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PEGNet
Policy Brief

COVID-19: Impacts on African economies – economic challenges and social safety net responses

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KEY POINTS

- The impacts of the "COVID-19 shock" on African economies are unfolding rapidly and can be expected to vary widely by country. The effects can be divided into:
  - **indirect effects** depending on countries' exposure to international trade, tourism and FDI in particular; and
  - **direct effects** depending on the extent of health expenses and degree of "shutdown" the countries have introduced to respond to COVID-19, as well as the economy's poverty level and dependence on informal economic activity.
- This brief explores evidence on these effects and the most vulnerable countries in the "direct" and "indirect" categories.
- The brief also provides a summary of actions that African governments have taken as well as four "innovative ideas" to consider in future, especially to continue poverty reduction and sustainable development, as part of Africa's COVID-19 recovery plan and in partnership with development actors, including China.

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On February 14th 2020, the first case of COVID-19 was reported in an African country – Egypt. To date, over 33,273 cases in Africa have been reported across 52 countries, concentrated in particular in South Africa, Egypt, Morocco, Algeria and Cameroon, while just over 40% of African countries still have under 100 cases.
However, well before the first case was confirmed in Africa the "indirect" effects of COVID-19 on African countries were already expected, through links to trade with China which was going through its health crisis as well as an economic shutdown. Since then, these indirect effects have broadened into other sectors – including tourism, and beyond China as COVID-19 affects the health and economies of Africa's other key development partners.

As cases have been detected, the majority of African economies have responded – both in terms of health measures to slow the spread, as well as socio-economic measures to protect businesses and citizens from "indirect" impacts as well as "direct" impacts of social distancing or lockdowns.

This brief, intended for African policy makers as well as development practitioners seeking to support African countries, provides an overview of these effects, analysis of the measures being taken, and recommendations on further steps required to avoid poverty increases.

Forecast Effects of COVID-19 on African Economies

Prior to the COVID-19 outbreak, 6 of the 10 fastest growing economies in the world were expected by the IMF to be in Africa (World Economic Outlook, October 2019). This growth was much needed - Africa is also the continent with the largest numbers of poor people in the world, now over 400 million in extreme poverty, and has a continental-wide vision to utilise this growth to eliminate poverty by 2030, contributing to the UN Sustainable Development Goals.
The COVID-19 pandemic makes this plan simultaneously more crucial and more difficult to achieve in future. From an analytical point of view, the effects of COVID-19 on African economies to date can be divided into two types:

- **indirect effects** - depending on countries' exposure to international trade, tourism and FDI in particular, and
- **direct effects** - depending on the extent of health expenses and degree of "shutdown" the countries require to respond to COVID-19, as well as the economy's dependence on informal economic activity.

A number of organisations have begun to predict the overall impact of these "indirect" and "direct" effects, as shown in Figure 1.
Overall, the scenarios and predictions by these organisations are dire – implying recession throughout the continent, translating into more losses in jobs, income and other business opportunities to Africa's over 1 billion population.
Analysis by the World Bank (World Bank Blogs, 2020) goes further and forecasts over 23 million extra people in poverty in Africa compared to a no-COVID-19 scenario.
The International Food Policy Research Institute (IFPRI Blog, March 2020) estimate a 3% increase in poverty in Sub-Saharan Africa due to COVID-19 impacts – that's around 10 million people more in poverty.
However, all these broad forecasts need to be broken down by type of effect as well as country and sector to better understand their implications.

Indirect Effects of COVID-19 on Africa

Trade

Major trade partners of African countries include China, the United States and European Union. According to a report from the African Union (AU, 2020), imports and exports with major trade partners are expected to decline by at least 35% in 2020 compared to 2019.

Figure 1: A summary of Analysis on Negative Impacts Of COVID-19 on Africa's Economy

World Bank	McKinsey & Co.	IMF
Average growth to decline from 2.4% in 2019 to -2.1% to -5.1% in 2020	Estimated decline in GDP growth from 3.9% (initial 2020 GDP growth forecast) to 0.4% to -3.9%	Average growth to decline from 3.1% in 2019 to -1.6% in 2020
Could lead to first recession in 25 years	Possible loss of between 9 to 18 million formal jobs	Risk of unprecedented crisis on weak healthcare systems
African economies could lose between US $37-79 billion	About 100 million informal lost in vulnerable sectors may be lost	Virus control measures are causing economic crisis and making daily life difficult for the already vulnerable groups
Probability of severe food crisis, with a 2.6% to 7% decline in agricultural production		Will be a decrease in flow of external investment from partners outside Africa

Source: WB Africa's Pulse (April, 2020); McKinsey & Co (April, 2020); IMF (April, 2020)

With regards to trade it is important to distinguish two effects. The first effect is a "demand-side" shock – i.e. a shock of slower demand from China and elsewhere of African exports, due to their own COVID-19 slowdown. The second effect is a "supply-side" shock – i.e. of less imports from China (or elsewhere) to African countries, and/or imports at higher prices. This affects consumer demand and inflationary pressure in African countries, and can also affect specific crucial sectors. For instance, about 90% of pharmaceutical products in Africa are imported from India, China and the European Union. Most African countries are net importers of basic food items such as wheat and rice; supplies of which have already declined since the outbreak of the pandemic. In 2018, sub-Saharan Africa spent over US $45 billion on total food imports – including US$17.5 bn on cereals (AU, 2020).

Detailed analysis of these effects for African countries based on their exposure to China (as the first order impact) suggests Asian countries will suffer more than African countries, however, within Africa the following 20 countries - of which 14 (in green) are classified as LDCs – are most vulnerable to trade impacts:

Figure 2: African countries most vulnerable to trade shocks

Most vulnerable to demand-side trade shock	Most vulnerable to supply-side trade shock
South Sudan	Madagascar
Angola	Togo
DRC	Algeria
Congo	Rwanda
Mauritania	Sierra Leone
Equatorial Guinea	Liberia
Ghana	Mauritius
Zambia	Lesotho
South Africa	Malawi
Mozambique	Mali

UNECA (March, 2020) analysis has reinforced the effects for commodity-sensitive countries such as Algeria, Angola, Congo, Equatorial Guinea, Ghana and Nigeria. They also predict South Sudan and Eritrea face major trade disruptions as more than 95% and 50% respectively of total exports that go to China.

Tourism

Tourism is an important sector across Africa, contributing to more than 25% of GDP in Seychelles, Cape Verde and Mauritius. In 2018, Africa was the second-fastest growing region worldwide in terms of tourism and the industry made up 8.5% of the continent's GDP(Juergen, 2019). The sector also creates more than 60 million direct and indirect jobs which is expected to be greatly affected due to suspension of activities of major airlines in Africa (which also support more than 30% of world trade). As a result, Seychelles' economy is now forecast by the IMF to contract by -10.8% in 2020, and Mauritius by -6.8%. In Middle Income Countries like Egypt, household incomes are estimated to decrease by 9% to 10.6% for those affected by disruption in tourism and remittances (IFPRI Blog, April 2020). International Air Transport Association estimates that the suspension of air travel could cost Nigeria more that 22,000 jobs and USD 434 million in revenue if the outbreak is not contained (Oyebade, March 2020).

Foreign Direct Investment

According to UNCTAD (2020), the global economic effect of the pandemic is expected to cause an up to 15% drop in FDI inflows to Africa. The continent is already beginning to feel the impact as Nigeria's All Share Index recorded its worst performance in a decade due to capital withdrawals from foreign investors by early March.

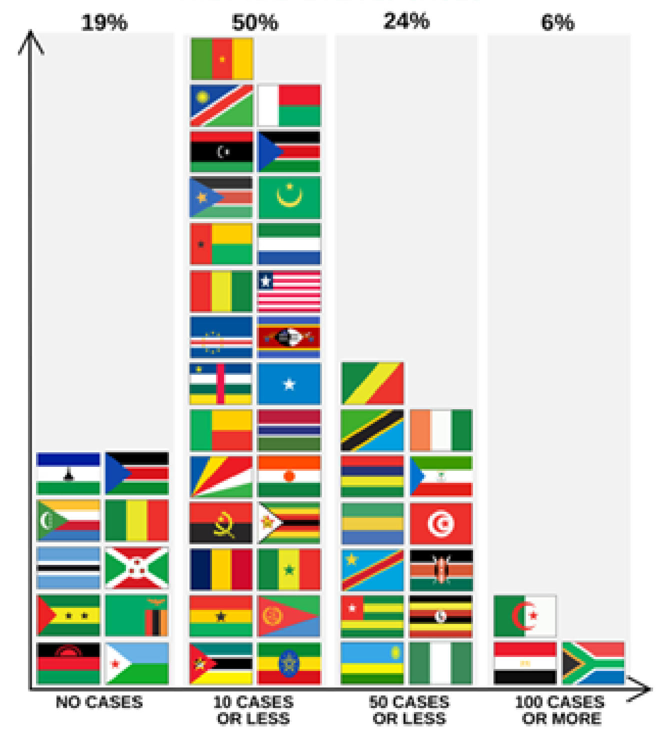
Direct Effects of COVID-19 on Africa

In order to avoid the overwhelming of relatively poor healthcare systems compared to the rest of the world, African governments have acted decisively to slow the spread of the COVID-19 virus within their countries. All African countries have imposed some degree of social distancing measures before reaching 100 cases, as shown in Figure 2 below. In comparison, Italy had already recorded over 7000 cases and 366 deaths before it announced lock-down. China had detected 571 cases of COVID-19 before the lockdown in Wuhan, Hubei Province, and deaths mounted to over 4,600.

Nevertheless, according to the AU, fighting the virus spread and medical treatment may still increase public spending on the continent by USD 130 bn – that's USD 2.4 bn per country (AU, 2020).

Furthermore, such decisive action – including to "shutdown" or "lockdown" economies - has its own costs (even if these costs of action end up being lower than the costs of inaction). A summary of such estimated costs is set out below.

Figure 3: African nations implementation of social distancing measures compared to numbers of cases



Source: Development Reimagined

Government revenues

The slowdown of economic activities is expected to cause a reduction in domestically generated government revenue, including from large sectors such as tourism. Furthermore, 29 African countries have announced tax relief measures for businesses or individuals.

Formal and Informal employment

The ILO estimates that shutdown will lead working hours in formal jobs in Africa to decline by 4.9% in the second quarter of 2020 - equivalent to 19 million full-time workers.

However, more significantly, according to the International Labor Organization more than 65% of jobs in Africa are in the informal sector, of which 60% are held by women (ILO 2020; UN Women). These workers - including transport workers, street vendors, construction workers, accommodation and food workers - are both exposed to high risks of contagion at their workplaces, and any COVID-19 control measures put them at the risk of falling deeper into poverty.

Food Security

AU (2020) suggests that COVID-19 could lead to a serious food security crisis in Africa as movement retructions reduce the ability for farmers to plant crops on time, causing a possible 2.6% to 7% decline in agricultural production. Food processing may also be affected.

How likely and relevant are these scenarios?

While these effects are important to be aware of, it is important to be clear that they will not affect economies consistently or uniformly. Each African economy requires a bespoke anlaysis. Even the dire forecasts from the IMF, World Bank and Mckinsey show a very mixed picture at the country level and relative to other countries in the world. For instance, while growth rates will be lower post-COVID-19, 8 of the worlds 10 fastest growing countries in 2020 are still forecast to be in Africa (up from 6 out of 10).

Figure 4: IMF's forecast top 10 fastest growing countries in the world in 2020

Pre-COVID-19	Post-COVID-19
South Sudan (8.2%)	South Sudan (4.9%)
Rwanda (8.1%)	Benin (4.5%)
Bangladesh (7.4%)	Uganda (3.5%)
Cote D'Ivoire (7.3%)	Rwanda (3.5%)
Ethiopia (7.2%)	Ethiopia (3.2%)
Bhutan (7.2%)	Senegal (3.0%)
India (7.0%)	Guinea (2.9%)
Senegal (6.8%)	Bhutan (2.7%)
Cambodia (6.8%)	Cote D'Ivoire (2.7%)
Botswana/Benin (6.7%)	Nepal/Gambia (2.5%)

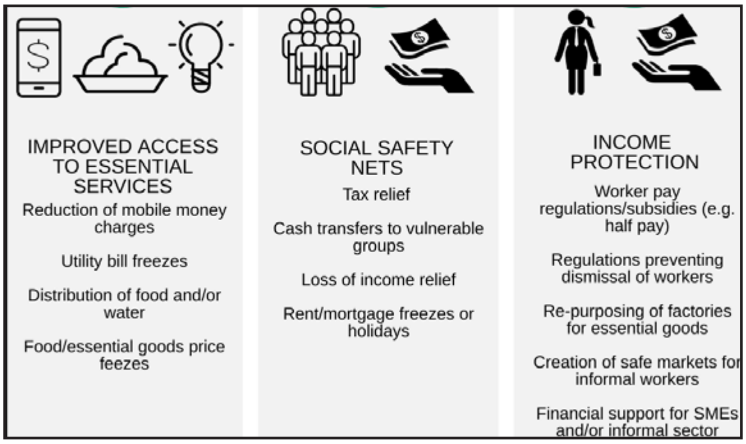
Source: IMF (April, 2020)

Nevertheless, the growth is from a low starting point, and governments need to protect their citizens from the worst effects and from falling into poverty. How? What is the role, for instance, of social safety nets, and how are African economies utilizing these tools?

Types of Social Safety Net Responses by African Countries

As well as movement restrictions, the majority of African countries have begun to introduce various types of compensation and support policies for citizens as well as businesses in their economies, to respond to both the indirect and direct effects of COVID-19.
These measures can be cateogrised into 3 particular types, as shown below.

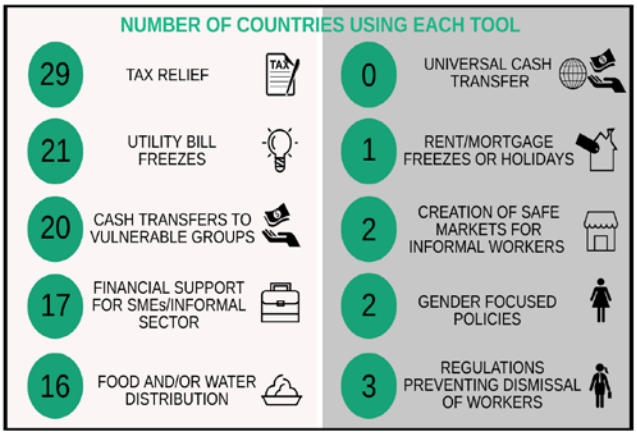
Figure 5: Three types of compensation and support policies



Source: Development Reimagined

So far by the end of April 2020:
44 African countries have introduced a total of **152** of the above policies and mechanisms to support the economy and the poorest/most vulnerable in their countries.

Figure 6: Number of countries using each tool



Source: Development Reimagined

19% of these 152 policies and measures are related to **tax relief** for different key sectors, while **13%** are for **targeted cash transfers** for poor/ vulnerable people and **11%** for financial support for **small and medium enterprises and/ or informal workers**.
However, to date, no African country has yet introduced a "universal" cash transfer scheme (i.e. a uniform or differentiated cash-or mobile-transfer-based-handout for all citizens).

These actions are imposing major costs on African economies. Overall, based on IMF reports, total spending by **36 African countries already planned for COVID-19 action will total US $37.8 bn**, or, **an average of 1% of GDP of each African country**. However, 85% of this spend is by Africa's two largest economies - South Africa and Egypt. Furthermore, **half of the 36** African economies that have budgeted for and introduced economic and social measures are Least Developed Countries (LDCs) – indicating that they may face difficulties in expanding in future, especially if they do not receive additional international support.

Moreover, there are 6 African countries that have not yet announced any economic or social measures nor announced COVID-19 budgets – all of whom are LDCs (Burundi, Djibouti, Sierra Leone, Sao Tome and Principe, South Sudan, Tanzania). Financial/ budgetary issues are likely to be a key constraint.

At the same time, it is crucial that African governments continue to implement and expand economic and social response measures, especially if shutdown/ lockdown measures continue. But what more can be done? Is there best practice that can be promoted?

Four innovative examples

Based on the prior analysis, there are four especially interesting innovative case studies that are worth others in Africa and around the world examining and learning from. The case studies are drawn from some of the poorest countries in the world, as well as from others with more resources.

Case Study 1: Economic protection for women in Egypt

Egypt has announced a number of measures specifically to protect women during the COVID-19 outbreak, recognising the different ways that women are impacted. In Egypt, 33% of the population live under the national poverty line and are considered at a higher risk to COVID-19 and its economic impacts.

For Egyptian women, this risk is compounded by the high numbers of women employed in the informal sector or in vulnerable employment. Furthermore, the vast majority of nurses in both the public and private healthcare sector are women, alongside almost half of public healthcare doctors.

The Egyptian government's strategy to provide specific protection for women, includes increasing payments to women community leaders in rural areas from from US$22 to US$57 per month, and granting leave for pregnant women and women carers of disabled children. The government is also increasing the number of beneficiaries of the conditional cash transfers Takaful and Karama program by 100,000 households (currently around 8 milion - 88% of whom areheaded by women) (Egypt Today, April 2020).

Case Study 2: Government paid water and electricity in Niger

In Niger, the national emergency response to the COVID-19 pandemic came into effect on 27 March 2020. Niger has the highest percentage (45%) of people living below the poverty line in Africa. COVID-19 presents a heightened risk for this section of Niger's population, some of whom will live in more crowded conditions with limited access to water. Any economic impacts from the on-going pandemic will also likely affect those at the poverty line more severely.
As of 16 April 2020, the President Mahamadou Issoufou announced a number of social and economic measures to mitigate the impact of the virus. One of the social measures put in place by the national emergency plan is a measure to cover the costs of household electricity and water. This measure applies to vulnerable households - defined as those in "tranches sociales" for the month of April and May.
Governments in Ghana, Senegal and Cote d'Ivoire have also implemented similar measures.

Case Study 3: Wage subsidies in Botswana

In Botswana, the government established a COVID-19 Relief Fund with P2 billion (US$165 million) to finance implemented measures such as providing wage subsidies. It is hoped that through this measure, businesses affected by COVID-19 and containment measures will be able to retain their employees, thus lessening the impact of the pandemic. In Botswana, 19.5% of the population live below the national poverty line. The protection of wages will likely prevent this percentage from increasing and making households more vulnerable to COVID-19.

The subsidy measure applies to employees in businesses that are most affected by COVID-19, from April 2020 - June 2020. Business sectors excluded from this category include water and electricity supply, banks, and central and local government. The subsidy covers 50% of an employees monthly wage, the minimum being P1000 (US$81) and the maximum P2500 (US$2,037) (Annexure, 2020). To be eligible for the subsidy, employers must be registered for tax and they must make a commitment not to retrench employees.

Figure 7: Subsidy for each employee

6. Computations of the subsidy for each employee.

The basis for the subsidy is 50% of the employee's monthly wages with a minimum support of P1000 and a maximum of P2500 for each qualifying employee. A diagrammatic illustration of the subsidy is shown below:

WAGE (BWP)	HALF WAGE (BWP)	WAGE SUPPORT AMOUNT(BWP)
1000	500	1000
1250	625	1000
1500	750	1000
2000	1000	1000
2350	1175	1175
2500	1250	1250
3000	1500	1500
3500	1750	1750
4000	2000	2000
4500	2250	2250
5000	2500	2500
BEYOND 5000		2500
6000	3000	2500

Source: Guidelines for the COVID19 Wage Subsidy, Government of Botswana, 1st April 2020.

Case study 4: Social-distanced markets in Kenya

According to the World Bank, 36% of Kenya's population live below the national poverty line. Whilst wealthier sections of society stockpile food and turn to online buying, there is a large section of society that cannot afford to do so and instead continue to sell and shop daily in crowded outdoor markets.

To reduce the risk of contracting the virus whilst at these markets, social distancing measures have been introduced. For example, at City Park produce market in Parklands and some markets in Nakuru, hand washing stations have been put in place at entrance and exit points. In Nakuru local groups - such as Muungano (Muungano, 2020) - have created social-distancing markers to ease crowds and provide a 1.5m perimeter for traders.

Source: Development Reimagined

Conclusions & Recommendations

COVID-19 has been a shock to the global system as well as to African countries. Some of the effects – the "indirect effects" such as formal job losses and inflationary pressures – African countries have had no control over, dictated by their dependency on other countries such as China for economic growth. In contrast, for "direct effects", African economies have had to weigh the potential costs of inaction – of overwhelmed and already weak health systems and potentially innumerable deaths – against the cost of action – of informal job losses, exacerbated poverty, food insecurity and more as economies shutdown to contain the virus.

This policy brief has shown that most African governments have and are setting aside budgets to introduce at least three social-safety net related measures to counter the expected negative effects on citizens. Four particularly innovative measures have been highlighted that other African economies can utilise.

However, this is not yet enough. Several African countries have not yet introduced any such measures and have very limited budgets. There are also other measures – for example bailouts to airlines and other key economics sectors – that governments need to engage in and set aside finance for.

Based on this analysis, we recommend the following:

For African policy makers governments:

• For those that have chosen to lock-down early, stand firm, but increase and extend measures to support populations quickly;
• Use scenario analysis to guide your responses and planning
• Actively support the most vulnerable
• Communicate these policies often and clearly to citizens
• Introduce policies that might be helpful in the long-term – e.g. to reduce inequality
• Be flexible and learn from others – including the four case studies here;
• Welcome and utilise all resources, including support from the private sector, debt relief, new loans as well as grants from development partners. This is an emergency situation for the entire world.

For development partners (including China):

• Be humble. African govenments have been more decisive than many others
• Be as flexible as possible – providing fungible, unconditional grants as much as possible to countries, especially LDCs, to allow them to determine their priorities.
• Where funds must be tied, focus them on vulnerable groups and think innovatively – such as the four case studies here;
• In the longer-term, support African countries to build resiience by reducing their external dependence and helping them envision a better future together – e.g. by increasing (cheap) renewable energy and water, value-added manufacturing, eco-tourism, etc.

The COVID-19 crisis continues to require swift, and innovative responses. Evidence to date suggests African countries have so far stepped up to the plate, including taking steps to support the most vulnerable, but need considerably more encouragement and direct support to continue.

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