Steps to inoculate African economies against the impact of coronavirus

By Chuku Chuku

15 May 2020

The curve of the coronavirus pandemic started to bend upwards in Africa only recently - just as the curve in the 10 most-affected countries around the world was flattening.

A member of the Nigerian Health Task Force fumigates a building in Abuja, Nigeria, as the city struggles to curb the spread of coronavirus. COVID-19 Photo by Kola Sulaimon/AFP via Getty Images

Policymakers in Africa must now absorb lessons from the experiences of other countries and avoid policy mistakes. Most importantly they need to implement a Covid-19 policy manifesto that is capable of inoculating African economies from the crisis and reigniting economic activities after the pandemic.

Such a manifesto would have to assemble all available levers of policy. This would require public health, fiscal, monetary, financial, labour market, environmental, industrial, regional integration, and social welfare policies.

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Public health policy is the first place to start. The Global Health Security Index shows that only 21 out of 54 African countries are somewhat prepared from a clinical perspective to deal with epidemic threats. The other 33 are completely ill-equipped.

Public spending

“The pandemic is no time for fiscal distancing,” the president of the African Development Bank, Akinwumi Adesina, recently noted. In other words, this is not the time to hold back government expenditure.

Fiscal policy needs to respond from both the expenditure and revenue sides. It can be used to cushion the impact of the shock and minimise economic dislocation – a dual objective of saving lives and livelihoods.

On the expenditure side, there needs to be urgent and generous spending on the health sector. This should happen regardless of how much room is in the budget.

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The pandemic offers policymakers an opportunity to build resilient health systems capable of withstanding the pressure from the pandemic and broaden access to health care. This can be achieved by:

- boosting surveillance and assessment through upgrading laboratory capacity required for testing and detection;
- efficient clinical management so that first responders do not become patients themselves, and
- maintaining essential services such as food and agriculture, energy, law enforcement and public works to speed up recovery.

Assistance should also be targeted at the most vulnerable groups.

Vulnerable groups

Women and young people are among the most vulnerable groups to suffer the impact of the crisis. Policymakers should therefore extend direct financial payments to informal sector and insecure women and young workers with families.

In addition, small and medium-sized enterprises should be helped to stay afloat. In Africa, more than 80% of economic activity is in the informal sector. Small and medium-sized enterprises are much more vulnerable to both demand and supply-side shocks from lockdowns. Hence governments need to use specific policies that target formal and informal sector enterprises.

Since a significant number of small enterprises in the informal sector avoid or do not pay taxes, more general policies beyond tax relief, such as deferrals on rent and utility payments, can be used to target this group. This was done in Côte d'Ivoire. Lump-sum subsidies in the form of monthly one-off allowances can also be used to support small enterprises and keep them afloat.

These additional expenditures will likely exceed revenues during the crisis. Governments must therefore have a fiscal recovery plan that would seek a careful balance between fiscal stimulus and fiscal consolidation: that is, tightly cutting back spending after the crisis.

Managing debt

Debt sustainability should continue to be the priority. Without a post-crisis fiscal consolidation plan, sovereign debt defaults – a situation where governments are not able to pay back their debt – might be the next pandemic.

Covid-19 will add to the debt burden of African economies and heightens the likelihood of a widespread and far-reaching sovereign debt crisis, if not properly managed.

Before the pandemic, the projected average gross public debt for the continent for 2020 was as high as 60% of GDP. The African Development Bank estimates that the additional financing needed to deal with the pandemic would range from $110bn to $154bn in 2020 alone. This could further push up already high debt levels by another five percentage points to 65% of GDP by the end of 2020.

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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. In turn this is fuelling volatile market movements and widening spreads on African sovereign bond yields, making African debt instruments riskier and pricier to investors.

This leaves governments unable to refinance maturing debt.

Although they have already sought debt repayment moratoriums from the World Bank and International Monetary Fund, African policymakers need to actively seek debt repayment moratoriums from private, bilateral and multilateral creditors.

The crisis forcefully supports the case for including state-contingent clauses that stipulate actions to be taken when a catastrophic event occurs in sovereign debt contracts. Crisis-contingent clauses in the debt contracts would have meant automatic debt relief for affected countries without the need to actively seek debt rescheduling by creditors. This model is already working well for Haiti whenever an earthquake occurs.

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Financial lifelines

Institutions such as the IMF, World Bank and African Development Bank have announced financial packages tailored to the Covid-19 pandemic. These facilities provide a lifeline to implement the Covid-19 policy manifesto and inoculate African economies from the devastating effects of the pandemic.

Policymakers should act quickly to save African lives and livelihoods.

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