AFRICA INSIGHTS

2nd Edition, April 2020

POST COVID-19 CRISIS PATHWAYS: CHOICES FOR AFRICA’S ENDURING ECONOMIC RECOVERY
Note from our Chairman and Senior Partner

Africa is a vast and diverse continent that at ordinary times offers an extraordinary range of economic, social and political material warranting in-depth analysis. These are not ordinary times, as was patently clear while preparing this second edition of our Africa Insights series in collaboration with Stellenbosch University’s Centre for Complex Systems in Transition.

While we intend to cover a range of different issues of importance to our clients throughout the year, we cannot avoid following up our first edition, which focussed on the immediate impact of the COVID-19 pandemic across our continent. This edition of Africa Insights takes the next step by looking ahead to the longer term impact of the resulting global economic crisis.

Some important themes are highlighted, including the problem of debt, the urgent need for trade tariff relaxation and economic regionalisation in Africa, and calls for the strengthening of countries’ social protection systems. Offsetting the somewhat sombre perspectives around debt and income decimation are glimpses of opportunity in sustainable businesses and industries.

Much of our work in the coming months will involve supporting our clients as they emerge from economic lockdowns across multiple jurisdictions. We have included the names of the managing partners of each of our offices at the end of this publication and invite you to make contact with them to discuss how they might assist.

We hope the analysis and insights provided in this edition will prove helpful in dealing with the challenges and unlocking opportunities in a world transformed by the pandemic. Any feedback you might have would be most welcome in informing future editions in our Africa Insights series.

Robert Legh
Chairman and Senior Partner
Introduction

COVID-19 is now an irrevocable part of living and dying and it seems disingenuous to imagine a ‘post’ coronavirus era. Epidemiologists suggest that this virus will need to be folded into the way we ‘do life’ from now on.

So what does that mean for African economies, considering the ways countries have responded so far to the demands of navigating a health and economic crisis?

Africa is poised to lose 30 million jobs and a third of the continent’s countries are at risk of debt distress. 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. The World Bank has gone further to model two scenarios of economic decline in Africa for 2020. Figure 1 below plots a severe crisis in blue and a catastrophic crisis in orange, while the green is a reference value for growth modelled before COVID-19.

As infection rates steadily increase on the continent, aggressive measures adopted by many African nations to slow and prevent the spread of the pandemic have included lockdowns, curfews and travel bans.

The logic is that flattening the curve reduces the pressure on health systems and buys time to better prepare for later spikes in infections. This time is being used to bolster stocks of medical equipment and adequately resource facilities and healthcare personnel.

African leaders are appealing for help in this effort, requesting debt relief, emergency funds and high levels of cooperation between international finance agencies. Embedded in these requests is the appeal to break with orthodox, punitive lending policies in the hope of getting through the worst of the pandemic on the continent and emerging with resources enough to cope with the aftermath.

This article considers some of the options that will not flatten the economic curve, such as scaling up welfare systems, reimagining lockdown regimes and negotiating debt and loans from international agencies – all while maintaining a very delicate balance between crisis responsiveness and long-term sustainability in an era of coronavirus.

What is becoming abundantly clear during COVID-19 is that business depends on a healthy society that is not subject to the brutality of inequality and poverty. This brings into sharp focus the need for a robust welfare system to buoy a very unstable global economy.

**Effect of COVID-19 on Sub-Saharan Africa’s growth rate (real GDP annual growth rate, %), 2020**

<table>
<thead>
<tr>
<th>Annual Growth (%)</th>
<th>Scenario 1: Severe crisis</th>
<th>Scenario 2: Catastrophic crisis</th>
<th>Scenario 3: Reference (no COVID)</th>
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<tbody>
<tr>
<td>4</td>
<td>-2.5</td>
<td>3.2</td>
<td>-5.1</td>
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<tr>
<td>3</td>
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Social Protection

The most resounding cry by social justice activists across many African states has been the demand for a universal basic income grant (UBI) and increases to existing social protection schemes in the face of the COVID-19 crisis. Social protection measures include conditional and unconditional cash transfers, school feeding schemes, public works programmes, subsidised micro-finance, fee waivers, market price controls and policy changes.

Assisting to alleviate household poverty and providing food security are the primary drivers behind these calls. The effects of stringent aversion behaviours to contain COVID-19 have been devastating, resulting in the loss of income and the collapse of the informal sector where 66% of working Africans are employed.

Food prices have also climbed during this period due to unscrupulous retailers, as well as higher value chain costs. Researchers in South Africa estimate that food poverty rates could more than double over a three-week lockdown period for households dependent on the informal labour market.

The burden of malnutrition and social unrest is not viable for longer term economic prospects. Social justice organisations across and Kenya, Lesotho, Namibia and South Africa are advocating for greater social protection to achieve two primary aims:

1. Support social distancing measures
2. Support families to emerge and recover from the COVID-19 crisis.

As economies contract, the need to ensure income rises, strengthening the argument around a UBI. Income is crucial when we acknowledge consumer spending as a central determinant to a country’s gross domestic product and its role in keeping companies profitable by creating demand, even if only for essential goods and services.

UBI is part of fiscal policy, a permanent welfare intervention that is financed through a host of sources – which means it is going to cost the fiscus. This kind of social protection is very different from ‘helicopter money’, a temporary stimulus that is part of monetary policy designed to inject a cash supply into the economy.

One such example is the once-off income payment that Namibia has implemented to support households that have lost income due to COVID-19. Helicopter money is usually once off, financed by printed money and in some instances having a destabilising effect over the long term, especially in a crisis environment where all the usual elements won’t ‘return to normal’ for a while.

Helicopter money also has the potential to raise beneficiaries’ expectations that the cash injection will become a permanent feature, which in some cases it has become, but there is no guarantee.

As at 10 April 2020, 126 countries across the world had introduced or adapted their social protection programmes in response to COVID-19, including both helicopter money and extended benefits to existing grants.

In Sub-Saharan Africa, 22 countries have made changes to their welfare programmes, largely driven by fee waivers for utilities (almost all 22), in-kind transfers (seven countries) and cash transfers (five countries). The illustrations below show how countries across the globe have embraced social wellbeing as central to their economic concerns, reflecting nutrition, health and work as having economic value.

**INFORMAL SECTOR**

66%

COVID-19 has been devastating for loss of income and the collapse of the informal sector where 66% of working Africans are employed.

**WELFARE PROGRAMME**

22 COUNTRIES

In Sub-Saharan Africa have made changes to their welfare programmes.
Ethiopia, Kenya, Lesotho, Malawi, Mauritius, Mozambique, Namibia, Rwanda and South Africa all have strong social protection infrastructure.

Since biometric and other verifications are not possible during lockdowns and other social distancing restrictions, increased benefits can be channelled to already registered beneficiaries. No extra investment is needed to reach the countries’ most vulnerable, only the political will to extend social support on existing grant systems.

South Africa has substantially increased the child support grant and added a marginal top-up on all other grants for the next six months in an attempt to address hunger and financial distress for at least 13 million citizens.

Mauritius is one Sub-Saharan country with a high investment in social protection, allocating 9.3% of GDP compared to the region’s 4.5% average. Only Botswana, Djibouti, Lesotho and South Africa spend more than 6% of GDP on social protection.

Mauritius looks to be one of the African countries that could weather the COVID-19 crisis more successfully than others thanks to its broad social coverage and timely policy responses. Countries in Central and West Africa that depend on commodity exports for national revenue and have limited cash transfer programmes will be the hardest hit by the COVID-19 economic downturn. These nations would most likely be the first candidates for international funding and aid.
The economic and social fallout being experienced in many African countries is a direct consequence of the severe measures they have taken to curb the pandemic. Ghana, Kenya, Rwanda and South Africa have acted decisively but the suitability and effectiveness of those decisions are being criticised for not being contextual enough. Researchers, some health workers and economists say the measures are commensurate with international experience but are not sensitive to the structural features of African economies.

The International Labour Office puts informal employment in Sub-Saharan Africa at 89.2% of all employment. These workers do not receive benefits such as paid leave, health and unemployment insurance. Thus, a lockdown or severe social aversion can effectively decimate the subsistence of their households. The suggestion is not for African leaders to make a choice between saving lives or jobs, but to implement measures that achieve both. Academics argue that lives and jobs are not trade-offs but part of a coherent whole.

Social protection builds more resilience when weathering a crisis and makes for a more enduring recovery. Studies by the Economic Policy Research Institute show that South Africa’s social grants reinforce developmental impacts, improving household nutrition, education, health and access to vital services.

Traditional economic theory suggests that social grants may undermine labour force participation by reducing the opportunity cost of not working. Evidence from South African social grants shows that households receiving social grants is correlated with a higher and faster success rate in finding employment.

Impact of COVID-19 on Africa sub-regions, 2020
Source: Staff construction using the CGE model

<table>
<thead>
<tr>
<th>Scenario 1</th>
<th>Scenario 2</th>
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<tbody>
<tr>
<td>West</td>
<td>Central</td>
</tr>
<tr>
<td>East</td>
<td>Southern</td>
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</table>

Impact of COVID-19 on Africa sub-regions, 2020
Source: Staff construction using the CGE model

The Logics of Lockdown for Africa

The economic and social fallout being experienced in many African countries is a direct consequence of the severe measures they have taken to curb the pandemic. Ghana, Kenya, Rwanda and South Africa have acted decisively but the suitability and effectiveness of those decisions are being criticised for not being contextual enough. Researchers, some health workers and economists say the measures are commensurate with international experience but are not sensitive to the structural features of African economies.

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While Valodia, Veller and Sachs embrace the imposition of an initial lockdown, they say evidence shows that low infections due to initial containment are only temporary and that cases rebound if there is no strict regimen of community screening, isolation for positive cases and quarantine for contacts.

An abrupt end to severe containment is therefore not a wise option. An alternative is to implement short- and medium-term risk-based public health and economic strategies that allow the resumption of some economic activity in sectors that present a lower risk for infection. These sectors would include highly automated factories and services provided to less-vulnerable populations, such as child-care facilities.

This approach is best described by scenario three in the table below, which suggests relaxing containment and protecting the most vulnerable until 60% of the population achieves community immunity. This phased approach is seen as a more sustainable way to combat COVID-19 and is being advocated by German researchers as well as academics in the Indian state of Kerala.
### Typology of Interventions and Risks

<table>
<thead>
<tr>
<th>Intervention</th>
<th>Health Risks</th>
<th>Economic Risks</th>
</tr>
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<tbody>
<tr>
<td>1. Relax lockdown measures completely and return to normal.</td>
<td>Resurgence of the virus with similar consequences to an unchecked epidemic, especially when there has been limited testing to identify and isolate infectious cases, and quarantine of their contacts during the lockdown period.</td>
<td>The rise in infections will affect the population and economic costs will be high. Large numbers of workers will be infected, death rates will increase and health expenditure will be significant. Livelihoods will be undermined.</td>
</tr>
<tr>
<td>2. Continue lockdown to limit community transmission and ensure case rates remain low until a vaccine is introduced.</td>
<td>Succession of partial or full lockdowns until a vaccine is available.</td>
<td>Significant further costs to the economy, estimated at up to ZAR 24 billion per day. Massive increase in unemployment and livelihoods undermined. Government expenditure will need to increase significantly.</td>
</tr>
<tr>
<td>3. Relax some measures and manage infections in a very controlled manner while protecting the vulnerable, until community immunity emerges, or a vaccine is introduced to accelerate community immunity in approximately 60% of the population.</td>
<td>Careful control required to ensure low risk of infection of the elderly (&gt;65 years) and other high-risk groups.</td>
<td>Economic costs will be high but less than in (2) above. Costs of testing and isolation will increase. Livelihoods will be affected but not completely undermined.</td>
</tr>
</tbody>
</table>

These researchers believe that a phased approach towards achieving majority community immunity while increasing testing is better than a generalised lockdown as it protects healthcare professionals and reduces stress on the healthcare system. It also allows space for other healthcare services such as maternity, vaccinations and HIV and AIDS, as well as other potentially neglected comorbid diseases. Increased livelihood opportunities and access to food and education are also more likely and the economic costs are lower.
Scaling up welfare systems and COVID-19 health responses within a short timeframe is not possible for all African countries. This is an acute reality as tax revenues fall during the pandemic, along with national earnings from commodities such as oil and minerals.

The continent currently has a total external and domestic debt stock of USD 500 billion. Debt was a problem across all middle and low-income countries before the COVID-19 pandemic, which has 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.

The graph opposite shows that the share of public debt in foreign currency is larger than in local currency in nearly half of African countries. This makes them even more vulnerable to sharp exchange rate fluctuations.

South Africa’s public debt may be in domestic currency but is often held by foreign investors who participate in local securities markets. This could precipitate a sudden outflow which would depreciate the rand against major currencies.

Building regional solidarity has been a top priority for African leaders. The African Union has announced a team of Special Envoys from Côte d’Ivoire, Nigeria, Rwanda, and South Africa to solicit support as pledged by the EU, G20 and international finance institutions. African Union Chair and President of South Africa, Cyril Ramaphosa, has made it clear that the continent needs the help of the international financial community on generous terms:

“In the light of the devastating socio-economic and political impact of the pandemic on African countries, these institutions need to support African economies that are facing serious economic challenges with a comprehensive stimulus package for Africa, including deferred debt and interest payments.”

(President of South Africa, Cyril Ramaphosa, African Union, 2020).
In response, the G20 has agreed to freeze at least 76 poor countries’ debt repayments while the IMF has committed to a six-month standstill for 25 countries, most of them in Africa (IMF, 2020). IMF Managing Director, Ms Kristalina Georgieva, says:

“... I am pleased to say that our Executive Board approved immediate debt service relief to 25 of the IMF’s member countries under the IMF’s revamped Catastrophe Containment and Relief Trust (CCRT) as part of the Fund’s response to help address the impact of the COVID-19 pandemic.”

The IMF has been approached by over 90 countries for emergency relief during the COVID-19 crisis, illustrating that this is not an African problem, but a much bigger debt.

In March 2020, the IMF pegged the financial needs of developing countries at a conservative USD 2.5 trillion, a burden that will hamper the fight against the pandemic. Figure 5 below shows how constant the debt burden has been for developing countries over the past 20 years, with a decidedly upward trend.

IMF Chief Georgieva says they have USD 1 trillion full-lending capacity available (IMF, 2020). But before any of that money is released, IMF policy dictates that assessments must be made about whether the country’s debt is sustainable or not – a hard enough task when there is no pandemic! The evaluation criteria include a country’s record of repayment, economic performance, fiscal policy and political capacity to implement reform. If the IMF determines that a country member’s debt is unsustainable, it insists on conditions that eventually force the model to churn out a ‘sustainable’ verdict by initiating a debt restructuring programme.

It is these very conditions around loan repayments that constrain a country’s ability to make decisions in the interest of its development. While it remains beholden, the result is tighter austerity. Some economists blame these conditions for causing many African countries’ socio-economic problems in the first place, pre-COVID-19.

Repaying loans they can ill afford has led to cuts to social spending and health for many African countries and will prove disastrous in the face of the pandemic. An example is the austerity measures in Mozambique in the wake of cyclone Idai in 2019. The country was in debt distress and having to rebuild after the natural disaster but calls for debt forgiveness went unheard.

Activists, economists and even some African leaders argue that acquiescing to IMF loan conditions will reinforce neoliberal policies and further entrench the export of austerity when African economies hard hit by COVID-19 would need to restart.

Debt freezes allow African countries to support the private sector, especially small and medium-sized enterprises that are more likely to keep the wheels turning. Heavily indebted state-owned enterprises that are coloured by corruption, siphon money away from a more generative economic cycle and squeeze the state purse for COVID-19 responses.

Social justice activists in South Africa are calling for the annulment of loans that state-owned enterprises have incurred with international agencies, amounting to more than USD 3 billion. Servicing debt does not save jobs, without which no economy can survive. The resulting job losses would ignite political and social instability – a scenario that will prove far more costly.
Collaborations and Coalitions

Jobs in major sectors such as tourism, mineral exports and trade with China have been decimated and entire hubs of economic activity have been crippled. Oxfam predicts that 500 million people will be plunged into poverty in Sub-Saharan Africa.

As it is unlikely measures to contain COVID-19 will be relaxed substantially for several months in Africa, the AU cannot wait until the crisis is over to mobilise its resources for a more resilient post-crisis emergence. The unknown timeline as to when and how much will be resumed after social aversion measures are relaxed is more reason for Africa to look to itself for answers to mitigate a continent-wide economic collapse.

The African Continental Free Trade Area (AfCFTA) presents an opportunity to forge greater economic relations among African nations with a focus on inclusive and sustainable growth. The agreement, which has been signed by 54 African nations to date, envisions a tariff-free, intra-continental market that would boost business growth, industrialisation and create jobs. Currently intra-Africa trade accounts for less than 16% of total continental trade.

The African market: 1.26 billion people, US$ 2.1 trillion GDP

The graph below illustrates the benefits the AfCFTA could have by stimulating industrialisation and the extension of value chains. Trade between European nations sits at 69% while intra-

Asia trade is at 59%, showing just how under-developed African trade cooperation is.

Trade requires infrastructure of all kinds, particularly transport, telecommunications and finance. The African Development Bank estimates an extra USD 40 billion in annual investment is needed to set the initiative in motion.

One of the first priorities is for African business to speed up the 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 the COVID-19 pandemic, highlights the importance of accelerating the removal of these kinds of barriers.

AfCFTA could be a shock absorber in a global recession, making the continent an attractive proposition when the global economy turns around, but then African leaders would need to consider ‘inclusive and sustainable’ growth beyond preferential procurement and the ability to pay back loans.

If future generations are to survive the crises to come, the kinds of issues that African leaders must consider now are low-carbon industries that are energy smart and innovative in resource use, and that recognise the importance of gender equity, agroecological farming and urbanisation trends.
Conclusion

In the pandemonium of the pandemic, many considerations come to bear on decisions African leaders make now. Incurring new debt, entering into onerous lending conditions or stretching the fiscus beyond its capacity do not make for a resilient reality post the COVID-19 crisis.

It must be noted at this point that pandemic response measures that will prove the most effective during and after the crisis will be fiscal measures. While it is going to be a strain, investing now in health infrastructure, social protection and the bolstering of small business could offset these costs.

Pre-COVID-19, the overly financialised business sector preferred States that did not interfere in the market or impose regulation that disciplined capital. Now, in the midst of a crisis, it is a very different story. State leadership and directionality are key to keeping economies afloat.

Now is the time for governments to shape policy that invests in people, labour, research and wages - the tenets of real value in an economy that a shareholder business culture has resisted to obvious economic detriment in the COVID-19 pandemic.

Economist Mariana Mazzucato is insistent that fiscal support must come with conditions. One of them could be a zero retrenchment policy for companies receiving state bailouts or a commitment to building skills. Denmark and Poland have provided a good example of conditionalities and of disciplining capital by refusing to support companies registered in offshore tax havens.

COVID-19 is not the only crisis facing the planet; we also face ecological collapse due to resource depletion, climate change and ruthless development. Imagining a post-pandemic world means we need to be cognisant of this imminent threat, and prepare to build resilient systems that are just and sustainable.
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