Introduction

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This eBook summarises recent research on the economic effect of the Covid-19 pandemic in Africa. The chapters cover a wide array of topics focusing on the response of firms, households, governments, and international organisations.

With the exception of some flashpoints in Northern and Southern Africa, the continent has been largely spared from the direct health effect of the pandemic. However, the African economy has been significantly hurt by the economic consequences of Covid-19, which piled on other ongoing calamities such as the locust crisis devasting crops across the continent. Economies in the continent are heavily dependent on commodity exports, foreign direct investment, remittances, aid as well as tourism – a sector which has been devastated by the pandemic and is unlikely to recover quickly (Djankov 2020).

Revised growth forecasts by the African Development Bank and the International Monetary Fund show that Africa is experiencing its first recession in a quarter of a century. Over 2010–19, average real GDP growth in the African continent was close to 4%, lower than that of Asia but well above average growth in the advanced economies and in other developing and emerging economies in Europe and Latin America and the Caribbean (Table 1). Before the explosion of the pandemic, 2020–21 growth was expected to remain close to 3.5%, but the most recent forecasts suggest that the continent will have zero growth over 2020–21. Given the continent high population growth, this will lead to a 2.5% contraction in GDP per capita.

TABLE 1 AVERAGE REAL GDP GROWTH (%)

	Advanced economies	Emerging and developing economies			
		Africa	Asia	Europe	Latin America and Caribbean
2010-2019	2.01	3.9	7	3.1	2
2020-2021 (October 2019 forecasts)	1.6	3.4	5.8	2.5	2.1
2020-2021 (October 2020 forecasts)	-1.10	0	2.9	0	-2.5
Difference between 2019 and 2020 forecasts	2.70	3.40	2.90	2.50	4.60

Source: Own elaborations based on IMF WEO data.

While the impact of the pandemic on GDP growth is similar across world regions (for a discussion of the impact across developing regions, see Djankov and Panizza 2020), we focus on Africa because of its high prevalence of extreme poverty. Extreme poverty rates in sub-Saharan Africa dropped from about 60% in 2000 to about 40% in 2018, but the prevalence of extreme poverty in the sub-continent remains much higher than in any other part of the world. Recent estimates suggest that the region will be responsible for nearly one-third of the increase in extreme poverty associated with the pandemic (Valensisi 2020).

At the time of writing, the world is experiencing another wave of Covid-19 infections. While several vaccines are starting to be commercialised and distributed globally, Africa faces uncertainty over the logistical and financing challenges associated with a large vaccination campaign. COVAX – an international facility co-led by Gavi, the Coalition for Epidemic Preparedness Innovations, and the World Health Organization – aims at accelerating the production of Covid-19 vaccines and guaranteeing access for every country in the world, with the objective of vaccinating at least 20% of the population of every country by the end of 2021. The 20% target is both ambitious and underwhelming. Ambitious because of the various challenges related to the production, distribution, and financing of Covid vaccines; underwhelming because 20% of vaccinated people will not be sufficient to bring back economic activity to pre-crisis levels, even if the target is reached.

Besides logistic challenges, one key issue relates to the international pricing of vaccines (Gavi 2017). While a temporary suspension of patents could allow generics to be produced and distributed to developing countries quickly, this strategy has proven to be contentious in the past. The global community has so far been unwilling to adopt it, even if the payoff for action is large. Previous experience in fighting smallpox suggests that the benefit–cost ratio of its eradication exceeded 400 to 1 (Barrett 2007).

Beyond clearing the immediate hurdles of vaccine financing, Africa has large needs to finance its basic development plans, whether it is for health, education or infrastructure. While these development plans predate the pandemic, Covid has added urgency to these tasks.

After an initial phase of lockdowns, most African countries started preparing for a post-pandemic economic recovery characterised by eased lockdowns and fiscal stimulus measures. However, expansionary policies are constrained by debt sustainability concerns. The recent sovereign default of Zambia has propelled the issue of debt distress to the forefront of the policy debate in Africa. The nature of African debt, in particular the dependence on bilateral debt from China in some countries like Angola and Senegal, is attracting the attention of the international community with the long-term objective of fixing the international debt resolution architecture and the more immediate aim of providing the means and instruments for African economies to recover from the pandemic.

Regional policy and institutions is one way to make the continent's pent-up demand become a key driver of growth (Freund 2010, Freund and Ornelas 2010). Coordination of policies around trade, taxation and competition, but also fiscal rules, can improve economic governance. Regionalism may also be the easiest path to reduce the high level of informality among African businesses, as it will encourage trade across countries and with it the formalisation of firms (Gottlieb et al. 2020, Nonvide 2020).

A final word of caution: some political leaders in Africa may be underestimating the prospects for a delayed but massive spread of the Covid-19 virus on the continent. Existing data underestimate the disease's prevalence, and the newly found variants of the virus may lead to Africa running into further difficulties. With the rest of the world taming the disease with concerned efforts, Africa could become the new reservoir. This scenario has to be avoided with decisive policy actions.

BUSINESS AND HOUSEHOLD RESPONSES

The first part of the eBook focuses on business and household responses. It starts with a comprehensive firm-level analysis by Davies, Nayyar, Reyes, and Torres. The authors use surveys conducted by the World Bank Group to study how firms are affected by the pandemic. They find that firms in sub-Saharan Africa report a higher degree of uncertainty and worse access to government support programmes compared to firms in other emerging economies.

In the second chapter of this section, Djankov and Evans show that there is substantial heterogeneity across firms in Africa. By using simple accounting measures to estimate the share of private manufacturing firms in financial distress under a hypothetical scenario of losing half their sales, they find that larger and older firms tend to be more resilient, and that these effects are particularly important in West Africa.

In the next chapter, Byrne, Karpe, Kondylis, Lang, and Loeser focus on sectoral heterogeneity. Using high-frequency administrative tax records from Rwanda on firm sales and employment, these authors show that, while the initial shock impacted sectors in which in-person work was most necessary, the sectors in which face-to-face interactions with consumers are most necessary continue to experience a protracted recovery.

Foreign direct investments are a significant source of external finance for many African countries. Chaudhary, Santos-Paulino and Trentini show that the pandemic led to a dramatic decline in FDI flows to Africa as lockdowns slowed existing investment projects and the prospect of a protracted recession led investors to reassess new projects. There is, however, substantial heterogeneity across countries and sectors, and the authors also highlight that the Covid shock could steer policy reforms which, in turn, could unlock the potential of growth promoting regional value chains.

Several African economies are characterised by an important presence of state-owned enterprises (SOEs). In Chapter 5, Gaspar, Medas and Ralyeaargue suggest that well-run and financially sound SOEs can promote a more inclusive economic recovery. However, this positive role of SOEs requires a set of comprehensive reforms aimed at improving the transparency and accountability of their operations and of the relationship between SOEs and the government.

In Chapter 6, Arezki, Froidevaux, Huynh, Nguyen, and Salez use big data analysis to explore the effect of the pandemic on tourism in Africa – a sector upon which many countries in the continent depend heavily. The authors convincingly argue that restarting tourism is a priority for public policy and that investing in travel safety and health standards, including vaccines, will reassure international investors that Africa is open for business.

The final two chapters of this first section focus on households. Furbush, Josephson, Kilic, and Michler provide evidence on the evolving socioeconomic impacts of the pandemic among households in several African countries. They find that while households are starting to see recovery in income, business revenues, and food security, these gains have been relatively modest. Households report having received little government assistance and that their ability to cope with shocks remains limited. School closures have created a vacuum in education delivery and school-aged children have struggled to remotely receive education services.

In Chapter 8, Adjognon, Jeong, and Legovini use a panel of household surveys to show that the pandemic did not have a large impact on food security in a group of African countries. The authors argue that a relaxation of lockdown measures and, somewhat in contrast to the results of the previous chapter, a scaling-up of social protection programmes might have offered protection to vulnerable populations and provided a demand stimulus for the rest of the economy. Exploring geographical heterogeneity, the authors observe differential rural and urban trends, with rural households doing relatively better than those who reside in urban areas.

INTERNATIONAL FINANCING

The second section of the eBook focuses on access to international finance, patterns in international borrowing, and country-specific experiences.

In the first chapter of this section, Arezki explores ways in which international development banks can rethink their role in rebuilding the global economy. He points out that, as the balance sheets of multilateral and regional development banks are relatively small compared with the size of the global economy, these institutions quickly encountered limits to their abilities to deploy resources to ameliorate the consequences of the Covid pandemic. Arezki suggests that several levers, including supporting regionalisation, upstream reforms, and accelerating resources mobilisation through a decisive shift in the financial sector incentives, could achieve better development outcomes even with limited resources.

In chapter 10, Duggan, Morris, Sandefur, and Yang compile a new dataset on World Bank lending aimed at comparing the World Bank's Covid response to its response during the global financial crisis (2009–2011). They find that lending commitments have accelerated in 2020, but actual disbursements did not grow by much and that aid remains small relative to the scale of the crisis.

About 20% of public and publicly guaranteed external debt issued by countries in sub-Saharan Africa is owed to China. This makes of China the second largest official creditor to the sub-continent (just behind the World Bank group), and for many countries in the region, China is the largest external creditor. However, not much is known about Chinese lending to Africa. In Chapter 11, Brautigam and Acker provides details on the composition of Chinese lending. They show that there are more than 30 Chinese lenders operating in the region, including at least 20 non-financial firms and nine banks. Chinese loans typically finance infrastructure, with 70% of total lending going to just four sectors: transport, electric power, communications, and water.

The pandemic has propelled the issue of debt distress to the forefront of the policy agenda. In chapter 12, Bolton, Gulati, and Panizza describe Africa's debt situation and discuss some options for providing temporary legal protection to debtor countries in the event of a global debt crisis. They provide empirical evidence suggesting that it is unlikely that their proposal, if implemented with care, would have significant negative repercussions for the functioning of the global debt market.

In chapter 13, Hausmann and Goldstein focus on the experience of three countries in sub-Saharan Africa: two middle-income countries (South Africa and Namibia) and one low-income country (Ethiopia). The authors point out that there are factors that slow down transmission of the Covid-19 in poorer countries. However, low-income countries cannot rely as much on their healthcare systems when their citizens get sick, and their governments have much smaller fiscal space to absorb tax revenue declines or to expand spending in the event of a crisis. The authors also explain that the fact that poor countries are more rural does not mean that the virus will not eventually reach there, and when it does, it will spread more easily given the larger size of the average household as well as more limited access to water and healthcare. The three cases also show the importance of international cooperation, knowledge creation, and financial support.

The final chapter in the eBook, by Professor Jamal Haidar, documents how the Covid-19 pandemic has drastically disrupted people's lives, livelihoods, and economic conditions in Egypt. The global shock has resulted in a tourism standstill, significant capital flight, and a slowdown in remittances, resulting in an urgent balance-of-payments need. Egypt responded to the crisis with a comprehensive package aimed at tackling the health emergency and supporting economic activity. The Ministry of Finance acted swiftly to allocate resources to the health sector, provide targeted support to the most severely impacted sectors, and expand social safety net programmes to protect the most vulnerable. Similarly, the Central Bank of Egypt adopted a broad set of measures, including lowering the policy rate and postponing repayments of existing credit facilities. These measures have yielded positive responses by households and businesses, but further steps are needed to tame the virus and return the economy to a growth path.

REMAINING UNCERTAINTIES

There is much that remains uncertain in how the Covid-19 pandemic is affecting business and government finances in Africa. The major uncertainty lies in the development of the virus, with new variants emerging in several parts of the world (Brazil, South Africa, the UK). Addressing these variants of the virus may involve the use of booster vaccines, which in turn would take additional time and money. Second, the ability of governments even in advanced economies to administer the vaccine has been put to the test, so far with mixed results. This implies that various lockdowns and restrictions may be with us for many months to come. The longer the period of dealing with the virus, the more strain on households and businesses.

The second consideration is the ability of international financial markets to finance the recovery. Fiscal stimulus packages already account cumulatively for between 25% and 40% of annual GDP in G7 economies. These packages are financed with substantial borrowing, which may soon start driving up interest rates, imposing further financial burdens on developing economies. The resources of aid agencies and multilateral and regional banks are already stretched, and demand for their assistance is likely to only increase in 2021–2022. More research is needed to identify potential sources of global financing.

Third, the behaviour of commodity markets will impact the shape of the recovery in Africa. It is likely that a sustained global recovery, especially in China and India, will lead to a significant bounce back in oil and other commodities, in turn improving the African outlook. This trend may in fact delay reform to achieve diversification of the African economies. Arezki et al. (2020a) provide novel evidence that crises can be an opportunity for reforms in countries with more open societies where public debate around reforms naturally feeds into actual reforms. Covid-19 provides such an opportunity for debate on how to address the structural impediments to more prosperous societies.

Fourth, women in the workforce are particularly affected by the spread of the virus, and governments need to tailor recovery responses to ensuring that as many jobs held by women as possible are preserved. Research has emerged on why the pandemic has affected the gender gap in labour force participation, which measures the difference between the share of women employed or actively looking for work relative to the share of men. Using employment data from OECD countries, Alon et al. (2020) and Hyland et al. (2020) identify two channels through which Covid-19 has expanded the gender gap in employment. The first is the occupation channel, with women overrepresented in the sectors hard-hit by the lockdown measures adopted to curb the spread of Covid-19. The second is the childcare channel, with the extra caregiving responsibilities brought about by school and childcare closures falling disproportionately on working mothers' shoulders. Preliminary analysis of the effect of the Covid-19 pandemic on the employment of women in African countries has also begun to emerge.

Finally, the political economy of continued Covid-related restrictions is shifting, as businesses and households are feeling financial pressures. The large share of informality in Africa makes it difficult to impose hard lockdowns also considering individuals are living from hand to mouth and are largely excluded from social protection schemes.

Advanced economies, especially in Europe where more protracted lockdowns were imposed, have faced protests. In spite of their lower infection rates, African countries could face new waves that make it more difficult to contain the virus given their limited social buffers. What's more, the global race between vaccination – to reach herd immunity – and the spread of the virus will likely cause more political turmoil as citizens demand government accountability for their response to Covid-19.

Building on existing literature, Arezki et al. (2020b) show evidence that adverse exogenous shocks, such as international commodity shocks, lead to a reversal of fortune for political incumbents. In sum, the political ramifications of Covid-19 will largely depend on the ability of governments to first and foremost to contain the virus and its socioeconomic fallout. The politics of dealing with such discontent is a fascinating new piece of the Covid recovery puzzle in Africa.

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