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COVID-19 in Africa: socioeconomic impact, policy response and opportunities

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Abstract

The COVID-19 or coronavirus pandemic which has affected the global economy has also affected the African economy through spillovers to African countries. Many African countries have taken bold quarantine and lockdown measures to control the spread of COVID-19 although this has come at a cost such as the collapse of health systems and a painful economic crisis or recession. A coordinated and bold response by African authorities is needed. First, public funds should be provided to improve the capacity of health systems in African countries. Second, financial support should be provided to individuals, entrepreneurs and corporations to help them cope with the adverse effect of the coronavirus crisis. Third, employers should be granted incentives to preserve employment during the crisis to avoid mass layoff of workers. Finally, the Central bank in African countries should provide liquidity and credit support as well as asset purchase programs to prevent credit and liquidity crunch in domestic financial markets.

JEL code: G21, G28, I11, I18

Keywords: Africa, COVID-19, Coronavirus, SARS-CoV-2, outbreak, pandemic, economic crisis, financial crisis, global recession, public health, spillovers, monetary policy, fiscal policy, liquidity provision, Central banks.

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1. Introduction

Coronavirus, or the disease which it causes 'COVID-19', originated from the Wuhan Province of China in December 2019. It began spreading rapidly in China and to other parts of the world through the movement of people. The spread of COVID-19 affected economic activities in China, and in February, the Chinese economy came to a halt. China is a major exporter of commodities to African countries, and therefore, a major economic contraction in China will severely affect businesses and companies in African countries. Many African countries have been affected by coronavirus and the number of confirmed cases have been rising rapidly with a particularly severe situation in South Africa (2,003 cases), Egypt (1,794 cases), Algeria (1,761 cases), Morocco (1,448 cases) and Cameroon (803 cases) on the 11th of April in 2020.

Prior to the COVID-19 pandemic, most of the healthcare infrastructure in African countries had deteriorated. Currently, in Africa, 65% of health care expenses are made from out-of-pocket expenditure compared to Europe where the national and regional authorities are responsible for the health policies and expenditure. During the COVID-19 pandemic, despite the quarantine and other measures adopted to stop the spread of COVID-19 in African countries, the number of infected cases continued to increase significantly. This situation mounted unprecedented pressure on the public health systems in many African countries. Some private hospitals refused to admit infected patients while public hospitals exceeded their capacity. This pressured the government to build isolation centers in large open fields around the country; notably, football stadiums were converted to isolation centers in countries like Cameroun and Nigeria.

In African countries where good health care systems exist, the governments had to scale-up intensive care units and provide more resources for hospitals and healthcare systems to control the spread of COVID-19 disease. Some restrictive measures that were imposed to control the spread of the disease include restricting non-essential activities, closing schools and universities, encouraging people to stay home, the lockdown of entire cities, requiring essential businesses to run skeletal operations and employees should work from home. These measures inevitably affected economic activities in African countries, to which economic policy both fiscal and monetary policies had to be used to mitigate the negative effect on the economy. Many African countries deployed the national budget and Central bank's support in developing policies to mitigate the health and economic crises. This means that African countries used broad fiscal policies or large government spending to control the spread of coronavirus and the resulting economic crises that followed. In sum, the response in African countries were country-specific because African countries were not closely intertwined. The rest of the paper is divided as follows. Section 2 presents COVID-19 statistics. Section 3 discuss the market reactions in Africa. Section 4 shows the measures African countries have taken already. Section 5 discuss COVID-19 spending in African countries. Section 6 discuss the opportunities provided by the pandemic. Section 7 concludes.

2. COVID-19: the situation in numbers

Africa appears to be the least affected region compared to other regions as shown in Table 1.

Region	Confirmed infected cases	Confirmed deaths
Global	1,696,588	105,952
European Region	880,106	74,237
Region of the Americas	573,940	21,531
Western Pacific Region	120,116	4,058
Eastern Mediterranean Region	95,945	4,943
South-East Asia Region	16,041	728
African Region	9,728	444

Source: World Health Organization,¹ Situation report, No. 83

Real-time data for African countries, reported in Table 2, shows that some African countries had more severe cases than others such as South Africa, Algeria and Morocco.

Country	Total Cases	Total Deaths	Total Recoveries	Country	Total Cases	Total Deaths	Total Recoveries
Congo	60	5	5	Cameroun	820	12	98
Equatorial guinea	21	0	0	Zimbabwe	14	3	0
Eswatini	14	0	7	Angola	19	2	4
Lesotho	0	0	0	Somalia	25	2	2
Burundi	5	0	0	Rwanda	126	0	0
South Sudan	4	0	0	Algeria	1,914	293	591
Mauritania	7	1	2	Sudan	19	2	2
Djibouti	214	2	112	Mali	105	9	22
Sierra Leone	10	0	0	Ivory Coast	574	5	85
Mauritius	324	9	42	Madagascar	106	0	20
Seychelles	11	0	0	Uganda	54	0	4
Eritrea	34	0	0	Tanzania	46	3	7
Benin	35	1	5	Senegal	280	2	171
Malawi	13	2	0	Morocco	1,661	118	177
Togo	76	3	29	Ethiopia	71	3	10
Gabon	57	1	1	Ghana	566	8	4
Chad	18	0	2	Kenya	197	8	25
Gambia	9	1	2	Nigeria	323	10	85
Niger	539	12	75	South Africa	2,173	25	410
Botswana	13	1	0	Namibia	16	0	3
Guinea	250	0	17	Zambia	43	2	30
Burkina Faso	497	27	161	Liberia	50	5	3
Mozambique	21	0	2	Libya	25	1	9
Tunisia	707	31	43				

Source: <https://www.worldometers.info/> Live data on 13th April, 2020.

¹ https://www.who.int/docs/default-source/coronaviruse/situation-reports/20200412-sitrep-83-covid-19.pdf?sfvrsn=697ce98d_4

3. Socioeconomic impact: understanding market reactions in Africa

Several markets reacted to the pandemic and a number of industries were affected from the COVID-19 shock (Ozili and Arun, 2020). The global demand for air travel, including travel in and out of Africa, dropped significantly and the resulting loss of revenue was estimated at US\$113bn according to the International Air Transport Association (IATA) estimates.² African Airlines lost US\$400m (£312m) since the outbreak of the coronavirus in China in February, according to the IATA. The epidemic was not as widespread in Africa compared to Europe and Asia, but it led airlines like South African Airways, Royal Air Maroc, Air Tanzania, Air Mauritius, Ethiopian Airlines, EgyptAir, RwandAir and Kenya Airways to suspend flights to and from China.³

Financial markets in Africa were also affected by the coronavirus pandemic. In South Africa, the Johannesburg Stock Exchange Top 40 Index, many of which have exposure to China, slumped 3.7% on the 24th of February as investors began to consider short-selling strategies.⁴ In Kenya, major stocks such as Safaricom and KCB Bank declined by 5.4 per cent and 7 per cent respectively on the first day the first coronavirus case was announced in Kenya. As stock prices continued to plunge on the second day, the Nairobi Stock Exchange (NSE) suspended trading for the NSE 20 index on March 13, 2020 according to its equity trading rules which require trading suspension if there was a drop of more than five per cent.⁵ In the tourism sector, tourism to South Africa fell by about 80 percent following the COVID-19 outbreak, and the situation further worsened when a nationwide lockdown was enforced in South Africa. Kenya also witnessed a 55 percent fall in tourist visits following the coronavirus outbreak. In the health sector, the World Health Organization (WHO) had warned that countries with poor healthcare systems may not be able to cope with the coronavirus outbreak with many in Africa being of particular concern.

Restrictive measures, particularly those that limit social interaction such as lockdowns, were imposed in many African countries which severely affected many industries because large parts of the African economy depend on people-to-people interactions compared to Europe where there is a well-developed digital economy that do not require much people-to-people interaction. The immediate shock to African countries resulted from global supply chain disruptions due to the lock down in China and partly due to falling oil price that hurt oil-dependent African countries such as Nigeria and Angola. The lock-down measures initially affected the travel, tourism and hospitality sectors while extended lockdown affect the entire economy in some African countries.

² <https://www.iata.org/en/pressroom/pr/2020-03-05-01/>

³ <https://www.bbc.com/news/topics/cdl8n2edxept/mauritius>

⁴ <https://www.theafricareport.com/23770/coronavirus-and-the-case-for-shorting-china-exposed-south-african-stocks/>

⁵ <https://www.nation.co.ke/business/Economic-cost-of-coronavirus-Kenya/996-5492854-gnf7jh/index.html>

4. Policy response: what African countries are doing

Below are some measures that African countries have already taken.

S/N	Measures	African countries
1	State loans or credit guarantees for companies	No African country
2	Income subsidies for affected workers	None, no African country
3	Tax deferrals	None, no African country
4	Regulatory forbearance to banks and corporate debtors	Nigeria
5	Social security deferrals or subsidies	None, no African country
6	Central bank grants debt repayment holidays such as loan moratoriums	Egypt, Nigeria
7	Salary donation or pay-cut by top public officials to contribute to coronavirus relief funding	Rwanda, Kenya, Malawi, Nigeria, South Africa
8	President takes a pay-cut, donates salary	Mali, Algeria, South Africa, Rwanda, Malawi
9	Provision of free water supply, food with government bearing the cost during the pandemic	Ghana, Rwanda
10	Tax holiday	Ghana
11	Countries that received support from foreign billionaires ⁶	Nigeria, Zimbabwe, Ethiopia, Rwanda, Cameroun
12	Countries that sought and received support from local billionaires	Nigeria, South Africa ⁷
13	Cash payments to all citizens to help them cope with financial difficulty during the pandemic	None, no African country
14	Corporate bailouts	None, no African country
15	Seeking debt forgiveness and other debt relief to reduce the economic impact of coronavirus	sub-Saharan Africa countries
16	Adopting accommodative monetary policies by central banks such as reducing interest rate.	Congo, Nigeria, Egypt, Kenya
17	Good Samaritans and philanthropists donating food supplies	South Africa, Nigeria

⁶ Billionaires that provided financial and non-financial support such as protective gear and test kits to some Africa countries are Jack Ma of Ali Baba Conglomerates, Mike Bloomberg

⁷ Billionaires such as Patrice Motsepe, the Oppenheimer and Rupert families in South Africa; Aliko Dangote & Folorunsho Alakija of Nigeria;

5. Responding with government spending and foreign aid

5.1. Domestic spending

Only few African countries used large public funds to mitigate the effects of the coronavirus pandemic. Nigeria announced a NGN3.5trillion (US\$9.1bn) coronavirus relief fund (Ozili, 2020). Gambia announced a D500million (US\$9.8m) coronavirus relief fund. Ghana announced a US\$100 million relief fund to expand infrastructure, buy materials and equipment and to improve public education. Morocco announced an initial 2 billion dirhams (US\$200 million) to help the health sector cope with the coronavirus outbreak.⁸

Few African countries solicited private sector donations to raise additional coronavirus relief funds such as Ghana, Nigeria, Rwanda and South Africa. The total domestic national spending in African countries only accounted for about 25% of the total funds, both domestic and foreign, that was used by African countries to respond to the COVID-19 pandemic while foreign loans and foreign grants accounted for 75 per cent of total spending by African countries.

5.2. Foreign aid spending

Many African countries received international loan, donations or grants to raise coronavirus relief fund. The World Bank gave the Kenyan government US\$60 million (Sh6.1 billion) to help combat the coronavirus pandemic.⁹ The UK's Department for International Development (DFID) provided approximately K1.7 billion (£1.8 million or US\$2.24 million) to UNICEF to strengthen Malawi's capacity to prevent a COVID-19 outbreak in the country.¹⁰ The World Bank approved US\$14.25 million to support Rwanda's response to the coronavirus pandemic.¹¹ The US government provided US\$6 million in humanitarian assistance to Libya for COVID-19 response.¹² The World Bank provided US\$47 million to support the Democratic Republic of Congo during the coronavirus pandemic,¹³ while the U.S. government provided an additional US\$6 million in humanitarian funding to the Democratic Republic of Congo to fight COVID-19 pandemic, bringing the total funding to US\$53million. The World Bank's International Development Association (IDA) approved a US\$2.5 million grant to assist the government of Sao Tome and Principe in responding

⁸ <https://www.reuters.com/article/us-health-coronavirus-morocco/morocco-to-spend-200-million-to-brace-health-system-for-coronavirus-idUSKBN21E33Q>

⁹ <https://www.worldbank.org/en/news/press-release/2020/04/02/kenya-receives-50-million-world-bank-group-support-to-address-covid-19-pandemic>

¹⁰ <https://www.unicef.org/malawi/press-releases/uk-aid-provides-17-billion-kwacha-covid-19-coronavirus-prevention-and-preparedness>

¹¹ <https://www.aa.com.tr/en/africa/world-bank-lends-rwanda-14-million-to-fight-covid-19/1799348>

¹² <https://ly.usembassy.gov/the-us-commits-6-million-usd-in-humanitarian-assistance-to-libya-for-the-covid-19-response/>

¹³ <https://www.worldbank.org/en/news/press-release/2020/04/02/the-world-bank-group-provides-47-million-to-support-the-democratic-republic-of-congos-response-to-the-coronavirus-pandemic>

to the threat posed by the COVID-19 pandemic.¹⁴ The World Bank also approved a US\$10 million IDA grant for Gambia to provide emergency assistance in fighting the COVID-19 pandemic.¹⁵ Egypt received US\$7.9 million from the World Bank in support of its coronavirus emergency response.¹⁶ The International Monetary Fund (IMF) approved US\$745 million to Tunisia to address the COVID-19 pandemic¹⁷. See table 4.

S/N	African country	Funder	Amount
1	Egypt	World bank	US\$7.9 Million
2	The Gambia	The World Bank's IDA	\$10 million grant
3	Sao Tome and Principe	The World Bank's IDA	a \$2.5 million grant
4	Congo	World bank (\$47m) and US Government (\$6m)	US\$53 million
5	Libya	US government	\$6 million
6	Rwanda	World Bank	\$14.25 million
7	Malawi	UK's DFID	\$2.24 million
8	Kenya	World Bank	US\$60 million
9	Senegal	World Bank	\$20 million
10	Djibouti	World Bank	US\$5 million
11	South Sudan	World Bank	\$7.6 million
12	Somalia	U.S. government	\$7 million
13	Sierra Leone	World Bank	\$7.5 million

5.3. Africa as a foreign donor

Equatorial Guinea donated a \$2million solidarity contribution to China to help the Chinese government in fighting the coronavirus that halted China's economy in February 2020.¹⁸ Equatorial Guinea became the first and the only African country to donate funds to help an advanced economy to cope with the COVID-19 pandemic. The decision of Equatorial Guinea's Council of Minister to financially support China's fight against the virus was due to the long-standing relationship between both countries whose cooperation had grown stronger in recent years.

¹⁴ <https://www.worldbank.org/en/news/press-release/2020/04/02/sao-tome-and-principe-to-boost-preparedness-for-covid-19>

¹⁵ <https://www.worldbank.org/en/news/press-release/2020/04/02/world-bank-supports-the-gambias-covid-19-response>

¹⁶ <https://www.worldbank.org/en/news/press-release/2020/04/02/egypt-world-bank-provides-us79-million-in-support-of-coronavirus-covid-19-emergency-response>

¹⁷ <https://www.cnbcafrica.com/africa-press-office/2020/04/11/coronavirus-tunisia-international-monetary-fund-imf-executive-board-approves-a-us745-million-disbursement-to-tunisia-to-address-the-covid-19-pandemic/>

¹⁸ <https://www.cnbcafrica.com/africa-press-office/2020/02/05/equatorial-guinea-agrees-on-2m-solidarity-contribution-to-support-chinas-fight-against-coronavirus/>

6. Opportunities created by the COVID-19 pandemic

Develop the capacity of health systems. Whenever there is a public health crisis, the first priority in any country is the health of the citizens. For this reason, African countries should consider adopting budgetary liquidity and policy measures to increase the capacity of their health systems to withstand a public health crisis, and to provide relief to citizens that fall sick during a public health crisis.

Strengthen protection for small and medium-sized businesses during crises. The survival of small and medium-sized enterprises is crucial during this pandemic. Policy makers should always protect and support small and medium-sized businesses by providing guarantees to banks and micro-lenders so that lenders can provide liquidity to at least 50,000 African small and medium enterprises. The economic impact of coronavirus on small and medium-sized businesses will vary across industries and firms depending on many factors, including exposure to China as a source of primary and intermediate inputs. Such small and medium-sized businesses that have the greatest exposure to the global supply chain should receive more support than others.

Protect jobs and workers. Protecting the critical sectors of the economy, assets, technology and infrastructure is important, and above all, jobs and workers must be protected. African governments should use legislation to protect the livelihoods of citizens which is essential to reboot the economy after a health pandemic is over. New legislations should be created to mitigate unemployment risks during crises. These kind of legislations can help to sustain families' income, preserve the productive capacity of workers and the human capital of enterprises and the overall economy.

Social welfare legislation and programs. Legislation and programs should be designed to support those in need especially the poorest. The COVID-19 crisis had shown that the poorest probably had nothing to eat during the lockdown. The government should provide assistance, including food, clothing and other essential items for personal use, e.g. shoes, soap and shampoo, to those that are deprived of basic subsistence during a crisis. These provisions will make the delivery of food aid and basic items possible through electronic vouchers, thus, reducing the risk of contracting diseases during a health crisis. Social welfare legislations should be passed in African countries to provide welfare to the poorest.

Support for the agricultural sector. One sector where governments should not tolerate any disruption is that of food in the agricultural sector. African government must stand by food farmers. There should be no disruption to the agricultural sector during a crisis. There should be a range of measures to ensure that farmers and other beneficiaries can get the support that they need. For instance, there should be agricultural programs that allow farmers to benefit from a maximum aid of \$5,000 per farm while food processing and marketing companies can benefit from a maximum of \$20,000.

7. Conclusion

This article discussed the effect of coronavirus on the African economy and suggest opportunities for reforms. At the moment, it is impossible to fully know how long the coronavirus crisis will last and how many African citizens will be affected. But what we know is that the number of infected people in Africa is much lower compared to those infected in Europe and the US, and the economic impact is already severe particularly for oil dependent African countries and for African countries that benefit significantly from the global supply chain. Country specific measures have been taken by many African countries and these measures have affected the African economy and it is possible that, once the pandemic is over, most African countries will enter into an unavoidable recession.

I argued that African governments should use fiscal policies to immediately address the public health emergency, and after that, fiscal resources should be used to provide direct support to affected individuals, businesses and sectors in order to protect productive capacity that will be needed to revive the economy of African countries when this crisis ends. Other indirect measures to consider is to provide a sustained general safety net for everyone during the pandemic. There are several ways of doing this, such as in the form of providing free electricity to all citizens during the pandemic, cash transfer payments to households, reduce the price of energy products such as fuel and gas, and provide bailouts for small and big businesses so that they won't lay-off workers during the crisis.

Policy makers in African countries need to also think about measures that will reboot the economy after the coronavirus crisis is over. Central banks in Africa need to find the right mix of monetary policy tools that will stimulate growth in the economy while the fiscal authorities should do the same using the fiscal tools at their disposal. In the end, this pandemic will provide an opportunity for each African country to rethink its exposure to the global economy and the spillover implication on the domestic economy. Will African countries reduce their trade exposures to countries like China in order to reduce their vulnerability to external shocks in the future? Will African countries like Angola, Libya and Nigeria reduce their dependence on oil revenue in order to reduce their exposure to significant fall in oil prices? Will African governments develop existing infrastructure or create new infrastructure, including healthcare infrastructure, that can help in reducing the impact of future crises? Will African banks build up enough capital buffers or capital reserves in good times so that they will not need to be granted special regulatory forbearance by the regulator in bad times?

Finally, this crisis is also an opportunity to think about regional cooperation in addressing this pandemic and future crises. The African Union can provide leadership for regional cooperation even though poor communication, domestic and regional politics have contributed in limiting the ability of the African Union to coordinate a joint solution to the COVID-19 pandemic. It is also

important that African regional institutions, such as the African Development Bank and the Africa Finance Corporation, provide short-term support for the development of medication, vaccines and true public goods.

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