



## **Deloitte Outlook 2021**

The Great Reset (or Replay?)  
and what it means for Africa

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# Welcome and Context

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It is imperative that businesses work closely with governments and multilateral agencies to drive the free trade agenda in Africa.



Deloitte's purpose is to make an impact that matters. Throughout the COVID-19 pandemic, Deloitte has been involved in a number of initiatives, not limited to monetary contribution, but also dedicating the time and skills of the firm's professionals to support the response to the pandemic of governments, businesses and societies. Deloitte further aims to make an impact by bringing together business leaders, encouraging dialogues and finding opportunities for its clients and African economies.

### Five key themes that could play out in the African continent in 2021 are likely to include:

#### 1. Mass vaccination

Without mass vaccination the risk of economic marginalisation is paramount. As at 19 January 2021, the developed world had secured 4.2 billion vaccinations, while developing countries, also known as low-income countries, only secured 675 million of the vaccines.<sup>1</sup> The continent's hope and certainty lies in vaccination. Without vaccines, Africa will potentially face a third or even fourth wave of the pandemic, impacting African economies even more adversely.

#### 2. The commodity super cycle

In the face of the major commodity shocks observed in March 2020, the pandemic has been reported as the "main ingredient" of a structural catalyst for a long-term commodity super cycle.<sup>2</sup> This is important for Africa's major commodity exporting countries such as Nigeria and Angola. Shortly post the 2008 financial crisis, Africa entered a commodity super cycle, driven by China's significant stimulus spend which underpinned growth in all commodity exporting economies. One of the few key outcomes that may occur for African growth in 2021 is that the pandemic could lead to a commodity super cycle going forward.

#### 3. China's engagement with Africa

China's engagement with Africa has become a mega trend of the current generation. The Forum on China-Africa Cooperation (FOCAC), i.e. China's Africa strategy, was launched in October 2000 – just over 20 years ago. In recent years, Africa has seen the collapse in lending of Chinese policy banks to the continent for the Belt and Road Initiative (BRI). About half of the allocated US\$1trn to the BRI has been dispersed in the last 10 years. China has already concluded debt service agreements on payments suspension and waivers on mature interest-free loans with some African countries: Kenya has approached Beijing for debt service relief<sup>3</sup> and applied for waivers due in the first half of 2021.<sup>4</sup>

#### 4. Governance

Governance can be defined as the development trajectory of a country and the improvement of the livelihood of the society. A recent survey by Freedom House found that, there has been a slippage in democracy during the past year of the pandemic.<sup>5</sup> The development of Africa depends on leadership and good governance. The key responsibility of multinational institutions such as the African Union (AU) is to remedy the reversal of good governance in Africa and ensure that African livelihoods are improved.

#### 5. The Africa Continental Free Trade Area (AfCFTA) agenda in Africa

Over the past year, COVID-19 has given rise to a global contraction in trade as well as the disruption and fragmentation of supply chains. Despite these headwinds, African governments continue to set their eyes on an ambitious agenda of free trade in the continent. The trade agreement has been ratified by 24 African countries with implementation having started on 1<sup>st</sup> of January 2021. It is imperative that businesses work closely with governments and multilateral agencies to drive the free trade agenda in Africa. Together with domestic structural reforms, this agenda could be a much-needed positive tailwind for growth in Africa.



<sup>1</sup> Financial Times, 2021. [Lower-income countries fall behind in race for vaccines.](#)

<sup>2</sup> The Economist, 2021. [Commodity prices are surging.](#)

<sup>3</sup> Reuters, 2021. [China says it's ready to help Kenya deal with its debt challenges.](#)

<sup>4</sup> Bloomberg, 2021. [China in Talks With Kenya for Debt Relief After Paris Club Deal.](#)

<sup>5</sup> Freedom House, 2020. [Democratic Trends in Africa in Four Charts.](#)

# Keynote: The role of Africa in the Great Reset



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There are major concerns regarding the second wave of the pandemic and vaccinations across poor nations. According to the World Health Organisation (WHO), in January 2021, over 39 million doses of vaccines were administered in 49 rich states, while only 25 doses were given to one low income country.<sup>6</sup> This displays a global catastrophic moral failure and exposes the level of inequality in societies.

Dr Mo Ibrahim; Founder of Mo Ibrahim Foundation and Celtel

<sup>6</sup> BBC, 2021. [Covid vaccine: WHO warns of 'catastrophic moral failure'](#).

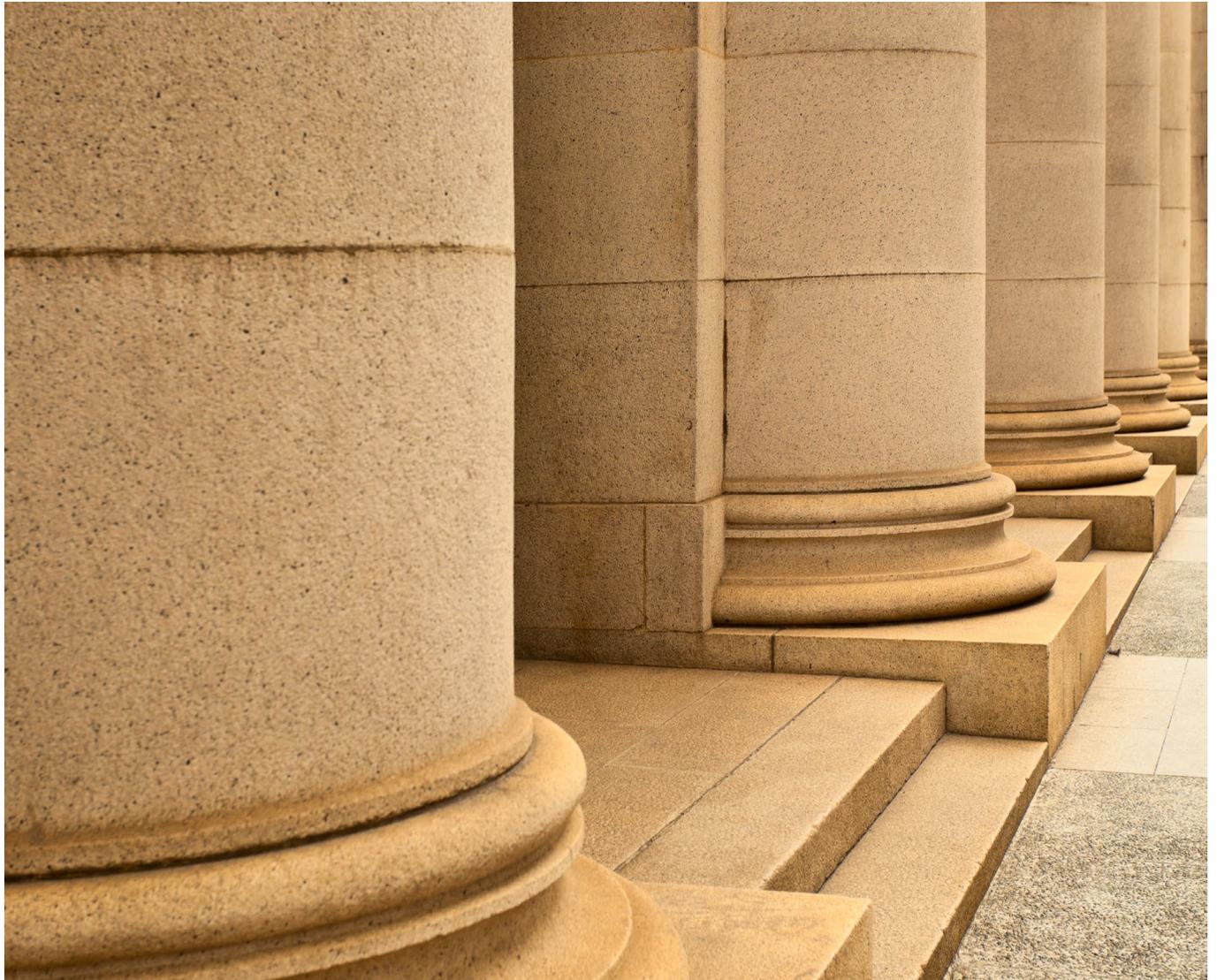
The COVID-19 pandemic is a global crisis and needs to be addressed on a global scale. With poor countries being more vulnerable to infections, any delay in delivering vaccines in Africa and other low and middle income countries could lead to various kinds of mutations, thus exacerbating the situation.

The pandemic has not only affected people's health and livelihoods, but it has also resulted in economic headwinds across the globe, including Africa. During the start of the pandemic, Africa saw supply shocks and a shortage of numerous goods in various industries. Going forward, Africa needs to use this crisis as an opportunity to recover and drive self-reliance within the continent through a common market. In order to achieve this, African states must develop political will and open borders to enable movement of goods across the continent.

### Governance in Africa

The Mo Ibrahim Foundation defines governance as the provision of political, social and economic public goods and services that every citizen has the right to expect from their government, and that a government has the responsibility to deliver to its citizens.<sup>7</sup> Governance includes leading the provision of public goods and service delivery to populations, as well as the rule of law which entails police, the judiciary and courts. The rule of law includes transparency, lack of corruption, ethnicity and equitable development. Although governance performance has been on a steady rise for the past 20 years, it still remains a key challenge in Africa, particularly corruption, human rights, transparency, democracy and the rule of law. The rule of law is imperative in creating peaceful societies and sustainable development and this is what Africa needs to pay attention to.

Another challenge faced by most African countries is the lack of practical democracy experience. Democracy is a complex concept and may need some form of experience on how to apply it in the demographic system.



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<sup>7</sup> Mo Ibrahim Foundation, 2020. [Ibrahim Index of African Governance \(IIAG\)](#).

# Climate change and Africa's new energy future



Electricity is  
a proxy for  
prosperity.



Like other nations, African states are impacted by climate change. Arguably, relative to other regions in the world, climate change has not been a main priority for African countries. Africa, however, faces a number of catastrophic issues as a result of climate change, such as increasing temperatures and water scarcity.

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Certain parts of the continent continue to battle with other climatic events such as hurricanes, severe droughts (such as the Sahel region) and rising temperatures (in some coastal areas). Some of these climatic catastrophes contribute to diseases.

Considering the harsh effects of climate change on humans and communities, and given the vastness of African communities, increased concerns around sustainability of the planet have taken the fore. Businesses, governments and multinational institutions have made efforts to contribute towards environmental sustainability. For example, there are initiatives by the Coca-Cola Company that seek to promote the efficient use of water (by reducing the number of litres of water used for a litre of soft drink), waste water treatments for clients to comply and align with regulations, as well as sustainable packaging, collection and design of bottles.

### The future of energy

The world is going through an energy transition and is moving towards more innovative processes. The popularity of fossil fuels has been on the decline, with the majority of investors rethinking investing in fossil fuels. There has also been a rise in autonomous electric vehicles as well as shared mobility, all in efforts to reduce carbon emissions.

Renewable energy is rapidly becoming a priority for many nations. There has been a global shift towards distributed power generation, micro grids, power hydrogen production plants and carbon neutral coal stations, to name a few.

Electricity is a proxy for prosperity. Some of the adjustments required to boost economic growth in Africa include ensuring sustainable power generation throughout the continent.

Expanding power generation capacity and distribution have been on the African agenda for several years. Yet, the continent continues to confront countless challenges that may delay progress in achieving access to electricity for all.

Some of these challenges include a lack of access to electricity, policy constraints, and a lack of decision making and implementation. In addition, the lack of interconnection networks is specific to Africa and building transmission networks in Africa can be difficult. These issues may pose challenges in ensuring that grids reach the entire African population. Implementing local power stations or local solar stations as opposed to much larger ones found in interconnected continents could be feasible in Africa.

Africa is equipped with hydrogen and must capitalise on that by building renewable hydrogen infrastructure. The key challenge is that such projects require extensive capital expenditure, which

most African countries fall short of. To achieve this, financial institutions must be willing to support African countries in funding these projects.

As much as these barriers exist, Africa needs to find ways to balance affordability, reliability and sustainability and find the means to supply electricity to the 600 million people without access.<sup>8</sup> Governments have shown interest in understanding which procurement frameworks would work and what the private sector needs to invest in power generation and distribution. Businesses are also collaborating with governments, policy makers and other stakeholders to find ways to harness the resources in the African continent and move towards a more renewable-friendly trajectory.



<sup>8</sup> International Energy Agency, 2019. [600 million Africans go without electricity: IEA chief](#)

# Predicting the recovery - How is the global economy doing?

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The three main points to look out for in 2021 include the direction of the virus and whether it can be suppressed soon; the vaccine rollout; and governments' responses towards the pandemic.



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Moderated by **Dr Martyn Davies;** Managing Director: Emerging Markets, Deloitte Africa

### The United States (US)

The inability to predict the behaviour of the virus makes it almost impossible to predict economics. What can be confirmed, though, is that the pandemic has severely impacted global economies, including the United States. The three main points to look out for in 2021 include the direction of the virus and whether it can be suppressed soon; the vaccine rollout; and governments' responses towards the pandemic.

The US is in the midst of a catastrophe with the COVID-19 virus and has not had adequate testing, no appropriate tracking system nor adequately prolonged lockdowns to allow the virus to be suppressed. Amid this, the US government signed a US\$900bn stimulus package which seeks to support disrupted households as well as businesses to remain afloat for several months.<sup>9</sup> In addition, the Biden Administration publicised its intentions to substantially increase spending on COVID-19 testing, tracking and vaccine distribution. President Joe Biden has proposed an additional US\$1.9trn stimulus package for households, businesses and local governments aimed at virus suppression and vaccine distribution.<sup>10</sup> Provided that his plans are successful and the US achieves immunity in the second half of 2021, the country could see a robust economic rebound with continued low borrowing costs and a surge in inflation once the virus is suppressed.

Since the start of the pandemic, consumer spending has dropped, businesses and households have been hoarding cash and fixed investment returns appear to be lethargic. US citizens have been going into riskier assets such as equities.

The massive injection of liquidity by the US Federal Reserve as well as low borrowing costs suggest that investors could be seeking to invest more money rather than spending it.

### The United Kingdom (UK)

The vaccine rollout in the UK has become a beacon of hope in what has been a rather challenging 2020. Over 4 million people in the UK have received the first dose of the vaccine.<sup>11</sup> Despite this progress, the UK's economic outlook is in part dependent on the global vaccine rollout.

The new variant of the virus in the UK and other countries is spreading at a rapid rate, making control measures even harder to implement successfully. Relative to other global economies, the UK has seen one of the biggest growth slumps since the start of the pandemic. This reflects that the UK has struggled to control the virus.

With lockdown restrictions back and the UK being a service-led economy, an unfavourable economic impact can be expected. Economic growth in the UK is expected to shrink by 11% in 2020 – higher than the -6% forecasted in December 2020. While the Brexit deal with the EU being concluded brings some relief, many challenges still lie ahead. For example, because of the pandemic, there has been a delay in the movement of goods in ports, while some custom processes as well as negotiations around access to services trade and financial services have also caused delays.



<sup>9</sup> The Washington Post, 2020. [Here's what's in the \\$900 billion stimulus package.](#)

<sup>10</sup> Business Live, 2021. [Biden plans \\$1.9-trillion stimulus for pandemic-hit economy.](#)

<sup>11</sup> UK Department of Health and Social Care, 2021. [More than 4 million people receive first dose of COVID-19 vaccine in UK.](#)

COVID-19 has left a dent on UK businesses and companies are accumulating debt. The use of limited direct grant support for some businesses, especially for those that cannot afford to take on more debt, is crucial. Government policies can be expected to focus on assisting businesses to survive and to protect jobs. The UK government formed a furlough scheme as part of its COVID-19 response, which was aimed at paying 80% of the wages of furloughed employees. However, the challenge with the job support scheme is that it may not be sustainable over the long term.

### China

While most countries found themselves entering negative growth territory in 2020, China is estimated to have recorded GDP growth of 2%.<sup>12</sup> The rapid containment of the virus through measures such as social distancing and wearing masks, as well as the rapid distribution of resources by the Chinese government to subsidise jobs lost and to stimulate the economy contributed towards China's economic performance in 2020.

The Chinese economy managed to bounce back with the contribution of a stimulus package, but largely due to exports. Over the past three to four months, Chinese exports surged rapidly, particularly to the US. For example, in November 2020, despite lingering tariff hikes, Chinese exports to the US jumped by over 40%.<sup>13</sup> What remains a concern is the decoupling between China and the US, especially with both countries seemingly having the same strategic alliance.

### Africa

Since the start of the pandemic, Africa's commodity sector has seen a major shock.

The COVID-19 pandemic, however, is an opportunity by African countries to boost industrial sector growth and shift away from commodity dependency. Africa must harness the potential to draw on economies of scale, improve competitiveness and productivity to shift and accelerate the compositions of inflows of FDI towards manufacturing growth. For example, with the vaccine rollout in motion and the call for equal access to the vaccine globally, African countries could seek to manufacture generics of vaccines on the continent. Several African countries have capabilities and capacity, and can provide direct support

to a number of African corporations. This would be substantial in mitigating Africa's exposure to recurrent adverse shocks resulting from the commodity cycle.

The future of Africa also depends on how the AfCFTA will contribute to reducing the continent's dependency on commodities, protect it from global commodity shocks and assist with diversifying African economies. African countries must ensure that there are sufficient resources and adequate infrastructure to implement the AfCFTA successfully. Key priorities in developing countries must entail steering clear of economic marginalisation, stimulating economies and using this pandemic as an opportunity to structurally reform economies to avoid economic scarring.



<sup>12</sup> IMF, 2020. [World Economic Outlook database](#).

<sup>13</sup> AP News, 2020. [China trade surplus hits record \\$75B as Nov exports soar](#).

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