Daily life in Kampala, Uganda.

PHOTO: IMF/ESTHER RUTH MBABAZI

THE AFRICAN CENTURY

The right actions today will ensure that sub-Saharan Africa thrives in a post-COVID world

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Fast-forward to 2081.

The demographic boom currently unfolding in most sub-Saharan African countries will likely have transformed many of the region's economies into the largest and most dynamic in the world.

Wishful thinking? Perhaps. But 30 to 40 years ago, not many would have thought that possible of China, India, Indonesia, or Turkey.

Three factors will have an influential role in making this vision materialize:

- The demographic transition that is underway: By 2050, many sub-Saharan African countries will be among the few with a rising working-age population. Much investment and consumption demand will follow factors which are certain to entice considerable innovation.
- The ongoing digital revolution—which offers much scope for the diffusion of know-how, new

business opportunities, and more efficient service delivery.
- How effectively the region's economies deal with the transition to a low-carbon economy and the adverse consequences that climate change is set to unleash.

This future is hard to envision now amid the unprecedented challenges of the pandemic. But it is one within reach given the region's tremendous potential and is certainly the goal that needs to anchor policies.

The very near-term challenges are undeniable. Vaccination rates lag significantly behind those of high-income countries, averaging about 2½ percent of the population across sub-Saharan Africa by early October 2021. Most countries in the region have limited fiscal space to address investment needs, and near-term growth prospects remain below pre-pandemic projections.

Although the current focus is rightfully placed on addressing these near-term challenges, our priorities should not lose sight of countries' long-term potential. Transformative economic and structural reforms, coupled with significant external concessional financing, will be necessary to recover from the pandemic and maximize long-term potential.

Making the most of the demographic dividend

The population of sub-Saharan Africa is projected to double from 1 billion to 2 billion by about 2050. This will account for half of global population growth, with the working-age population growing faster than any other age group. These projections—while not uniform across the continent—should be placed in the context of the opposite trend in advanced economies, which typically see aging populations, an inverted population pyramid, and a reduction in population once immigration is excluded.

This trend represents perhaps the region's single greatest opportunity. It embodies a growing pool of human talent and ingenuity coupled with large market size—historically important drivers of economic dynamism. This, however, is not a given and will require astute policy choices to ensure that the potential is realized.

Investment in human capital will be critical. While country circumstances differ across the region, this means mostly increased high-quality educational opportunities for a growing population, both at the primary and secondary levels, as well as developing tertiary education to meet the demands of growth sectors. It also means expanding investment in health care, including broader access to a variety of vaccines (potentially through regional production hubs), ensuring widespread access to at least a minimum level of health services, and family planning.

Accelerating health and education provision won't be easy. Infrastructure needs to be built. Teachers, doctors, and other service providers need to be trained, and the trainers themselves must be trained. Given the speed of population change in many countries, the challenge will only increase if authorities delay. Multiyear plans will be vital, balancing the trade-off between investing in ramping up services to capacity against prioritizing their provision in the near term.

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These investments are even more critical during a COVID-19 recovery. The pandemic has increased pressure on health care facilities in most countries in Africa. Meanwhile, young people have missed out on education due to social distancing and low capacity for distance learning given limited access to digital communication tools—particularly in rural areas, where many people work. Closing gender gaps in access to education and job opportunities would also help the demographic transition (through lower fertility) and boost productivity.

Training the next generation is not enough. New job entrants must be matched with job opportunities; the growth of good jobs must not only expand to encompass a greater share of the existing population, it must also keep up with a relentless increase in new job seekers. These challenges can be met by unleashing the potential of the private sector. Policymakers should cultivate a growth-friendly business climate and promote private sector investment. Doing so would catalyze large incentives for capital accumulation to complement the increasing labor supply.

Digitalization in Africa

The global diffusion of digital technologies promises new opportunities. Digital reforms and infrastructure will help the region to leapfrog—boosting resilience and efficiency, expanding access to global markets, improving public service delivery, increasing transparency and accountability, and fostering the creation of new jobs.

Digitalization provides opportunities to improve both government efficiency and transparency (and hence governance). Examples of the former include offering services such as online tax filing and business creation, introducing computer systems into customs administration, and providing social assistance through mobile money. Transparency can be improved by publishing information online, e-participation, and automation of service delivery (reducing in-person contact that could generate corruption). These opportunities could build trust, increase revenue collection, and improve spending quality.

Rapidly advancing technology in automation, artificial intelligence, and communications is also dramatically changing the nature of the private sector. The pace of change may mean that historically prevalent development paths—following a ladder of development that starts with light manufacturing and advances to increasing levels of sophistication—are no longer viable or desirable. Instead, services such as business process outsourcing, e-commerce, and fintech are likely to become increasingly important. Fintech, for example, could raise growth and promote financial inclusion by providing services to customers previously unserved, but it should be balanced against risks to financial stability. More broadly, digitalization promotes entrepreneurship by allowing firms to grow rapidly with less physical capital and a limited geographic footprint. Nevertheless, automation and artificial intelligence could generate downward pressure on the labor share of income if they replace rather than enhance labor, hence potentially reducing labor demand.

As with the demographic dividend, investment in human capital is critical. Education will need to integrate information technology into students' learning when they are very young—vocational and tertiary education must emphasize the technical skills necessary to ride the wave of digitalization. One aspect of this wave may be helpful in this regard: online education. Access to these resources could help young people in sub-Saharan Africa reach beyond the limits of their national education structure as it develops over time.

Without investment in key infrastructure, the impact of digitalization—even in countries that are more advanced in this area—will be limited, and there is a risk that the fruits will be enjoyed by the elite instead of generating the broad-based benefits expected by all. Basic infrastructure to generate power and provide reliable electricity to households at reasonable prices is a vital prerequisite. Further, access to high-speed internet for a wide section of society will necessitate undersea cables with the capacity for sufficient bandwidth and telecommunications infrastructure that can spread the connection across the country. This should be complemented by a well-regulated telecommunications sector that charges competitive and accessible prices to consumers.

A Partnership for 60 Years

This year marks the 60th anniversary of the IMF's African Department. Founded in 1961, 17 years after the Bretton Woods conference, the department's creation responded to the needs of the wave of newly independent African countries. Over the years, the IMF's toolkit has undergone several major evolutions, moving from short-term balance of payments support to more protracted challenges, greatly increasing access to concessional financing, and ramping up capacity development efforts. The Fund's engagement with the region has never been greater than during the COVID-19 crisis, with nearly $27 billion in financial assistance provided to 39 African countries. Three-quarters of this lending came from the Poverty Reduction and Growth Trust—the IMF's vehicle for zero-interest loans to low-income countries.

Managing climate change risks

Climate change poses a great threat to many countries in the region. Impacts vary across countries: some are facing droughts; others rising sea levels, cyclones, and floods; and most are dealing with rising temperatures and rainfall anomalies. But one thing sub-Saharan African countries have in common is limited climate resilience and coping mechanisms, along with reliance on rain-fed agriculture. Consequently, climate change is weighing

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on economic activity in sub-Saharan Africa more than elsewhere.

Accelerating adaptation to climate change is key to tackling these challenges. This means targeted investment in infrastructure, people, and coping mechanisms, which not only raises resilience to climate change but boosts productivity and reduces inequality. Consider better and more widespread irrigation to protect crops from drought and more robust buildings and drainage to protect from cyclones. Investing in health care and education makes people more physically resilient and better informed to deal with climate risks. Social assistance and access to finance help people build more robust homes and invest in climate-smart agriculture, health care, and education. These also act as buffers that help people and businesses cope after a shock. Good macroeconomic policies—increasing fiscal space, enhancing economic diversification, and pursuing exchange rate flexibility—will also limit the impact of climate shocks.

The global transition to low-carbon economies creates additional challenges. The region's oil and gas exporters will face lower revenues and less related investment. Consequently, rapid economic diversification of these economies that raises incomes and yields inclusive job opportunities for their rapidly growing populations is crucial. At the same time, reduced global supplies of these resources and pressure to rely on green energy will also call for a transition of the whole region to greener industrial activity and energy generation—through policies spanning from financial regulations to large-scale investment in renewable energy such as solar and wind power. Here, facilitating technology transfers from more advanced economies will be critical, especially in the context of rapid economic expansion that will accompany rapid population growth. Pressure to preserve and enhance the region's carbon sinks and reservoirs, at the cost of potential logging and mining opportunities, will also rise.

Finding the financing

Seizing on these transformative changes requires significant investment in both human and physical infrastructure. However, COVID-19 has left many sub-Saharan African countries with limited fiscal space and higher debt burdens.

Authorities must intensify efforts to develop fiscal revenues, undertaking necessary reforms to ensure efficient tax policy, comprehensive public financial management, and transparency and good governance. Multilateral development banks and development partners must also step up financing efforts with grants and concessional loans where possible. Rechanneling Special Drawing Rights from advanced economies with strong balance of payments positions may provide longer-maturity loans to aid in this regard.

The increase in debt across the continent during the past two years places much greater concern on the uptake of new debt. It is more important than ever that countries ensure a good return on investments financed with debt and target high-quality projects backed with comprehensive feasibility studies and robust and transparent public procurement.

Playing the long game

Although the short-term response to COVID is the clear priority, effectively managing the recovery should keep long-term trends in mind.

The region faces challenges, but it also has great potential for growth in the coming 60 years. Countries should make the most of this potential by increasing access to fiscal revenues and maximizing the return on targeted investment in both physical—including basic infrastructure that provides greater access to electricity and is weather resilient—and human capital. International partners should play their part in supporting these efforts by providing technical assistance and financing.

Despite the widespread adverse consequences of the pandemic, countries in the region must take this opportunity as a catalyst for reforms that will provide the foundation for a century of inclusive growth for the African continent. FD

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