Covid-19

Africa Briefing

A continent overview of the economic and commercial impact of Covid-19

KREAB

Introduction

This report seeks to outline the impact of the Covid-19 crisis in Africa, providing a summary of key issues with a view to explaining the short and medium term economic and commercial impact.

For more in-depth insights into a particular country or sector, please contact one of the team to discuss your research interest. You can reach us by contacting Chris Philipsborn, Kreab London Managing Partner at cphilipsborn@kreab.com or on +447801411958.

Context

The first case of Covid-19 in North Africa was confirmed in Egypt on 14 February 2020, with the virus reaching sub-Saharan Africa on 28 February 2020. By mid-March, when many European countries were already in the process of implementing lockdown measures, the virus was only just beginning to take hold of the continent, with seven African nations confirming cases.

At the time of writing, there are more than 45,000 cases in Africa and fewer than 1,400 deaths. Testing has been limited (only 400 per million have so far been carried out), but these figures are promising, and some observers are beginning to ask whether the disease may be less deadly in Africa.

In the West, for instance, very few severe cases have presented in the under-20s, and African populations are young (the median age on the continent is 19.7). Lower infection rates may also be explained by a general trend in droplet-borne diseases such as influenza spreading more slowly across the continent.

Health experts are advising extreme caution, saying there is insufficient data to draw any conclusions and that Africa may be merely behind the global curve. However, there is praise for governments, which generally acted very quickly in closing borders and enforcing lockdowns, a move that may have contributed to slowing the spread and rate of infection.

Aside from the death toll, governments are bracing for the impact of a global recession, the disruption of supply chains as well as the crash in oil prices. Increasingly, commentary has moved away from the health crisis and towards discussions about the severe development challenges presented by the global Covid-19 response.

Section 1

Overview

Economic Impact

As 2019 drew to a close, Africa analysts were cautiously optimistic: despite rising debt across the continent and poor performance from Nigeria and South Africa, the region outperformed others in terms of growth and boasted seven of the ten fastest-growing economies globally. Tech ecosystems from Nigeria, to Kenya to South Africa, were producing exciting news from young entrepreneurs heralding a new era in African business. The African Continental Free Trade Agreement (AfCFTA) was another promising development, which, were it to be fully implemented, had the potential to raise the continent's aggregate GDP from $2.1 trillion today to $3 trillion by 2030.

However, just one month later, growth forecasts have been slashed and the outlook has been dramatically revised due to the global Covid-19 crisis. Sub-Saharan Africa (SSA) will be particularly affected, with the World Bank predicting that the region will enter its first recession in 25 years as growth plunges to between -2.1 percent and -5.1 percent. North Africa will fare marginally better, though this crisis comes in the wake of already weak growth across the region due to the combined pressure of lower and volatile oil prices; the impact of the global economic slowdown; and geopolitical tensions.

The UN estimates that nearly 50 percent of all jobs on the continent will be lost due to the pandemic. In the longer-term, Covid-19 looks set to reverse the fight against poverty by at least a decade across sub-Saharan Africa and in some countries up to 30 years, potentially impoverishing half a billion more people.

The Covid-19 crisis is broadly set to amplify existing inequalities and those nations that were struggling before the outbreak are likely to fare worst. Steps may mitigate the severity to which this is felt, but no country will emerge unscathed. As ever, macro-economic conditions within countries will have an impact on businesses, but so too will the added pressure on human capital due to containment policies and health issues.

Challenges undermining the response

Underdevelopment

Overall, lower levels of economic development are, and will continue to, undermine governments' responses to Covid-19. Weak public finances will exacerbate the crisis, and it has been widely noted that many African governments spend significantly more on repaying national debt than on their health systems (discussed in more detail later).

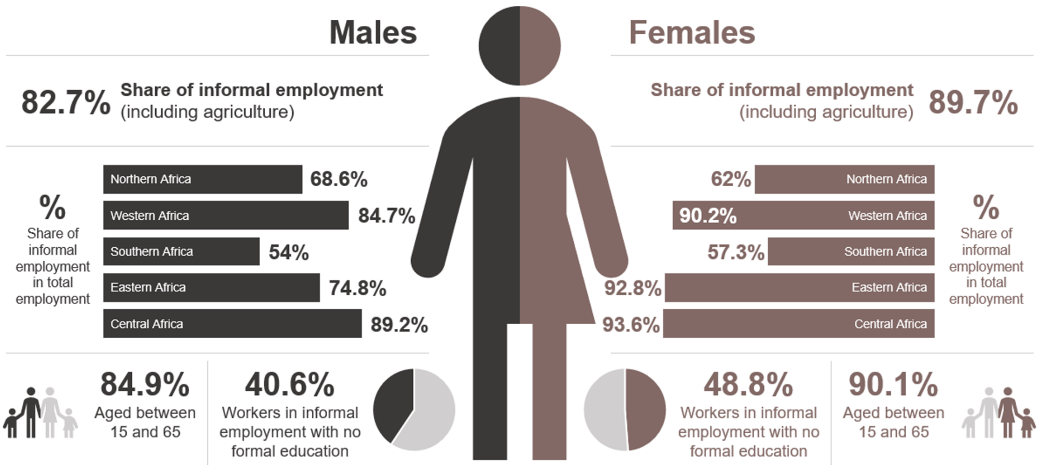
So, in addition to fragile healthcare - which is already stretched by epidemics of vaccine-preventable diseases and inadequate resources, there are a variety of other factors likely to exacerbate the spread of the virus. This relates to major structural features of African economies such as where and how people live, ways of working and doing business, as well as how different cultures receive and engage with medical information or government advice.

Informality

Due to rapid rural-urban migration, population growth, and inadequate supplies of affordable housing, around 238 million city-dwellers live in informal settlements or slums. These are densely packed and do not have access to sanitation facilities. Such practical realities make the European gold standard of hand washing and social distancing largely impossible for this segment of the population. This has a knock-on effect on all city-dwellers and many of those in rural areas, as people move between these areas to work or visit family.

Arguably, the most pressing concern for governments stems from the fact that informal employment accounts for 85.8 percent of all jobs on the continent. The modest growth of the previous year was largely stimulated by sales in commodities, services, and manufacturing, as well as mining and agriculture, which are heavily supported by workers who are not covered by formal legal arrangements (street vendors, waste collectors, domestic workers, artisanal miners, and others). These people cannot afford to live under strict lockdown measures as they do not have the benefit of employee or government unemployment benefits. As such, there is concern that quarantines would impoverish this large segment of the economy and curtail longer-term recovery, as well as general recognition that lockdowns may not be enforceable.

Key indicators on the size and composition of informal employment in Africa (percentages, 2016)



Source: By authors from data in ILO, Women and men in the informal economy; a statistical picture (third edition)/ International Labour Office - Geneva

Communications

Additionally, the infrastructure and capacity needed to support the circulation of accurate advice is broadly inadequate. Efforts to educate populations on Covid-19 are further undermined by the circulation of myths on social media about preventing or curing the virus at home, these include the protective properties of pepper soup in Nigeria, to drinking black tea in the morning in Kenya. A further concern, one which is particularly acute in North Africa, is low public trust in the government. Prior to the lockdowns there was widespread civil unrest in the region, and there is a very real risk Covid-19 will exacerbate existing tensions.

Towards a tailored 'African' approach?

African governments responded to the Covid-19 outbreak like most countries: either enforcing or expressing an intention to implement lockdowns, social distancing and isolation, along with advice about hand washing and face masks. However, the different demographic features across the continent and within each state are likely to affect how the virus is spread. Thus, while African leaders are keen to demonstrate quick and effective action, emulating the Western or Asian approach to Covid-19 is potentially both unfeasible and likely to be ineffective.

As outlined above, Africa is generally younger and less urbanised than the West and both qualities are hoped to curtail the spread of the virus. At the national level, all countries have different spatial and mobility patterns that will affect trends in virus transmission in different ways. For instance, inter-state informal trade networks or regular rural-urban commuting.

An additional consideration is the comparatively higher level of immunocompromised citizens in Africa in comparison to other regions, for instance those living with HIV and AIDS.

Another Western approach that may be attempted, in solidarity with donor nations and trade partners if not due to scientific evidence, is tracking and tracing Covid-19 cases. There is debate as to whether this would be using mobile phones or low-tech in-person methods.

Either approach is likely to be difficult to implement across most countries – especially those which are least economically developed - and could waste much needed resources. Some exceptions are South Africa and possibly some North and East African countries whose smartphone penetration rates are comparatively high and where there is capacity for testing and follow up.

Existing approaches might offer inspiration to African nations, which are so far behind the global curve, but they are far from a blueprint. A pragmatic approach to addressing Covid-19 in Africa is needed to address the regional trends and national specificities of the continent.

Health and medical perspective

According to the World Health Organisation (WHO), of the 30 least effective healthcare systems in the world, 25 are in Africa. Given this, great concern has been expressed that there is potential for a huge death toll on the continent from the Covid-19 pandemic, in excess of what has been seen elsewhere, due to overwhelmed healthcare facilities.

For example, as a disease of the respiratory system, serious cases need treatment with ventilators and the provision of this equipment is limited in many African countries. Several countries reportedly have no ventilators at all and even where there are a reasonable number, such as in Nigeria where there are 500, this has to be set against the fact that it has a population of around 200 million.

Although there is widespread concern that it is merely the lack of data on infection rates that paints a positive picture, there is other data which supports these hopeful evaluations. For instance, South Africa has excellent record keeping, and its figures show that death rates have actually gone down since Covid-19 hit, as the lockdown has reduced the number of deaths from traffic accidents and homicide.

Treatments and technology

African nations are seeking to repurpose existing manufacturing facilities in order to create ventilators, though this is far from straightforward and progress has been slow. Commercial manufacturers usually take up to two years to test and approve a new ventilator, thus there are also health risks to slashing development and approval times.

However, there are some promising developments across the continent. Morocco's aeronautics and electronics suppliers were some of the first to begin developing and manufacturing ventilators. Similarly, engineers in Cameroon have developed a prototype and are looking to commence mass production shortly. Senegal plans to use 3D printing technology to make its own, at a cost of $60 per machine, as opposed to the $16,000 per machine cost for an imported model.

As is the case worldwide, there are no proven treatment options available in Africa, but there are also fewer African research teams. This means the continent is likely to be last in line for a vaccine if it is developed, as typically it is those countries involved in production that will receive it first.

Vaccines

Vaccines will be key to the medium and long-term battle against Covid-19 in Africa and reaching the necessary immunisation rate of 60 – 70 percent of the population will be particularly challenging for these less developed countries.

The continent will need to scale up its manufacturing and logistical capabilities as well as improve cold-chain systems, which is the single biggest impediment to achieving successful immunisation programmes in Africa. The WHO recommends vaccines remain at temperatures between 2 and 8 degrees Celsius throughout the system of manufacturing, transporting, storing and vaccination delivery in order to maintain the potency and safety of vaccines. However, this is especially challenging in less developed countries where this infrastructure often does not exist (for instance in remote or rural areas) and the chain is broken.

There have also been some attempts to progress development and testing in Africa. For instance, the vaccine development team at Oxford University, one of the most advanced, is working with the Kenyan Medical Research Institute on its plans. The intention was to roll-out to Kenya after 800 people had entered the trial in the UK.

Conflicts and controversy

Despite the progress discussed above, there have been several high-profile controversies around medical research cooperation between Africa and developed nations.

With regards to vaccine development in Kenya, as discussed, neither research team (Oxford University or the Kenyan Medical Research Institute) communicated their plans to the Kenyan Government. This resulted in Nairobi misinterpreting the teams' intentions and considering the project an imposition from the UK. Consequently, Oxford has removed all references to the Kenyan extension from its website and it remains to be seen whether this will affect the project.

There has also been an adverse reaction across Africa to a perceived effort by the Gates Foundation to persuade the African Union to agree to large scale testing of experimental vaccines in Africa.

More broadly, amongst the general public, there is some suspicion that pharmaceutical companies see Africa as a testing ground for new vaccines. Indeed, a TV exchange between two French researchers in which they discuss testing experimental drugs in Africa, as people there are likely to die anyway, has been widely seen across the continent and reinforces this view.

International Political Response

The WHO recognises the weak state of African healthcare systems and it is accordingly taking a strong coordinating role for the region.

To that end, it convened a virtual meeting on 24 April of 20 World Leaders and aid organisations including the UK, Germany, France (the USA, China or Russia were not included) to agree a common approach to supporting the fight against Covid-19 in Africa. President Ramaphosa of South Africa, who is also Chair of the African Union (AU), also participated as did the Gates Foundation, which is a major player in countering disease in Africa.

The meeting set out a “Cov-Access Agreement” which contains five key pledges to standardise their response. These are to:

1. Provide access to new treatments, technologies and vaccines across the world
2. Commit to an unprecedented level of international partnership on research and coordinate efforts to tackle the pandemic and reduce infections
3. Reach collective decisions on responding to the pandemic, recognising that the virus’ spread in one country can subsequently affect all countries
4. Learn from experience and adapt the global response
5. Be accountable, to the most vulnerable communities and the rest of the world.

There will be further discussions regarding funding to help find resources for combatting the disease across the continent.

The UK is looking to take the lead in this having already given €2.26 million to the Africa Centres for Disease Control and Prevention, the money coming jointly from DFID and the Wellcome Trust. This is part of £744 million that DFID has spent outside the UK on Covid-19.

The UK co-hosted a Coronavirus Global Response Summit on 4 May and agreed to pledge around £7 billion for the crisis.

DFID ministers and civil servants appeared in front of a Parliamentary Committee this month and told it that despite the Government’s financial strain due to expenditure to support the UK’s domestic economy through Covid-19, it will maintain its commitment to spend 0.7 percent of gross national income on overseas aid. However, MPs were told that despite the threat of Covid-19 it regarded the current locust swarms effecting Eastern Africa as an equally serious threat.

The EU’s External Action Service is also making €20 billion available globally for combatting Covid-19. In Africa the EU’s focus is on Northern Africa, as it views this region as its local neighbourhood. Much of its support to Africa is channelled through the Emergency Trust Fund for Africa which focuses on: Sahel and Lake Chad; Horn of Africa; and North Africa. Although beyond this, it has also pledged €50 million to assist Nigeria.

African Union and regional political response

While African leaders are engaging with the international community for assistance with Covid-19, they are also working together to improve their own performance. This includes funding continent-wide efforts such as the $5.5 million the members of the African Union agreed to provide in funding for the Africa Centres for Disease Control and Prevention.

While there are serious problems in implementing it, (see medical section above), the African Union publicly backs a coordinated track and trace operation across Africa to quarantine anyone who has come into contact with someone diagnosed with Covid-19 in the preceding two weeks.

As part of their efforts to achieve this, they agree that they should pool testing resources, however the African Union does not have the best delivery record and it remains to be seen if this will happen. Unlike the EU, the AU does not have a strongly enforced rules-based system, but is rather based on a collective willingness to cooperate. In areas where leaders do not have that willingness, AU decisions typically do not hold.

The AU does have regional structures and some of those, notably the Economic Community of West African States (ECOWAS), have been more effective in asserting themselves. However, within these regions there are divisions and tensions which can make decisions difficult. For example, in ECOWAS there is a split between the French and English-speaking countries. Nigeria, which has by far the largest population and economy in the region, is also dominant in most decision making.

Within ECOWAS, Senegal is taking a proactive approach to combatting Covid-19, fully embracing the track and trace option and developing its own indigenous tests and ventilators. However, when it came to appointing a leader for the region's efforts against the virus, Nigeria's President Buhari was the clear choice.

Nevertheless, ECOWAS member states were the worst hit by the Ebola outbreak in 2014-16 and they learnt many lessons, in particular about social distancing and quarantine to control the spread of disease, so it may be the region that many in Africa look to for exemplars.

Economic and financial considerations

African debt crisis

Trade and aid relationships with foreign partners will be key in determining how well African nations cope with the crisis and how quickly their economies recover. Initially, the most pressing issue was rising debt levels due to lower income countries relying heavily on loans in the wake of the 2008 global financial crisis, though this was not a new concern.

For the past 2 years, as national finances have been stretched by the global downturn in commodities, Africa analysts have been warning that repayments would pose serious issues for many countries. In the context of Covid-19, they could trigger economic collapse.

One reason for ballooning debt is the shift away from concessional borrowing from multilateral and Paris club creditors (Europe, Japan, US) and towards non-concessional lenders like China, Saudi Arabia, Kuwait, and external commercial lenders.

Non-concessional state loans (for instance from China) have been taken up widely by low income countries and these are more appealing than commercial loans as they often have some degree of concessionality. Both have higher interest rates and accordingly higher debt servicing costs than traditional lenders.

Debt relief in Covid-19 context

To enable countries to focus resources on fighting Covid-19, the IMF, the World Bank, aid agencies and charities quickly called for bilateral, multilateral and commercial debt relief for the 77 poorest countries in the world – 40 SSA countries and 4 NA countries.

The most significant contribution to debt relief can be made by bilateral lenders, which account for 45 percent of external debt and interest payments, though multilateral and private lenders also have a role to play, accounting for 29 percent and 26 percent respectively.

The G20 has somewhat met these requests and a moratorium on bilateral debt repayments across these countries will begin on May 1, lasting until the end of the year. This covers $20 billion of the total ($40 billion) owed to public and private creditors this year (of which $8 billion is private sector owned). However, countries with a presumed ability to access market financing are excluded from the programme, which in Africa includes Algeria, Egypt, Libya, Morocco, South Africa, Gabon and Tunisia.

Although G20 leaders have been optimistic that Covid-19 would engender cooperation between creditor nations, there remains concern that some bilateral lenders – China in particular – are not predisposed to radically revising lending agreements.

Furthermore, there are concerns about commercial lenders and the current reality that any suspensions would be voluntary and only considered for those nations who formally request it. This is likely to limit progress in debt relief in this segment for two main reasons: suspension of repayments will not be legally binding and because many nations will be hesitant to ask outright for relief from private lenders.

Multilateral debt stocks are less significant but still important. They are generally concessional loans, meaning the cost of debt servicing is lower than that of bilateral arrangements (58 percent of multilateral debt service goes towards paying off loans, in comparison to 14 percent for bilateral loans). However, G20 countries are also calling on the IMF, World Bank and other multilateral development banks (such as the African Development Bank) to explore their options for suspending debt payments and some progress is being made.

China

A powerful partner

China rivals the US for the title of most powerful foreign actor in Africa, as the biggest single trading partner and the largest creditor. It currently holds 17 percent of African national debt, and from 2000 - 2018 more than a thousand loans collectively worth $152 billion were extended to 49 African governments.

Due to the scale of investments and the need to safeguard them across the continent, Beijing is steadily abandoning its policy of non-interference. In addition to tangible advances such as the new Chinese military base in Djibouti or peacekeeping troops in South Sudan (where China has significant oil and mining holdings), there are also changes in rhetoric and approach that indicate broader ambitions. For example, during the 2018 Beijing Summit of the Forum on China-Africa Cooperation (FOCAC), President Xi met every African leader (53 attended in total) and consistently communicated his vision for a Sino-Africa Community of Common Destiny.

Claims of 'neo-colonialism' may be overblown, but it is clear China is seeking to consolidate African support for its international agenda with a view to strengthening its standing as a world leader. This largely pragmatic effort, which broadly appears to safeguard Chinese investments in Africa, has taken on additional significance in the context of ongoing disputes with the Trump administration with regards to US – China trade.

China and Covid-19 in Africa

In the Covid-19 context, China-Africa relations will be central to the continent's recovery. In the first instance, debt relief from both the Chinese state and Chinese businesses, which account for 80 percent and 20 percent of the continent's debt respectively, will be key. Although President Xi has agreed in principle to the G20 moratorium, this is out of character for a nation which has historically negotiated repayment problems on a case-by-case basis with African nations.

Furthermore, and contrary to many reports about China's propensity towards debt forgiveness, President Xi is not likely to write anything off without major scrutiny. Equally, it is highly unlikely China would seize African assets in lieu of payments, as some commentators have speculated.

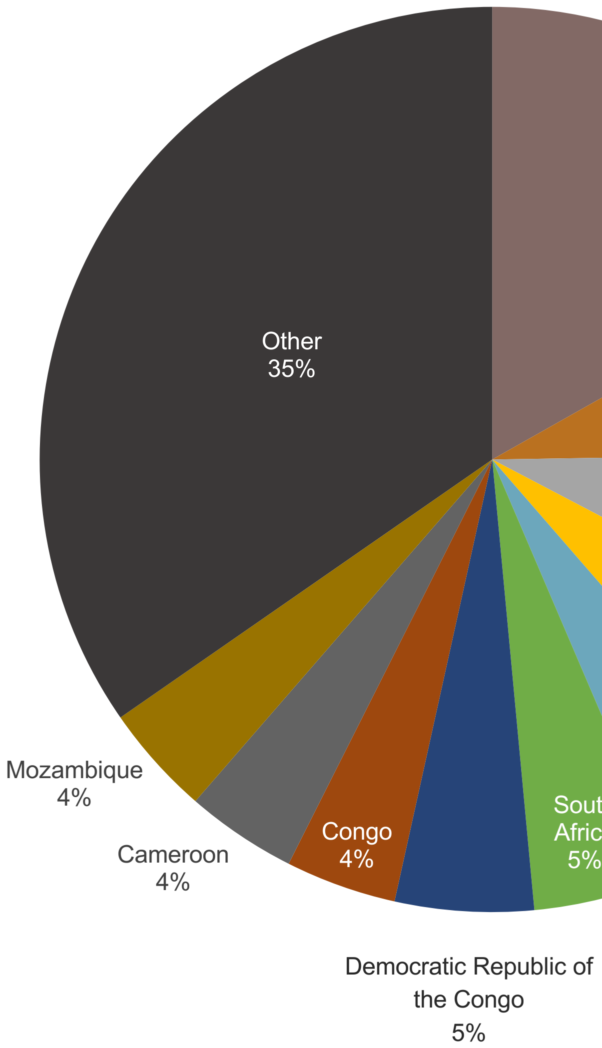
Since 2000, China has cancelled 376 loans to low income countries, amounting to a value of $4 billion. Most of these are interest-free, foreign aid loans which reached maturity without being paid off in full. Although this has contributed to an image of debt forgiveness, this data is an amalgam of exceptions rather than indicative of the rule: interest free loans constitute a tiny portion of Chinese lending (under 5 percent) – today averaging $10 million.

More generally, due to African dependence on commodities, any slowdown in China will further impede growth and economic recovery on the continent. Most countries were already feeling the strain from decreased demand in oil, metals and minerals. This trend will likely be exacerbated.

The approach will most probably strike somewhere between these extremes, with Chinese interests being safeguarded for the long term by agreeing to some flexibility now with the promise of trade deals later.

One might think it would be ill advised for China to impose conditions amidst a crisis, however this would not be out of character for a pragmatic nation whose prosperity is not yet equal to other world leaders (its GDP per capita in 2020 is $20,984 in comparison to Japan at $46,827 or the UK at $48,169), and for whom underdevelopment is a recent memory. For instance, Beijing forgave official Iraqi debt in exchange for $8.5 billion in commercial debt in 2007. We may witness a similarly mercenary approach in African countries where China is especially exposed.

Division of Chinese Investments in Sub-Saharan Africa



Source: Chinese Investment Tracker, AEI

Key indicators

We have developed a list of key indicators which imply trends across the continent. These indicators are attributed to countries in the following table so that some macro analysis can be made.

- Low urbanisation (rural population > 70%)
- High urbanisation (rural population < 40%)
- Population average age is < 20
- Population average age is > 20
- Political unrest / mistrust in government
- Major investment from China
- No moratorium on national debt
- Heavily indebted pre-Covid-19
- Non-oil resource-intensive country
- Oil exporter
- Full Lockdown
- Partial Lockdown
- No lockdown
- 90% of jobs in informal sector

REFERENCE MATRIX

	Low urbanisation (rural population > 70%)	High urbanisation (rural population < 40%)	Population average age is < 20	Population average age is > 20	Political unrest / mistrust in gov	Major investment from China	No moratorium on national debt	Heavily indebted pre-Covid-19	Non-oil resource-intensive country	Oil exporter	Full Lock down	Partial Lockdown	No lockdown	90% of jobs in informal sector
Algeria		x		x	x		x					x		
Egypt				x	x		x					x		
Libya		x		x	x		x				x			
Morocco		x		x	x		x				x			
Tunisia		x		x	x		x					x		
Angola		x	x		x	x				x		x		x
Cameroon			x		x	x		x		x	x			x
Democratic Republic of Congo			x		x	x		x	x			x		x
Ethiopia	x		x		x	x		x				x		
Gabon		x	x				x			x		x		
Ghana				x				x	x			x		x
Ivory Coast				x	x			x				x		x
Kenya	x		x		x	x						x		
Malawi	x		x		x			x					x	
Mozambique			x		x	x		x			x			
Nigeria			x		x	x				x		x		x
Rwanda	x		x					x			x			x
Senegal			x					x				x		x
South Africa		x		x		x	x		x			x		
South Sudan	x		x		x					x		x		
Tanzania			x		x			x	x				x	x
Uganda	x		x		x			x			x			x
Zambia			x			x		x	x				x	
Zimbabwe				x	x				x		x			

For more in-depth insights into a particular country or sector, please contact one of the team to discuss your research interest. You can reach us by contacting Chris Philipsborn, Kreab London Managing Partner at cphilipsborn@kreab.com or on +447801411958

Kreab's experience and capabilities in Africa

Kreab has extensive experience in working across Africa, with valuable insight and knowledge on the countries and economies that operate within the continent. Via our in-house capabilities, expert Senior Advisor network and our office in Morocco, we offer global communication services that are built on years of extensive political and business knowledge, enabling us to give clients the strategic consultancy they need to operate effectively in the rapidly changing world.

Kreab has worked with governments, political candidates, national and multinational businesses in Africa, spanning key areas in both North and Sub Saharan Africa such as Morocco, Algeria, Nigeria, Sierra Leone, Kenya, Gabon, Congo and Mozambique. We understand the issues that prevail on the continent, the business environment, and the varying political landscapes, with vast experience in navigating within these settings for various outcomes. With wide-ranging experience working with firms that operate in specific sectors, such as LNG, mining, infrastructure and telecommunications, we also have the specialist sectoral knowledge that is needed to operate in these industries. Having worked on crisis and reputation management briefs as well as financial communications and public affairs activities, we are able to support the full spectrum of communications needs.

We also have a strong relationship with the London Stock Exchange, the most important market outside Johannesburg for the trading of African based companies with a combined capitalisation of over £50bn.