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Original Research

Pandemic in a Fragile Region: The Economic Impact of COVID-19 in Sub-Saharan Africa

Muhumed Mohamed Muhumed[1]
Independent Researcher, 150 Street, 26 June District, Hargeisa, Somaliland

Abstract

The global economy has plummeted since the COVID-19 pandemic hit the world in early 2020. While the economic effect of the pandemic has been felt globally, it was grave in Sub-Saharan Africa due to the region's fragility. This article aims to probe the economic impact of COVID-19 in Sub-Saharan Africa and while doing so, examines the effect by sector, giving specific emphasis to the most affected sectors - among these are tourism, commodity exports and trade, remittances, and financial and fiscal sectors. Moreover, the study attempts to understand how the pandemic contributed to or rather exacerbated the existing problems in the region including poverty, unemployment, and inequality. As a result of the pandemic, hard-earned economic growth has been reversed, millions have been pushed into poverty, inequality has widened, and entire sectors have collapsed or extremely crippled. Above all, the pandemic pushed Sub-Saharan Africa into the first recession in twenty-five years.

Keywords: COVID-19, Sub-Saharan Africa, pandemic, economy, fragility

Introduction

When the COVID-19 pandemic, which hit China by the end of 2019, started to rapidly spread across the world in early 2020, concerned voices started to flow in from all corners of the world. The bottom line of these voices was that the pandemic will hit Africa hardest. Triggered by Africa's weak states and poor health infrastructure, these concerns could be, in many ways, justified. However, there are areas where Western analysts and other external commentators often tend to get wrong or fail to understand. As far as the health implications are concerned, for instance, many did not take into account that Africa's

[1] *Corresponding Author's Email: baadilmm@gmail.com*

young generation – sixty percent below the age of twenty-five in 2019 (Mo Ibrahim Foundation, 2019) – would help it survive in such a catastrophe. Nor did they consider Africa's diversity – while many commentators attempt to understand Africa as a single entity, Africa is a highly diversified continent with fifty-four different countries with varied economies, governments, health systems, and ways of life. One year since the pandemic reached Africa, the overall effect of the pandemic in the continent seems milder than expected. For instance, whereas 123.66 million total cases and 2.73 million total deaths have been recorded globally, only 4.13 million total cases and 110,000 total deaths of these overall global figures have been recorded in Africa[2]. However, the economic effect of the pandemic in Africa, Sub-Saharan Africa, in particular, appears to be deep-rooted and grave and merits further attention.

In general, the pandemic led to both supply and demand shocks in SSA and resulted in a decline in Gross Domestic Products (GDP), export earnings, income, and employment, and caused a host of other economic problems. The economic impact also varied in different countries and sectors. Tourism, oil production, and remittance are the sectors that suffered the most.

Sub-Saharan Africa has remained one of the fastest-growing regions in the world over the last few decades. In 2019, the IMF estimated the economic growth of the region to be 3.2 percent and was positive about the growth in 2020 – forecasted to increase to 3.6 percent (IMF, 2019). That was the calm before the storm and, all of a sudden, everything has changed when COVID-19 hit Africa in early 2020. In April 2020, when the pandemic was still in an early stage, the IMF projected the economy of SSA to shrink by -1.6 percent in 2020 (IMF, 2020a). In June, the IMF's projection even got worse – the region's economy to dwindle by -3.2 percent in 2020 (IMF, 2020b). That is 6.8 percent lower than their 2020 forecast in October 2019 and 6.4 percent lower than their 2019 projection. The latest projection of the IMF in October 2020 remains almost similar to the June projections; SSA economy to contract by -3.0 percent in 2020 (IMF, 2020c).

The World Bank estimations and projections were no different: "Economic growth is expected to contract from 2.4 percent in 2019 to between –2.1 and –5.1 percent in 2020, sparking the region's first recession in 25 years" (World Bank, 2020a:18). In another report, the region's economic activity is projected to shrink by 2.8 percent (World Bank, 2020b). In addition, the World Bank also estimated the pandemic to lead to output losses ranging between USD37 billion and USD79 billion in SSA in 2020 (World Bank, 2020a).

[2] These figures have been retrieved from https://www.worldometers.info/coronavirus/ on 21 March 2021. These figures do not truly represent the COVID-19 situation in the continent since the testing capacity is very low in many countries in the continent. It is also true that the pandemic was not as bad as in Europe where it killed 877,606 individuals.

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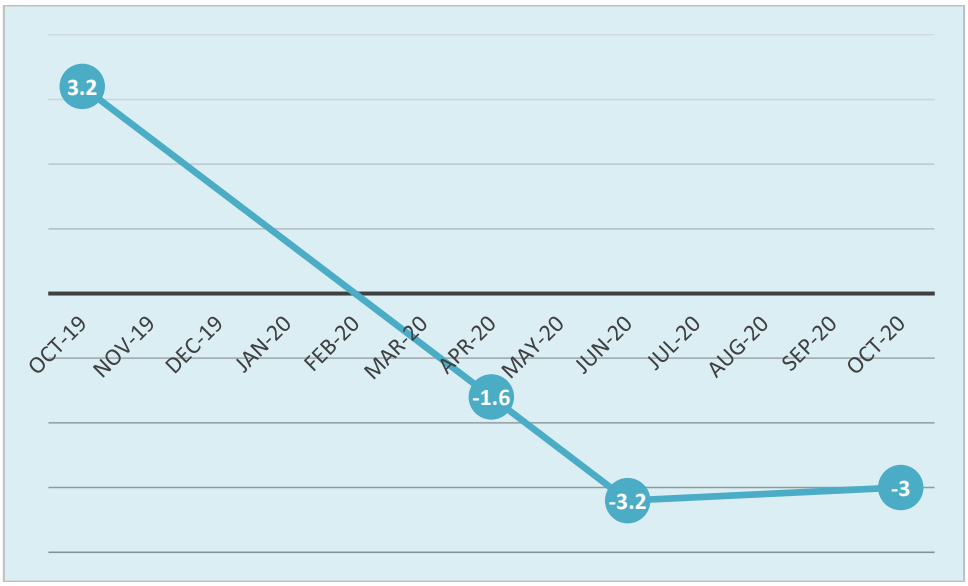

Figure 1: SSA: Economic Growth Projections (%)
Source: IMF

Evidently, COVID-19 has imperiled and disrupted the global economy and trade. The IMF predicted the global economic growth to dwindle by -4.4 percent in 2020 while the global trade is estimated to have shrunk by 3.5 percent in the first half of the same year (IMF, 2020c). Therefore, while SSA is not alone in this economic downturn, we argue that the region is fragile and, thus, highly vulnerable to the (economic) impact of the pandemic in contrast to other regions.

Our fragility measurement is based on the annual Fragile States Index (FSI) produced by the Fund for Peace (FFP). The fragility scores are given to states as follows: "…scores are apportioned for every country based on twelve key political, social and economic [economic decline, uneven development, and human flight and brain drain] indicators and over 100 sub-indicators that are the result of years of expert social science research (Fund for Peace, 2020:41). In accordance with the 2020 report, SSA states predominantly performed poorly in the FSI, and only three states performed relatively better in the entire region – Mauritius (in the very stable category), Seychelles (in the more stable category), and Botswana (in the more stable category); 21 SSA states are in the alert, high alert, or very high alert categories (Fund for Peace, 2020).

This article probes the economic impact of COVID-19 in Sub-Saharan Africa. While attempting to understand the overall economic impact in the region, the study examines the effect by sector, giving special emphasis to the most affected sectors. The COVID-19 pandemic has not yet come to an end and its economic impact remains grave and concerning. New COVID-19 variants and second waves are also exacerbating its impact in many parts of the world. Thus, the findings of this study shall not be final but are confined to the economic impact of COVID-19 in SSA to date. One year since the COVID-19 hit SSA, this is one of the first studies to holistically probe the economic effect of the pandemic in the region.

Tourism

A number of African economies primarily rely on tourism as the sector accounts for a substantial share of their GDPs and foreign exchange. Due to global travel restrictions, tourism has declined drastically. Consequently, tourism-dependent economies in SSA have been among the worst hit in the region. Among these countries are Comoros, Seychelles, Cabo Verde, The Gambia, Sao Tome and Prince, and Mauritius (IMF, 2020c). The extent of tourism dependence by these countries is summarized below:

For these countries, tourism represents about 18 percent of GDP on average and plays a crucial role in supporting livelihoods (comprising approximately 25 percent of total employment). Tourism is also an important source of fiscal revenue (reaching 18 percent of revenue in Seychelles) and foreign exchange (averaging more than 46 percent of export receipts). (IMF, 2020c).

Other SSA countries that significantly rely on tourism, whose economies also suffered from the pandemic include Ethiopia, Tanzania, Kenya, and South Africa (Lone and Ahmed, 2020).

In April 2020, the IMF projected the real GDP of the tourism-dependent countries in SSA to shrink by -5.1 percent in 2020, compared to an average growth rate of 3.9 percent in the previous year (IMF, 2020a). However, with travel restrictions remaining in place and the global economy considerably dwindling, which in turn affected the income of potential tourists, the October IMF forecasts for 2020 worsened – the economies of the likes of Seychelles and Mauritius were projected to contract by 17 percent (IMF, 2020c).

According to a number of estimates, tourism will gradually resume from 2021 but optimism for it to return to its 2019 rates is limited. For instance, IMF (2020c) predicted that tourism is unlikely to rebound to 2019 levels until 2023.

The effect of the pandemic on tourism is also reflected in the airline industry, hospitality, and similar sectors. In August 2020, the International Air Transport Association (IATA) projected that the pandemic might lead to 3.5 million aviation-related job losses as well as a 54 percent drop in air traffic in Africa in 2020 (IATA, 2020). Additionally, Fualdes (2021) recorded that the continent's total air traffic declined by 69.8 percent in 2020. As early as April 2020, Africa's aviation industry lost USD4.2 billion of revenues (Getachew, 2020).

Ethiopian Airlines, the largest airline in Africa, had to radically cut its flights across the region and, as a result, lost sizable revenues and income. In April 2020, it reported USD550 million lost in revenues and 90 percent drop in flights (Getachew, 2020). However, in September the same year, Ethiopian Airlines revenues losses were reported to be over USD1 billion (Africa News and AP, 2020). By the same token, the hospitality industry of Ethiopia, Addis Ababa, in particular, which hosted African Union delegations, major conferences on Africa, and tourists suffered enormously.

Commodity Exports and Trade

Exporting commodities, raw materials or primary products remains a supreme feature of the developing countries including Sub-Saharan African countries. Nine out of ten of the countries in the region were classified as commodity-dependent as recent as 2019 (Kassa, 2020). SSA countries export a range of primary products including agricultural products, minerals, and oil. With disruptions to the global trade and supply chains, a decrease in economic activities, and a sharp decline in demand, earnings from these commodities have dropped radically, although the impact was different in different commodities.

Among the resource-intensive SSA countries, oil-producing countries like Nigeria and Angola were the hardest hit. Nigeria, for instance, is heavily dependent on oil exports to the extent that it accounts for "80 percent of exports, about one-third of banking-sector credit, and one-half of general government revenues" (World Bank, 2020b:101). Likewise, Angola's economy generates 90 percent of export earnings and around two-third of revenues from oil (Kassa, 2020). Due to travel restrictions and lockdowns, (external and domestic) oil demand has fallen tremendously, leading to the trampling of oil prices and exports. According to the IMF, the oil-exporting economies were predicted to shrink by -4.0 percent – Nigerian and Angolan economies alone by -4.3 percent and -4.0 percent, respectively – in 2020 (IMF, 2020c). In addition, the World Bank projected the Nigerian economy to contract by -3.2 percent in 2020 (World Bank, 2020b). Oil-exporting economies will keep struggling as long as travel restrictions and lockdowns remain in place and the recovery of these economies will likely take some time.

The mining industry of SSA also suffered from a decline in economic activities and shutdown of factories and plants in the industrial countries which led to lower external mineral demands. China is the highest foreign investor in this industry and the industry employs 0.42 million people in South Africa alone (Lone and Ahmed, 2020).

Agricultural export products have been severely affected by the pandemic due to crush in external demand as well as interruptions to supply chains (World Bank, 2020b). Some of the SSA economies which heavily rely on this industry include Cote D'Ivoire (cocoa), Kenya (tea), and Ethiopia (coffee) – in parentheses are the leading agricultural export products but these countries export other agricultural products as well.

In addition to reducing the exports and export earnings of commodities and raw materials, the pandemic disrupted the overall trade of the region while trade substantially contributed to the national economies. Trade accounted for 31 percent of the GDP in SSA in 2017 and "Africa's share of exports to the rest of the world ranged between 80-90 percent during 2000-2017, higher than any other region" (Kassa, 2020:2). This means that trade is vital to the region's economy and any interruption to trade translates to overarching economic problems, be it lower national income and revenues, decreased production, and higher levels of unemployment. The effect of COVID-19 on the region's trade, as discussed above, is reflected in the decline of external demands and prices of the commodities exported by the region as well as local lockdowns, movement restrictions, and border closures within the region.

To be clear, the pandemic disrupted the global trade and SSA is, ostensibly, not alone. Given that trade is more susceptible to crises, the World Bank (2020b) estimated COVID-19 to reduce the global trade volumes more than other recent crises including the 2008 global financial crisis. While final estimations are yet to be found, the IMF (2020c) estimated that the global trade has fallen by 3.5 percent in the first six months of 2020.

Remittances

Remittances are a significant source of income and hard currency for several economies in SSA. Individuals from Africa who work in different parts of the world send some of the money they earn back to their families and relatives to support. These strong family connections and dependency is reflected in the social structures in many parts of Africa. Remittances have paramount economic importance that they have lately become the region's leading source of foreign income (amounting to USD47 billion in 2019), exceeding official development and Foreign Direct Investment flows (IMF, 2020b). Remittances-dependent countries in SSA include Liberia, Somalia, the Gambia, and Lesotho, where remittances account for over ten percent of the GDP – for example, Somalia's annual remittances inflows are estimated to be USD 1.4 billion (United Nations, 2020).

Since lockdowns and work restrictions reduced the income of those who remitted some of their earnings to their families and relatives, mainly from Europe and North America, the flow of remittances has fallen dramatically. According to the IMF projections, the pandemic will result in the remittances of SSA falling by around 20 percent (IMF, 2020b). Similarly, the World Bank forecasts a 23.1 percent decline in the remittances to SSA (United Nations, 2020).

In Somalia, one of the most impoverished countries in the region, where prolonged conflicts and the absence of an effective state led to alarming rates of unemployment and poverty, remittances are the mainstay for the livelihood of households. Over the last few decades, remittances have been the second-largest source of external income after livestock exports. However, a lingering embargo on the Somali livestock by Saudi Arabia, the largest buyer of the Somali livestock, almost completely eliminated the livestock export earnings and, as a result, remittances took prominence. Apparently, COVID-19 imperils the main surviving source of external income and hard currency in Somalia as the USD1.4 billion yearly remittances decrease drastically (United Nations, 2020).

Unemployment, Poverty, and Inequality

Lockdowns, movement restrictions, and disruption to major business and economic activities either led to job losses or shutdown of small businesses. Thus, the pandemic endangered both employees and self-employed. While the majority of the people living in the developed world have the luxury to work from home or have the opportunity to receive unemployment benefits from their governments in the event of losing their jobs, millions of the SSA population were driven into poverty after losing their sources of livelihood. 89 percent of the employment in SSA is generated by the informal sector, women being the majority involved in this sector (Ataguba, 2020). Those who live under the poverty line and earn their daily subsistence do not have the luxury to stay at home

irrespective of the magnitude of health risks posed by the pandemic. This, in turn, undermines the governments' efforts to curb the spread of the virus. Moreover, in numerous poor SSA countries, governments are incapable of providing financial benefits to those who lost their sources of income. Poor infrastructure including electricity and internet, higher levels of illiteracy, and technological backwardness do not also permit alternative work options. When a small number of the population keeps their jobs or sources of income while the rest plunges into poverty, inequality widens.

Initial estimations on the rise of poverty and inequality in the region portray alarming numbers as depicted below:

According to World Bank estimates, in sub-Saharan Africa the pandemic could push about 26 million more people into extreme poverty in 2020, and up to 39 million in case downside risks to growth materialize. At the same time, income inequality is expected to increase, as lockdowns disproportionally affected informal sector workers and small- and medium sized companies in the services sectors (IMF, 2020b:6).

Even though all those working in the informal sector are vulnerable, women are uniquely in a bad position because "almost 90% of women employed in Africa work in the informal sector, with no social protections. Female headed households are particularly at risk" (United Nations, 2020:14).

Financial and Fiscal Problems

Since the COVID-19 pandemic crippled economic activities in general, global financial conditions squeezed as well which, in turn, had great repercussions on SSA. Consequently, capital outflows caused interest rate spreads which restricted the region's borrowing capability from the international capital markets. The recent changes to the financial conditions in the region are elaborated as follows:

Before the crisis, Gabon and Ghana raised about US$4 billion from Eurobonds issued in January-February. But then interest rate spreads widened by over 1,000 basis points, on average, twice as much as at height of the Global Financial Crisis in 2007–09… The widening of spreads was accompanied with large capital outflows amounting to nearly $5 billion in February–May. Outflows averaged about ½ percent of GDP and were the largest in relation to GDP in South Africa (1¼ percent of GDP), Ghana (½ percent of GDP), and Côte d'Ivoire (¾ percent of GDP). This forced the regional authorities to increase reliance on official and more costly domestic financing (IMF, 2020b).

Difficult financial conditions in SSA's external partners and international markets, as well as capital outflows, also correspond to a plummet of Foreign Direct Investment (FDI) flows as numerous revenue-generating projects should have been postponed or canceled.

The pandemic obviously resulted in fiscal problems as well. Lockdowns and reduced economic activities mean lower levels of revenues, specifically tax revenues (Ataguba, 2020; Lone and Ahmed, 2020). Presumably, the majority of the SSA governments reported fiscal budget deficits in 2020. This puts the poor SSA countries in a very bad position as they attempt to simultaneously deal with health crises and economic problems with smaller money. Similarly, SSA governments had to revise and restructure their

national budgets in order to be able to strengthen their efforts to curb the spread of the virus by channeling more funds to health budgets.

Notwithstanding financial and fiscal difficulties, the debt crisis also worsened in the region. As the economic impact of the pandemic overshadows the region, SSA countries were unable to keep repaying the huge debts they accumulated over the last decade – "[i]n Africa, the average debt-to-GDP ratio has increased from 39.5 per cent in 2011, to 61.3 per cent in 2019" (United Nations, 2020:16).

Prospects for Post-Pandemic Sub-Saharan Africa

Sub-Saharan Africa, as discussed above, has experienced grave economic crises since the COVID-19 pandemic reached the region in early 2020. Initial estimations and projections were all optimistic that the region's economy will recover in 2021, assuming the pandemic would have come to an end by then. In June 2020, the IMF projected the SSA economic growth to rebound to 3.4 percent in 2021 – from the -3.2 percent they projected for 2020 (IMF, 2020b). In October, their projections were not significantly different – the region's economic growth to recover to 3.1 percent in 2021 (from -3.0 percent in 2020) (IMF, 2020c). By the same token, the World Bank projected the economic growth of SSA to recover to 3.1 percent in 2021 compared to their -2.8 percent projection for 2020 (World Bank, 2020b).

If we closely look at the IMF's June projections, the economy was forecasted to recover by 6.6 percentage points in 2021. How could this be reasonable right after a pandemic? The IMF was too optimistic and confident to predict that the economy will fully recover in 2021 to the extent that the economic growth will exceed its projections before the pandemic – 3.2 percent in 2019 (IMF, 2019).

As of March 2021, the COVID-19 pandemic is far from over and its economic effect remains critical in the region. Millions have been pushed into poverty, inequality widened, entire sectors collapsed, and the pandemic reversed a hard-earned economic growth. While vaccines give hope in many other parts of the world, SSA is different as the countries are unable or unwilling to buy vaccines. Limited doses of vaccines donated through the World Health Organization (WHO) will cover a small portion of the population. As a result of the pandemic, Sub-Saharan Africa descends into the first recession in twenty-five years (World Bank, 2020a). The common definition of a recession emphasizes a significant decline in economic activity enduring over a few months, often measured by subsiding GDP, plummeting income and profits, rising unemployment, etc.

International institutions and donor countries have provided financial support (both loans and grants) to assist Africa to survive in these difficult times. The World Bank approved USD20.8 billion loans for Africa in 2020 (World Bank, 2020a). Similarly, the IMF mobilized USD18 billion loans for Africa in the same year (United Nations, 2020). The African Union and its member governments requested USD100 billion support including debt relief from the development partners when the pandemic hit the region (United Nations, 2020). While aid and loans can address immediate cash flow problems, they cannot be a remedy for the recession.

Conclusion

COVID-19 originated in China by the end of 2019 and began to rapidly spread to the rest of the world in early 2020, during which it was recognized as a global pandemic. Exactly a year since the pandemic reached all corners of the world, its all-encompassing effects remain grave and continue to make lives difficult throughout the world. This article examined the economic effect of the pandemic in Sub-Saharan Africa. Giving more emphasis to the worst affected sectors, the study finds that the pandemic gravely crippled the region's economy primarily due to the region's pre-pandemic fragile nature. In a nutshell, COVID-19 devastated or brutally crippled numerous vital and promising sectors, reversed a hard-earned economic growth, pushed millions into poverty, widened inequality, and jeopardized the future of Sub-Saharan Africa. The study concludes that SSA descended into the first recession in twenty-five years as a result of the COVID-19 pandemic.

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