

**COVID-19 CRISIS IN AFRICA: WHAT YOU NEED TO KNOW ABOUT
THE ECONOMIC IMPACT AND THE KEYS FOR RECOVERY**

May 12th, 2020

The following concept note is based on a comprehensive press review. It compiles data, analysis and views corresponding to Tomorrow Foundation's convictions.



INDEX

INTRODUCTION	3
ECONOMIC IMPACT	4
A. General	4
B. Economic Sectors most affected	5
C. Effects likely to be severe in urban areas and impact ultimately rural areas	6
SPECIFICITY OF AFRICA VS WESTERN COUNTRIES	7
A. Different impact	7
B. Informal economy	7
C. Do not copy Western countries, use African specificities	8
STRUCTURAL CHANGES REQUIRED	9
A. Debt management	9
B. Collaboration and coalitions: AfCFTA	10
C. Energy services	11
SOLUTION FOR RECOVERY	12
A. Innovation	12
B. Training	15

INTRODUCTION

- Africa's swift action to contain COVID-19 has been effective in suppressing transmission so far.
- However, economic impact from the global crisis is expected to be considerable.
- There is broad support for stay-at-home orders, but this could weaken easily.

According to World Economic Forum:

- Covid-19 is an exceptional opportunity for Africa to reset many aspects of its health, economic management and public sector priorities and decision-making systems.
 - Opportunity to fix gaps in health and economic systems, specifically in relation to public goods-such as access to health, water, and to redefine services like access to water supply and sanitation, to be common goods rather than marketable commodities.
 - Tomorrow Foundation pillars such as **leadership, education, and new technologies** are key to deal with immediate issues, initiate recovery and ensure structural changes.
- ⇒ New African leadership through science and scientific research, collaboration between countries and sectors, successful entrepreneurs
- ⇒ Education of youth is key for informal sector transformation
- ⇒ Innovation and digitalization to develop all economic sectors

ECONOMIC IMPACT

A. General

- Africa is expected to **lose 30 million jobs**, while a **third of the continent's countries are at risk of debt distress** ([Ikouria, 2020](#)).
- For many African people, **getting enough food and water would be difficult if they had to stay home for 14 days**. Two-thirds of people in 20 African countries fear going hungry if they had to quarantine for 2 weeks, according to a survey.
- The **lowest-income households** are expected to **run out of food and money in less than a week**.
- The United Nations Economic Commission for Africa (Uneca) estimates the continent **could lose half of its GDP growth**, down to 1.8% from 3.2% as a consequence of **disrupted value chains, stagnant exports and shrinking investment**. This estimate embraces the immediate impact of the Covid-19 crisis, even before the continent faces the exponential curve of infections.
- This is an acute reality as **tax revenues fall during the pandemic** ([Strohm, 2020](#)) **along with national earnings from commodities like oil and minerals** (SET, 2020).
- The continent currently has a total external and domestic debt stock of \$500-billion. Debt was a problem across all middle and low-income countries before Covid-19, and the pandemic exacerbated the problem. The International Monetary Fund (IMF) is projecting that **gross public debt for these countries (both domestic and external) would reach an average of 55.7% of GDP in 2020** ([Gelpern, Hagan, Mazarei, 2020](#)).

- The World Bank has predicted **Africa will sink into its first continent-wide recession in 25 years as a result of the coronavirus shock**, as global trade contracts in the **commodities on which many of its economies rely**. Growth in the region is forecast to fall from 2.4 per cent in 2019 to between minus 2.1 per cent and minus 5.1 per cent, in a continent with population growth of 2.7 per cent.

B. Economic Sectors most affected

- **Oil sector:** Nigeria lost 80% of its revenues
- **Mining:** Madagascar Ambatovy mine largest for nickel and cobalt, closed because of cases found inside one sub-contractor; South African mines at 50% of their capacities

- **Trade with China**

- **Informal economy:**

Firms and businesses in African cities are highly vulnerable to COVID-19 related effects, especially small- and medium-sized enterprises which account for 80% of employment in Africa. **The approximately 250 million Africans in informal urban employment (excluding North Africa) will be at risk.**

- **Tourism:**

The World Bank reports that one in 20 jobs in sub-Saharan Africa is in the travel and tourism sector. The United World Tourism Organisation estimated that about 67 million international tourists visited Africa in 2018, generating about US\$38 billion for the continent.

The World Travel and Tourism Council has warned that the COVID-19 pandemic could cost up to 50 million jobs worldwide in the travel and tourism industry.

For example Gambia, Tunisia (Moody's will perform review to confirm or not country downgrade to B2 so there is potentially a strong impact on international investment), Rwanda.

- **Airlines** : South African airways company closing considered by the government

C. Effects likely to be severe in urban areas and impact ultimately rural areas

- **"As engines and drivers of economic growth, cities face considerable risks in light of COVID-19** with implications for the continent's resilience to the pandemic," Thokozile Ruzvidzo, the director of the Gender, Poverty and Social Policy Division of the United Nations Economic Commission for Africa, said in a report.
- **Urban consumption and expenditure** on food, manufactured goods, utilities, transport, energy, and services are likely to experience **a sharp fall in light of COVID-related lockdowns and reduced restrictions,**" Ruzvidzo said. It will affect value chains
 - ⇒ Lockdown impossible or dramatic social and economic impact for people working in the informal economy
 - ⇒ Value chains will be affected, leading to **impact on rural areas as well**

SPECIFICITY OF AFRICA VS WESTERN COUNTRIES

A. Different impact

- It is important to mention why the Covid-19, so far, did not impact Africa as it impacted Western countries, because **this reminds us two of the main strengths of Africa**:
 - **Youth population**: proportion and size
 - **Reactivity and flexibility of the continent**: ability to deal with crisis, emergency situations. In this kind of situation, decisions are taken quickly, practical solutions are chosen, no administrative burden, good analysis of risk and advantages to use one solution....
 - Weather conditions not favorable to the development of the virus

B. Informal economy

- **Main difference** of Africa compare to western countries regarding economy: **most people working in informal economy**¹
- In Sub-Saharan Africa, **the informal sector contributes to 66% of total employment**, which is classified as a set of economic activities, enterprises, and jobs, that are unregulated or not protected by the state.
- Informal economy has lot of constraints: lack of training, lack of loyal customers, inadequate telecommunications and transport infrastructures, weak access to proper financing, social security safety.

¹ Diversified set of economic activities, enterprises, jobs, and workers that are not regulated or protected by the state. The concept originally applied to self-employment in small unregistered enterprises

- Most young Africans and entrepreneurs have been affected by the measure taken as they mostly depend on daily earnings.
 - ⇒ Current crisis gives **governments** a unique occasion to have a **better control on these activities** to push them to be modernized and reinforced. It would allow in the short term to limit expansion of the virus and in the medium term to **trigger the structural transformation that African economies require**
 - ⇒ **Skills development** is key to transform informal business to real small business, generating regular income, creating jobs, with a long term vision

C. Do not copy Western countries, use African specificities

- **Important to not copy Western countries.**

For example African countries shall not close fully schools because remote learning is not always possible or difficult to implement for technical, practical or cultural reasons. It is better to try to organize rounds with small group of kids in some situations and develop related technologies and training for the future.

- ⇒ Think by yourself
- ⇒ Not always rely on “International experts” but also African experts
- ⇒ Use African human resources
- ⇒ Support African research
- ⇒ Leverage on African values

STRUCTURAL CHANGES REQUIRED

A. Debt management

- **Heavy loan repayments constrain a country's ability to make decisions in the interest of its development. The result is tighter austerity.**

It is these conditions that some economists blame for many African countries' socio-economic problems in the first place, pre-coronavirus ([C19 People's Coalition](#)). Repaying loans they can barely afford has **led to cuts to social spending and health for many African countries that will prove disastrous in the face of the pandemic.**

- On top of **increased expenditure** and **collapsing tax, non-tax, and foreign exchange earnings**, countries are also experiencing disorderly **capital flight** because of extreme risk aversion by investors. Indeed volatile market movements and widening spreads on African sovereign bond yields, making **African debt instruments riskier and pricier to investors.**
 - The continent currently has a total external and domestic debt stock of \$500-billion. Debt was a problem across all middle and low-income countries before Covid-19, and the pandemic exacerbated the problem. The International Monetary Fund (IMF) is projecting that **gross public debt for these countries (both domestic and external) would reach an average of 55.7% of GDP in 2020** ([Gelpern, Hagan, Mazarei, 2020](#)).
- ⇒ **Servicing debt does not save jobs**, without which we don't have an economy, **which would erupt in political and social instability** – a scenario that will prove far more costly.

- ⇒ Governments need to actively **seek new debt repayment moratoriums** from private, bilateral and multilateral creditors.

Thus, in response to the crisis the G20 has agreed to freeze at least 76 poor countries' debt repayments while the IMF committed to a six-month standstill for 25 countries, most of them in Africa (IMF, 2020).

- ⇒ Governments need to actively **promote new financing models** for country projects related to health, water, energy: PPP, JV, Project Finance

This is all the more important that many traditional debt/help received goes to State Owned Companies and real use and effectiveness of the funds is unclear

- ⇒ Governments need to actively upgrade fiscal systems: harmonization, reliability and control through technology, simplification of processes, analysis of current exemptions....

B. Collaboration and coalitions: AfCFTA

- **The African Continental Free Trade Area (AfCFTA)** presents an opportunity to forge greater economic relations between African nations with a focus on inclusive and sustainable growth ([Mayaki, 2020](#)).
- The agreement has been signed by 54 African nations to date. The envisioned tariff-free, intra-continental market **would boost business growth, industrialisation and create jobs**. Currently, intra-Africa trade accounts for less than 16% of total continental trade.
- **Trade requires infrastructure of all kinds, transport, telecommunications and finance**. The African Development Bank estimates an extra \$40-billion annual investment to set the initiative in motion ([Makhubela, 2020](#)).

- One of the first priorities is for African business to speed up its digital transition to improve connectivity and access to virtual market platforms.
 - ⇒ Relaxing trade tariffs was initially planned over a five-year period but the **urgent need for economic regionalisation, brought into acute focus during Covid-19**, highlights the need to accelerate these kinds of barriers.
 - ⇒ **AfCFTA could be a shock absorber in a global recession.** But African leaders would need to consider “inclusive and sustainable” growth beyond preferential procurement and the ability to pay back loans.

Low-carbon industries and energy, smart and innovative resource use, gender equity, agroecological farming and urbanisation trends are the kinds of issues that must be considered if future generations are going to survive crises yet to come.

C. Energy services

- The pandemic is now spreading across Africa, home to the majority of **those who live without electricity**. Only 43% population is electrified and only 28% of healthcare facilities benefit from reliable electricity. 65% of schools do not have reliable electricity and distance learning is not developed.
- **Energy services are key to preventing disease and fighting pandemics** - from **powering healthcare facilities and supplying clean water** for essential hygiene, to enabling **communications and IT services** that connect people while maintaining social distancing.

- Economic conditions due to Covid-19 make it harder for low-income customers and businesses to pay their electricity bills, threatening them with disconnection.
- African utilities, already under financial strain, may struggle to provide basic services. Young companies operating mini grids in often rural locations, and providing off-grid solar services to an increasing share of the African population, could face financial hardship or even insolvency.

⇒ **The first priority is to fast-track electricity access** for healthcare facilities and health workers, and critical government operations.

Flexibility and innovation are key: modular solar with battery energy storage systems can be deployed quickly to underserved and rural health clinics, as well as for pumping and treating water to ensure hygiene. Off-grid solar systems are cleaner, more reliable, and often cheaper than existing diesel generators.

Private sector interventions can deliver quickly deployable mini-grids and off-grid systems to hospitals, health clinics and other essential public institutions – to improve reliability or provide new access.

SOLUTION FOR RECOVERY

A. Innovation

- Paul Kagame, president of Rwanda, the first country in Africa to impose a lockdown to combat coronavirus, said that without coordinated action and **innovation**, some economies on the continent could take “a generation or more” to recover from the shock of the pandemic.

- Africa Continental Free Trade Area secretary-general Wamkele Mene said he had gone back to the drawing board to review his priorities post the COVID-19 pandemic and **digital trade** may be the only way to awaken the sleeping giant.
- **Technology has become front and centre in so many everyday issues. African digital players are very active during the current crisis:** development of applications for medical teleconsultations, mobile payments, videoconferencing, detection and reporting of vulnerable people...
- The crisis, lockdown and restrictions represent a formidable opportunity to boost even further **Ecommerce** on the continent
 - ⇒ **Innovations are creating new business activities during the crisis or maintain a minimum level of activity to avoid sharp economic fall**
 - ⇒ **Innovations developed to face the crisis can be adapted, and enhanced to be applied to other sectors and domains in the future to contribute to develop the continent**

Examples:

➤ **Ecommerce**

Essential to cope with lockdown and restrictions measures. This economy could be boosted in the current context

➤ **Drones**

A Californian company that delivers vital medical supplies by drone in Rwanda and Ghana is now providing clinics with PPE and coronavirus test samples. The drones can deliver up to 85 km away, and arrive within 30 minutes. Drones also used in China and Chile during the COVID-19 outbreak.

US medical drone company has been getting blood and medical products to rural clinics and hospitals in Africa for several years – and is now focusing its attention on the battle against COVID-19.

Drones technology can be later used for delivery of online orders like Amazon packages or used in agriculture (already started)

- Teleconsultation

Could be further extended from Healthcare sectors to education, services...

- Mobile payments

Mobile payments are essential to cope with lockdown and restrictions measures. In a relatively early move, some telecommunications operators - including in Kenya, Rwanda, Zambia and Ghana - removed fees on smaller mobile money transactions to discourage people from handling cash. Other payment platforms have followed, making digital payment services more freely available.

This technology and implementation could be boosted in the current context

- Protection for farmers

UN Votes Moroccan Innovation Best COVID-19 Protection for Farmers

[Cosumar Group](#), a leading manufacturer of white sugar in Morocco, created Attaisir with a Moroccan startup in 2019 to respond to **challenges of cultivating and harvesting sugar crops**, particularly sugar cane and beet.

By digitalizing the processes of cultivation and harvesting, the innovation facilitates the management of key stages of cultivation. [Cosumar](#) estimates that 80,000 of its strategic partners—farmers growing the sugar plants—benefit from the initiative.

After the introduction of the state of health emergency on March 20, **Attasir's functionalities allowed for remote monitoring of a fleet of more than 2,000 GPS-linked agricultural machines.** The system ensured a continuous supply of the national sugar market while minimizing the risk of contamination and strictly respecting the social distancing rules.

The Agency for Agricultural Development of Morocco (ADA) intends to use Attasir as inspiration for transforming other agricultural projects to allow small farmers to benefit from agricultural digitalization. Digitalization occupies a prominent place in the "Generation Green" strategy for the agricultural sector, aimed for development in the years 2020-2030.

B. Training

- **There is need to invest in youth and produce skilled population:** a skilled person capable of **turning challenges into enterprise opportunities** is four times the value of produced capital and 15 times the value of natural capital.
- The median age in Africa is 19 -- and there are an estimated 80 million young people in vulnerable employment and a further 110 million who do not contribute to the economy, according to McKinsey & Company.