



POLICY BRIEF

PB 20 - 19
March 2020

AFRICAN ECONOMIES POST COVID-19: BEYOND EMOTION, BOLD ECONOMIC POLICIES

By Mouhamadou Moustapha Ly & Fahd Azaroual

African Economies Post Covid-19: Beyond Emotion, Bold Economic Policies

" My son, I have passed on to you all my science, but there is one I do not have: that of predicting what will happen tomorrow. But only learn and remember from each situation, from each experience for they will happen again in the future. "

PRemarks by an African Sufi scholar to his son

Summary

Covid-19 has a far-reaching impact and is imposing a slowdown on the world economy, raising fears of the worst consequences on production, jobs and the immediate future of developing economies. Fiscal and monetary authorities around the world are engaging in policies to support their economies with unprecedented funds and initiatives. The African continent, also affected by the pandemic, is pursuing courageous economic (fiscal and monetary) policies, but the main question is what new directions should be given to these economic policies once the pandemic has been brought under control and health measures (e.g. containment) have been lifted? In this regard, we strongly recommend that governments continue their investment efforts in order to accelerate the closing of the infrastructure gap, which is decisive for the continent's economic growth. Employment and employability will therefore be important levers and governments will have to stimulate them to support the new post-Covid-19 economy.

The post-Covid-19 period will undoubtedly be an era marked by significant financing needs on the part of governments and large companies, which will mean a high risk of exclusion of SMEs/SMIs from the credit market. Consequently, central banks will have to put in place the right incentives to encourage the banking system to provide credit to African SMEs/SMIs, which are the cornerstone of any development policy.

The authors thank Youssef El Jai for his remarks. Any errors or omissions are the responsibility of the authors alone.

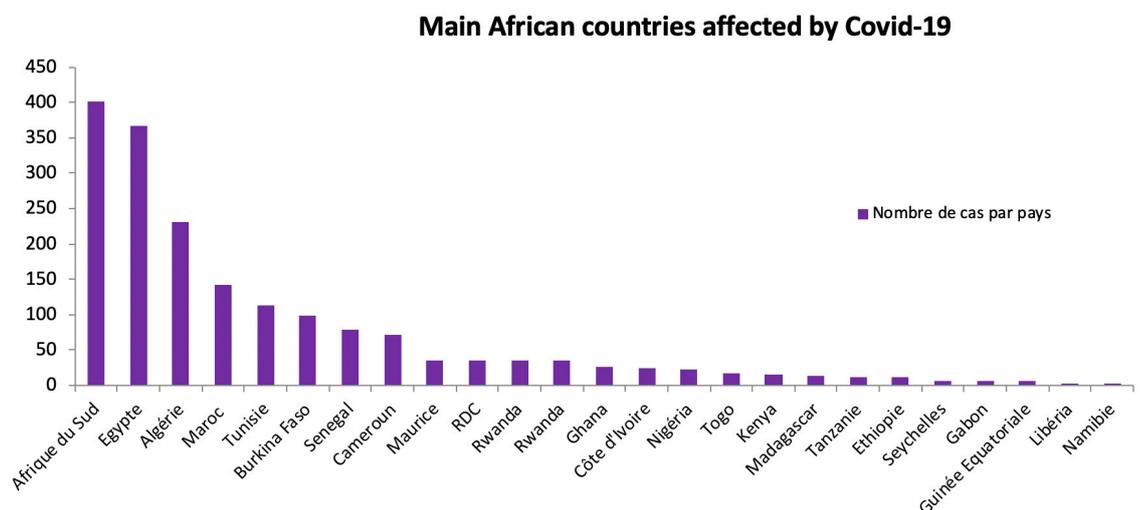
In the first quarter of the year 2020, the world situation is clearly dominated by the pandemic caused by the Coronavirus, to which has been added, incidentally, a historic fall in oil prices. This dramatic drop in the price of oil is sometimes seen as a consequence, and sometimes considered as a phenomenon that is closely related to the pandemic. Nonetheless, the situation seems unprecedented and calls for boldness in managing this delicate period but also requires unprecedented imagination in handling the post-crisis.

The purpose of this contribution is to provide food for thought on the priority areas that should be identified now and that will prevent the developing world, particularly the countries of the African continent, from experiencing economic and financial tensions, let alone the risk of a long and severe recession.

The economic situation at the end of 2019 was rather stable and promising, with African GDP growth around 3.4% and estimates of 3.9% in 2020 and 4.1% in 2021 (AfDB, 2020¹). Growth was (formerly) driven by foreign trade, but above all by the major investment efforts made by states. Investment accounted for half of the growth observed on the continent in 2019. At the macroeconomic level, the environment was relatively stable with very contained inflation levels (9.2% in 2019 on the continent) and sharply declining budget deficits (4.8% of GDP in 2019 against 5.9% in 2017). Recent developments clearly show that there are real threats to this momentum.

The World Health Organization (WHO) reports more than 375,498 confirmed cases of Covid-19 infection, with 16,362 deaths in approximately 195 affected countries/territories worldwide². On the continent, Figure 1 shows the countries most affected by the pandemic.

Figure 1 : Situation de la pandémie dans quelques pays du continent africain



Sources: WHO, Covid-19 situation dashboard & Coronavirus disease 2019 (COVID-19) Situation Report – 64, accessed on 24 March 2020.

1. African Development Bank, 2020. African Economic Outlook 2020.

2. World Health Organization COVID-19 Dashboard available at <https://experience.arcgis.com/experience/685d0ace521648f8a5beeeee1b9125cd> or <https://www.who.int/>

Gilbert & al. (2020)³, in a landmark study, propose, as from the beginning of February 2020, an analysis and forecasts (which today prove to be almost surgically precise) on the risks of a spread of the epidemic on the African continent. By measuring the extent of linkages (including movements of people) between the Chinese provinces most affected by the disease and countries on the African continent, the results give an idea of the countries where the risk of importing Covid-19 is highest. Results show three groups of countries in descending order of risk of importing Covid-19: Group-1 (Egypt, Algeria and South Africa), Group-2 (Nigeria, Ethiopia) and Group-3 (Morocco, Sudan, Angola, Tanzania, Ghana and Kenya). Interestingly, this study also shows, beyond the risk of importing the virus, the heterogeneous situation in terms of actual capacity and levels of vulnerability in handling a large-scale epidemic.

A great deal has happened since then while the pandemic is spreading inevitably throughout the world and the African continent.

Among the continent's top six economies, three countries appear to be severely affected, namely South Africa (402 cases), Egypt (366 cases) and Algeria (231 cases); Nigeria currently has 22 confirmed cases. The continent's most dynamic economies (in terms of GDP growth rates) are also affected: Ethiopia (11), Cote d'Ivoire (25), Rwanda (36) and Senegal (79). In other words, Africa will be affected as a whole; it will be affected mainly through its pillars and champions.

Possible transmission channels

At present, in addition to the effects of the health crisis on internal production capacities, three transmission channels on African economies can already be identified.

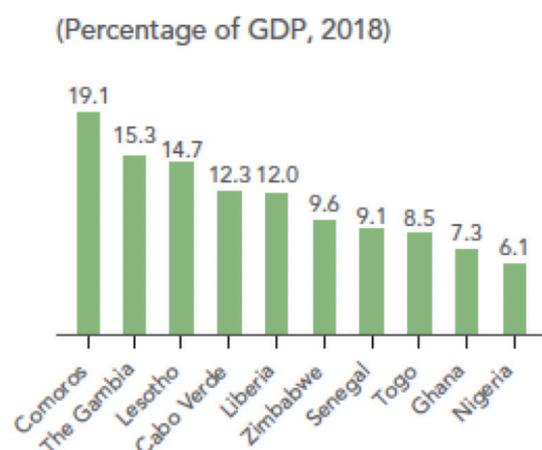
- **Investment:** Both direct and portfolio investment will affect the growth dynamics observed across the continent in recent years (see above). Indeed, with the expected drop in demand in the coming weeks, as well as the interruption of a number of production lines, investors will be prompted to be more cautious. According to the latest estimates, UNCTAD⁴ predicts a drop of at least 1% in profits made by multinationals operating in Africa, which will most certainly have a negative impact on the 27% of profits reinvested as FDI (UNCTAD, 2020). For developing economies, according to the same estimates, a 16% drop in the profits of multinationals is to be expected. Globally, the drop in FDI will be between -5% and -15%.
- **Remittances:** one of the limitations of the analysis of Gilbert & al. (2020) is certainly to have « omitted » the possibility that the infection outbreak may move (relatively quickly) away from China to settle in Europe. By the way, this fact has accounted for the rapid spread in some countries of the continent which have a large number of their nationals in countries such as Italy, Spain or France, severely affected by the pandemic. In conjunction with this spreading effect, this health crisis presents a risk to the employment of the African diaspora in Europe and, consequently, to their ability to maintain the usual remittance flows to the countries of origin. Migrant remittances to Sub-Saharan Africa have increased steadily from \$42 billion in 2017

3. Gilbert, M. & al. 2020. Preparedness and vulnerability of African countries against importations of COVID-19: a modelling study. *The Lancet*, available on line as from 19 February 2020.

4. UNCTAD, 2020. Impact of the Corona virus outbreak on global FDI. *Investment Trends Monitor*, Special Issue, March 2020.

to \$46 billion in 2018 and \$48 billion in 2019 (World Bank & Knomad, 2019)⁵. The \$51 billion in remittances that were projected for 2020 to the Sub-Saharan Africa region are now waiting to be re-estimated, and at a lower level. The decline expected in remittances will impact on the real sectors of the economies of receiving countries. As discussed in the literature, (e.g. Abdih & al. 2009, Hosny 2020), the impact on the real sector of the economies in the receiving countries will be felt through public finance (less taxes collected, especially VAT, and less availability for the public to spend on treasury bills), private consumption (in its current component and in the smoothing dynamics) and weakening private savings. The big question is to what extent migrant remittances will fall for the African continent (?). As such, and among the countries that will be most affected by this channel, there will certainly be Nigeria (1st remittance recipient on the continent with about 23.4 billion dollars) and nine other countries whose situation should remain under surveillance (Figure 2).

Figure 2: Remittances to some African countries



Sources: World Bank & KNOMAD (2020)

- Covid-19, commodities and international trade:** the month of March 2020 will certainly be marked in indelible ink in the record book, in the light of the dramatic fall in the price of a barrel of oil. From a little over 65 dollars at the end of 2019, the price of a barrel fell to 30 dollars at the beginning of March, thus recording a drop of almost 50%, a fact rarely observed. As mentioned in an interview with Radio France Internationale, the impact on African oil giants was felt almost simultaneously⁶. Nigeria, which had assessed its budget on the basis of a barrel price of around 51 dollars and, faced with the challenges involved, decided to increase its production beyond 2 million barrels to mitigate the shock on the federal budget. The situation is similar in Ghana, where the government, which was expecting revenues of around \$9 billion, is in the process of readjusting its forecasts. Algeria and Angola will also be weakened by this situation on world crude oil markets (Augé, 2020 offers a detailed analysis of these issues)⁷. It should be noted that this crisis is not entirely attributable

5. World Bank Group & Knomad, 2019. Migration and Remittances: Recent Developments and Outlook. Migration and Development Brief, No. 31, April 2019.

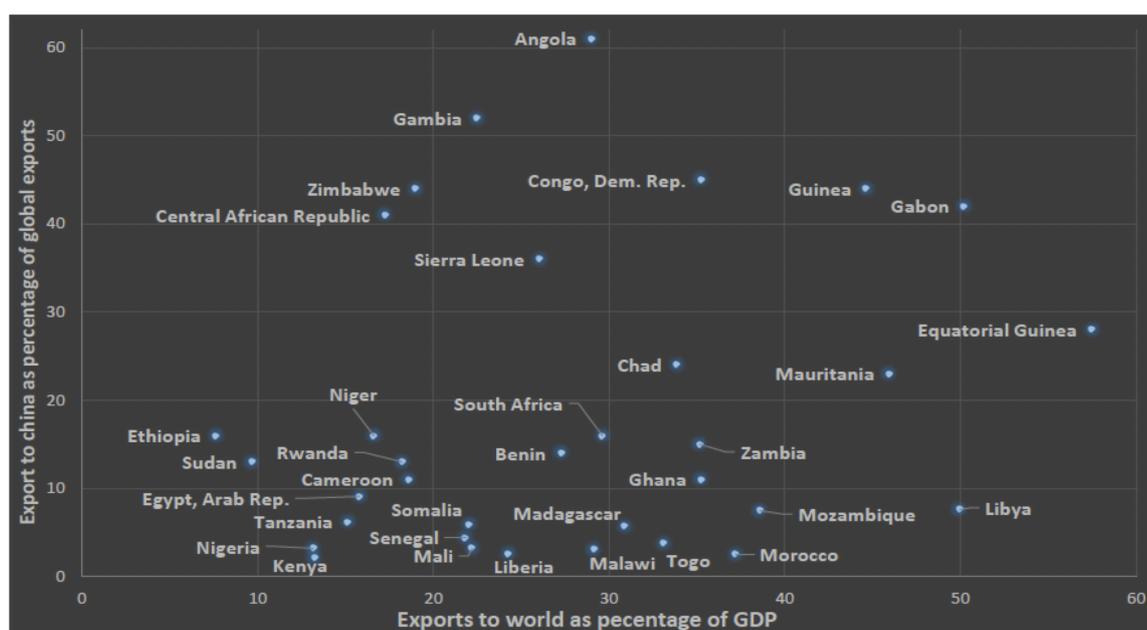
6. <http://www.rfi.fr/podcasts/20200312-plongeon-cours-p%C3%A9trole-les-cons%C3%A9quences-en-afrique>

7. Augé, B., 2020. Coronavirus: A new disaster to be expected for the oil-producing countries of the Gulf of Guinea. Policy Center for the New South, Policy Brief, No. PB-20/15.

to the drop in demand following the health crisis, but there are also internal tensions within the Organization of the Petroleum Exporting countries (OPEC) on the production levels to be adopted. It is clear, of course, that a slowdown in growth in Nigeria and other oil exporters, coupled with the gloomy situation of South Africa's economy, will further contribute to a (significant) downward revision of the continent's performance in 2020. In addition, and pending the availability of updated and more in-depth data, Figures 3 and 4 give an idea of the exposure of several mainland economies to possible shocks in trade with China. Future analyses will further explore this transmission channel.

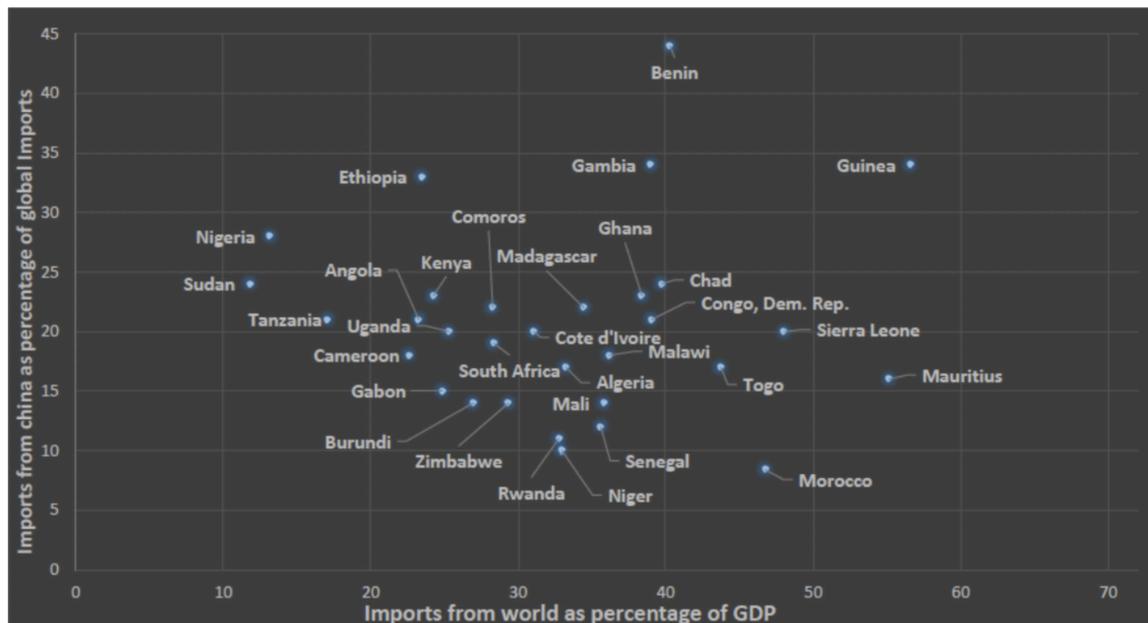
- **Official development assistance (ODA):** The first aspect to address is that in low- and middle-income countries migrant remittances are almost three times more than the total amount of official development assistance. Total ODA stands at 0.31% of GNI (year 2018) of the member countries of the Development Assistance Committee of the Organization for Economic Cooperation and Development (OECD) (DAC-OECD). We are far away from fulfilling the mythical promise of 0.7% of GNI reiterated several times since the 1970s, notably at the Monterrey Conference in 2002. This situation is an additional incentive (and obviously not the only one) for developing economies to diversify their sources of external financing. The share of multilateral partners in Africa's external debt stock has declined by about 5 per cent over the 2010-2017 period to 37% (AFD, 2020⁸). Multilateral donors accounted for 37% of Africa's total external debt stock in 2017. In addition, African states are increasingly turning to new bilateral creditors, as noted by the French Development Agency (AFD, 2020), and their disbursements were five times larger than those of the Paris Club members over the 2007-2016 period. Therefore, for the time being, it seems that this channel of assistance to development will play only a fairly marginal role in the shock that the continent's economies will suffer.

Figure 3: Intensity of exports to China for some African countries



Sources: Authors based on data from the World Bank and the Observatory of Economic Complexity

8. Agence française de développement, 2020. African economy 2020. Economic Highlights, ed. La Découverte.

Figure 4: Intensity of China's imports for some African countries

Sources: Authors based on data from the World Bank and the Observatory of Economic Complexity.

Like the rest of the world, a number of African states have announced emergency measures to support their economies. But beyond these much-needed measures (see below), it seems important to identify, as of now, the economic levers and policies that should accompany developing economies throughout the post-Covid-19 crisis recovery process. It is already acknowledged that the productive sectors will be more or less severely affected. So, what measures should be taken for a new recovery when the crisis is behind us?

Some emergency measures

Both states and central banks across the continent reacted immediately with measures to prevent this health crisis from turning into an economic and financial crash.

In Nigeria, while the Federal Government stands ready to deploy all the budgetary resources that will be necessary, the Central Bank of Nigeria has taken certain measures (CBN, March 2020⁹) including the establishment of an additional one-year moratorium on the maturity of its credit lines (which already benefit from a moratorium), lower interest rates on lines of credit facility (from 9 to 5%), the setting up of a fund of 50 billion naira (\$135 million) dedicated to SMEs/VSEs/households and an authorization to commercial banks to see how to reschedule outstanding credits.

The Central Bank of West African States (BCEAO) has also adopted, since 21 March, a series of measures similar to those taken in Nigeria. In fact, the BCEAO is substantially increasing the liquidity made available to the banking system (nearly 556 million dollars),

9. Central Bank of Nigeria, 2020. CNB Policy measures in response to Covid-19 outbreak and spillovers. Financial Policy and Regulation Department (available at : <https://www.cbn.gov.ng/Out/2020/FPRD/CBN%20POLICY%20MEASURES%20IN%20RESPONSE%20TO%20COVID-19%20OUTBREAK%20AND%20SPILLOVERS.pdf>).

expanding the bills of exchange eligible for discounting, and expressly requesting financial institutions to grant moratoria to SMEs/SMLs in difficulty. A relevant measure, especially during the period that will follow (see below), is BCEAO's decision to enhance its support to the West African Development Bank (BOAD).

At its last board meeting (17 March 2020), the Moroccan Central Bank (Bank Al-Maghrib) also decided to lower its key rate by 0.25% to a maximum of 2%. For its part, Morocco's budgetary authority has set up an emergency fund of just over two billion dollars.

At the sub-regional level, the West African Health Organization (WAHO) is providing scientific, technical and logistic support and ensures the coordination of health policies in response to Covid-19 at the level of the ECOWAS region.

Development partners

The IMF has already reactivated the \$50 billion Rapid Credit Facility (RCF created in 2009) for low- and middle-income economies facing balance of payment difficulties during the crisis. As for the World Bank, while waiting until April 2020 for a possible disbursement within the framework of the Pandemic Emergency Financing Facility (PEF), it is already planning (with its subsidiary the International Finance Corporation) a fund of 14 billion dollars in relief to the most affected countries and private sectors.

This overview shows that all African actors, including states, sub-regional and regional organizations and multilateral development partners are mobilizing and adopting budgetary and financial support measures to keep their economies and private sectors afloat.

However, it seems appropriate to question the future of developing economies when this crisis is behind us, and that it will be necessary to ensure a rapid recovery in production activity with the great challenge of maintaining (or regaining) the growth momentum that has been underway for several years now. What levers should we use to act, and in what direction and proportion?

What post-Covid-19 stimulus policies?

Restoring the primary function of money: a central bank at the service of the real sector

As estimated by the Economic Commission for Africa (ECA, United Nations), Africa risks seeing its growth in 2020 drop to 2% against the 3.2% initially forecast. This expected decline in African growth will be the outcome of the situation in leading countries such as Nigeria, but also, and above all, it will be generated by the fact that intra-country production units would be severely shaken.

One sector that attracts particular attention is that of SMEs and VSEs and their role in boosting production in the countries of the continent. SMEs and VSEs are virtually the economic lung of the continent, both because of their predominance (they account for 90% of the entrepreneurial fabric) and their employment footprint (they concentrate 60% of jobs on the continental scale). There is no doubt that containment measures, with

their corollary of diminishing domestic and international demand, will cause damage to African SMEs, which are often not very resilient to shocks. In Maputo, in 2015, the report of the Alliance for Financial Inclusion (AFI) forum clearly emphasized that today's SMEs are tomorrow's productive force in developing and emerging economies, as well as being the indispensable cornerstone or achieving the goal of greater financial inclusion among AFI members¹⁰. Although not the only difficulty facing SMEs, access to finance is a major constraint to their development. In this post-epidemic context, Africa will need a bold strategy to support SMEs, which are an important guarantee for sustainable and inclusive development on the one hand, and a wide dissemination of innovation on the other hand.

Examples of measures taken by the continent's central banks, such as the cash-based interventions (CBIs), mentioned above, show that they are all aimed at supporting the national private sectors, especially SMEs/SMLs. However, the scenario that seems to be emerging is that, at the end of the health crisis, governments and large (national and transnational) companies will have major financing needs and may capture most of the available capital to the detriment of smaller companies. This crowding-out effect of public borrowing and large companies must be taken into consideration now, and CBIs do not guarantee to avoid this situation. As shown by some empirical studies (e.g. Ouedraogo, 2011, in the case of the WAEMU zone)¹¹, the transmission of monetary policy is not always a smooth exercise with an instantaneous impact in developing economies. On the contrary, and as discussed by Ouedraogo (2011), the relationship between the outcome variables and the central bank's key rates would be rather distorted.

In addition to the proactive and courageous measures taken by central banks across the continent, it is quite feasible to envisage some provisions that will help to circumvent a possible crowding-out effect as mentioned above. In parallel with the lowering of key rates and the provision of special refinancing windows for SMEs, quantified disbursement targets in favor of SMEs/SMLs may also be put in place. Such a mechanism would allow banks that have granted a certain amount of credit to SMEs to benefit from a preferential refinancing rate and to be labelled « citizen-oriented banks ». And conversely, those banks that are more inclined towards public bonds and other securities issued by large companies will be refinanced at a rate that would penalize their risk aversion and their less socially responsible approach than others. The aim of these measures is to create an environment with sufficient incentives to ensure that the most fragile companies are not the collateral victims of a crowding-out effect.

Moreover, and given the very nature of this crisis, we believe it would be risky to pursue a massive policy of lowering lending rates. Unlike the subprime crisis in 2008, the Covid-19 crisis is singular in that it has a direct and significant impact on the real sector. Consequently, the period that will follow will be one in which the African (and world) market will be in a situation of supply shock; if credit is easily accessible, the continent would not be immune to a severe episode of inflation and scarcity. In other words, the current situation calls for reconciliation between the Keynesian approach (money as one of the key instruments for resetting an economy to macroeconomic equilibrium) and a

10. Alliance for Financial Inclusion, 2015. The 2015 AFI Global Policy Forum Report: Inspiring Innovation to Advance Inclusion. Maputo (Mozambique) 2015.

11. Ouedraogo, S., 2011. Banks and monetary transfers in the WAEMU: Effects of bank balance sheets, bank concentration and bank liquidity surplus on the effectiveness of the monetary policy of the BCEAO. PhD thesis new regime, University of Auvergne - Clermont-Ferrand I, 2011.

more traditional supply-oriented approach¹².

An uninhibited fiscal policy: maintaining investment levels at all costs

Already very much in demand, there is no doubt that fiscal policy will be heavily solicited by African states for as long as the period of the fight against the pandemic lasts but also, and above all, during the period that will follow. In addition to the measures of direct aid to households, support for companies in managing salaries, and ensuring that the social sectors are kept up to standard, as well as the drastic drop in tax revenues, African states will have to deal with the post-Covid-19 tax and expenditure policy equation.

With respect to the possible choices to be made in terms of public spending in the medium term (post-Covid-19), it seems to us essential for the continent to maintain or even strengthen the major investment efforts undertaken in recent years. For example, between 2010 and 2018 gross fixed capital formation (as a percentage of GDP) increased from 18.4% to 24.9% in Senegal, 8.9% to 20.8% in Cote d'Ivoire and 32.1% to 34.1% in Ethiopia. For the continent as a whole, the share of investment in wealth creation is constantly increasing (Figure 5). As a result, a trade-off in fiscal policy against investment could lead to a more severe and lasting slowdown in African economic growth, or even plunge it back into a « lost decade ».

Figure 5: Contributions to growth on the African continent



Sources: African Economic Outlook 2020 (African Development Bank), page 25.

Another impact of the current crisis will certainly be on employment and on the employability of the working population, in so far as some companies are disappearing,

12. Van de Velde, F., 2008. The place of money, according to Keynes, in response to a few comments. Cahiers d'Economie Politique, Vol.1, No. 54. In this article, the author talks about Keynesian money in the following terms: « And what determines the transition from neoclassical markets to Keynesian markets is once again the consideration of money and, more precisely, the integration of money credit, that is to say, this form of money that is inherent to the capitalist market economy, into the real economy. »

like in most economic crises, despite all the efforts that could be made, because their activities would no longer be in line with the new post-crisis economic paradigm¹³. The labor force previously working in these companies/sectors will need to adapt their skills to the new requirements of the economies in order to return to work¹⁴.

Within this framework, and to enhance the employability of the working population, countries will have to increase the budgets dedicated to vocational and continuing training. This would make it possible to maintain a flow of skilled labor for the economy (especially for SMEs/SMLs and FDI) but also a gentler way of stimulating demand without much risk of a surging inflation rate.

The big question then arises as to how these post-Covid-19 economic policies are to be financed (?)

In our view, and far from any blissful optimism or « utopian socialism », developing countries do have a number of levers to pursue economic policies that are conducive to strong, sustainable and inclusive growth.

The first lever relates to the expansive monetary policies of central banks in advanced economies. The US Federal Reserve announced that it was ready to inject very large amounts (in trillions of dollars) to help fluidize the financial market, especially in its short-term financing component, and that other easing measures were not ruled out. The European Central Bank, for its part, is reinforcing the fund dedicated to the purchase of bonds issued by the public treasuries of the zone (e.g. Italy) and increasing the cheap loans granted to banks. Without being exhaustive, these two examples show that the international financial market will be sufficiently supplied with liquidity, thus creating the conditions for (dollar or euro) carry trades on the international capital market. Such availability of capital will allow developing economies access (at a reasonable cost) to capital to support their economic activities.

The second lever is the support that central banks could provide to countries in their investment efforts. On this point, the recent measures taken by the BCEAO are a source of inspiration for governments and other central banks. By immediately increasing its support to the West African Development Bank (BOAD), the BCEAO enables the development bank common to the eight countries of the Union to be in a position to support infrastructure (and other) projects in West African states. This system could be replicated elsewhere on the continent, where central banks would be more involved in direct financing for development.

Another lever also appears to be the states' margin of maneuver, which must be exceptionally enlarged, namely for economies which are members of a monetary union or in a program under conditionality with a multilateral institution under the current circumstances. More clearly, the convergence criteria imposed on WAEMU states should be suspended while allowing them to have primary deficits above 3% and a debt that could be set at more than 80% for a given period. Of course, this is not a « blank check »

13. Duval, R., Hee Hong, G., Timmer, Y., 2017. Financial Frictions and the Great Productivity Slowdown. International Monetary Fund, Working paper, No. WP/17/129. In this study, the authors show that the slowdown in post-crisis (2009) productivity was mainly due to firms that were already fragile before the crisis. Thus, those among these fragile firms that remain are largely responsible for the slowdown in productivity at the more global level.

14. This phenomenon is similar to that of hysteresis (Blanchard & Summers 1986) which explains the existence of structural unemployment i.e. the reasons why unemployment persists even after its causes have disappeared.

for states, and the WAEMU Commission could monitor the direction of this expenditure and thus limit it to current activities only.

Conclusion

The crisis that the world has been going through in the first quarter of 2020 requires analysts in all fields to deeply reflect about how best to support the authorities in their efforts to bring the crisis to an end as smoothly as possible. The various monetary and budgetary support measures announced by decision-makers, both in developing and advanced economies, are aimed at preserving the global economy.

On the African continent, the delicate post-pandemic period that will follow requires economic policies to support SMEs/SMLs, while central banks could play an important role by using the monetary instrument in a more prescriptive manner. However, this bank credit (and interest rate) policy will have to take into account the particular nature of this « Covid-19 economic crisis », which is first and foremost a supply shock, in order to avoid any uncontrolled inflationary dynamics. Employability of labor and capital expenditure are two items on which substantial budgetary efforts will also have to be maintained for strong and inclusive growth.

These recommendations, which may be further developed in future contributions, are mainly based on the experiences of African economies and, unfortunately, on situations that led to William Easterly's famous expression « The lost decade » describing how (poorly designed) policies may have caused a decade of backwardness in developing countries.

And that's where the words of the Sufi saint make sense ...

About the author, **Mouhamadou M. Ly**

Senior economist at the Policy Center for the New South (PCNS), Mouhamadou LY hold a PhD in development economics. His research activities focus on development macroeconomics especially on fiscal and monetary policies. Mr. LY has also been a consultant for several international development organizations and for the Senegalese government.

About the author, **Fahd Azaroual**

Fahd Azaroual is a Research Assistant in Economics at the Policy Center for the New South. His research areas cover macroeconomics. he is currently working on themes related to Economic growth and business cycles. Fahd holds a master's degree in applied economics, and is currently a PhD student at Mohammed V University in Rabat. he joined the Policy Center for the New South in Octobre 2019 .

About **Policy Center for the New South**

Policy Center for the New South, formerly OCP Policy Center, is a Moroccan policy-oriented think tank based in Rabat, Morocco, striving to promote knowledge sharing and to contribute to an enriched reflection on key economic and international relations issues. By offering a southern perspective on major regional and global strategic challenges facing developing and emerging countries, the Policy Center for the New South aims to provide a meaningful policy-making contribution through its four research programs: Agriculture, Environment and Food Security, Economic and Social Development, Commodity Economics and Finance, Geopolitics and International Relations.

[Read more](#)

The views expressed in this publication are the views of the author.



Policy Center for the New South

Suncity Complex, Building C, Av. Addolb, Albortokal Street,
Hay Riad, Rabat, Maroc.

Email : contact@policycenter.ma

Phone : +212 (0) 537 54 04 04 / Fax : +212 (0) 537 71 31 54

Website : www.policycenter.ma