COVID-19 AND AFRICA'S ENERGY SECTOR: A CASE FOR STARTING ANEW?

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The collapse of the oil market to historically low levels means that in the midst of the global COVID-19 health emergency many African countries are facing a double crisis. With several countries dependent on crude oil exports for fiscal revenue and foreign currency reserves, this crash has triggered budget cuts, increased the risk of debt distress, and reduced the capacity of governments across the continent to react to the pandemic and provide regular public services. According to recent predictions, in the absence of major fiscal stimulus, the oil price shock and its impact on other sectors is likely to tip Africa into economic contraction in 2020 and to worsen the already severe debt distress. Nevertheless, some voices on the continent see this contingency as an opportunity for transforming Africa's energy sector and to contribute to a rethink of the continent's economic structure.

Oil in Africa: the main export by far and key source of revenue

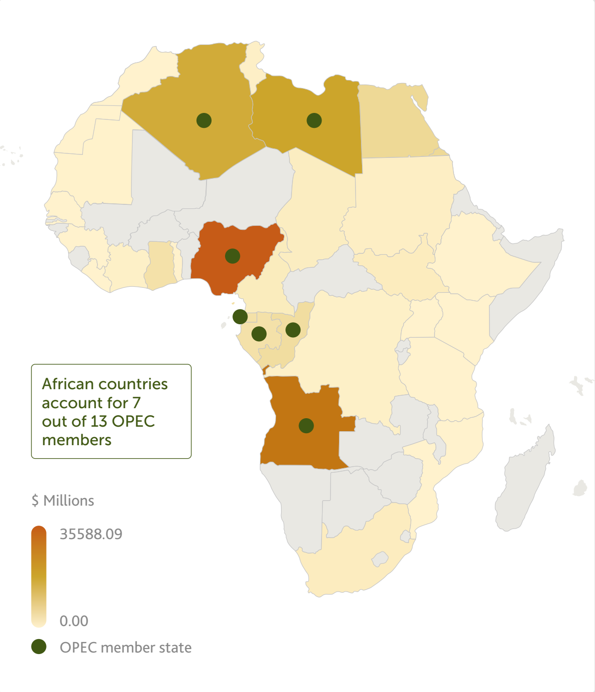
Oil is Africa's most lucrative export by far with an annual average of $175.8 billion in crude oil and petrol products exported between 2013 and 2017. Oil and petrol products alone account for 38.4% of total exports and equate to more than six times that of the continent's second most lucrative export (natural gas, another key source of energy) over this period.

Africa: annual average exports (2013-2017)

	Exports	Source: UN Comtrade
Ranking	Product	Volume ($ billion)
1	Petroleum oils crude/ petrol products	175.8
2	Gas, natural/ manufactured	29.2
3	Gold	23.6
4	Non-ferrous metals	22.5
5	Metalliferous ore, scrap	19.1

Many of the continent's oil producers are highly dependent on oil exports for their fiscal revenue. Indeed, in Nigeria, the continent's top exporter of crude oil, crude sales account for more than half of government revenues. In Angola, the continent's second largest exporter, crude oil even accounts for as much as 90% of revenues, while high figures are also reported in other oil producing nations such as South Sudan (73%). In Algeria, oil and other hydrocarbons account for about 60% of government revenues and in Libya, over 2014–18, for 96% of the budget. Additionally, the industry is a major driver of demand in other sectors of the economy.

Africa: crude oil exports (2017)



Source: OEC & OPEC

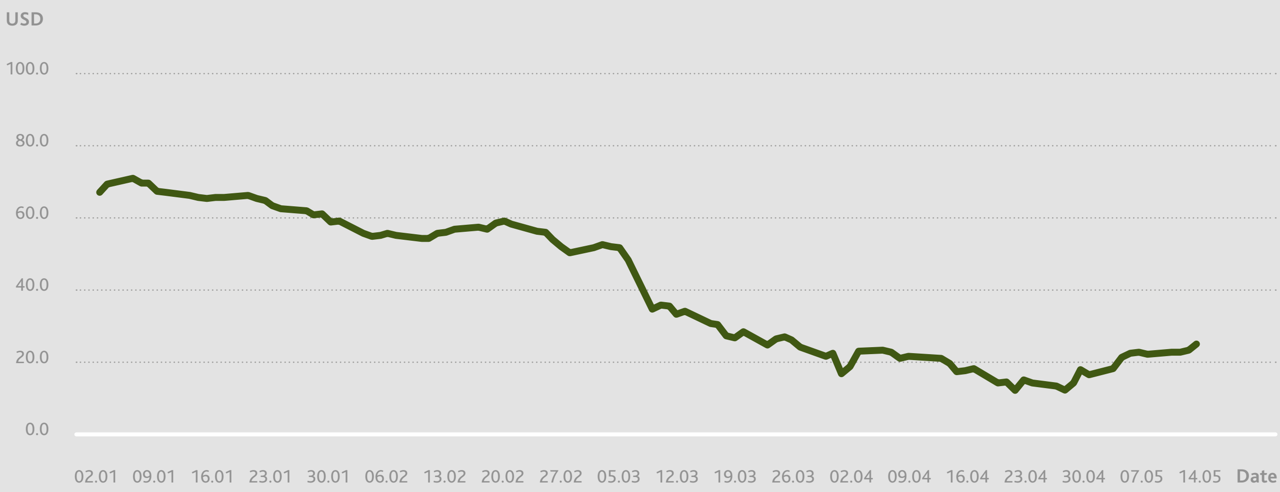
Crashing oil prices reach negative value

Immediately prior to the COVID-19 outbreak, the global demand was around 100 million barrels of crude oil per day, and global production slightly exceeded this. However, with major economies shut down to contain the virus, fewer workers commuting and fewer aeroplanes flying, consumption has fallen by roughly one third of its typical level. As oil production continued for fear of losing market share or damaging wells, the mismatch between supply and demand led prices to plummet. Furthermore, price drops have been compounded by limited storage space with cases of oil even taking on a negative value, an example being Texan Firm WTI (West Texas Intermediate) selling at prices of -$38.45 per barrel.

Since the start of 2020, the average price of a barrel of crude within Organization of the Petroleum Exporting Countries (OPEC) (commonly referred to as the OPEC basket price) has dropped by over 50%, hitting lows of $12.22 per barrel on 22 April. An agreement on 12 April between OPEC and other major oil producing nations such as Russia to restrict production sought to recover prices, and may have had some effect on the OPEC basket price rising again since late April. Indeed, oil prices will increase at some point as it is unlikely demand will remain this low. Despite this, analysts suggest that prices are unlikely to return to previous levels in the near term.

OPEC reference basket: average price per barrel (02/01/2020 - 14/05/2020)

Source: OPEC



A cash crunch when cash is most needed

For Africa's oil producing countries, the situation is especially dire. While the crash in crude oil prices has been taking its toll around the globe, African exporters are finding demand for their oil declining, with bigger oil producing nations with lower production costs, such as Russia and Saudi Arabia, flooding the market with cheap crude e.g. India, Nigeria's primary export partner for crude oil, has reduced its demand for Nigerian crude by 70%, leaving the NNPC (Nigerian National Petroleum Company) with over 50 unsold cargoes. This is causing a cash crunch for African oil producers, just when they need it most.

- **Budgets cuts and a reduced health response capacity**

The unstable and precarious oil price environment has resulted in substantial cuts in state budgets and public spending. Algeria is planning 30% cuts in public spending, while Angola and Nigeria have had to revise their annual budgets based on pre-COVID-19 oil prices of $55 and $57 per barrel respectively, with Nigeria slashing nearly $5 billion from its budget.

As African governments and RECs (Regional Economic Communities) try to mobilise existing resources for coronavirus response packages, there is a risk that the oil crash could limit some key countries' response capacity, which was already weaker than other parts of the world. With fewer doctors, hospital beds and ventilators per capita than any other region, Africa requires urgent action to ramp up health resources. McKinsey estimates the cost of critical supplies alone to be around $5 billion if virus rates were to reach 1% on the continent, excluding the costs of wider responses such as building hospital capacity, quarantining individuals and implementing a widespread testing strategy.

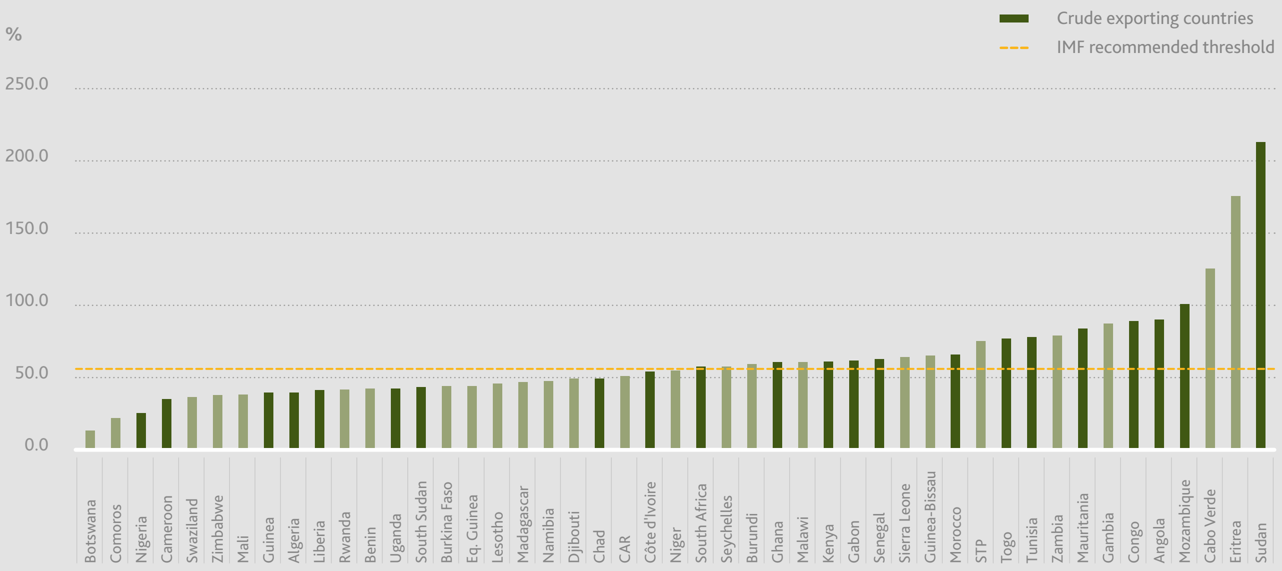
Budget cuts will also impact growth-related spending on transportation, electricity, roads and education. A large-scale targeted stimulus is needed to protect jobs and livelihoods, in line with the call from African Finance Ministers for emergency economic stimulus in the region of $100 billion.

- **An already severe debt distress and worsening**

Prior to COVID-19, debt on the continent had been growing. Thirty-eight African countries had seen central government debt rise as a proportion of GDP between 2009 and 2018. At least 24 African countries are now surpassing the 55% debt-to-GDP ratio recommended by the International Monetary Fund (IMF). Of these, Angola, Congo, Gabon and Sudan are all described as being fuel dependent by UNCTAD (United Nations Conference on Trade and Development). The latest data for Libya, another fuel dependent country, showed its central government debt to be 142% of GDP.

African countries: central government debt as % of GDP (2018)

Source: IMF



The COVID-19-induced spending demands are likely to increase debt due to borrowing, as seen in Nigeria's request for assistance from the IMF and South Sudan's from the World Bank. Debt in itself is not necessarily a problem, but debt sustainability is. Even prior to COVID-19, as many as 30 African countries spent more on debt repayments than on healthcare. For oil producing countries, the price crash further increases the burden of servicing existing debts. In Angola and Congo external debt repayments are as much as six times their health budgets.

The collapse in oil prices will likely increase the strain of producer countries in servicing existing debt with African debt increasingly held in foreign currency. For Africa's oil producing nations, foreign currency reserves are largely accounted for by oil exports. In Nigeria, oil accounts for approximately 90% of reserves. In Algeria oil, gas and other hydrocarbon exports make up 95% of foreign currency earnings. For South Sudan, this figure is as high as 98%. With oil prices well below those needed for Africa's oil producers to maintain reserve levels, there is a real possibility that the debt burden for these countries will increase.

The dual crisis is prompting many to call for debt relief and in response the G-20 and the Paris Club lenders have suspended debt repayments for all IDA (International Development Association) and all UN-defined 'least-developed' countries. Most oil producing countries might not belong to that category. Moreover, the impact of such measures is restricted by the increasing range of African debt held by private creditors on less concessional terms, which, according to the Jubilee Debt Campaign, amounts to 55% of external interest payments.

- **A chance to economically restructure?**

The oil price drop could trigger the collapse of the energy sector with national and international oil announcing reductions in capital and operational expenditure that could have an impact for decades to come. Deferral or cancellation of drilling plans and investment withdrawal will cut market share for oil producing countries and scrap plans based on anticipated revenues for those expecting to accelerate production in coming years, such as Mozambique, Ghana and Senegal. It could certainly wipe many smaller indigenous companies off the market.

However, there are some who suggest that the crisis is providing a unique opportunity to restructure African economies and move the focus away from exporting natural resources and extractives. Despite Africa's most lucrative exports coming from the extractive sector and crude oil in particular, 48.7% of Africa's population are employed in agriculture, the highest percentage for any world region. For the most part, extraction and exportation of crude oil is capital intensive and does not create many jobs, at least not directly. Even in Nigeria, the continent's largest crude producer, 2020 International Labour Organisation (ILO) data shows that only 0.5% of the population work in extractives while 34.7% work in agriculture, forestry, or fisheries. In Libya, this ratio is 1.5% to 18.8%, while in Angola, it is 1.2% to 50.2%. Additionally, value added processes such as refinement tend to take place away from the continent: crude oil accounted for approximately 87% of oil exports between 2013 and 2017 but the oil imported over this period was predominantly processed petrol products, accounting for over 70% of oil imports.

Over-involvement in the primary sector of international trade increases vulnerability to global shocks. Exporters could re-focus on processing raw materials onsite, increasing domestic access to energy and diversifying both the energy supply and their economy's productive base.

Crucial to Africa's development is the provision of energy. The Ibrahim Index of African Governance (IIAG) finds that in the decade 2008-2017, 25 countries have improved in the indicator *Reliability of Electricity Supply* over the decade. This number went up to 29 between 2013-2017. However, despite an increased pace of improvement over the last five years, the 2017 African average score still remains very low (40.8) pointing that progress is far from fast enough to keep up with demand.

The current crisis could offer an opportunity to transform Africa's energy sector and contribute to a rethink of the continent's economic structure. Some say it provides an opportunity for governments to actively shape and create markets that deliver sustainable and inclusive growth, with Carlos Lopes, former executive secretary of UNECA (United Nations Economic Commission for Africa), suggesting that with oil prices at historic lows African countries should focus on the promotion of renewable energy. Indeed, history shows that change seldom takes place without the incentive of a crisis.