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The COVID-19 pandemic's negative impact on global GDP growth and trade volumes caused a sharp decline in oil prices. After falling to USD 15 in mid-April, Brent crude prices recovered to an average of USD 41.7 for the year 2020 vs. USD 64.3 in 2019. Coface expects oil prices to remain volatile in the upcoming quarters, with an average forecast for 2021 of USD 60 per barrel at the time of writing. This temporary plunge in prices has affected Middle-Eastern and African oil exporters differently, in line with their national output's dependence on oil, as well as their fiscal strength and international reserves. Countries like Oman, Iran, Angola, Congo, and Equatorial Guinea have a higher degree of oil dependence in terms of GDP. Bahrain, Algeria, Chad, and Nigeria have a smaller share of their national output depending on the hydrocarbon sector, but are highly dependent on oil in terms of exports and fiscal revenues. Therefore, both categories face a higher risk of economic disruption due to volatile energy prices. Countries with higher international reserves and strong financial buffers (Saudi Arabia, Abu Dhabi, Kuwait and Qatar – Algeria and Libya are exceptions, as their buffers are used to mop up deficits (Algeria) or have been frozen by the UN (Libya) – may dispose of stronger fiscal firepower. However, their deteriorated financial situation (wider budget deficit and higher government debt) will refrain them. Moreover, investments in oil & gas have been deferred or have seen their realisation slowed. Consequently, these countries are increasingly interested in investing into activities away from oil. Renewables can therefore represent an important source of diversification for them (United Arab Emirates, Saudi Arabia), alongside classic tourism, finance, transport and construction (Qatar, United Arab Emirates), agriculture, forestry and other extractive activities (Cameroon, Chad, Congo, Gabon).

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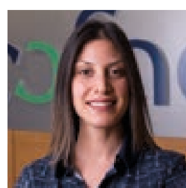

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1 COUNTRIES WITH HIGHER GDP, EXPORTS AND FISCAL DEPENDENCE ON OIL WERE HIT THE MOST

Overall, Africa does not weigh much in the global oil & gas (O&G) industry. It represents, respectively, 7.2% and 7.5% of global O&G proven reserves, 8.9% and 6% of O&G production, 10.2% and 9.1% of O&G exports, and 4.2% and 3.8% of O&G consumption[1]. Moreover, Africa accounts for 18% of gas liquefaction capacity, but only for 3.2% of global oil refining capacity, despite refineries in 16 countries. This explains why 75% of produced crude oil is exported and all but four countries (Algeria, Côte d'Ivoire, Congo and Niger) are net importers of petroleum products[2]. Nevertheless, O&G is significant for the economy of a few African countries, although their share in global production is individually low. While twenty African countries produce O&G, five of them account for over 80% of continental production: Algeria, Angola, Nigeria, Egypt and Libya (in normal times for the latter country, as output and exports were put on hold during most of 2020). Moreover, the OPEC + agreement - which aims at reducing global oil production in order to meet lower demand - comprises eight African countries (Algeria, Angola, Congo, Equatorial Guinea, Gabon, Nigeria, South Sudan and Sudan) that represent 80% of African oil production. Their output could have been potentially reduced by 13.6% in 2020. Practically, the decline should be softer, as only three countries seem to follow the agreement: Algeria, Angola and Sudan.

The collapse in oil prices and demand induced by the COVID-19 crisis, even temporary, affected African oil producing economies through two channels. First, countries dependent on oil & gas suffered from the drop in their O&G revenues, estimated at USD 100 billon for 2020 according to the UN Economic Commission for Africa. These revenues could have fallen by half in Nigeria and Angola. The situation have gotten very complicated for those already in debt distress (like Angola and Congo-Brazzaville), unless they reach an agreement with their creditors. Those on the brink of distress (Chad for instance) could fall into it. Those counting on the increase in fuel revenues to foot their recently contracted debt linked to the related investment (Ghana) could get into hardship. Second, some regional investment projects (spanning over 2020-2022) have already been or are at risk of being deferred because their breakeven prices (mostly above USD 45 a barrel and USD 5 per thousand cubic feet) are not far below the short-term forecast prices. These projects are mostly located in Nigeria (1,495 million barrels of oil), then followed by Angola (330 million) and Ghana (300 million). Some investments were aimed at revamping production, which means that production could fall in the coming years. Moreover, bid rounds in Ghana and Angola might be delayed.

The growth differential between 2019 and 2020 was significant in countries where oil & gas has a major role in the economy, such Algeria (95% of exports, 52% of government revenues and 25% of GDP), Chad (59%, 30%, and 13%, respectively) and Nigeria (90%, 55%, and 8%). This was also the case in others where oil & gas is less important, such Cameroon (43% of exports, but a mere 15% of government revenues and 25% of GDP) and Ghana (30%, 10%, and 6%), due to reduced export revenues from other commodities. Although O&G is even more significant in Angola (92%, 60%, and 50%), Congo (80%, 63%, and 61%) and Equatorial Guinea (94%, 80%, and 50%), the differential was smaller because activity was already constrained by a tight policy in the former two and declining hydrocarbon output in the latter. The differential was extreme in Libya due to the blockade on fuel exports enforced by the government based in Benghazi during most of 2020. Conversely, it was relatively moderate in Egypt (30%, 3%, and 15%), given the relatively smaller role of O&G in its economy. That said, Egypt is confronted with the total collapse in its tourism revenues. Furthermore, all these countries suffered from the (more or less strict) social distancing measures implemented by their governments and others to fight the COVID-19 pandemic.

Table 1:
Coface GDP forecast (selected African oil producing countries, % change YoY)

	Algeria	Angola	Cameroon	Chad	Congo	Egypt	Equatorial Guinea	Gabon	Ghana	Libya	Nigeria
2019	0.8	-0.9	3.8	3.1	-3.5	5.6	-6	3.9	6.5	2.5	2.2
2020(e)	-6.5	-4	-3	-2	-8	3.5	-9	-3	1	-41	-3.5

Sources: IMF, Coface (e = estimation)

1 Source: BP 2020
2 Source: African Energy

Finally, their public accounts have deteriorated despite the sizing down of their budget in order to adjust to lower revenues (particularly in Algeria and Nigeria) and the emergency financial help from multilateral organizations, especially the International Monetary Fund (IMF).

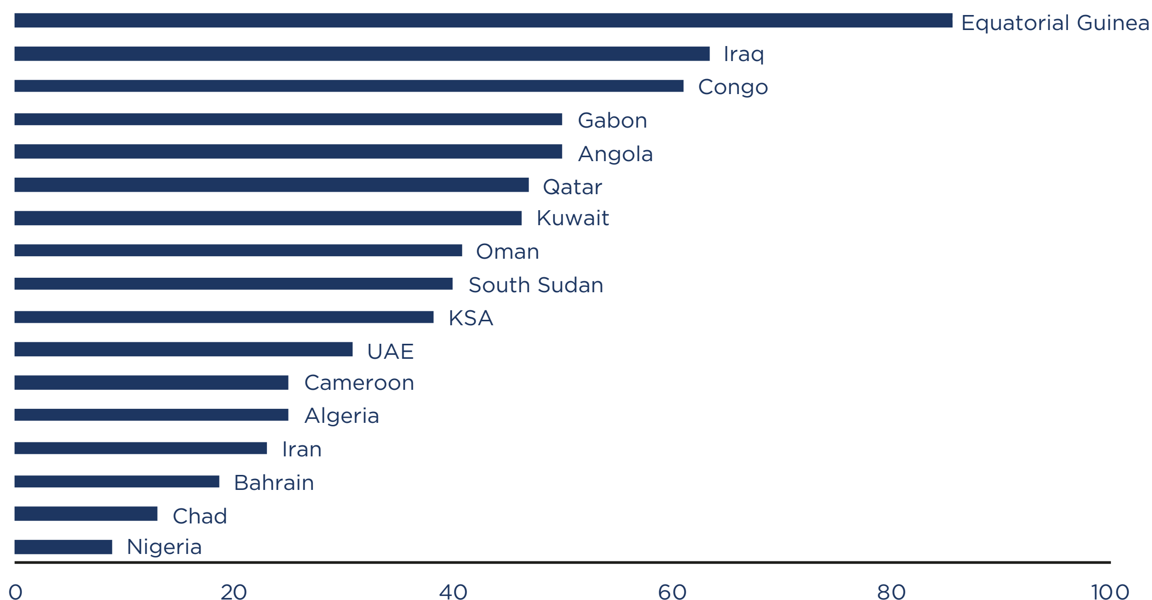
The picture is different in the Middle East, which possesses nearly half of the global proven oil reserves and 65% of OPEC proven oil reserves. Despite the implementation of diversification programs, most of the Middle-Eastern countries remain dependent on oil revenues in terms of exports, fiscal revenues and GDP. In the Gulf region, hydrocarbon revenues represent between 50% and 80% of total fiscal revenues, and between 20% and 90% of total exports. Between 20% and 50% of national output still depends on the hydrocarbon sector. However, there are some differences within this group of countries. Bahrain has a small share of its GDP coming from the hydrocarbon sector (around 20%), but depends on it for most of its export and fiscal revenues (nearly 55% and 80% respectively, as of 2019). Therefore, its economy contracted in 2020 mainly because of lower oil prices and the health issues related to COVID-19. Bahrain is an important refined products exporter, but due to the pandemic's negative impacts on global demand for oil and global trade volumes, Bahraini oil exports are estimated to have declined by 35% to USD 6.4 billion in 2020 from a year earlier, following a contraction of 7% year-on-year (YoY) in 2019 according to the IIF. The uncertainty on the global economic conditions and the volatile oil prices are weighing on refiners, and should probably lead them to reduce their production during 2021 as well. Still, the evolution of the pandemic and any progress on a treatment/vaccine could change these conditions. Under the current circumstances, Bahrain's oil production and refining activities are likely to be hit because of the cancellation and/or delay of high cost projects (in line with energy companies cutting their capital expenditures). More specifically, the investment that aims to expand Bahrain's Sitra refinery (estimated at around USD 6.5 billion) is an important initiative to increase the country exports (95% of which are addressed to South East Asia and India). Bahrain's budget deficit is estimated to have deepened further at around 15% in 2020 from a previous estimate of 8.4% due to the fiscal and external breakeven prices[3] (respectively estimated at USD 93.2 and USD 78.5 per barrel in 2020 by the IMF), volatile energy prices and the OPEC+ agreement (to cut output by 9.7 million barrels per day between 1 May and 31 July 2020, then by 7.7 million barrels per day until December 2020).

Compared with Bahrain, Oman's GDP depends more on hydrocarbons (around 40% of GDP), but its dependence in terms of export and fiscal revenues remains quite high as well (nearly 60% and 75%, respectively). Omani GDP contracted in 2020 because of the plunge in oil prices and the negative impacts of COVID-19. However, the economy had been struggling even before the crash in oil prices due to wide fiscal deficits and external vulnerabilities. Like other producers, Oman also complied with the OPEC+ agreement and cut its crude production by 23% in May and June. Nevertheless, the country's condensate production, estimated at around 150,000 barrels per day (b/d), is not constrained by the OPEC+ cut deal. Nevertheless, low energy prices have pushed oil companies to reduce costs and revise their investments plans. Petroleum Development Oman, the Sultanate's semi-public oil and natural gas producer, has asked contractors to reduce costs by at least 30% of their contract values.

Iran relied less on hydrocarbons in terms of its GDP as of 2019 (around 23%), and its dependence in terms of export revenues declined from nearly 60% in 2018 to 40% in 2019, and is estimated to have fallen further in 2020. This is mainly linked to the withdrawal of the U.S. from the nuclear deal in May 2018. Iran signed the Joint Comprehensive Plan of Action (also known as the Iranian nuclear deal) with P5+1 (U.S., China, France, UK, Russia, plus Germany) in 2015 and agreed to restrain its nuclear program and accept international inspections. In exchange, Iran would have all nuclear-related economic sanctions lifted and its frozen assets freed. However, the reintroduction of sanctions by the U.S. in 2018 (particularly on the energy, shipping and finance sectors), and the termination of exemptions from sanctions for countries still buying oil from Iran, pushed the Iranian economy into recession in 2018 and 2019 (-5.4% and -7.6%, respectively). Oil production fell from 3.8 million b/d in 2017 to 1.9 million b/d in July 2020, according to the OPEC, while oil exports could have fallen to around 200,000 b/d in 2020 from 2.5 million b/d expected before the U.S. withdrawal from the nuclear deal. Consequently, the country's oil revenues are estimated to have declined to as low as USD 9 billion, compared with USD 62 billion in 2018. The outlook has worsened because of the COVID-19 pandemic as well. Business closures and curfews worldwide worsened the situation, as they pushed China (Iran's key oil client) to reduce its hydrocarbon purchases. The sharp decline in oil prices, below the USD 50 per barrel considered by the Iranian authorities for the 2020 budget, has contributed to the widening of the budget deficit, estimated to reach USD 9 to 10 billion by 20 March 2021, which is the end of the current fiscal year. Therefore, Iran would need a higher price per barrel of oil to balance its budget, estimated at around USD 521 in 2020 according to the IMF. Low oil prices coupled with sanctions and increasing COVID-19 cases pushed Iran's economy further into contraction in 2020. The economy may return to positive growth in 2021 if the impact of the COVID-19 crisis eases and depending on the evolution of U.S. sanctions.

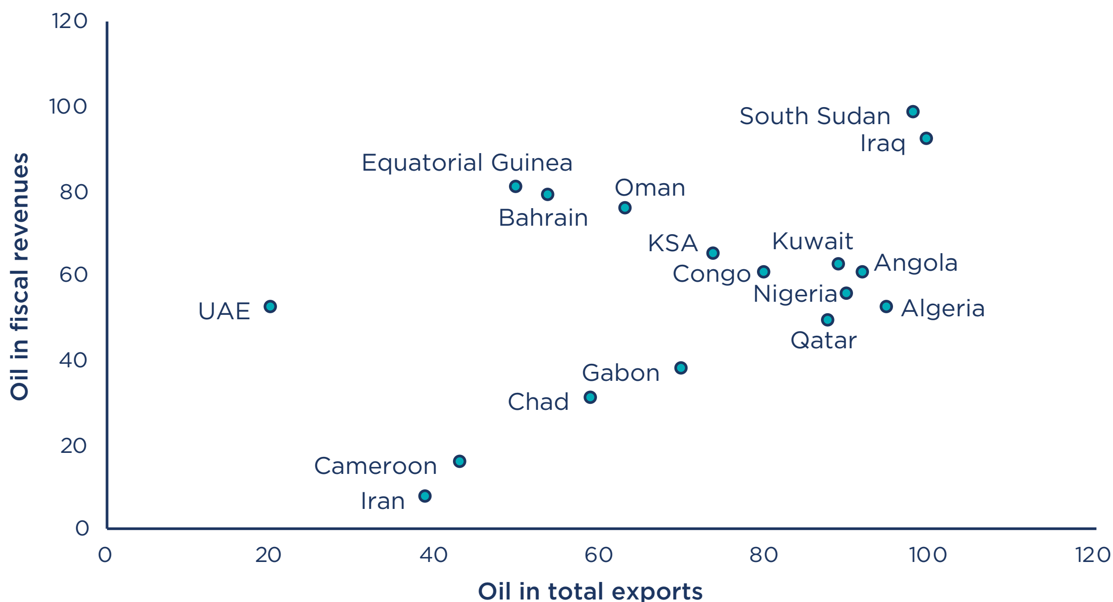
3 Fiscal breakeven oil price: the oil price at which the fiscal balance is zero - External breakeven oil price: oil price at which the current account balance is zero (Source: IMF)

Chart 1:
Oil sector in GDP in 2019 (%)



Source: World Bank

Chart 2:
Oil revenues as % of total exports and fiscal revenues (various years, from 2017 to 2019)



Sources: World Bank, IMF, EITI , IIF

2 WIDER FISCAL DEFICITS AND HIGHER PUBLIC DEBT LESSEN OIL EXPORTERS' ABILITY TO COUNTER VOLATILE OIL PRICES, DESPITE SOLID INTERNATIONAL RESERVES OVERALL

From 2009 to 2014, oil prices boomed from around USD 35 per barrel to USD 130 per barrel. This period allowed the Gulf Cooperation Council (GCC) countries to increase their overall oil production from 15 million b/d to 17.3 million b/d, and the region's general government fiscal balance surged from 0.3% of GDP in 2009 to 10.2% in 2013. Furthermore, high oil prices resulted in wide current account surpluses, which, in turn, were used to feed national wealth funds. Gross official reserves of the GCC region skyrocketed, approaching USD 1 trillion in 2014.

Following the plunge in oil prices between 2014 and 2016, from around USD 115 per barrel to USD 27 per barrel, GCC countries implemented strong fiscal consolidation, mainly focused on expenditure reduction, and accelerated their economic diversification efforts. Oil revenues fell from USD 580 billion (34% of GDP) in 2013 to USD 216.5 billion (16% of GDP). As a result, public consumption in the region contracted by 2.8% in 2015 and 10.7% in 2016, while total fiscal expenditure fell by 11.7% YoY in 2015 and 6.2% YoY in 2016. All GCC countries introduced measures focused on freezing of public wages, cutting energy subsidies and delaying non-priority investment projects. Saudi Arabia and the UAE introduced the value added tax (VAT) in January 2018, while Bahrain introduced the same in January 2019. However, these efforts did not prevent these countries from recording wider fiscal deficits and building up higher external debt.

Governments reacted in a similar fashion when oil prices crashed in early 2020, as Brent crude prices hit a low of USD 17 per barrel (from USD 67 per barrel) due to a price war between Saudi Arabia and Russia, as well as COVID-19's impact. Measures mostly consisted in cutting non-priority spending, introducing cuts and delays in capital spending, and removing allowances for public sector workers. However, governments implemented fiscal packages that include suspending tax payments and fees, providing liquidity to the private sector, compensating income losses for workers by using unemployment funds, etc. Saudi Arabia tripled the VAT to 15%, while Bahrain announced that it would slash spending by 30%.

While the economic support packages have amounted to nearly 30% of GDP in Bahrain and Oman, 10% in Kuwait, Qatar and the UAE, and around 7% in Saudi Arabia, the impact on budgets should be smaller due to the abovementioned removal of non-priority spending[4]. Nevertheless, most of the GCC countries expect their fiscal deficit to have reached between 11 and 16% of GDP in 2020.

Lower oil prices and oil production cuts mostly hit Bahrain, Oman and Saudi Arabia, where the fiscal deficit will probably have widened by between 5 to 8 percentage points. Oman also announced that it would cut spending by 5% in May 2020, following a previous cut of 5% in mid-April. Foreign currency reserves (excluding gold) cover only 1.3 months of Bahraini imports, but nearly 4 months of Omani imports. In this regard, Saudi Arabia stands in a stronger position despite its fragile budget dynamics, as its international reserves, although being halved after 2014 oil crash, cover nearly 30 months of imports. Wider fiscal deficits will probably cause an increase in the external debt of these countries. In 2020, total external debt is estimated to have risen above 250% of GDP in Bahrain and approached 160% in Qatar. It would remain close to 120% of GDP in Oman and the UAE[5]. The GCC countries, except Bahrain and Oman, benefit from relatively lower fiscal (between USD 42 and USD 80) and external breakeven prices (between USD 30 and USD 54). However, their overall GDP contracted as they suffered from the activity disruptions caused by the COVID-19 outbreak and related lockdown measures. The OPEC+ production cut agreement also weighs on these countries' crude production, while depressed oil demand probably weighs on prices and margins. In Qatar, Qatar Petroleum announced a 30% cut in spending in 2020, while Kuwait Petroleum Corp. has instructed all subsidiaries to reduce capital and operational spending. Additionally, fiscal consolidation should weigh on public and private investments. Despite the implementation of fiscal spending cuts in non-priority areas, the stimulus programs implemented by the governments to fight the negative impacts of COVID-19 on the economy will cause an increase in their debt levels. After unveiling a USD 32 billion emergency support package for the corporate sector, Saudi Arabia increased its debt ceiling to 50% of its GDP from 30% previously. After raising USD 10 billion from the bond markets in the first half of 2020, Abu Dhabi raised USD 5 billion through a three-tranche bond in late August. Consequently, total government gross debt is estimated to have increased to 33% in 2020 in Saudi Arabia (from 23% in 2019) and to 37% in the United Arab Emirates (from 27% in 2019), according to the IMF.

Overall, GCC countries seem to be more fragile than a decade ago, although most of them remain resilient in terms of international reserves. They will record lower growth rates, their budget and current account balances are declining and falling into negative territory (in parallel with energy prices), and their indebtedness is increasing.

4 Oil, Coronavirus Impact on GCC Sovereigns, Fitch Ratings, 12 May 2020
5 IIF

In terms of public external debt - a pertinent indicator of their situation - Angola, Congo and, to a lesser extent, Gabon appear as the most fragile African oil producers. Moreover, they deeply rely on oil & gas (O&G). Even before the crisis erupted, Congo, in debt distress, requested and obtained debt restructuring from its foreign official (China) and private (trading companies) creditors. Congo's external debt service is estimated at 5% of its 2019 GDP over 2020-2021. For Angola, the same figure stands at 12%. Nevertheless, the three countries were in the process of improving their situation under IMF Extended Credit Facility programs, as illustrated by their balanced or positive fiscal and current account balances in 2019. The crisis will inevitably carve into their accounts and delay the process, but should not reverse it, especially in Angola where it is most advanced.

Also deeply dependent on O&G, Algeria's fiscal and external deficits increased despite fiscal recalibration and pressure on imports (by restricting access to FX and extending the list of excluded products for import). This has further depleted its foreign exchange reserves and lead to sustained monetary financing of the public deficit. Nevertheless, Algeria's still opulent Sovereign Wealth Fund and the quasi absence of external and FX denominated debt are two of its strengths. Nigeria's situation is quite similar, except for the absence of a significant wealth fund and the low level of its public debt: external debt service is expected at mere 0.5% of its 2019 GDP over 2020-2021.

Libya displays a very high public debt, but which is matched by its high foreign exchange reserves, rich sovereign wealth fund (presently frozen under a 1991 UN decision) and balanced current account. Moreover, it should see its situation improve markedly in 2021 as the oil blockage was lifted.

Cameroon and Chad are less dependent on O&G than the previous countries, which should facilitate the continued improvement in their accounts within IMF Extended Credit Facility programmes. Nevertheless, Chad had to ask its private creditors (Glencore being the most important) for a debt service suspension. Egypt and Ghana display high public debt and deficit, which have deteriorated, notably for the latter, due to lockdown measures and the reduction in tourism and remittances. O&G influence in that matter appears to be limited.

Table 2:

	Fiscal Balance as a % of GDP (2019)	Public Debt as a % of GDP (2019)	Public External Debt as a % of GDP (2019)	Current Account Balance as a % of GDP (2019)	FX Reserves (months of imports, latest)	Sovereign Wealth Fund (billion dollars in 2019)
Algeria	-9.2	46	0.8	-12.6	14	72
Angola	0.8	110	76.2	5.7	12.4	2.3
Cameroon	-2.3	40.9	30.4	-3.6	3.8 (CEMAC)	none
Chad	-0.8	44.3	24.6	-4.9	3.8 (CEMAC)	new
Congo	8.8	95.3	66	8.2	3.8 (CEMAC)	none
Egypt	-8.3	87.5	19.6	-3.6	6.9	12
Equatorial Guinea	1.7	48	n.a.	-6	3.8 (CEMAC)	0.2
Gabon	-0.8	58.7	39.2	-0.3	3.8 (CEMAC)	0.1
Ghana	-7.4	63.2	32.4	-2.7	3	0.5
Libya	8.8	144	n.a.	0	48	60
Nigeria	-5	29.4	10	-3.8	19	1.7
South Sudan	-2.5	38.3	33	-6	0	0

Sources: IMF, Coface, Knomea, SWFI, CEMAC (Communauté économique et monétaire d'Afrique centrale)

On top of the regular disbursements under the pre-crisis multilateral support programmes (especially the IMF Extended Credit Facility), several African countries have received extra international budget and balance of payments support to help fight COVID-19 from the IMF (under its Rapid Financing Instrument and Rapid Credit Facility), the World Bank and the African Development Bank. Moreover, the Debt Service Suspension Initiative (DSSII) from Paris Club creditor countries, endorsed by the G20 Group of countries, offers the suspension of debt service due from 1 May to 30 June 2021 for low-income countries. It applies to Angola, Cameroon, Chad and Congo, for which the savings represent 3%, 0.7%, 0.5% and 1.3% of their GDP, respectively. China, although not a member of the Paris Club, decided to join the initiative: Angola, mostly indebted to China, should benefit from this. Ghana, for which the savings would represent 0.5% of its GDP, seems to have forsaken this offer, probably in order not to give a negative signal to the markets, which are already worried by the expected 12% deficit in 2020 and the waving of the 5% deficit ceiling until 2022. The same goes for Nigeria, for which the savings would be tiny. The situation is different for South Sudan: applying the initiative would not make much of a difference given that the country is already in debt distress with empty coffers.

Finally, low-income countries could ask to benefit from the new Debt Relief Framework adopted by the G20 Group of countries. Chad has done so.

3 ECONOMIC DIVERSIFICATION AMID ALTERNATIVE ENERGY SOURCES

Diversification is a long process that requires structural changes and new initiatives to support new sectors. In terms of fiscal revenue, Kuwait, Saudi Arabia and the UAE have been more successful in diversifying their economies compared to their GCC neighbours. Between 2014 and 2019, Kuwait was able to reduce its dependence on oil revenues from around 75% to 62%. During that period, hydrocarbon revenues' share in total fiscal revenues declined from 70% to 51% in the UAE and from 88% to 65% for Saudi Arabia.

In terms of exports, most of these countries still depend on hydrocarbons. They still approximately represent 90% of total merchandise exports for Kuwait, 85% for Qatar, 70% for Saudi Arabia, 53% for Bahrain and 60% for Oman. Only the UAE have a more diversified export structure, with hydrocarbon representing only 20% of total merchandise exports.

In terms of sectors, construction, infrastructure, financial services and tourism have been among the industries in which the GCC countries invested the most. Qatar and the UAE have been among the most successful at it. Between 2010 and 2019, Qatar's tourism receipts increased from 3% to 11% of its GDP, while its construction sector's value rose from 6% to 15% of GDP. Concomitantly, tourism revenues rose from around 4% to 9% of GDP in the UAE, which has become an important trade hub for the region. Jebel Ali Port remains the largest seaport in the Middle East and among the top 10 container ports globally. Qatar, which had no banking entities until the 1950s, has largely invested in this sector and the ratio of total banking assets to GDP increased to around 240% of GDP in 2019. Bahrain, helped by its offshore status, has also invested in the banking sector: total banking assets stood at 230% of Bahraini GDP in 2019. Loans to the infrastructure, transport and hospitality sectors have fed this growth in banking loans. That said, it is important to underline that although all these investments have helped to diversify the composition of GDPs, there is still some way to go in terms of generating export and fiscal revenues.

The volatility in oil prices coupled with the negative impacts of COVID-19 on the world economy have pushed oil companies to delay or cancel some of their investments. Saudi Aramco has delayed two large expansion projects at the Marjan and Berri Complexes[6]. Abu Dhabi National Oil Company (ADNOC) terminated USD 1.65 billion worth of contracts with the oilfield services provider Petrofac[7]. Qatar Petroleum has delayed the start of the first phase of its North Field LNG Expansion Project[8]. Kuwait Oil Company (KOC) has reportedly delayed a USD 400 million project focusing on the development of heavy crude facilities[9].

Investments in renewable energy sources are also considered as part of the economic diversification strategy. Given the abundance of these sources in the Middle East and Africa, and the fact that crude oil reserves are vanishing, the higher environmental costs of fossil fuels are pushing these countries to invest more in alternative energy sources. The solar sector represents an important alternative given the favourable natural conditions, but countries also have opportunities in the wind and waste-to-energy sectors. In 2017, the UAE launched its Energy Strategy 2050, with which the government aims to invest AED 600 billion by 2050 in order to meet the growing energy demand. Non-hydropower renewable electricity generation in the UAE is expected to grow by 25% year-on-year (YoY) in 2020 and by 45% YoY in 2021[10]. The emirate of Sharjah plans to build the Gulf's first waste-to-solar energy facility with an annual processing capacity of 300,000 mt of non-recyclable waste. Saudi Arabia's authorities said that they plan to produce 50% of the Kingdom's electricity from renewable sources by 2030. In July 2020, Saudi Arabia-based ACWA Power chose Shanghai Electric as the engineering, procurement and construction (EPC) contractor for the fifth phase of the Mohammed bin Rashid Solar Park.

For traditional African oil & gas producing countries, the diversification away from these two commodities has been limited. Some of them (Chad, Congo, Cameroon and Gabon) that have other commodities on their soil (wood, iron ore, gold, manganese, rubber, palm oil, cotton, coffee or cocoa) have succeeded to a limited extent, without giving up on oil & gas. Countries that started late in oil & gas, like Ghana and Egypt, are keeping their other activities preciously. Regarding tax revenues, VAT or excise taxes aimed at reducing the dependence on oil related revenues (where they exist) still generate limited income. Nevertheless, Cameroon has progressed on its VAT application and Angola intends to develop it within its vast reform program. The fiscal rule to corner part of O&G revenues is seldom, as testified by the rarity of consistent sovereign wealth funds on the continent. Progress in reducing tax expenditure related to O&G, mostly through subsidies and energy pricing, is also hard work. During the previous oil price crash in 2014-2016, Algeria, Cameroon, Gabon and Ghana committed to reform subsidies, but the progress has been limited. Egypt seems to be more successful presently.

6 https://energynorthern.com/2020/09/30/aramco-delays-major-investment-as-covid-19-has-longer-term-impacts/
7 https://www.reuters.com/article/petrofac-contract/petrofac-says-abu-dhabi-national-oil-co-ends-1-65-bln-dalma-gas-contracts-idUSL3N2C41W7
8 https://www.reuters.com/article/us-qatar-energy-lng-exclusive-idUSKBN21O28K
9 https://nsrp.vn/latest-article/kuwait-cancels-400-million-oil-and-gas-project/
10 Fitch Solutions

Furthermore, the process of reducing dependence is made difficult by political and social considerations, poor administration and tax collection, high informality, as well as deficient governance despite the participation of more countries into the Extractive Industries Transparency Initiative (EITI). Authorities express their will to proceed in bad times, only to forget about it when the situation improves. Perhaps this may be different this time due to the severity of the crisis and the higher involvement of multilateral organizations. Angola seems determined to reduce its dependence by reforming taxation, as previously mentioned, and by privatizing state-owned enterprises, which are currently controlling the economy and slowing down the exploitation of its numerous resources. The movement seems only slowed by the crisis. Nigeria also declared its will to diversify away from O&G, especially by developing its huge agricultural potential and protecting it from imports. The task will be difficult due to limited public resources, violence and the federal structure. Finally, foreign investors will be reluctant to enter sectors other than the extraction of raw materials in the absence of an improved business environment.

Oil & gas is not out of fashion on the African continent despite its poor local content: staff, equipment, engineering and transport services are imported, which explains the difference between the revenues and the rent (i.e. for the calculation in which costs are deducted from revenues) and its low contribution to employment. Producing countries are still willing to expand their fuel production, especially in natural gas, which is more favoured in consumer countries due to its lower carbon print compared to coal and oil, and as a step on the road to green energy. Recent O&G actors, such as Egypt and Ghana, want to develop this source of energy. Other countries, like Mozambique, Kenya, Senegal, Uganda, Namibia, South Africa and Somalia want to be part of it. Some countries, which just reformed their hydrocarbon codes, are still hoping to lure foreign investors: Algeria, Angola, Congo-Brazzaville and Gabon, while others might accelerate their update to the same objective, like Nigeria for instance. However, African countries mostly rely on foreign companies to develop their energy sector and thus do not master the final decision. Many major oil companies have cut into their investment, not only because of the COVID-19 crisis, but also ahead of it due to low prices and because they want to increase the share of green energy into their portfolio. This comes at a wrong time for Africa, as, in phase with the previous oil price crash (2014-2016), African O&G capital and exploration expenditure had already dropped between 2014 and 2018, and had just turned positive again in 2019. According to Rystad, delays or cancellations for projects across Africa could cause a 200,000 b/d drop in oil production during the 2021-2025 period, and a drop of around 1.2 million b/d over 2026-2030. Some African countries, new or recent in O&G, will see some planned investments delayed at least by a couple of years. Already stricken or threatened major projects are mostly located in Mozambique (2,325 million barrels of oil equivalent in gas), Mauritania (1,420 million barrels of oil equivalent in gas with Greater Tortue Ahmeyin) and Uganda (over 1 billion barrels of oil with Tilenga field near Lake Albert). There are also minor projects in Kenya (215 million barrels of oil) and Senegal (220 million barrels of oil equivalent in gas with the field shared with Mauritania). While Total decided to go ahead with its offshore LNG project in Mozambique, Exxon Mobil called off its Rovuma LNG project in the country. Exploration wells planned in South Africa and Namibia are also at risk of delay. Bid rounds in Senegal, Somalia, and Mozambique could also be postponed. However, contrarily to countries deeply involved in O&G like Nigeria, Angola and Algeria, counting on these investments to compensate for the natural decline of existing wells, these countries have been functioning without O&G revenues and should therefore suffer only from deferred extra revenues and other negative factors like the collapse in tourism and remittances, while possibly benefiting from increased global demand for other commodities. However, Mozambique and Somalia were heavily counting on these investments to improve their dire financial situation. To make things worse, Islamist insurgents are increasingly active in both countries, especially in the Mozambican Cabo Delgado province where the investments are to take place. Moreover, some countries like Senegal, Mauritania and Kenya borrowed in the perspective of these projects, and now have to deal with jeopardized revenues.

Middle Eastern and African countries with a high dependence of their GDP on oil were very negatively affected by the fall in energy prices due to the Covid-19 pandemic. Those, with higher international reserves and well endowed sovereign wealth funds (exclusively in the Middle East) have had more leeway to introduce economic stimulus and recovery programmes. However, all have seen their financial situation deteriorate due to wider budget deficits and higher government debt. Consequently, there is an increased interest from those countries to invest into industries away from oil, its volatility and cyclical low prices. Renewables, alongside classical services (tourism, finance, transport), manufacturing, construction, extractive and agricultural activities, can therefore represent an important source of diversification for these countries. However, this trend is much more widespread among Gulf countries than in African countries where resources are generally scarcer and the power of attraction for foreign investors into new activities can be limited by less than average governance. Even though some projects have been delayed, oil and, particularly, gas remain in vogue in Africa.

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