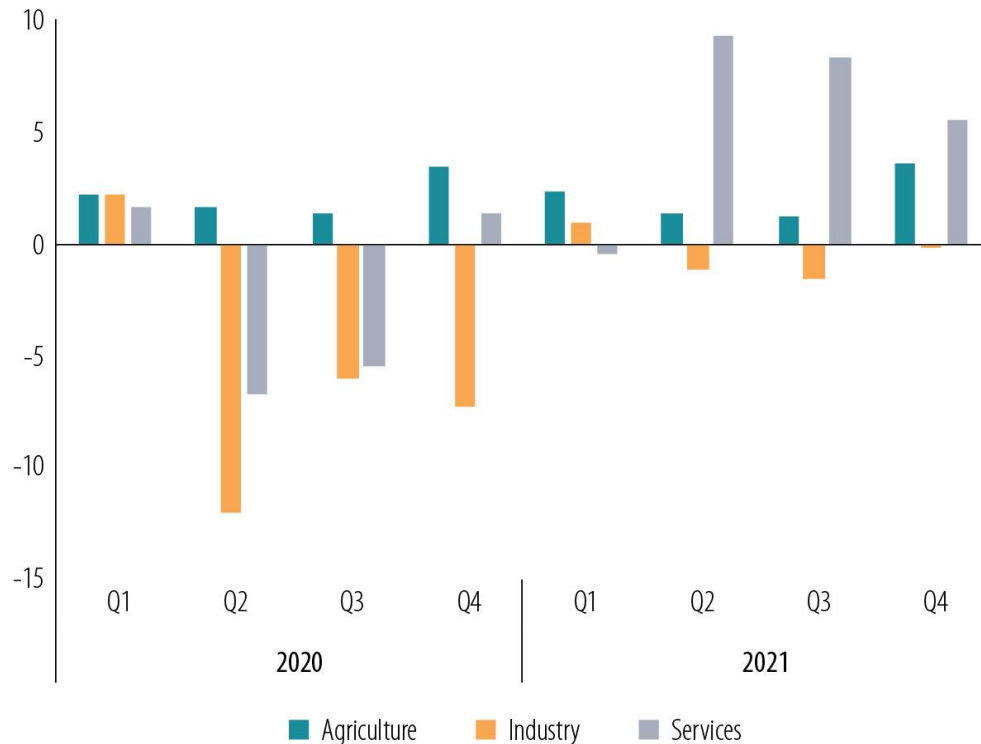
Output Deviation from the Pre-Pandemic Trend (%)



Source: World Bank staff projections. Note: e = estimate; EMDEs = emerging markets and developing economies; f = forecast; SSA = Sub-Saharan Africa.

SERVICES REMAIN KEY DRIVER IN NIGERIA, OIL PRODUCTION FAILING TO MEET OPEC+ QUOTAS

GDP Growth in Nigeria, By Sector (%)



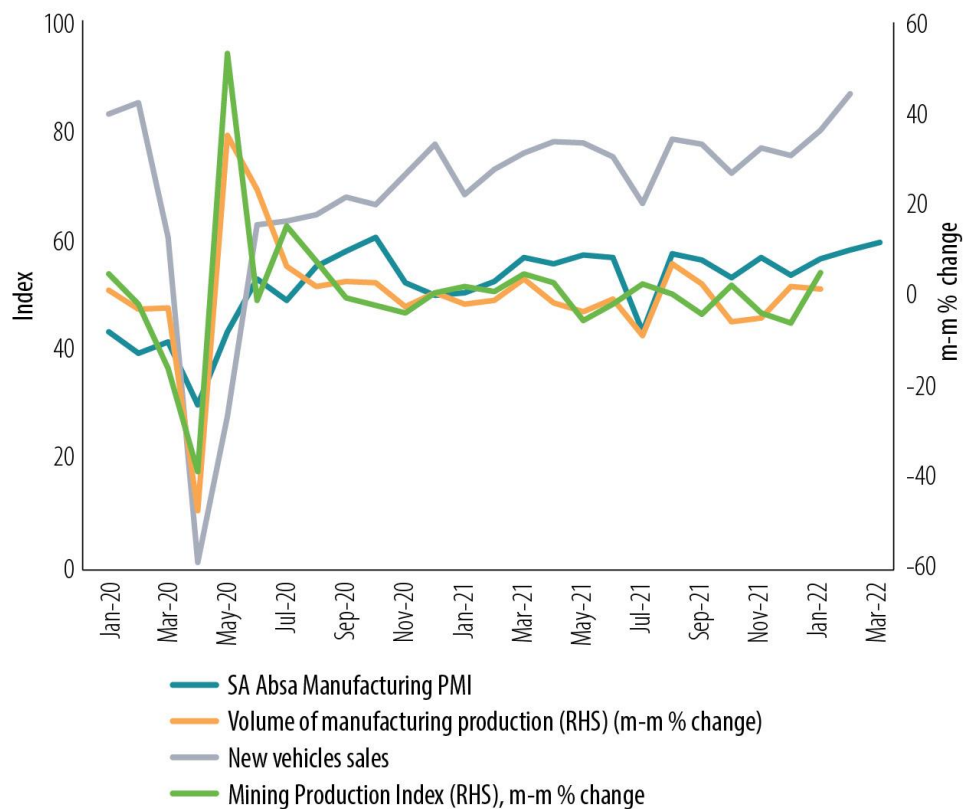
Angola and Nigeria: Oil Production (mbpd)



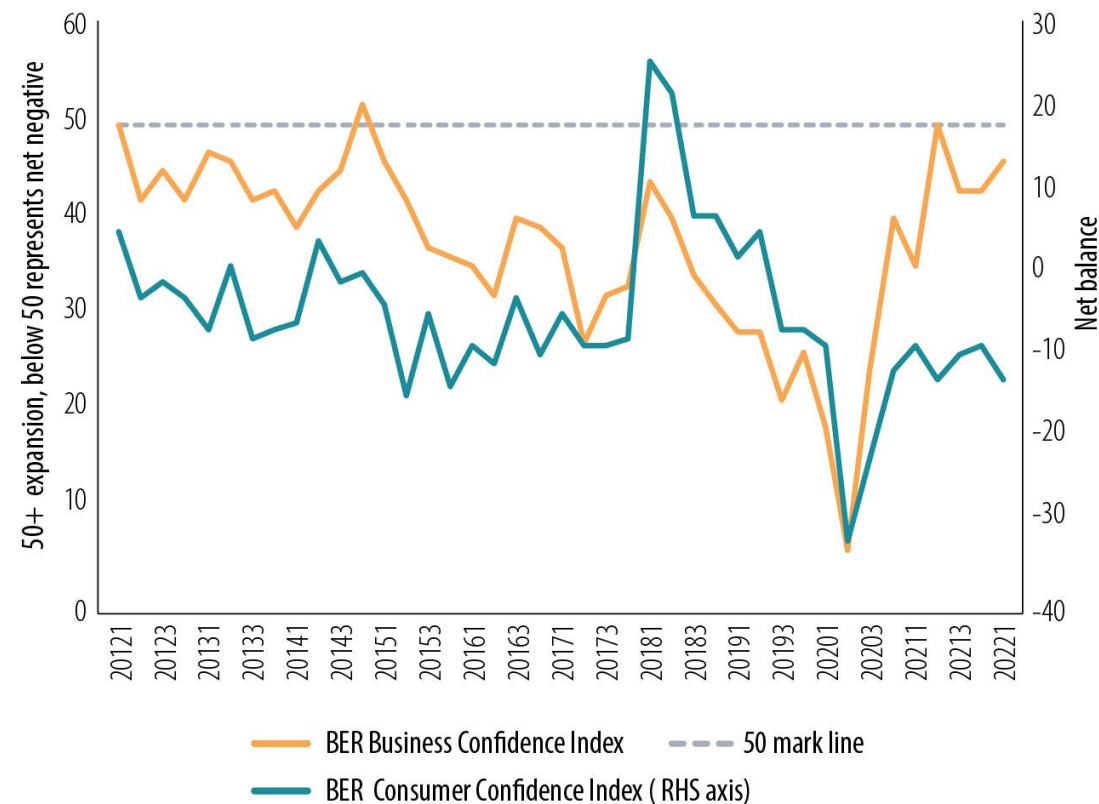
Source: [1] Nigeria National Bureau of Statistics. [2] U.S. Energy Information Administration. Note: [1] GDP = gross domestic product. [2] mbpd = million barrels per day.

SOUTH AFRICA HAS ENTERED THE YEAR WITH STRONG FOOTING

PMI, Manufacturing Production, Mining Production, and New Vehicle Sales



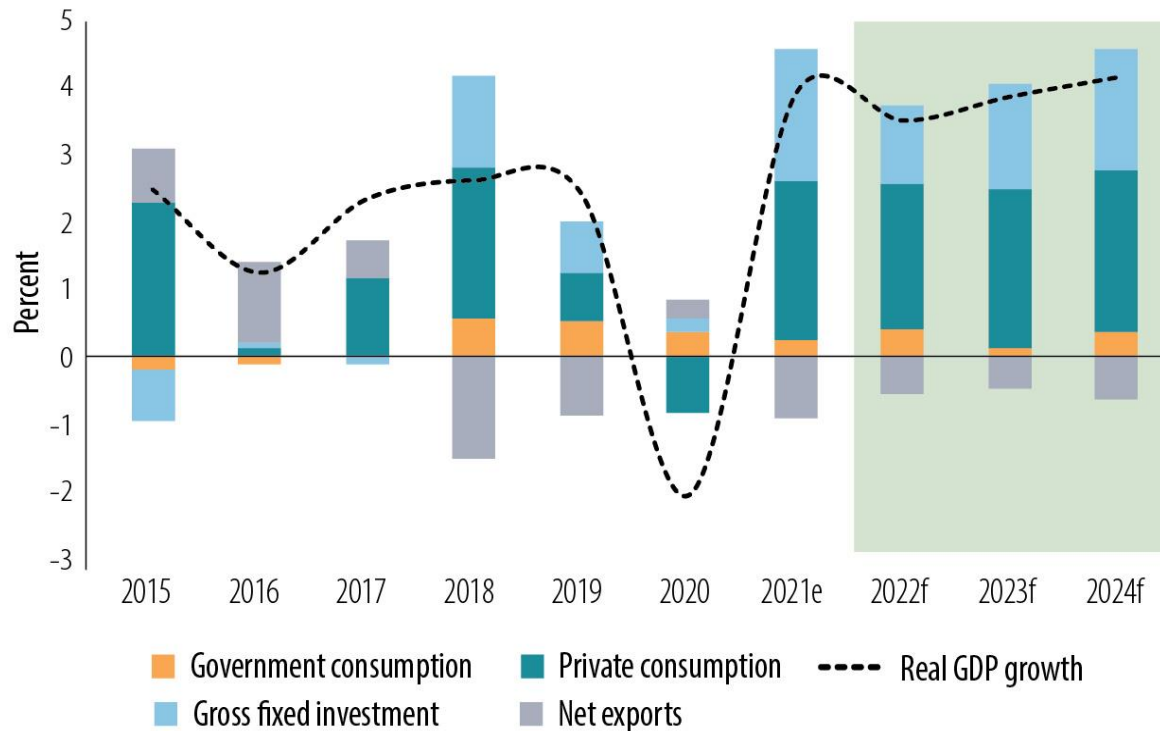
Business and Consumer Confidence Indices



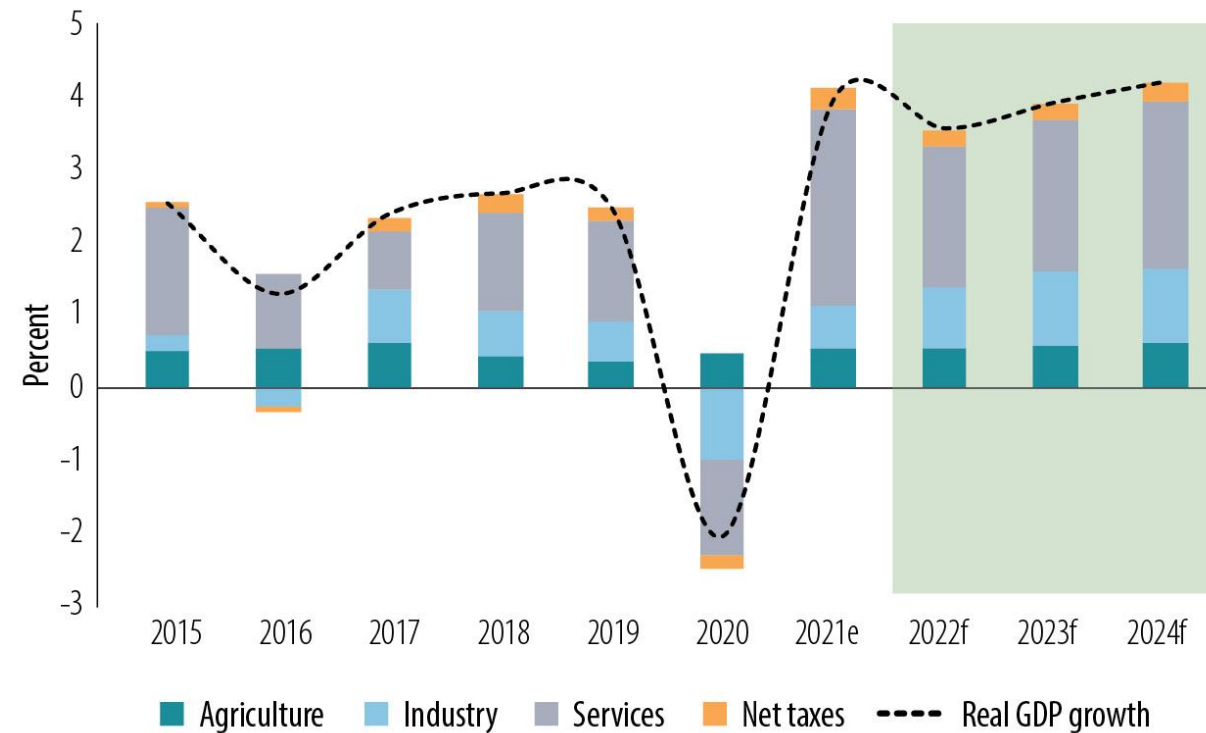
Sources: [1] Statistics South Africa; Haver Analytics 2022. [2] Bureau of Economic Research. Notes: Consumer confidence is expressed as a net balance derived as the percentage of respondents expecting an improvement less the percentage expecting a deterioration. m-m = month-over-month; PMI = Purchasing Managers' Index; SA = South Africa.

SUB-SAHARAN AFRICA: GROWTH IS EXPECTED TO DECELERATE TO 3.6% IN 2022

GDP Growth (Expenditure)



GDP Growth (Production)

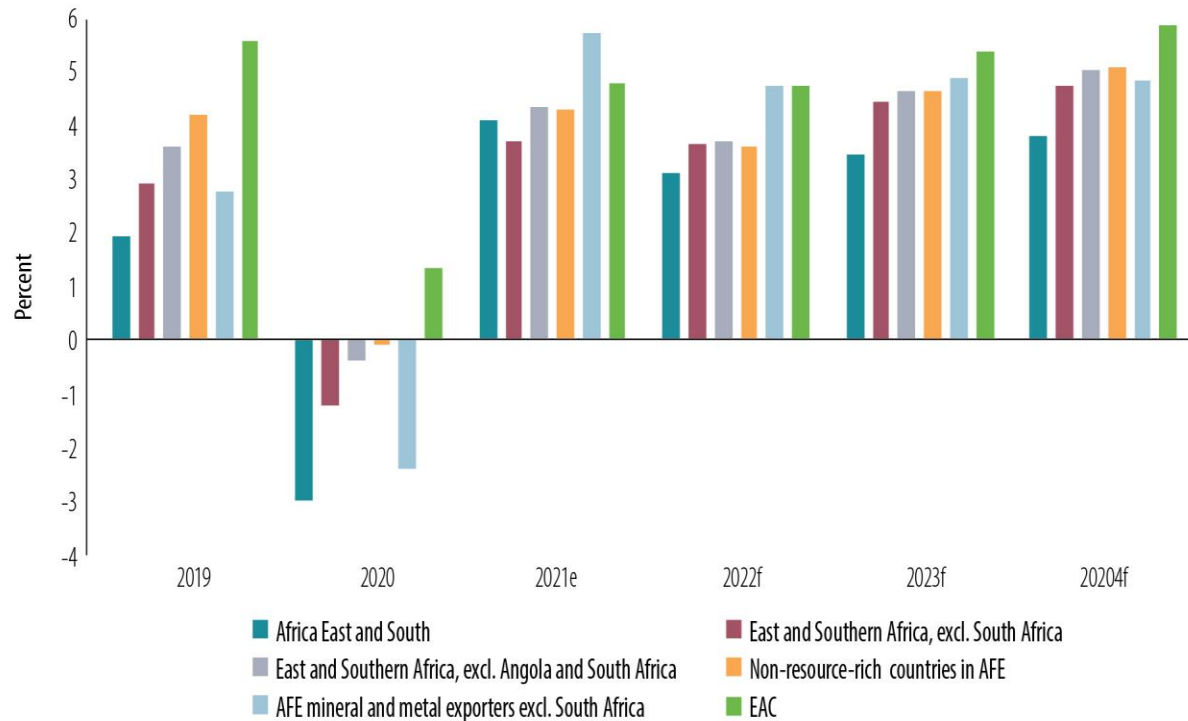


Source: World Bank staff estimates.

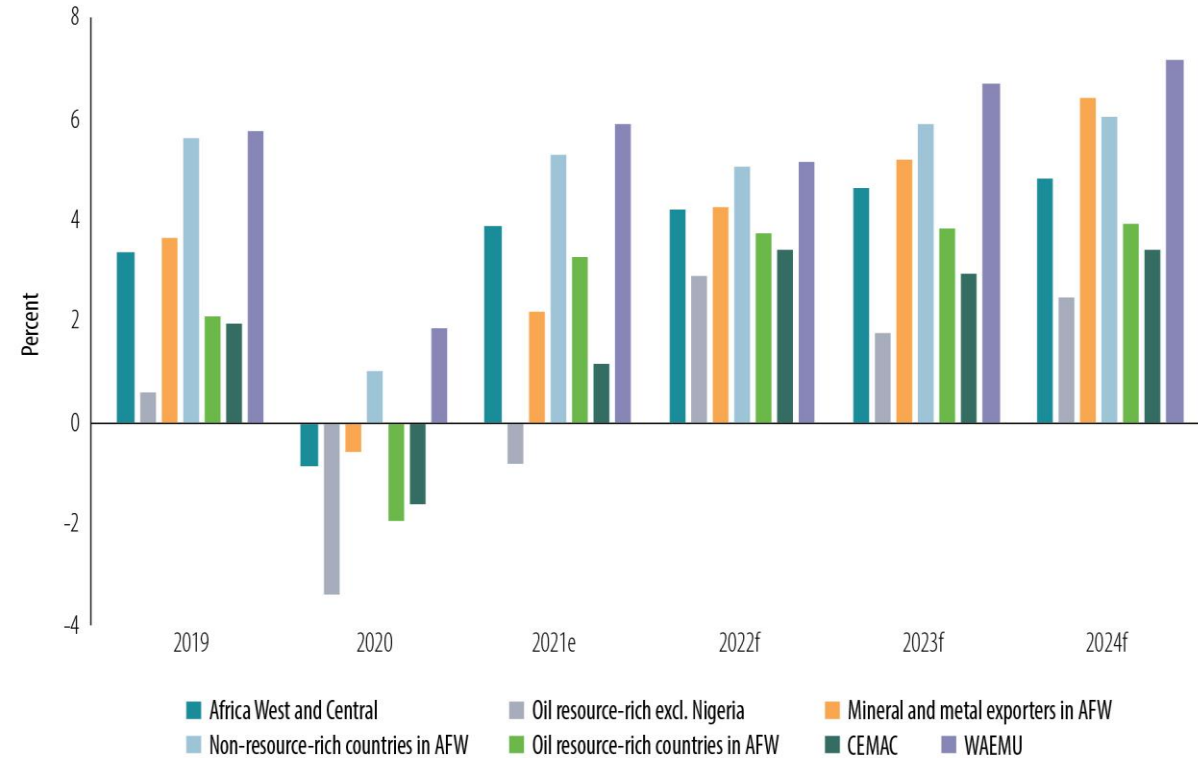
Note: On the expenditure side, change in inventories and statistical discrepancy are not displayed. e = estimate; f = forecast; GDP = gross domestic product.

SUB-SAHARAN AFRICA: RECOVERY REMAINS MULTISPEED WITH WIDE VARIATION ACROSS COUNTRIES

AFE Growth Forecasts



AFW Growth Forecasts



Source: World Bank staff estimates.

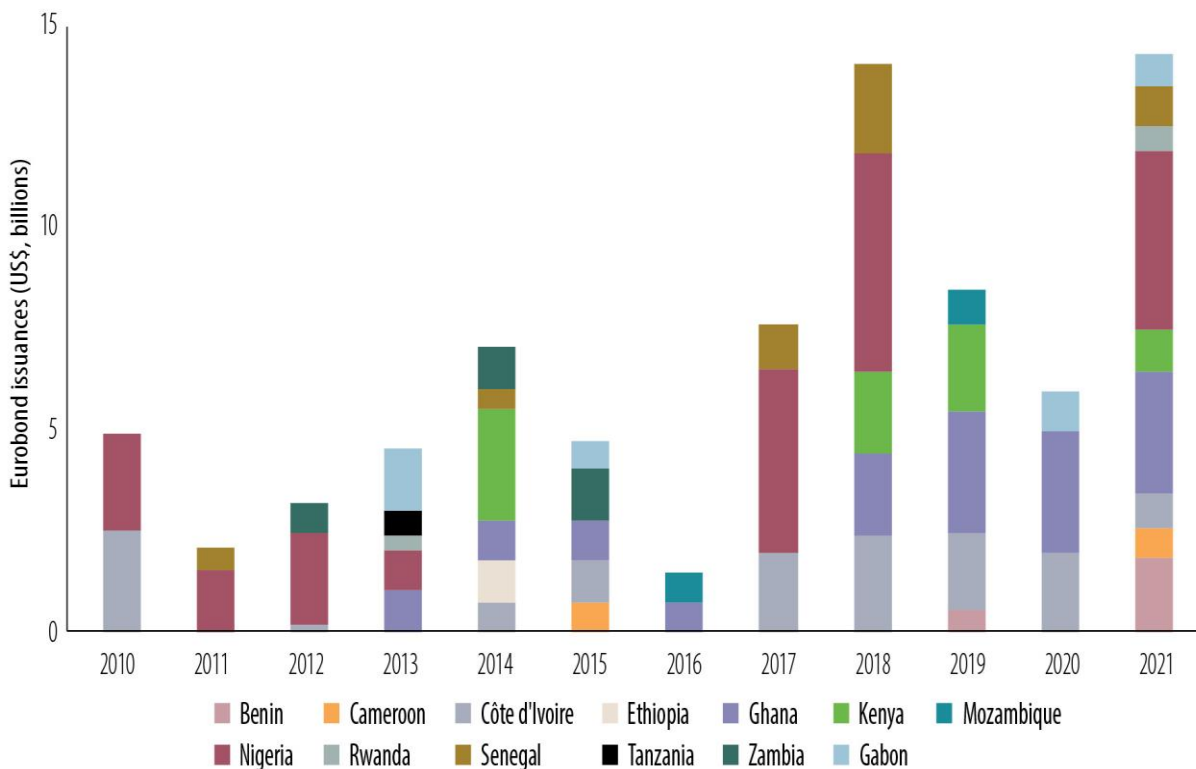
Note: On the expenditure side, change in inventories and statistical discrepancy are not displayed. e = estimate; f = forecast; GDP = gross domestic product.

MACROECONOMIC FRAMEWORK

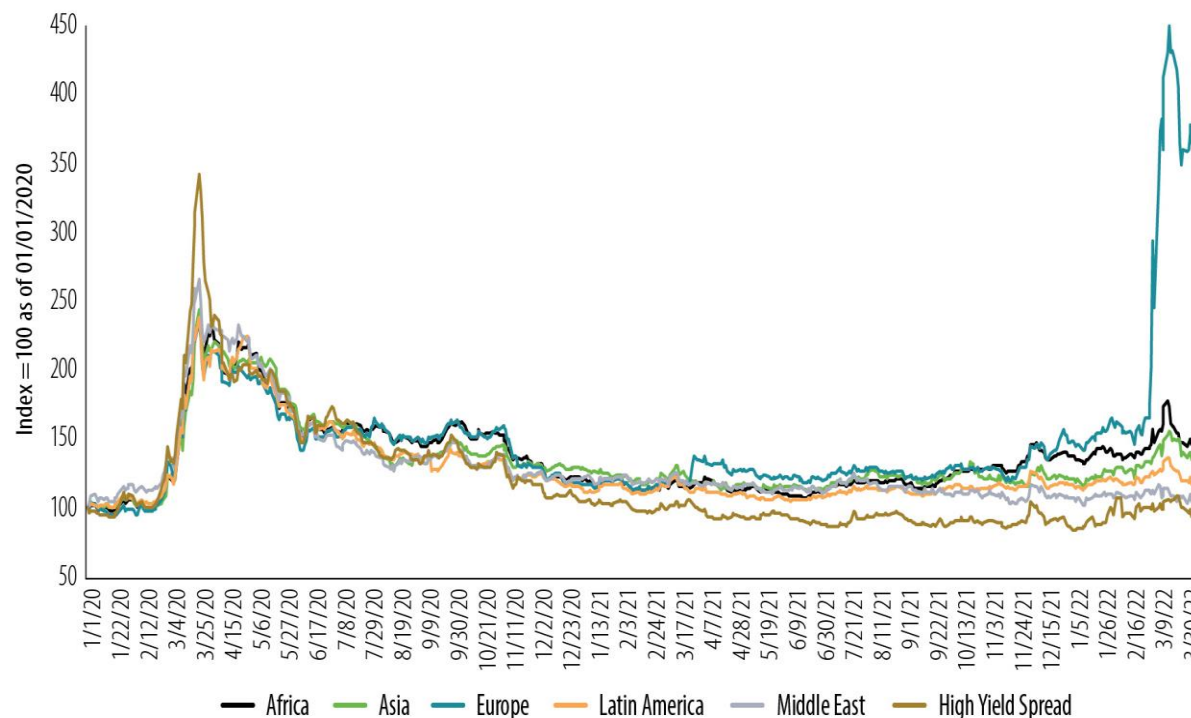


REGAINED MARKET ACCESS IN 2021, SPREADS WIDENED IN COUNTRIES WITH EXTERNAL IMBALANCES

Eurobond Issuances (US\$ billion)



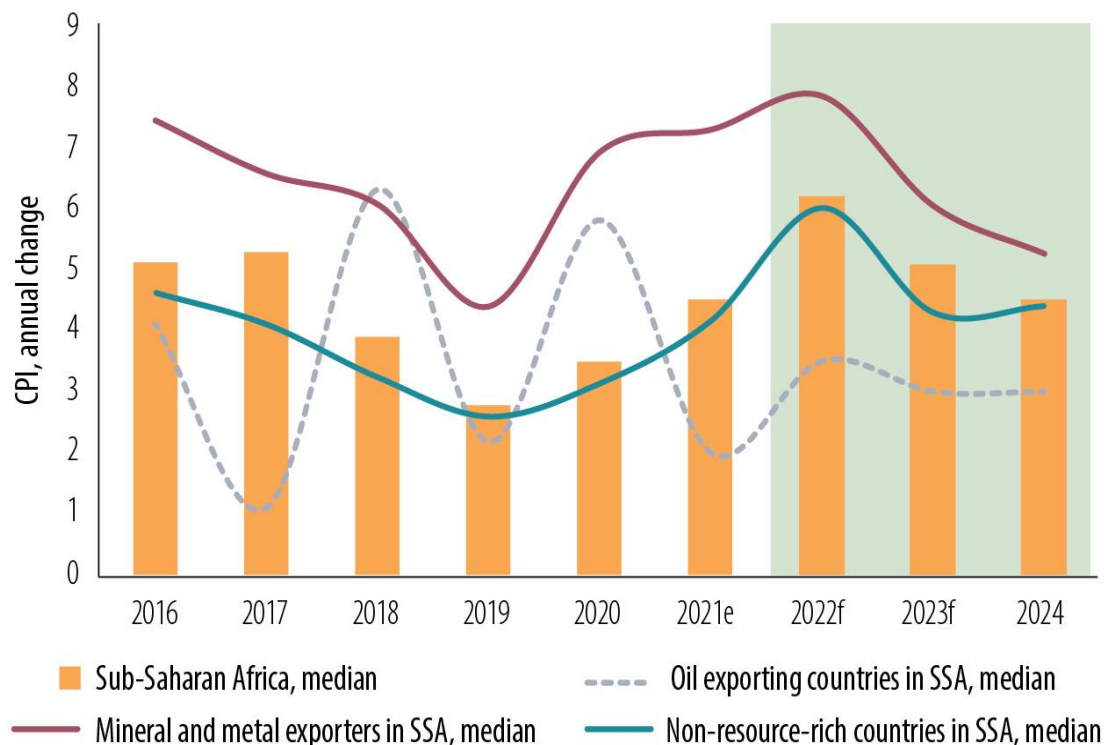
Sovereign Bond Spreads (bps)



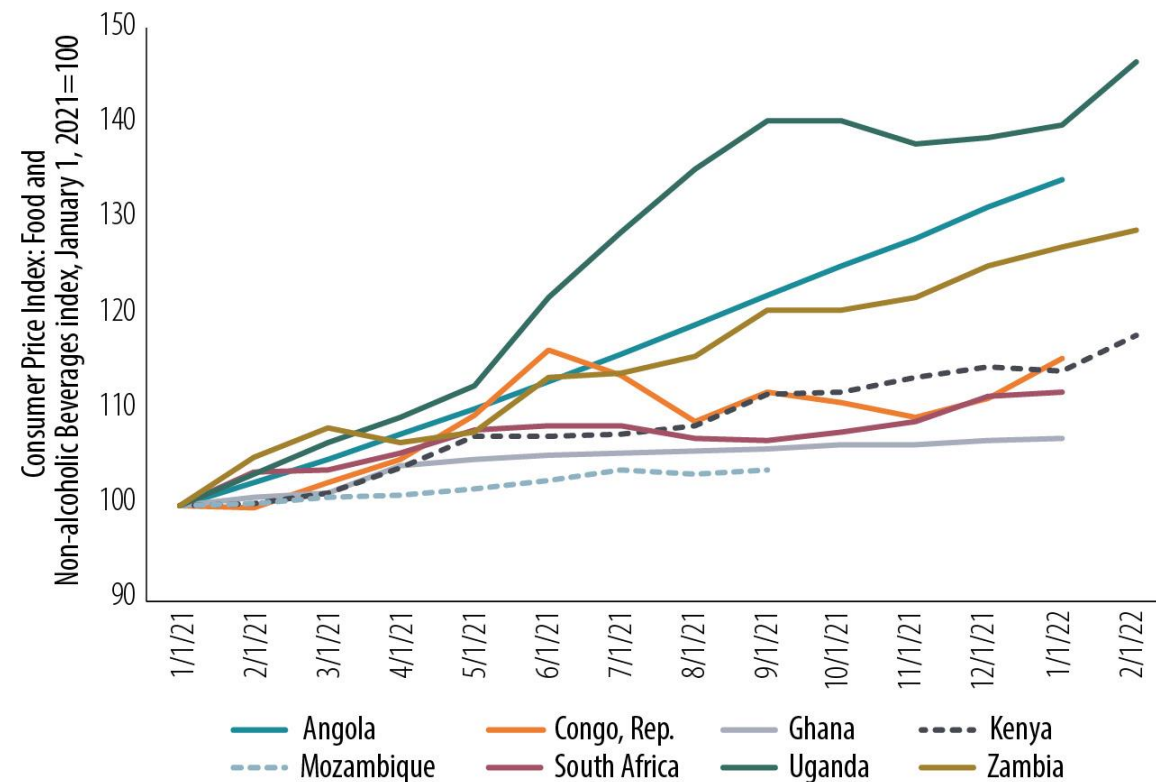
Source: Bloomberg Analytics. Notes: [1] Data as of end-December 2021. [2] Data as of April 1, 2022.

INFLATION TO CONTINUE RISING IN 2022, FOOD INFLATION ALREADY HIGH PRIOR TO RUS-UKR CONFLICT

CPI Inflation Rate, SSA (%)



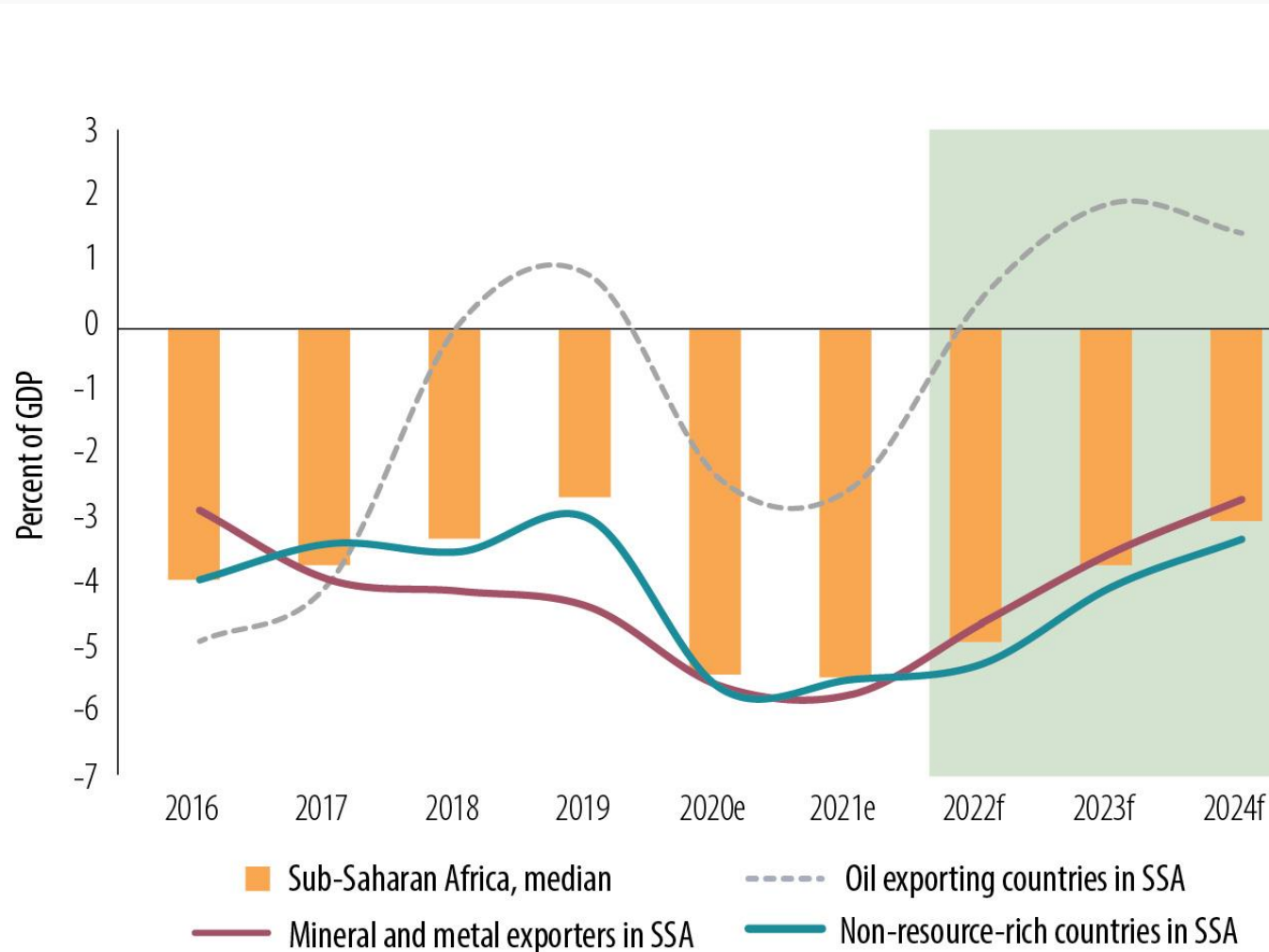
Food Price Index in SSA countries



Source: [1] World Bank Staff estimates. [2] Haver Analytics. Note: [1] Inflation is measured by percentage changes in the consumer price index (CPI) using data from the MFMOD database, World Bank. CPI = Consumer Price Index; e = estimate; f = forecast; SSA = Sub-Saharan Africa.

FISCAL DEFICIT PROJECTED TO NARROW SLIGHTLY IN 2022, AND TURN TO SURPLUS AMONG OIL RICH COUNTRIES

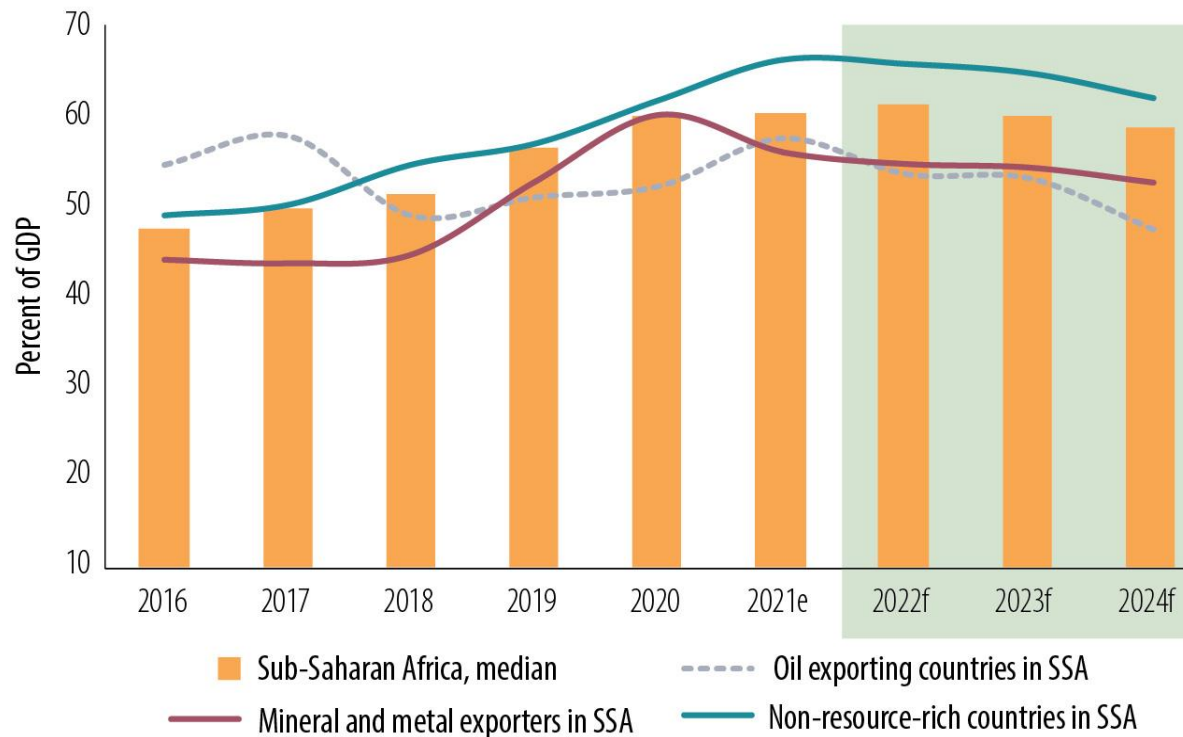
Sub-Saharan Africa: Fiscal Balance (% of GDP)



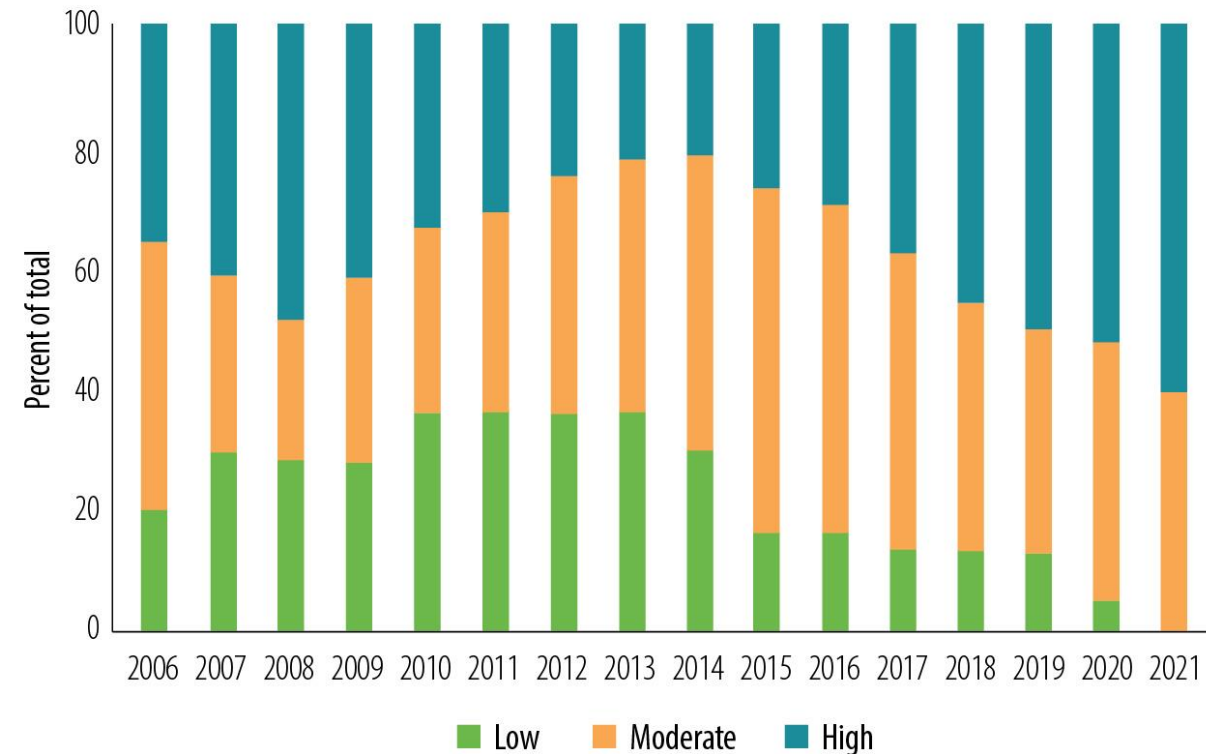
Source: World Bank Staff Projections

IN 2021, SUB-SAHARAN AFRICAN COUNTRIES HAVE EITHER MODERATE OR HIGH RISK OF DEBT DISTRESS

Public Debt (% GDP)



External Debt Distress (% SSA Countries)



Source: [1] World Bank Staff estimates. [2] World Bank/International Monetary Fund low-income countries database. Note: Debt distress ratings covers board-approved disclosed and undisclosed risk rating of Sub-Saharan African countries.

RISKS TO THE OUTLOOK

1. External risks

- a. Growing stagflation concerns in the world economy and the challenges it poses for monetary policy
- b. More aggressive than expected tightening cycle of monetary policy in advanced economies
- c. Resurgence of a more transmissible and virulent variant of the coronavirus
- d. Social unrest in many parts of the continent from elevated fuel and food prices fueled by the war in Ukraine
- e. Global economy implication of the zero-COVID policy implemented in China

2. Domestic risks

- a. Cascade sovereign and corporate defaults due to debt unsustainability
- b. Deterioration of security in the Sahel region and elsewhere
- c. Severe weather conditions

POLICIES: ACCELERATE STRUCTURAL TRANSFORMATION

1. Amid threats of worldwide stagflation, African policymakers need to implement policies that accelerate structural transformation
 - a. Build economic resilience by shoring up productivity and create more/better jobs
 - b. Strengthen social protection systems to combat extreme poverty and build resilience to shocks
 - c. Help people invest in productive assets.
2. Building resilience in agriculture will boost the productivity of African farmers and reduce the risks of food insecurity
 - a. Avoid past mistakes (say, bans and other restrictions on food staples)
 - b. Digital solutions to connect farmers with existing/new markets, expand e-commerce
 - c. Financial support for agribusiness to rebuild supply chains
3. Industrialization as an opportunity for job creation
 - a. Fostering within-firm productivity growth, address market distortions
 - b. Strengthen participation of firms on regional and global value chains
 - c. Attract FDI, and narrow infrastructure gaps

POLICIES: DEBT TREATMENTS

1. Sub-Saharan Africa debt vulnerabilities on the rise: widening spreads, weakened currencies, and high exposure to rising interest rates.
2. Landscape of external creditors has changed: greater share of debt owed to private creditors and non-Paris Club governments.
3. Debt relief initiatives have not been successful in reducing the debt levels and vulnerabilities of IDA-eligible Sub-Saharan African countries.
 - a. Debt Service Suspension Initiative (DSSI). Released limited amounts of resources. Difficult to coordinate participation of private creditors. Addressed liquidity problems.
 - b. Common Framework. No signs of visible progress (Chad, Ethiopia, Zambia). Reluctance to grant debt relief quickly. Coordination problems. Uncertainty about ability of countries to commit to credible multiyear action plans.
4. **NEEDED:** Improvements in the existing debt relief mechanisms are required to avoid a large wave of debt crisis among developing countries.



SOCIAL PROTECTION REFORMS TO STRENGTHEN ECONOMIC RESILIENCE AND SHOCK RESPONSIVENESS

SOCIAL PROTECTION: RESILIENCE AND SHOCK RESPONSIVENESS

1. Social Safety Next: Cash transfers + productive inclusion measures
 - a. Micro-entrepreneurship trainings
 - b. Lump-sum capital provision
 - c. Savings facilitation
2. Social insurance and labor market programs to protect informal workers.
 - a. Broaden focus beyond rural poor and design interventions for urban informal workers
 - b. Innovative social insurance and savings programs that allow for flexible contributions and fiscal incentives to match contributions
3. Adaptive social protection (ASP) programs
 - a. Scaling-up services to affected households in response to shocks
 - b. COVID-19: Safety nets geared toward protecting lives & livelihoods
 - c. ASP can also be used to mitigate the impacts of other types of shocks (say, climate, conflict, crisis or natural disasters)

SOCIAL PROTECTION: RAISING EFFECTIVENESS

1. Policy changes and major innovations needed to raise effectiveness of social protection in building resilience.
 - a. Shift from traditional chronic poverty to focus to tackling shock vulnerability and productive inclusion.
 - b. Upgrade safety nets' delivery and financial systems.
 - c. Digital solutions: foundational ID systems, social registries, and digital payments.
 - d. Financing: suitable combination of resources, including mix of disaster risk financing instruments—say, dedicated funds or insurance.
2. Collect accurate/comprehensive data covering the population
 - a. Welfare conditions and risk/vulnerability of households
 - b. Include use of nontraditional forms of data—remote sensing, cell phones, social media
 - c. Data protection

SOCIAL PROTECTION: RAISING EFFECTIVENESS

1. Build resilience of poor and vulnerable households by supporting their investment in productive assets and human capital
 - a. Choosing the right mix of social protection tools (from cash transfers to public works to productive economic inclusion measures) will be critical.
 - b. Such tools can protect households' education, nutrition, and health, while allowing communities to invest in productive assets.
2. Financing for social protection remains scarce and heavily donor-dependent on much of the Africa continent
 - a. Needed: predictable and adequate budgets for the sectors
 - b. Resources available by countercyclical fiscal policies or by contingency funds accumulated during expansions
 - c. Create Fiscal Space: Reallocation of inefficient spending on poorly targeted and often regressive measures (such as fuel and agricultural subsidies), broadening the tax base.

THANK YOU!

