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NORTH AFRICA: BECOMING TOAST?

NIGERIA: VORACIOUSLY FEEDING THE BEAST

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EDITORIAL CORRESPONDENCE

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EDITOR'S NOTE

Pheww!!!! What a month April has been as Putin keeps putting more pressure on the Ukrainian crisis whilst Nigeria's political sphere has left people agog. Meanwhile, the world has still not heard the last of the Will Smith-Chris Rock slapping incident. Amid the doom, gloom, and humour, I choose to celebrate Africanism, and what better way to do so by dedicating April's issue of Momento to Africa-related issues.

Subsidies have become a necessary evil across the continent with governments caught between dealing with surging inflation (e.g. Ghana) and providing some form of support to citizens via subsidies on staple commodities (e.g. South Africa), as global prices remain elevated. Unfortunately, the fiscal space of many African countries has already been stretched by COVID-related expenditure, and subsidy spending has added more gloom to Africa's fiscal picture.

Hence in this issue, **Oumayma Letaif** explored the impact of legacy subsidies on North Africa's heavyweights in **North Africa: Becoming Toast?** (Page 07) while I weighed in on the illogicality of the Nigerian government's decision to raise ₦4trn to fund subsidies in the medium-term, in **Nigeria: Voraciously feeding the beast** (Page 13).

Since subsidies have to be funded somehow, largely by borrowing in many African countries **Lasisi Lukman** in **Africa's debt sinkhole** (Page 05) re-emphasis the precarious financial situation African countries have found themselves while **Gospel Obele** in **Africa's Data Revolution: Walk the talk** (Page 10) opines that doubling-down on data-driven research could unlock Africa's hidden value.

The topics addressed in this issue of Momento affect Africans one way or another (directly or indirectly) and we need to reflect on not just the root cause of the problems but also plausible and implementable solutions to some of the issues raised as we commemorate the Africa month in May.

And I am giving a special shout out to our Muslim brethren who have blessed us with the gift of a four-day weekend. I wish you a special Eid al-Fitr celebration.

As usual, questions, queries, comments, and suggestions are all welcome and should be directed to info@mosopearubayi.com as I promise to respond to as many as I can.

Thank you for committing to reading this issue and I wish you a merry May.

It could not have started any better. *winks*

Cheers.

Mosope Arubayi

AFRICA'S DEBT SINKHOLE

BY LASISI LUKMAN

Debt accumulation is not necessarily bad news, at least since the Keynesian revolution of the 1930s which led to the rise of demand-driven macroeconomics. Governments around the world have incurred loads of debt to fund their economies. As Keynes puts it, governments should borrow money and increase spending as part of fiscal policy, especially when the economy slows down. When the market fails, the government must be ready to intervene and bring it to equilibrium by stimulating aggregate demand, even if it is at the expense of deficit spending.

In other words, deficit-spending is sound economics. However, this has not been the reality for African economies. Despite huge borrowings, the trend of economic growth in the last three decades has been less than impressive. Investment has been on the decline; inflation has hit the roof and exchange rates of most of the countries on the continent continue to depreciate rapidly, as many African countries are on the verge of a debt crisis.

Within the last 30 years, Angola has incurred long-term debt totaling 105% of its gross national income, Zambia 121%, Congo and Ivory Coast, 98% and 99% respectively. There are fears that these huge figures may trigger a debt crisis which may eventually cause panic in global and domestic financial markets. Although the continent's debt-to-GDP ratio has reduced in the last 10-15 years, the recent surge in global health crisis occasioned by the outbreak of the COVID-19 pandemic has driven up Africa's long-term debt. Almost all the countries have experienced a drastic rise in long-term borrowing.

In the short term, the debt to external reserve ratio shows that a lot of African countries are increasingly becoming insolvent. Most of these countries can hardly meet debt service payments as and when due. External reserves barely cover foreign exchange demands. The currencies subsequently lose international significance and hence discouraging foreign investment. In the face of a receding national output, expansionary fiscal policies become impossible without incurring more debts. Needless to say, this is the reason for the sudden rise in Chinese influence across the continent.

The implication of servicing these debts is grave for African economies, especially when other factors like rising inflationary pressure are considered. As interest rates adjust to inflation, debt service obligations increase in tandem, thereby reducing the total resources available for economic development to the barest minimum. Private investment is crowded out, aggregate demand continues to slump and social welfare in these countries deteriorates. Foreign investors are scared off for the fear of aggressive tax policies and consequently decline in economic growth.

If there is one lesson to be learned from the 1997 Asian financial crisis and 2008 global financial crisis, it is that the debt crisis in one country or region can effectively trigger a financial crisis elsewhere, spreading like wildfire and impacting economies throughout the globe.

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NORTH AFRICA: BECOMING TOAST?

BY OUMAYMA LETAIF

Subsidies have a long and complicated history in North Africa, and they have become a fundamental part of social contracts. As a result, governments created social contracts based on the provision of social benefits to citizens such as electricity, food, water, public transportation, and housing subsidies. While our planet continues to grapple with the twin problems of scarcity and negative environmental consequences, many countries in North Africa continue to subsidize various types of basic commodities – providing these commodities at below market rates to ensure access and affordability. In Egypt, the food subsidy program has been considered the people's "rightful entitlement", while Tunisia has established a system of extensive energy subsidies in the form of cheap electricity, gas, and petrol.

Unfortunately, resource-poor, labour-rich economies like Tunisia and Egypt, cannot rely on huge resource revenues to fund their subsidies. Subsidies have become a significant burden for these governments as their rent income has fallen while their population has increased. In Egypt for instance, the subsidy expenditure has nearly tripled since 2005. In addition, it has become clear that subsidies benefit the wealthy rather than the poor, and they encourage people to consume more of the subsidized products than necessary – putting both their health and environment at risk.

Under the auspices of IMF-led stabilization programs, reforms have been partially implemented in Tunisia and Egypt – over the years - with better consumer targeting. Electricity prices were raised in Egypt in 2017, and the subsidy on sugar and vegetable oil is no longer granted to the respective industries as of 2017. These measures aimed at reducing subsidy expenditure were essential for making public spending fairer and more efficient. But given Tunisia's current economic difficulties, further implementation of subsidy reforms – though necessary – has made goods unaffordable for many households, with poorer households often suffering a larger decline in incomes. And in the context of the Ukrainian conflict, the impact can only become more devastating.

For Egypt which is the world's largest importer of wheat - importing over 80% of its wheat from Russia and Ukraine – inflation reached a record 10.5% y/y in March 2022, compared to 4.8% y/y a year ago. The government has reserves that might last up to five months, but the country's economy is already in dire straits. The conflict also threatens Tunisia's food supplies as it imports roughly half of its wheat from Ukraine and relies on foreign countries for much of its other food imports. This is a major threat to Tunisia's already precarious food system. The government has been unable to pay for wheat imports in recent months, and it is now facing a new crisis as Tunisia weighs austerity measures that would abolish vital subsidies such as food and fuel in favor of direct cash payments to the needy.

Subsidies have played, and continue to play, a crucial role in North Africa's social development strategy. In countries like Tunisia and Egypt where there has been a history of pervasive corruption, a lack of transparency in the implementation of public policy, and a sense of inefficiency in government spending, the middle class may fight tooth and nail to retain these subsidies as one of the few tangible benefits from the government. However, these subsidies crowd out other public spending that could enhance economic growth. While their removal may have short-term inflationary effects and adversely affect the competitiveness of industries that rely on subsidized products and services as inputs, their existence discourages further investment in the affected sectors.

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Happy Africa Month!!!

AFRICA'S DATA REVOLUTION: WALKING THE TALK

BY GOSPEL OBELE

The African population makes up one-fifth of the global population, as it is estimated that a quarter of countries in the world live in Africa. This speaks to strategic influence and that relevance that cuts across all strata of the society from public to private sector, associations, non-governmental organizations, international community engagements, the high, middle, and low class, etc.

Intelligence (the right and smart engagement with data) is at the center of stirring the winds of true and sustainable organizational growth and the development of human capital for 21st-century national productivity, growth, and development. The factors shaping and necessitating the African development narrative for improved information and clarity engagements include:

- The increasing coexistence of social-economic advancements, problems, and dysfunctionalities that strongly inform, shape, and influence fast-paced policy actions, and initiatives that to a large extent lack critical evidence-based rigor and approach to the development, deployment, and improvement.

• Economic development though slow has seen many moving realities and complexities in the fast-changing world, thus the rising need to understand them in parts and holistically, requiring "expertise", contemporary systems thinking with data transformation at the center.

• Growing citizen demand, awareness, and accountability, shaping advocacy and need for improved policy design, macro-economic stability, and engagement roll-outs that facilitate the ease of doing business and national competitiveness. Data in this regard helps to position and understand the "what", "why" and "how" for value creation and delivery across various governance concerns.

• For the growing number of surviving and thriving businesses in the region, there is a growing need for cultural and consumer intelligence, owing to behavioral complexities; the rising struggle for personal attention and empathy; the war between rationality and irrationality; and the stories that further shape buying decisions and narratives.

• The innovation community has come to understand that despite so many "solutions" around, the same problems exist in growing wild patterns, leading to the need to carefully understand problems/a phenomenon and their varying causation mechanisms in order to provide solutions that speak to what the problem is and not what we think it is.

In trying to remedy these challenges, data has been introduced and engaged at a surface level, with a growing emphasis on technological platforms and career prospects, than on the core human capital and analytical mindset, and soft skills required to drive systems development through data and intelligence.

Basic data collection skills are still very much rare, both in the private and public, as there have been low application and strategic use of data across the value chain (Data – Insights – Strategy – Execution – Conversions) for institutions. Particularly, organizations need to embrace action learning to solve their day-to-day business problems as it evolves and realizes that at the heart of this (action) learning for organizational change and development is a strong culture of using and building intelligent systems. To unlock the potential of the African economy and development for its people there is a need to solve the data-to-transformation puzzle; which would require a collection of complementary efforts to enable impact. Some of these strategic requirements include:

• **Human Capital**: It is important to empower the human and the mind to think analytically, guide, and tell the technology what to do to achieve the desired goals. The opposite has been the reality in the world today - we focus so much on technology and the software, that there is a growing dearth in analytical thinking and prowess (especially in Africa), for complex problem analysis, critical thinking, designing for intelligence, exploring information use and proffering the right policy and structural solutions or action within global VUCA realities. There has to be a paradigm shift as it is the quality of analytical mind/thinking behind the desk that determines the quality of design-to-solution.

• **Context**: This involves asking ourselves what is the nature of the phenomenon/problem in the environment we are trying to understand and proffer solutions for. What are the cultural and environmental nuances we must consider for effective application and data usage. It is important to note that the higher the understanding of context, the better the design and application of science, the better the execution that increases the chances of getting the right and smart information required, and the more accurate and smarter the findings will be.

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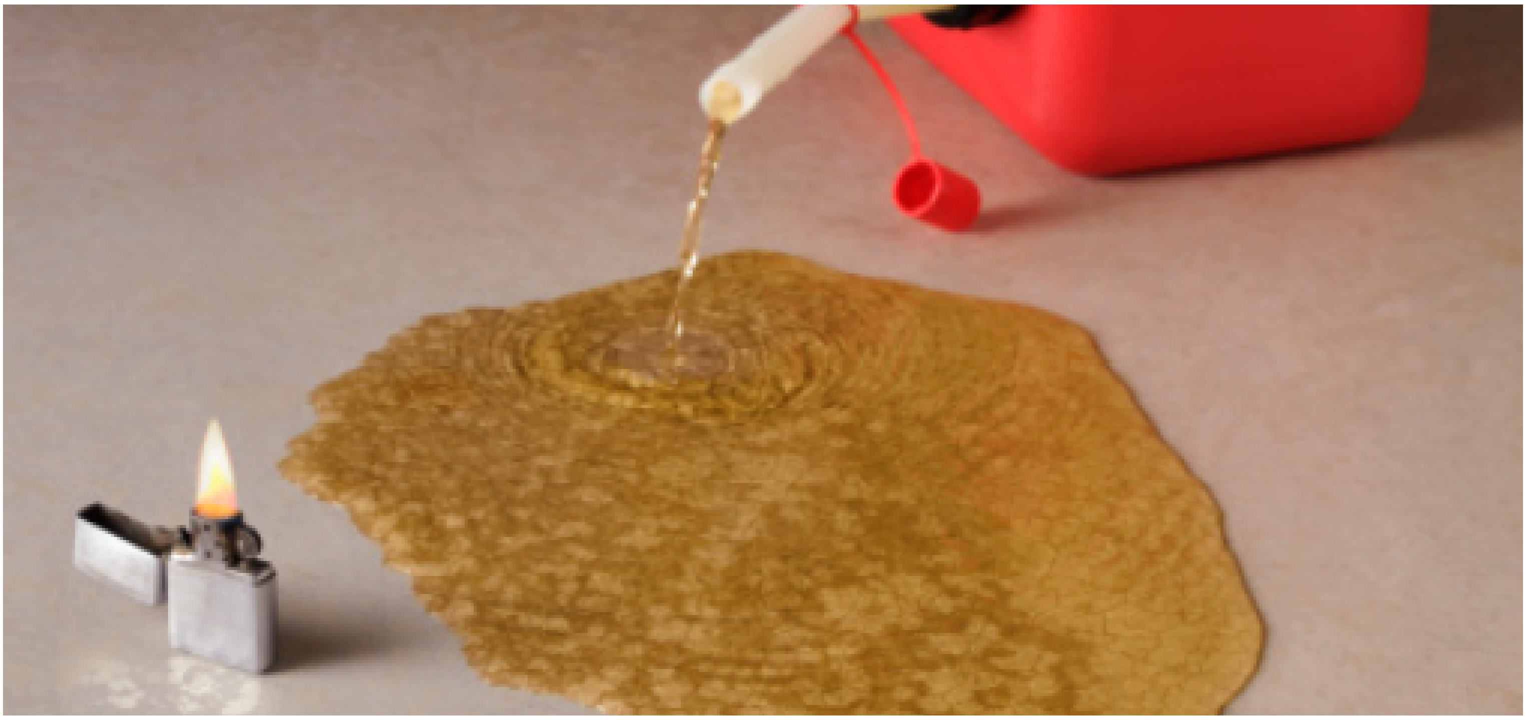
• **Technology:** This is critical for the execution, storage, and effective understanding of information, scenario planning, testing, and strategic use. There is a growing conversation on technology at the heart of the data transformation thus the emergence of concepts like data science, data mining, etc., but this also has been overemphasized at the expense of improving science and understanding contexts.

These three perspectives when put together with the right mix and synergy would go a long way to unlock and deploy Africa's data potential for more inclusive growth and development. Africa needs to be better prepared for the data revolution through core systematic investments that can penetrate institutions to foster transformational growth and development.



NIGERIA: VORACIOUSLY FEEDING THE BEAST

BY MOSOPE ARUBAYI

With crude oil still trading at over $100/bbl, there is no gainsaying that the Nigerian government is clearly in a lavish mood. This probably explains why the government reneged on its commitment to put a stop to PMS subsidy and is poised to raise ₦4trn to fund petrol subsidies in 2022. Policy moves like this only feed the beast (i.e. government expenditure) rather than starve it. More alarming are the adverse implications of the government's procyclical fiscal behaviour, as it tends to reinforce an already volatile business cycle. This is part of the reasons why the Nigerian economy remains stubbornly defiant to past and present efforts to cure it of its legacy weaknesses.

The subsidy regime is an unnecessary burden on the economy, not because corruption has thwarted its intended positive objectives, but because the options in its implementation are wholly unhelpful to the poor it is meant to protect. PMS subsidies are regressive because it is predominantly used in vehicles and machines that are rarely owned by the poor. As a result, governments all over the world tend to prioritize removing PMS subsidies over those that apply to other fuels, while Nigeria remains unflinching in its decision to go against the grain. This has come at a dire cost to the economy.

Nigeria is currently the 15th largest oil-producing country in the world and continues to depend on the petroleum industry for between 60%-80% of its budget revenue, depending on the phase of the business cycle the country finds itself. Despite this, inadequate investment in the oil sector has resulted in incessant breakdowns of oil trunk lines that have given rise to production shortfalls. This has resulted in foregone revenues even as the price of Brent has reached new heights since the start of the year.

Also, the persistence of inoperative refineries implies that local petroleum consumption is met largely by import, trading in some of the hard-earned FX. In addition, the country's debt burden is heavier than before – as this consumption subsidy is largely financed by borrowing. As a result, the Nigerian government is not also able to maximize its FX earnings during oil price rallies due to its burgeoning debt service obligation. Therefore, the recent oil price rally has made not much of a difference in the Nigerian economy as access to FX remains tight.

But the prescription of the removal of subsidies by development finance institutions is not unfamiliar, and neither is the constant relapse of the Nigerian government into the procyclical fiscal policy trap. The voracity effect explains the overreaction of the government to improvements in Nigeria's terms of trade – especially crude oil windfall – whereby the increase in appropriation outpaces the economic gains from the key sector. This means that oil sector productivity is not enough to meet the government's financial obligations, explaining why the cycle of revenues underperforming does not seem to end. And countries plagued by voracity often converge in stagnation, as the misappropriation of financial resources ensures that the country becomes less capable of long-term growth.

While Nigeria - like any other resource-rich developing country - is looking for ways to develop its infrastructure and diversify its economy, expansive fiscal and monetary policies and non-concessional indebtedness in a rather procyclical way are not the best routes. A countercyclical fiscal stance allows the government to lean against the wind, continue providing goods and services when government revenues drop, guarantee social protection and insurance to citizens, and be more resilient in difficult times. This would include accelerating tax reforms in ways that promote growth while also encouraging investments, overall improvement of tax administration, and implementing timely fiscal policies that will generate savings to support non-oil revenue sectors.

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GOVERNMENT DOES THE LEAST GOOD AND THE MOST HARM THROUGH SUBSIDIES.

JAMES COOK