
COVID-19 and Development Dynamics in Africa



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As the COVID19 ravaged Wuhan city of China - its epicenter, and Chinese production centers went silent following a lockdown, African economies relying on the Chinese market as both export destinations and major source of imports encountered an unprecedented scenario. Further, shutdown in other global economies, especially in Europe and North America, worsened the situation. The major sectors of tourism, oil, gas and agriculture have been grossly affected. Mckinsey and Company (2020), project that in the best-case scenario, Africa’s GDP will dip to just 0.4 per cent from 3.9 per cent under normal circumstances. Deficiencies in the continent’s health care systems pose enormous challenges in countering the pandemic. The shock waves of COVID-19 are far-reaching. The article analysis impacts of COVID-19 on Africa’s development processes.

COVID-19: Impacts on Trade, manufacturing and Industrialisation in Africa

Exports from Sub-Saharan Africa - mainly oil, raw materials and agricultural products - amount to USD 2.8 billion (World Bank 2018). As the manufacturing sector closed down in China, Africa’s largest trading partner, the market for the continent’s exports significantly

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declined. Moreover, the shutdown in China disrupted the global value chains. Africa, relying on China for over 60 per cent of her import, mostly finished consumer products is encountering several shortages. However, the tipping point appears to be a slowdown in demand from other major global markets especially Europe and North America, and break in supply of the continent's imports especially industrial machinery, manufacturing, and transport equipment. With these shortages in essential production supplies and the slowdown in demand for output, factories have been compelled to either operate at minimum capacity or completely shut down operation. Intra-Africa trade estimated at 16.7 per cent can barely absorb existing production levels. Moreover, as several countries enter lockdown, hope in the manufacturing sector, which has shown a resilient annual average growth of 3.5 per cent for the period 2005-2014 (Signe, 2018), and a GDP contribution of 10.9 per cent, has been dashed. Furthermore, there is despair as over 11 per cent of the continent's workforce employed in the industrial sector face a lay-down. However, the just concluded African continental free Trade Area (AFCTA) offers a ray of hope. AFCTA is expected to increase consumer spending by USD 1.6 trillion by 2030. Increased demand along with free access to the continent's 1.2 billion population, with a combined GDP of USD 2.5

trillion is an incentive to maximize economies of scale consequently lowering prices and increasing employment opportunities.

COVID-19 and Africa's Digital Economy

In the wake of COVID-19, digital economies, generally desirable, gained even more relevancy in Africa. WHO encouraged digital transactions as a means of curbing the spread of the virus. In this regard, mobile payment systems have become a significant health care tool. Mostly run by telecom companies, 60 per cent of adults in Africa own mobile money accounts. Moreover, telecom companies and commercial banks created an interface with telecom - prior to the crisis - enabling mobile money account holders to access money in their bank accounts. In the wake of COVID-19, commercial banks have encouraged the use of digital banking platforms. This measure would reduce strain, travels and congestion in accessing the poorly distributed commercial banks in the continent especially during this time of social distancing. Further an interface created between commercial banks and telecom companies that enable clients to access funds in their accounts through their mobile money - most popular payment system. Considering that most of Africa's rural population depend on remittances from urban dwellers, sustaining uninterrupted transfer of

funds is important in reducing the strain on the needy rural dwellers during the lockdown.

However, it is notable that amount of money processed through Point of Sale (POS) in Africa remain 5 per cent of Africa's GDP while the online transactions are still low despite the rise in smart phone concertation. COVID-19, is therefore, a challenge for the banking sector to maximize their digital payment options. In this regard, there are several lessons, especially drawing from India's Unified Payment system (UPI). The UPI allows multiple accounts in a single application and providing cost effective and instant transfer of funds, an ideal platform commercial banks need to promote digital payment.

It is also worth noting that amidst expected higher digital purchasing power, online stores - serving a population of 21 million customers, growing at 18 per cent - are weak for minimising market movements in search of groceries and other necessities.

COVID-19: Peace, Conflict, and Post-Conflict Africa

In a very rare move, separatist groups in North-West and South-West Cameroon unilaterally declared a ceasefire in the wake of the COVID-19 outbreak in the region. The conditional and seemingly temporary ceasefire though welcomed appears to be symbolic, yet behind the

symbolism lies a completely broken healthcare system. Furthermore, large proportions of the population - mostly women, children, and the elderly - are malnourished in crowded refugee camps, across the continent, with barely the basics for survival. All these factors make COVID-19 response in conflict and post-conflict regions of Africa even more challenging.

The COVID-19 Challenge to Multilateralism: Regional Economic Communities (RECs) in Africa

Largely a global trend, COVID-19 is a significant test of the strength of regionalism in Africa. Several countries basing on national assessments acted unilaterally to close border points or suspend incoming international passenger flights, international flights were particularly sensitive to reduce imported cases. Coordinative power bestowed on the Regional Economic Communities has largely remained unutilised. However, the Economic Community for West African States (ECOWAS) - popular for handling political stalemates - had a unique response. ECOWAS promptly convened a COVID-19 preparedness and response meeting. The South African Development Community (SADC) also instituted a peer-reviewed assessment of national readiness, but like other RECs, it was

a reaction to already reported cases in the region. It is important that the REC's in Africa coordinate response measures to reduce instances of cross border infections but also facilitate cross border smooth flow of essential goods. Furthermore, REC's would act as a hub for collaborative research and sharing of best practices.

Countering COVID-19 in Africa: Fiscal and Monetary Policies

African countries have stepped forward measures to contain the economic impact of the crisis. The policies which encompass debt restructuring, reduction in credit ratio, purchase of bonds sold by commercial banks, among others, aim not only at increasing liquidity but also supporting the vulnerable companies to stay in business. However, these expansionary monetary policies will increase aggregate demand, yet the supply of essential commodities especially food is expected to remain constant at least in the short run, risking high inflation rates. While economies like Rwanda have accompanied such policies with price regulation for staple foods and other most essential commodities, others have still left it to the market forces, risking the welfare of low-income groups.

Furthermore, most African countries hold relatively small reserves. As key sectors - tourism

and hospitality, agriculture, oil and gas, are strangled by the COVID19 pandemic, and domestic revenue collections plummet, many African economies are experiencing difficult times. Rwanda is already meeting her Balance of Payment needs with USD109 million Rapid Credit Facility from the IMF, and a similar fate awaits many other African countries. It is also apparent that Africa has lost the capacity to meet her USD 500 billion (World Bank, 2018) debt commitments. The future post COVID19 will necessitate debt restructuring and debt forgiveness from all major lenders.

Looking Forward

COVID-19 in Africa has drawn responses from medical and military officers, local and International community, civilians and corporates, and temporarily healed political divisions. With no end yet in sight, the virus is sure to wash down the economic progress the continent has accumulated, with even dire consequences to low-income groups. Across the continent, supply has been disrupted and demand is declining - a perfect recipe for a recession. However, to enhance response, resilience and recovery, the continent will have to articulate prudent fiscal and monetary policies and hopefully enjoy continuous support from the international community. The African Union has a more critical role to play in coordinating regional

and national post COVID-19 recovery plans. Furthermore, the AU has an important role of facilitating trade with emphasis on cross border digital trade and repositioning the continent into regional and global value chains. In preparation for future pandemics, the AU has to focus on providing regional public health goods, and facilitate research and development.

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RUSSIA PROPOSES ESTABLISHMENT OF A SPECIAL FUND TO ASSIST AFRICA

Russian President Vladimir Putin has pledged support to the African continent in its fight against coronavirus. At the G20 virtual summit that took place in March, Putin proposed the creation of a special fund to assist Africa and stressed on the need to continue regular exchange of information regarding the pandemic.

Putin urged the World Health Organization (WHO) to focus its efforts towards detecting hidden coronavirus epidemic in countries which were not able to organise testing and also stressed upon joint research by countries to speed up the development of vaccines and medications. According to an executive decree, Russia has agreed to contribute USD 1 million to the WHO to fight coronavirus.

South African President Cyril Ramaphosa who is also the Chairperson of the African Union has stressed upon the need for medical supplies and equipment and has emphasized on international support and cooperation. The African Union Covid-19 Response Fund was created on March 26 to which its members have pledged a sum of USD 12.5 million.

According to several estimates from health organisations, at present there are more than 10,000 confirmed cases of COVID-19 across the African continent.

Source: Klomegah, K. (2020, April 17). COVID-19: Russia Pledges Collaboration with Africa Fight Coronavirus. *Modern Diplomacy*. Retrieved from <https://moderndiplomacy.eu/2020/04/17/covid-19-russia-pledges-collaboration-with-africa-fight-coronavirus/>