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Assessing Eastern Africa's Post-COVID Economic Recovery

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Abstract

Eastern Africa's post-COVID-19 recovery journey presents an interesting interplay between sustainable economic growth, management of foreign direct investment (FDI), and public debt. Despite facing significant external and internal challenges as a result of the COVID-19 pandemic, the region shows resilience with projected growth rates of 5.1% in 2023 and 5.8% in 2024. Further analysis indicates that this growth trajectory is driven by the service sector including tourism, and strong economic performance by countries like Rwanda, Uganda, Kenya, and Tanzania. The region has experienced a surge in FDI which has exceeded $13.3 billion in 2022 for Tanzania, Kenya, Uganda, DRC, and Ethiopia. This scenario is closely linked with hydrocarbon discoveries and strategic investment opportunities in the tourism and allied sectors, which enhance the region's attractiveness as an appealing investment destination. However, the extant global economic slowdown and geopolitical tensions posepersistent risks. Moreover, rising public debt across Eastern Africa threatens economic stability. The public debt situation is predominantly on the back of weak debt management and reliance on expensive external financing for national budgets instead of improving domestic resource mobilization and exploring cheaper alternative funding sources. While the region's post-COVID-19 recovery holds promise, prioritizing prudent economic policies and practices, and encouraging cross-border public and private sector collaboration remain critical in navigating the prevailing social and economic uncertainties.

Introduction

The COVID-19 pandemic continues to have impactful social and economic aftershocks that are being witnessed on both the global and regional fronts. Eastern Africa has demonstrated remarkable resilience in the face of ensuring global disruptions like economic slowdown, rise in commodity prices due to global supply chain disorders, and new geopolitical tensions emanating from the Ukraine conflict. Despite these, the region has witnessed steady growth since 2020, with economic growth projections exceeding 5% for 2023 and 2024.

Beyond the economic outlook, the region has also witnessed a steady increase in FDI inflows. This movement in capital and technology is critical in enhancing job creation opportunities and mainstreaming economic resilience in the region. An in-depth analysis indicates that both hydrocarbon and renewable energy projects as well as the tourism sectors have enhanced the region's attractiveness as an investment destination.

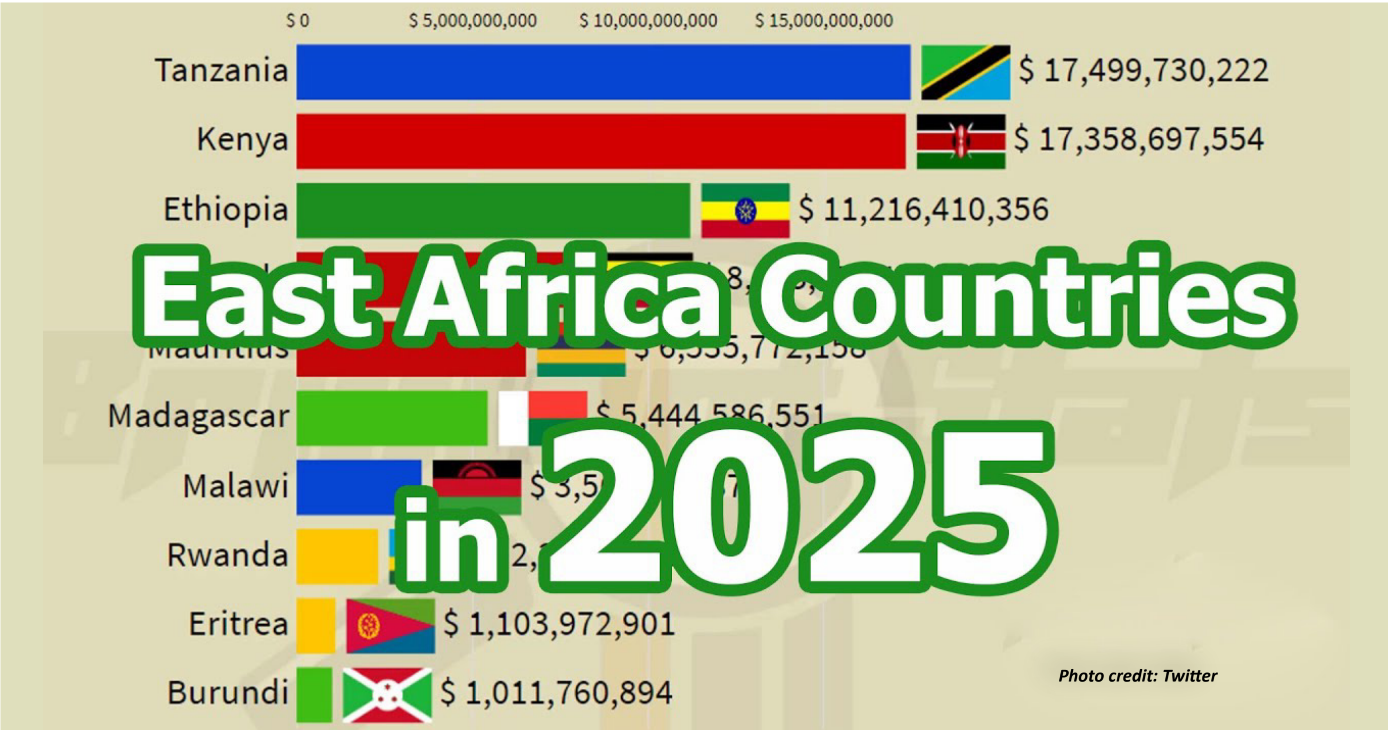
However, the region faces a significant challenge in the form of rising public debt. This situation casts a depressing shadow on the afore-mentioned recovery outlook. Weak public debt management, persistent budgetary deficits, and reliance on expensive financing options are causes of this reality. To this end, it is imperative to explore the implications of this debt burden and propose targeted solutions.

This paper delves into these key issues and provides in-depth insights and actionable policy recommendations. It further provides evidence to public and private sector stakeholders in navigating the challenges and capitalizing on emerging opportunities to advance the post-COVID-19 economic recovery journey in Eastern Africa.


Photo Credit: Africa Equity Media

Key Issues

The discussion on assessing Eastern Africa's post-COVID-19 recovery revolved around three key issues. These are the region's economic performance and outlook, public debt and FDIs.



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Regional economic performance and outlook

The Eastern Africa economic outlook in the post-COVID-19 recovery journey points to a trajectory of progressive growth and resilience. This is despite exposure to both external and internal challenges. The region has witnessed steady growth rates from 2020 to 2024. The recorded and anticipated rates are 1.9% in 2020, 4.7% in 2021, 4.4% in 2022, 5.1% in 2023 and 5.8% in 2024 (AfDB, 2023b). These growth statistics position the region as a leading performer on the continent.

The positive economic course is expected to continue in 2023 and 2024. The anticipated acceleration in economic growth is expected to be driven by robust growth in countries such as Rwanda, Uganda, Ethiopia Kenya, Djibouti, and Tanzania. The AfDB's 2023 East Africa Economic Outlook report highlights that the service sectors will continue to contribute almost half of the economic growth going forward. Moreover, the region's abundance of natural and cultural attractions will be instrumental in attracting the tourism sector, and with it driving demand for services like accommodation, food, and entertainment (AfDB, 2020, 2023a, 2023b).

Despite the anticipated growth figures, the region's economic progress may be derailed by various external and domestic downside risks. These include a global economic slowdown on the back of rising inflation and interest rates, rising commodity challenges, geopolitical and geo-economic tensions in Eastern Europe and the Middle East, tightening global financial conditions, depreciation of local currencies, and the lingering effects of the COVID-19 pandemic (AfDB, 2023b; IMF, 2020).

Overall, the region is expected to continue to demonstrate economic resilience and growth potential. This is expected to be on the back of economic stimulus measures, infrastructural reforms, and investment to boost local capacity, thriving service sectors, and continued government initiatives in the tourism and agricultural sectors (Sisay & Gichuri, 2024).

Individually, countries in the region are undertaking proactive policies and measures to address fiscal risks and economic challenges. For instance, Kenya has been implementing fiscal reforms despite huge debt pressures, while Rwanda has been focusing on fiscal and monetary policies while simultaneously building her climate resilience to drive economic expansion (NCBA, 2024).

Eastern Africa's recovery post-COVID presents promising prospects. Addressing existing challenges and implementing prudent policy measures will be crucial to sustaining the positive projection. Equally, collaboration between governments, international organizations, and the private sector remains essential to navigating geopolitical and geo-commercial uncertainties and fostering inclusive and sustainable economic development in the region.

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Foreign Direct Investments

Economies within the Eastern African region continue to strategically position themselves for economic recovery through targeted policy undertakings aimed at attracting FDI (EAC, n.d.). This policy directive is considered imperative in fostering sustainable economic growth and recoveries within the region through the creation of meaningful job opportunities, strengthening local manufacturing and energy systems, and encouraging the inflow of foreign exchange especially among highly indebted countries. Ultimately, a pro-FDI strategy is aimed at mitigating import deficiencies and bolstering economic resilience (Tegegne, 2024).

A historical review of FDI inflows in the region reveals targeted investments in the manufacturing, infrastructure, construction, and service sectors. Tanzania and Kenya have witnessed significant investments in their renewable energy sectors, France has made investments in Tanzania's oil and gas sector, while Burundi-based Intracom is planning a $250 million integrated plant that will supply cement across the Great Lakes region (The East African, 2023). Cumulatively, key Eastern African countries including Kenya, Tanzania, Uganda, the Democratic Republic of Congo, and Ethiopia collectively attracted over $13.3 billion worth of FDI in 2022, indicating a significant post-COVID influx of capital in the region (Jivraj, 2023; The East African, 2023; UNCTAD, 2022).

As a key economy in the region, Kenya experienced a remarkable increase in investment inflows. According to Ernst & Young, the capital injections were towards the business services, technology, and transportation sectors. This emerging dynamic portends the attractiveness of service sectors to FDI, compared to the historical preference of investments being made to resource extraction sectors.

Similarly, Tanzania witnessed a surge in FDI that rivaled pre-COVID figures. Investments in key projects like cement production and renewable energy signal a diversification in the investment portfolio. Since 2022, Tanzania has witnessed a 133% rise in FDI inflows worth $1.3 billion across 21 projects, while creating approximately 4500 job opportunities. Remarkably, cross-border investments have been witnessed with the Kenya Electricity Generating Company (KenGen) undertaking geothermal drilling projects in Djibouti, Ethiopia, and possibly later in Tanzania (Cariaga, 2024; The East African, 2023; UNCTAD, 2022, 2023).

The attractiveness of the region for investment has been further enhanced by energy resource discoveries and extraction, such as the oil fields in Uganda and off-shore gas reserves in Tanzania. This is of particular importance on the region's post-COVID recovery path.

Moreover, the rise in FDI across Eastern Africa is indicative of the region's growing appeal to

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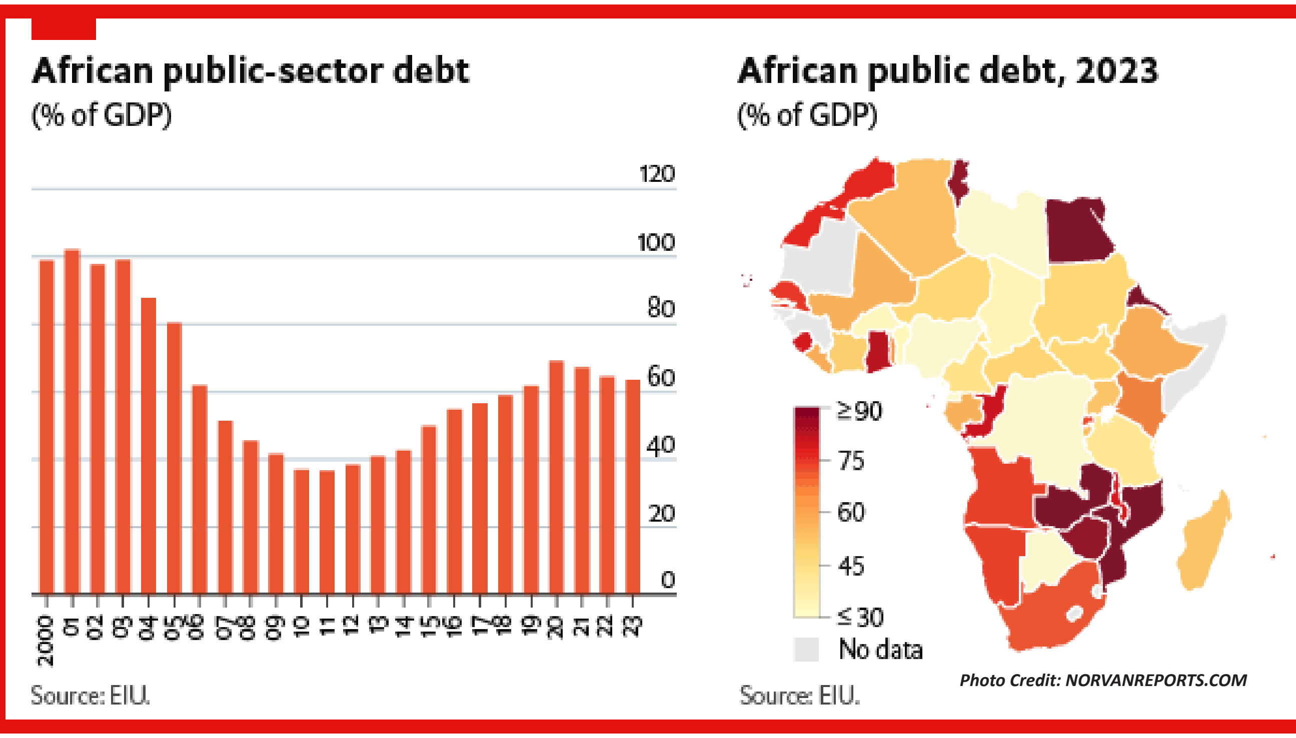
regional and global investors. Despite challenges such as monetary policy tightening across the region to deal with inflation and currency fluctuations, Eastern Africa holds the promise of an attractive investment destination. With regards to the sources of FDI, European investors like the United Kingdom, France, and the Netherlands will continue to hold significant stocks both in Africa and the region (UNCTAD, 2023). Likewise, China will remain a dominant FDI actor within the region. China continues to leverage its presence in infrastructure, renewable energy, and telecommunication projects as well as geothermal and off-shore gas exploration. Equally, India's proactive approach in the region as espoused in the 2015 India-Africa Summit, coupled with historical ties and strategic investments will be noticeable (Hemed & Suleiman, 2017; Jivraj, 2023; Morgan et al., 2022).

Despite the increasing attractiveness as a premier FDI destination, the region must address the uneven distribution of FDI among member states. This reality underscored the need for concerted efforts to enhance regional integration in FDI mobilization and investment policies. This is increasingly important regionally, as cross-country projects like the LAPSSET and East African Crude Oil pipeline are becoming the norm (Hemed & Suleiman, 2017). Additionally, the region faced significant challenges in prioritizing regional market expansion, promoting sectoral diversification from agriculture and natural resources, and increasing the ease of doing business to maximize its FDI potential (Gizaw et al., 2023; Jivraj, 2023). This needs addressing if the region is to mainstream FDI to drive sustainable growth into the future.



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Public debt

The rising public debt situation across Eastern Africa represents a considerable hurdle to the region's economic development and stability. Over the past decade, the region has witnessed a significant surge in public debt. This situation has been driven by a variety of factors including weak debt management systems, consistent national budget deficits, and an increased reliance on costly financing sources such as commercial loans. Additionally, the Ukraine conflict has exacerbated the public debt challenges, through the creation of a perfect storm encompassing strained debt consolidation efforts and response to the COVID-19 pandemic (IPF, 2023; WBG, 2023).

The debt situation is not unique to the region. Sub-Saharan Africa (SSA) has witnessed a more than threefold increase in nominal public debt from 2010 to 2022. As of 2022, the nominal public debt is estimated to have surpassed $1.14 trillion (WBG, 2023). Similarly, East Africa has experienced an increase in public debt, with the debt-to-GDP ratio steadily rising from 2010 to 2021. For instance, Kenya's debt-to-GDP increased from 36.7% in 2010 to 67.8% in June 2021. Comparatively, Uganda experiences a surge from 18.4% to 51.8% during the same period (IPF, 2023).

The resulting public debt conundrum has presented significant challenges. These include the heightened rise in currency depreciation, crowding out of private investment, downgrading of credit ratings of countries, and the diverting of public funds from crucial sectors like health and education to undertake debt repayments. The debilitating debt servicing obligation continues to strain government budgets and hinders investments in socio-economic initiatives (IPF, 2023).

Moreover, the international debt landscape presents significant challenges for low and middle-income countries to seek alternative options to service the public debt. The situation of debt distress is being experienced in Kenya. Other countries in SSA have experienced a much harder plight. Ethiopia, Ghana, and Zambia have defaulted on their sovereign debts in recent years. This underscores the systemic risks facing highly indebted nations in the region (Anami, 2023).

Navigating these challenges requires concerted effort at both domestic and international levels. Countries should undertake initiatives to bolster domestic resource mobilization efforts, combat tax evasion and avoidance, and explore alternative financing sources that reduce reliance

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on expensive external borrowing. By implementing prudent fiscal policies, enhancing debt transparency, and fostering inclusive growth strategies, countries in the region will be better positioned to mitigate the adverse effects of mounting public debt and pave the way for sustainable development.

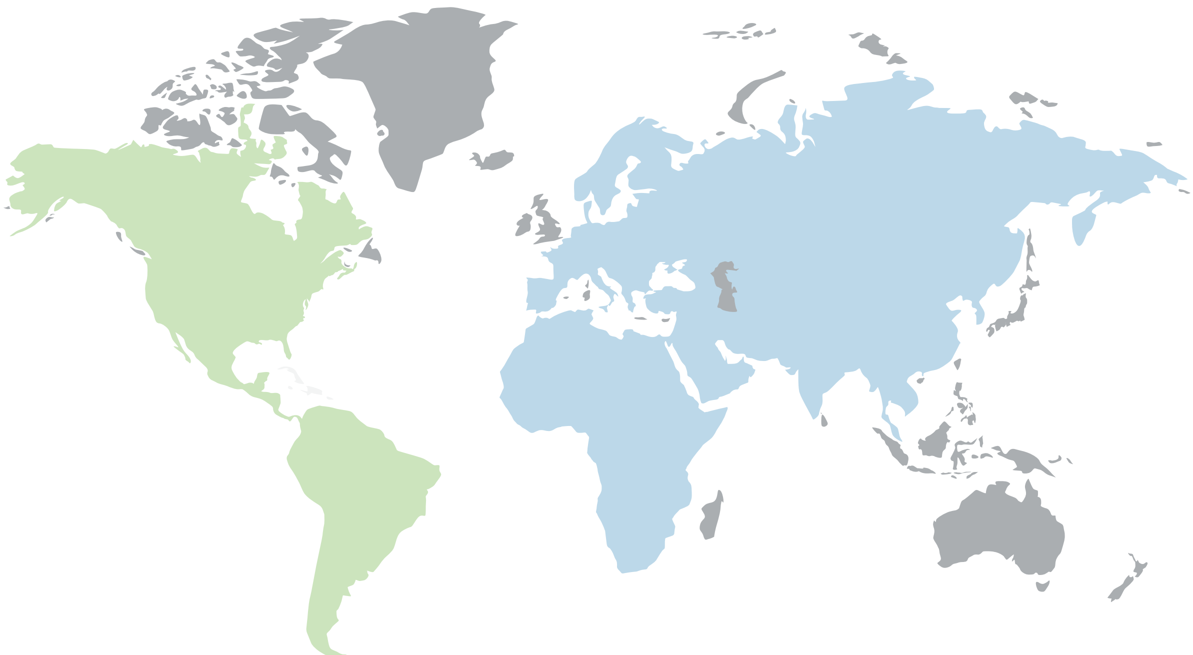
Conclusion

This paper underscores the complex interplay of factors and actors shaping Eastern Africa's post-COVID economic recovery. While the region has shown resilience and potential for expanded growth, challenges such as public debt distress from public debt and the uneven distribution of FDI remain significant hurdles on the path to recovery and sustainable development. Addressing these impediments requires a multi-faceted approach that incorporates the prioritization of inclusive and targeted policies and programs, enhancing debt transparency, and the intensified mobilization of diversified and inclusive FDI. Additionally, cross-border collaborations between the private and public sectors will be key in advancing initiatives that mainstream economic resilience, create meaningful investment opportunities, and promote inclusive growth. It is through embracing innovation, transparency, and cooperation that Eastern Africa can overcome the obstacles presented by the COVID-19 pandemic. This approach will enable the region to emerge stronger and more resilient and be on a better footing to navigate current and future complexities.

Recommendations

1. Governments in the Eastern African region should prioritize:
    a) Targeted policies and offer investor-friendly incentives for FDI, especially for high-impact economic sectors.
    b) Public-private partnerships to build the infrastructure gaps and unlock investment opportunities across the region, including projects like LAPSSET and the East African Crude Oil Pipeline.
    c) Regional collaboration to attract large-scale cross-border investments and mainstream equitable mobilization and distribution of FDI across member states.
    d) Fiscal prudence through the implementation of targeted monetary and economic policies like balanced budgeting and reducing reliance on expensive external borrowings.
    e) Domestic resource mobilization through improved and harmonized tax collection and utilization.
    f) Debt transparency by the relevant ministries of finance to ensure the compiling and publishing of comprehensive, up-to-date, and accurate public debt status.

The GLOCEPS, Policy Paper *brings to policy makers precise incisive analyses of policy issues and events locally, regionally and globally. The priority is on topics that have a bearing on Kenya and beyond and are themed on security and defence; foreign policy; governance and ethics; transnational organised crimes; and development. We invite contributions from experts with policy opinions centred on any of the five pillars. Give us your thoughts and feedback through info@gloceps.org.*



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