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EMERGING FROM COVID-19: SCENARIOS FOR AFRICA

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Summary

- African countries have imposed harsh lockdowns to stop the spread of COVID-19.
- These lockdowns immediately worsen the livelihoods of poor urban households working in the informal sector, who are in urgent need of (temporary) social assistance.
- The expected downturn in industrialized and emerging economies will adversely affect African countries, e.g., via falling demand for commodities and lower revenue from tourism.
- Even though initial conditions vary considerably across the continent, most African countries are expected to experience a recession, and one projection suggests that 80 million more people could fall into extreme poverty which means a 23% increase.
- African governments can speed up the recovery from the crisis, e.g., by proceeding with the African Continental Free Trade Area (ACFTA) which might partially cushion against shortfalls from severed global trade links.
- International organizations and donor countries should step up support for African countries to help them curb the economic and social fallout of COVID-19.

Keywords: Africa, macro and micro impacts of COVID-19, policy responses

1 Incidence of COVID-19 in Africa

Since the reporting of the first case of COVID-19 in Africa in mid-February, the number of confirmed cases has risen steadily. By May 3, there were still only about 44 thousand confirmed cases across the continent (Johns Hopkins University, 2020). Yet, despite harsh lockdowns in many countries, the daily number of new confirmed cases was growing at an increasing clip. Algeria, Egypt, Morocco, and South Africa had the highest number of confirmed cases but given the lack of testing facilities in many countries, it is unclear whether the share of undiagnosed cases differs widely by country. Such figures are thus unlikely to be representative of the true situation. Keenly aware of the shortcomings of their health systems, many countries have closed their borders, introduced mandatory quarantine for incoming travelers, and imposed harsh lockdowns to stop the virus from taking a foothold.

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Using harsh measures to try and contain the virus and not entering the next phase of the pandemic seems reasonable given the patchy knowledge about vulnerabilities of populations that are not in optimal health and the lack of facilities to treat severe cases.[1] This worry about the overall health of the population may surprise given that, compared to European countries, the population in most African countries is on average much younger. While in the EU, a fifth of the population is over 65 years old (Eurostat, 2020), this share is only 3% in Sub-Saharan Africa (World Bank, 2020a). The average health status in Africa is however much worse, with many undiagnosed co-morbidities. This means that the young population may be much more vulnerable than their similarly aged peers in countries with better-developed health systems.

The effectiveness of harsh health-related responses to the virus remains unclear, so the direct mortality effect of COVID-19 across Africa is uncertain. If the spread can be contained, most African countries' relative remoteness from the main arteries of international travel will have bought them time to prevent the largely uncontained spread among the population that was experienced in parts of Europe and the United States. Economic contagion will however also hit those African countries that keep the health impact of COVID-19 at a minimum.

2 Short- and long-term impacts of COVID-19

2.1 Current economic situation

At the beginning of the year, Africa's real GDP growth was forecast to rise from 3.4% in 2019 to 3.9% in 2020. Despite some regional and country variation due to extreme weather events, rising debt levels, exchange rate fluctuations as well as risks associated with social unrest, the continent was generally viewed to follow a positive trajectory (AfDB, 2020). Likely, this projected growth will no longer be realized due to the spread of COVID-19 on the continent and the indirect effects of downturns in the rest of the world.

Behind continent-wide patterns lie enormous differences in economic and social conditions across countries, which are often underestimated by international observers. Botswana, for example, is well-governed, has a large middle class, and is among the financially best placed emerging economies with low debt and high international reserves. Adjusted for purchasing power its GDP per capita is similar to that of Serbia or Thailand. On the other side of the scale are fragile states like Somalia or South Sudan that completely lack a functioning central government. Low tax revenues combined with fiscal deficits are common on the continent, and an increasing number of African countries face unsustainable debt levels, partly caused by China's lending (Horn et al., 2019).

Concerning their overall economic activity, as captured by GDP, African countries are in general far more dependent on international financial flows than Asian and Latin American countries (OECD, 2018. The fragile states in Africa strongly depend on official development assistance (ODA); remittances sent by migrants working abroad and foreign direct investment (FDI) are however more important in absolute terms in many African countries. Consumer spending by remittance-receiving households fuels economic activity across the continent. In Senegal, for example, a country with a long history of emigration, remittances make up an estimated 10.5% of GDP. By contrast, in one of the

[1] The number of seriously ill COVID-19 patients that can be treated is very low. The Economist (2020) reports a telling example: Uganda has fewer intensive care beds than ministers in the central government.

most important European countries of origin of migrants, Romania, this share is only 3% (World Bank, 2017). FDI by contrast typically benefits smaller shares of the population. Traditionally, it has focused strongly on extractive industries such as mining and oil, thus creating relatively few but high-skilled jobs. Several countries have relatively diversified FDI inflows, including into manufacturing, which in the past helped them catch up with other emerging countries in terms of productivity.

2.2 Short-term impacts

COVID-19's impact is expected to differ across the continent depending on each country's initial conditions, the measures taken as well as global transmission of economic shocks due to the integration into world markets. According to the most recent projections by the World Bank and the IMF, average growth in Africa will decline to –2.1 to -5.1 and –1.6, respectively (World Bank, 2020b; IMF, 2020). This would be the first continent-wide recession in 25 years, and due to population growth, it would imply even larger per-capita income losses, even though some African countries (e.g., Ethiopia; Rwanda) could still experience positive growth rates.

The main sources of negative short-term macroeconomic impacts are threefold: First, losses due to restrained mobility; second, losses due to lower trade and falling export prices; and third, the impact of capital outflows. This is exacerbated by exchange rate fluctuations in parts of the continent.

One of the first impacts that have already materialized is a reduction in tourism due to the imposition of travel restrictions across many countries. While the most visited destination countries are Egypt, Morocco, and Tunisia, the overall importance of tourism is greater still in several island nations. On the Seychelles, tourism accounted for 57.3% of total employment in 2014. But also much larger countries such as Namibia (19.2%) and Madagascar (16.5%) are extremely dependent on international travel (AfDB, 2015). For these countries, a reduction in international travel may have catastrophic consequences for individuals as well as for state coffers. In the short run, it is unlikely that the newly unemployed will find similarly stable and relatively well-paid employment.

The second area that was immediately affected by lockdowns and travel restrictions that were imposed abroad is income from migration. Under normal circumstances, where shocks affect only relatively small geographic areas, families with migrants are better diversified and thus more resilient than those without a migrant. The global scale of the COVID-19 crisis, however, means that both a family's migrant and those who have stayed behind have simultaneously lost large parts of their livelihoods. Remittance inflows have already begun to decline due to job losses and reduced working hours of family members that live in countries that have imposed lockdowns. The latest World Bank estimate is that due to the crisis remittances to less developed countries will decline by 19.7% and by 23.1% for Sub-Saharan Africa in 2020 (World Bank, 2020c).

As global demand for commodities slumps, exporters face reduced demand for their products and subsequent reductions in commodity prices. Countries such as Angola, Nigeria, Zambia, Gabon, Mauritania, Equatorial Guinea, and Congo are expected to fare worst since they are highly dependent on export revenue from commodities. Likewise, countries with stronger manufacturing industries such as Ethiopia (textiles), South Africa (automobile), and Kenya (agribusiness) will suffer losses as global value chains are impaired. The resulting effects will be especially severe wherever government revenues depend highly on export earnings because the global economic shock will then immediately create both private losses and restrict governments' fiscal capacity to react. In countries with more diversified income, the shock will be less harshly felt or at least take longer to take its full effect on revenues.

Adding to the pressure are financial outflows from African countries. In every large crisis, capital tends to leave countries that are perceived as riskier. In the first quarter of the year, emerging markets saw capital outflows into "safe havens" such as the United States on a massive scale. These outflows mean a strong increase in the supply of African currencies and falling prices. Falling remittances, if paid out in local currency, will also decrease demand for African currencies. This leads to depreciation of the currency in those countries that have floating or partially floating exchange rates against the Dollar or Euro. Central banks that maintain a fixed exchange rate or which stabilize their exchange rate through foreign currency interventions are struggling to keep the depreciating pressure at bay.

Falling exchange rates will affect all areas that are dependent on imports and capital inflows. This channel thus puts net importers of essential goods at risk. For example, in the face of already rising prices for protective equipment such as masks, this exchange rate devaluation reduced many countries' ability to purchase these on the global market. Unlikely short-term beneficiaries of their colonial heritage are the countries in the West African and Central African CFA zones. These have exchange rates that are firmly tied to Euro. While highly unpopular for symbolic reasons and for restricting the ability of conducting independent monetary policy, the beneficial short-term effect of the exchange rate arrangement has been more stability ruling out large exchange rate depreciations.

At the microeconomic level, the lockdowns that tend to be as strict as in industrialized nations will have the immediate consequence of worsening livelihoods of urban households. Currently, a major part of the urban African population—roughly 70% on average—consists of self-employed workers in the informal economy who depend on regular market income and lack financial reserves beyond a few days. Social distancing and other measures to restrict daily interactions can have disastrous welfare implications in such a setting. They will be much worse than in industrialized countries because of the widespread absence of social safety nets that might cushion the welfare losses. Only a few African countries such as Rwanda have put transfer systems for these households in place.

With falling purchasing power, food security will be at risk. Food availability, by contrast, is not necessarily a major concern. Movement restrictions will somewhat reduce the ability for farmers to plant crops on time, causing a possible 2.6% to 7% decline in agricultural production (AU, 2020), and local transport of food will become more difficult. Yet, global markets for major staples such as rice and maize are well supplied, stocks are healthy, and most prices have remained relatively stable. The food price crisis of 2007–2008 shows, however, that policy concerns about food availability can easily turn into a serious price crisis. Back then, some countries imposed export restrictions that are estimated to have caused up to 50% of the 2007–2008 price hike. In the current crisis, countries such as Kazakhstan and Vietnam have again started suspending exports of staples.

Poverty is expected to rise markedly in both urban and rural areas. According to projections by the International Food Policy Research Institute (IFPRI, 2020), around 80 million more people would join the ranks of the extremely poor in Sub-Saharan Africa. The projected 23% increase in poverty will be the highest worldwide and occurs in the continent that has already the largest numbers of poor people. And even in rural areas, poverty would rise by 15%.

2.3 Long-term impacts

As soon as the local lockdowns end, those working in the urban informal sector will probably recover fairly quickly as they provide goods and services that satisfy local demand. The level of food security will also rise with falling restrictions for personal movements and local transport. Some important domestic parts of the economy will thus be quite resilient. Six external factors will however determine the long-term consequences.

First, a lot depends the extent to which the disease spreads in African countries and how policy-makers end up trading off between the health of the vulnerable and the need to allow income-generating activities that are not in line with social distancing.

Second, the depth and duration of global demand shortfalls matter. We currently expect industrialized economies to almost fully restart their industrial production during the summer of 2020. While many firms in industrialized countries will not survive despite state aid, demand for products that are not consumed in social settings can be expected to pick up again once consumers' uncertainty dissipates. State-funded economic stimulus packages in areas such as infrastructure will mean that demand for construction materials will not remain depressed for long. Smaller negative long-term impacts on major exporters of raw materials such as copper-dependent Zambia will be the result. Restarting the Chinese economy as the origin of much of the global demand for these materials will be key.

Third, international food value chains may take longer to be restored, in particular, if trade restrictions remain in place and international demand does not fully pick up over the next years.

Fourth, we expect the tourism income of African countries to remain depressed until 2022 and the effect will depend heavily on the ability to vaccinate both tourists and the population in destinations. Similarly, the future development of migration will depend on vaccination. Barring any xenophobic and nationalist policies in migrants' destination countries that exclude them from the labor market to put the native unemployed first, most migrants are likely to stay and keep jobs that survive the initial crisis. Remittances are then expected to recover more quickly than other financial flows.

Fifth, will international investment return once effective crisis responses are put in place? The deceleration of global economic activity will most likely reduce the number and magnitude of foreign investments on the continent. This may, in the long run, hamper productivity growth and thus the ability to absorb the young population into the workforce. But not all long-run consequences of the COVID-19 crisis that affect emerging markets will also impact Africa. Some reshoring of production in areas such as health equipment and pharmaceuticals can be expected as industrialized countries will create incentives to build more resilience to future crises. African economies are not strongly dependent on these sectors, so they will feel little effect. Depending on which intermediate production is reshored, the more industrialized African countries may however take a hit.

Sixth, the amount of official development assistance (ODA) that is granted to African countries is also expected to decline in the medium run because donors will face fiscal restrictions as they deal with the implications of COVID-19 in their own countries. This would be in line with the previous experience that donors tend to cut their aid budgets in the aftermath of recessions, most recently after the financial crisis in 2007–2008.

Losses in revenue could lead to serious balance of payment crises. Other sources of income will not be able to make up for lost government revenue and, at the same time, increasing public spending in health, income support and other economic stabilizers would be warranted. Public deficits are thus likely to rise. Falling exchange rates could increase costs for repaying already existing foreign currency loans, further increasing deficits. Since most countries do not have large foreign currency reserves, their scope of stabilizing exchange rates will be limited. Refinancing loans at higher interest rates will further increase debt service. Many African countries are thus at risk of new debt sustainability crises.

The fiscal burden of dealing with COVID-19 might also adversely affect government expenditures on important social services such as schooling and primary health care. Overall poverty trends in the medium term will depend very much on the extent to which economic growth resumes, which in turn is shaped by the macroeconomic factors described above. To all this will come the strain on the health system. In its wake, diseases such as malaria, tuberculosis, and HIV/AIDS that are prevalent in many countries and at least as deadly if untreated might lose priority.

3 Policy responses

Overcoming the economic challenges imposed by COVID-19 on African countries will be a daunting task that will require concerted efforts by African policymakers and the international community.

The most immediate task is to cushion the impacts of lockdowns on the poor through (temporary) social safety nets. Donors have to play a role in helping to fund these safety nets. Given the inability to afford sustained lockdowns, alternatives are needed. These would include water and sanitation investments and information campaigns on hygiene and social distancing. Experience from past epidemics such as Ebola and cholera is already put to good use in several countries. Cheap and effective responses include community mobilization for testing and contact tracing.

Since outbreaks of COVID-19 cannot be completely avoided, raising the ability of African governments to deal with the virus will constitute the second line of defense. The African Union (AU) supports research and development initiatives that are working on COVID-19 diagnostics and therapy, for example in a lab in Senegal that is developing cheap COVID-19 testing kit. Likewise, German development cooperation has begun to invest in improving the capacity of laboratories to perform diagnostic tests for COVID-19. Immediately making a vaccine or treatment available globally should be the focus in development and production. Planning the necessary supply chains to vaccinate and treat African citizens should commence immediately.

To mitigate the longer-term consequences of COVID-19, proceeding with the African Continental Free Trade Area (ACFTA) will be essential. By strengthening intra-African trade, ACFTA might partially cushion against shortfalls from severed global trade links. At the same time, it can make Africa economically more attractive. Food security also depends on functioning local and global food supply and distribution chains. The international community should lobby large agriculture producers to keep their export markets open to ensure a steady supply of food at stable prices.

Care should also be taken to sustain investments in education and health during the crisis. Experience from past natural disasters shows that in particular in rural areas children that are taken out of school during an emergency will not always be sent back to school after the event, with severe long-term consequences for their welfare (Chuang et al., 2018). In a similar vein, human suffering as well as long-term productivity losses may ensue if essential health interventions such as vaccinations are not carried out due to a re-orientation of health spending towards COVID-19.

At the beginning of May 2020, 21 countries across Sub-Saharan Africa had already taken emergency assistance from the IMF with zero or one percent interest rates and limited conditionality. It can be expected that over time more African countries will ask the IMF for support to help with balance of payments problems. However, these measures are only available for countries with sustainable debt levels or for countries that have in the recent past made progress towards debt sustainability. A total of 25 countries across Africa that do not qualify already had to be granted immediate debt service relief. International organizations such as the IMF and Worldbank can help African countries to some extent but a major role will fall to the G20. The G20 have already decided a debt suspension starting on May 1, 2020, which is however only delaying repayments until January. Additional measures, such as a new round of debt relief from major donors will be required. For this, a broad coalition of the EU, China, other globally focused industrialized and emerging countries as well as international organizations is required.

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