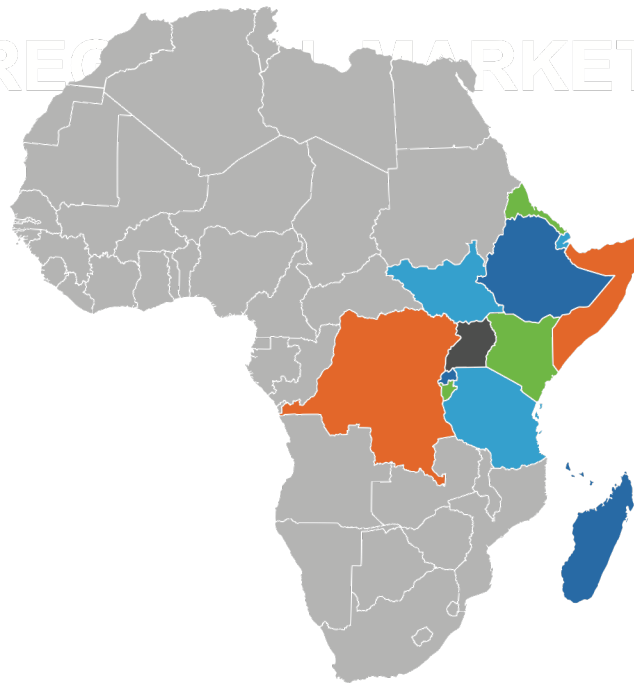




24th session of the Intergovernmental
Committee of Senior Officials and Experts (ICSOE)

CREATING A UNIFIED
REGIONAL MARKET



**The Economic and Social Impacts of the Covid-19
Crisis on Eastern Africa: Strategies for
Building-Back-Better**

**Economic and Social Impacts of
COVID-19 in Eastern Africa 2020**

24 – 25 November 2020



Economic and Social Impacts of COVID-19 in Eastern Africa 2020

Abridged version

October 2020

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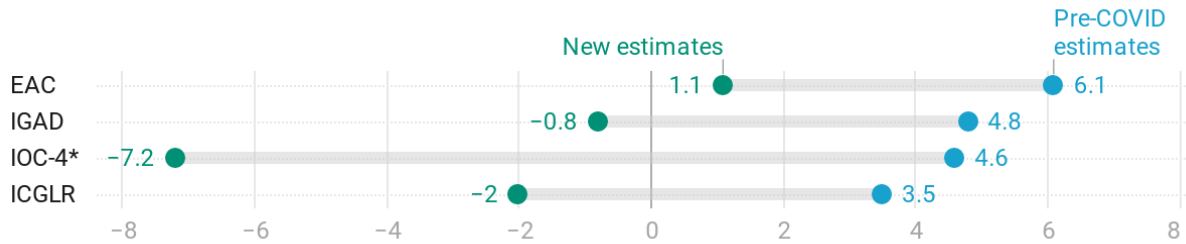
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1.0 Economic Impacts

1.1 The effect of the pandemic on growth has been uneven across the region.

The global economy is slowly recovering from the sharp decline it experienced during the COVID lockdown in the second quarter of 2020. Many countries have reopened, although some are reinstating partial lockdowns as the COVID pandemic continues to spread. Similarly, to the rest of the African continent, the effect of the pandemic on growth in Eastern Africa has been heterogeneous. While the region has generally been adversely affected by this crisis, the impact has been more severe for countries dependent on tourism (Figure 1 and Figure 2).

Figure 1: 2020 GDP Growth Rates estimates for major Eastern African RECs (%)

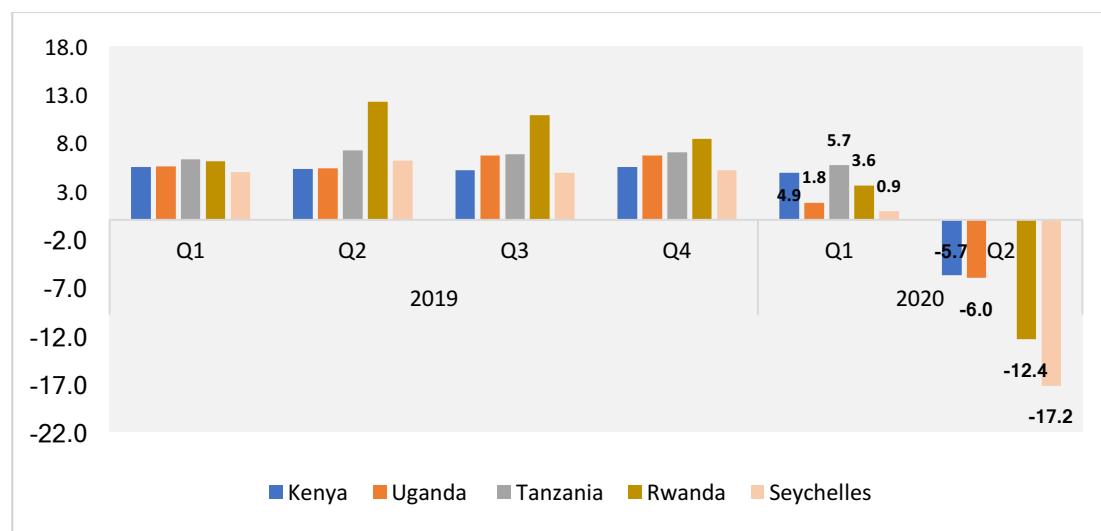


Source: IMF World Economic Outlook October 2019 and October 2020

Note: (*) Data unavailable for Reunion¹

¹ The East African Community (EAC) includes Burundi, Kenya, Rwanda, South Sudan, Tanzania and Uganda. The Intergovernmental Authority on Development (IGAD) includes Djibouti, Eritrea, Ethiopia, Kenya, Somalia, South Sudan, Sudan and Uganda. The Indian Ocean Commission (IOC) includes Comoros, Madagascar, Mauritius, Reunion and Seychelles. The International Conference on the Great Lakes Region (ICGLR) includes Angola, Burundi, Central African Republic, Democratic Republic of Congo, Republic of Congo, Kenya, Rwanda, South Sudan, Sudan, Tanzania, Uganda and Zambia.

Figure 2: Quarterly GDP growth rates for selected Eastern African countries (%), 2019Q1 – 2020Q2



Source: National sources

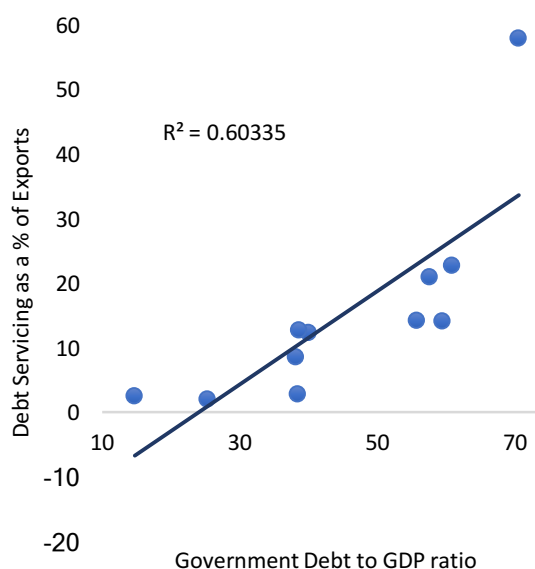
1.2 Increased borrowing costs and debt vulnerabilities in the region

The COVID pandemic has amplified debt vulnerabilities in the region. Before the crisis, there were five countries (Burundi, Eritrea, Ethiopia, Kenya and Seychelles with debt-to-GDP ratios exceeding 50 percent in 2019. However, the pandemic has increased the proportion of countries in the region with debt-to-GDP ratios exceeding 50 percent. This higher debt has increased debt servicing payments. Recent data shows that for six countries in the region, over 10% of export revenue and primary income was spent on such payments (Table 1).

Additionally, an increase in risk aversion in financial markets has raised borrowing costs for African countries while public revenues have decreased against a background of sustained public spending to offset the effects of COVID. Access to concessional financing and debt service relief would assist countries lower borrowing costs and redirect finances away from debt servicing and towards the health and economic crisis.

Table 1: National Debt Statistics, Latest Available

	Government Debt in 2019 (% of GDP)	Total Debt Servicing (% of Exports and Primary Income)
Djibouti	70.5	57.8*
Kenya	60.8	22.6
Burundi	59.4	14*
Ethiopia	57.6	20.8*
Uganda	40.0	12.2
Rwanda	38.6	12.6
Madagascar	38.4	2.7
Tanzania	38.1	8.4*
Comoros	25.3	1.9*
D.R. Congo	14.7	2.4



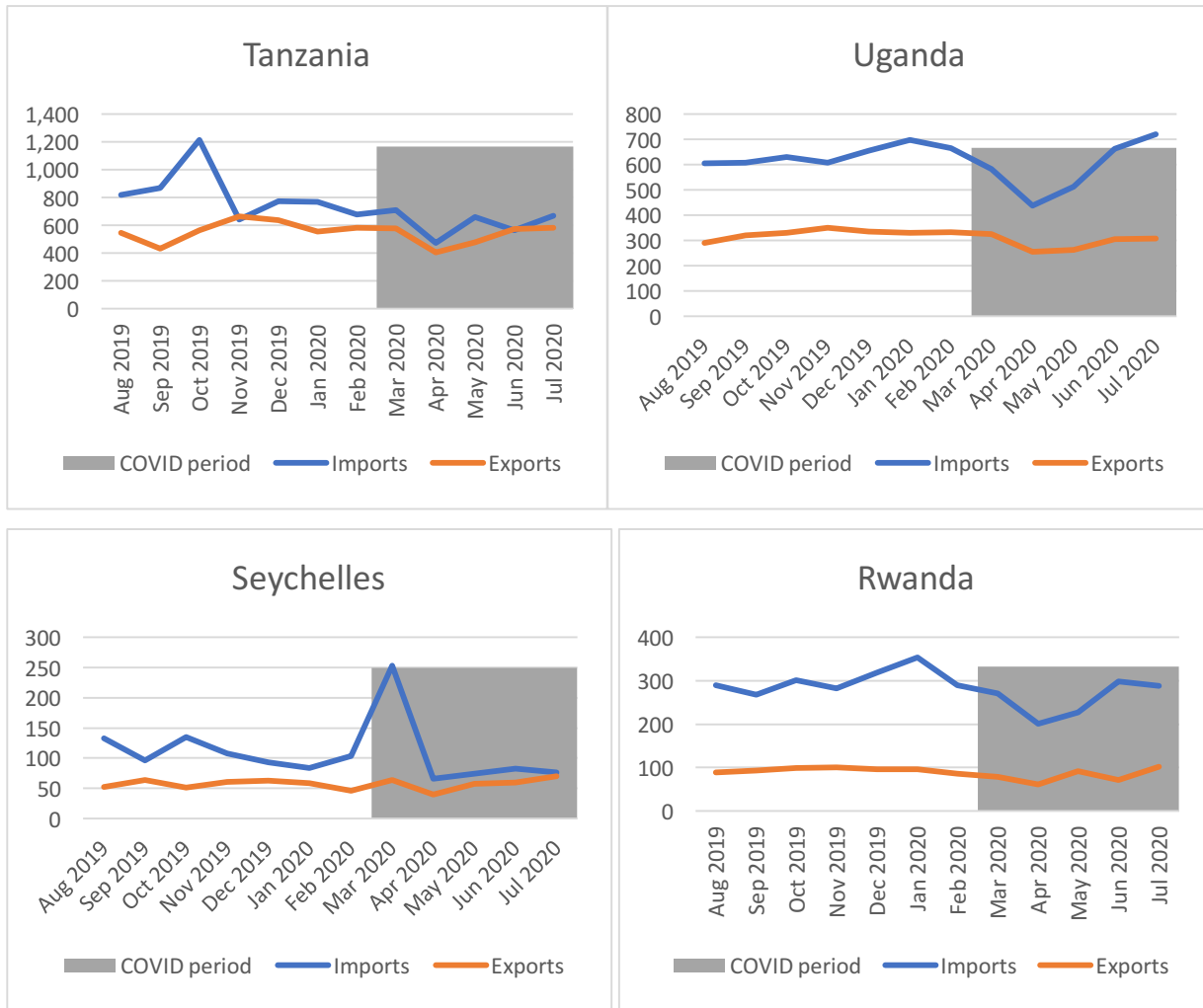
Source: IMF, World Bank

Note: Figures for 2018, except where denoted *, which are for 2017

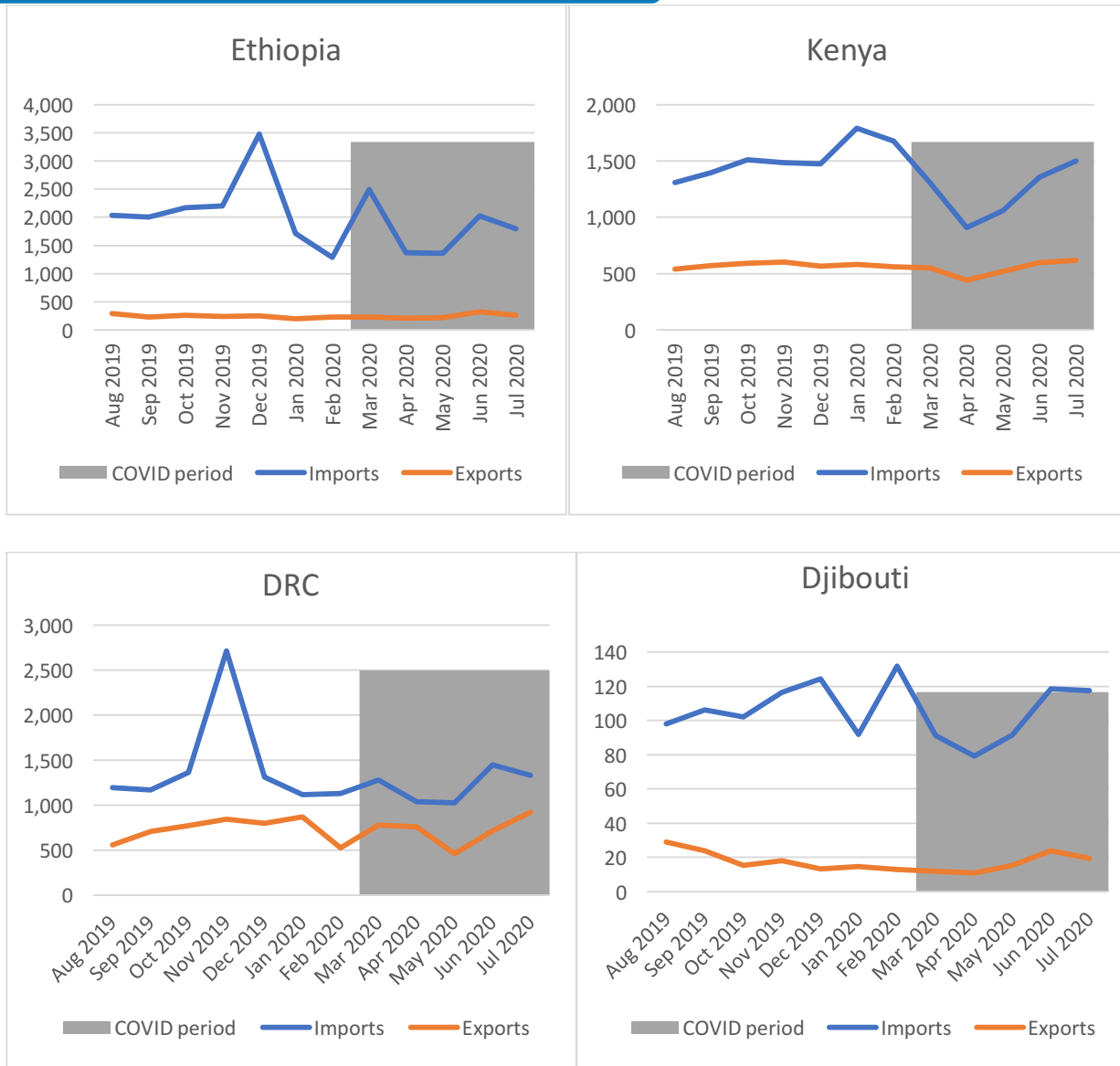
1.3 An uneven recovery between merchandise and service trade.

According to the data across the region, formal merchandise trade (imports and exports) values have recovered sharply from the declines in the second quarter of 2020 (Figure 3). However, informal cross border trade is yet to recover because the borders in the region remained closed to passenger travel. Likewise, services trade performance has remained dismal for countries in the region, mainly due to the sharp drop in tourism. The sector remains severely depressed is yet to recover to pre-COVID level, tourist arrivals in Seychelles and Kenya were down 94% and 91% between August 2020 and August 2019 (Figure 4).

Figure 3: Goods Trade in Eastern Africa (USD, Million)



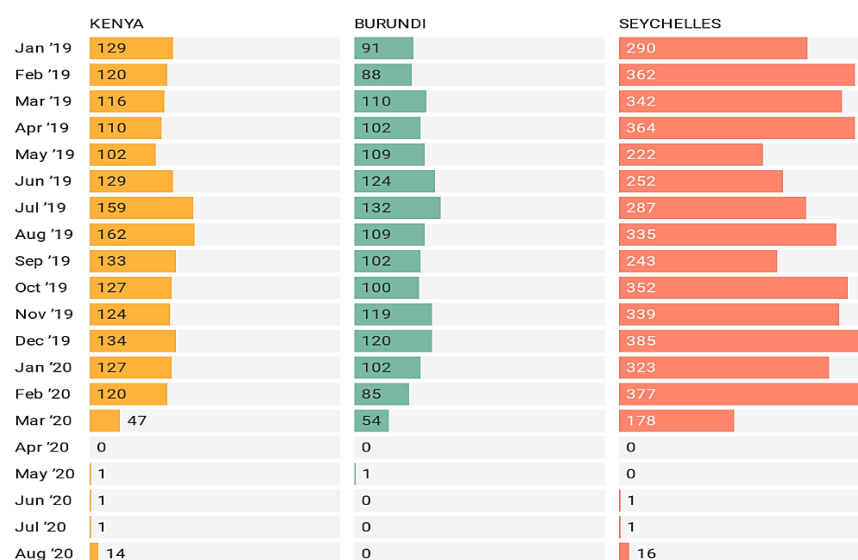
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Source: IMF DOTS (2020)²

² IMF DOTS data is imputed where no national data is available (by mirroring reported imports in other countries)

Figure 4: Tourist arrivals (thousands), January 2019 – August 2020



Source: Banque de la République du Burundi, Bank of Tanzania, Bank of Uganda, Kenya Revenue Authority, National Institute of Statistics Rwanda, Seychelles National Bureau of Statistics,















2.0 Social Impacts

While this report is largely focused on the economic impacts of the COVID-19 crisis, it is important to reflect on the health and social implications for Eastern Africa. The pandemic and resulting crisis threaten to reverse some of the region's development gains of the last decade and challenge progress to the SDGs.

2.1 Relatively low health impact in the region

From a direct public health perspective, the region continues to be one of the least affected on the continent. As of October 2020, most countries in the region had confirmed infection and death rates significantly below the continental average (Figure 5). This could be partially attributed to the strict containment measures adopted early on by some countries to mitigate the spread of the and its relatively youthful population. However, the rate of testing is also relatively low.

Figure 5: Status of COVID-19 as at 7 October 2020

Country	Cases per mn	Deaths per mn	Total Cases	Health Exp per cap	Hospital beds per 1000
 Djibouti	5,489	62	5,423	70	1.4
 Seychelles	1,505	0	148	792	3.6
 Kenya	736	14	39,586	77	1.4
 Ethiopia	696	11	80,003	25	0.3
 Madagascar	600	9	16,600	25	0.2
 Comoros	565	8	491	58	2.2
 Rwanda	376	2	4,873	49	1.6
 South Sudan	244	5	2,734		
 Somalia	236	6	3,745		0.9
 Uganda	199	2	9,082	39	0.5
 DR Congo	120	3	10,778	19	0.8
 Eritrea	112	0	398	33	0.7
 Burundi	43	0	514	24	0.8
 Tanzania	9	0	509	34	0.7
Eastern Africa	390	6	174,884	41	
Africa	1,141	28	1,528,213	114	1.8

Source: WHO, Our World in Data (2020), Global Health Expenditure database (2020), World Health Statistics (2020)

Note: Latest available statistics are: Health Expenditure USD (2017) and resource density (2006 – 2018)

However, this crisis has at the same time exposed critical gaps in the regional health system. In terms of the financing, quality and adequacy of the health system, the region was unfortunately ill-prepared for a pandemic. Most Eastern African economies spend less than USD50 per capita on health, which is less than half of the African average. Further reflecting the relatively low healthcare spending are the low density of public health resources in the region. Seven countries in the region are well below the African average of 1.8 beds, which itself is far from the EU rate of 5.1 beds per 1000 inhabitants (OECD and EU, 2018). Furthermore, the shortage of healthcare workers in most countries (with less than 3 medical doctors per 10 000 inhabitants) is a serious constraint and increases the risk of fatalities in case of an upsurge in infections. Communicable diseases were already the leading cause of deaths in Eastern Africa prior to the recent crisis. In 2016, these diseases, along with maternal, perinatal and nutrition conditions accounted for more than half of deaths in the region. This is rate is likely to increase this year due to COVID-19 and due to the diversion of already scarce medical resources to fight the current pandemic.

Despite these limitations, most countries in the region have, up to this point, effectively avoided the worst predictions for the spread of the virus. Besides the lockdown restrictions, other measures commonly adopted across the region to flatten the virus include, inter alia: (i) systematic quarantine of recent travellers and suspected cases; (ii) isolation of contacts of confirmed patients identified through rigorous tracing; (iii) Expansion of testing and laboratory facilities; (iv) Establishment of hotlines and call centres; (v) the mandatory use of facemasks. Individual countries have also implemented different measures and taken different approaches to reducing the impact of the pandemic.

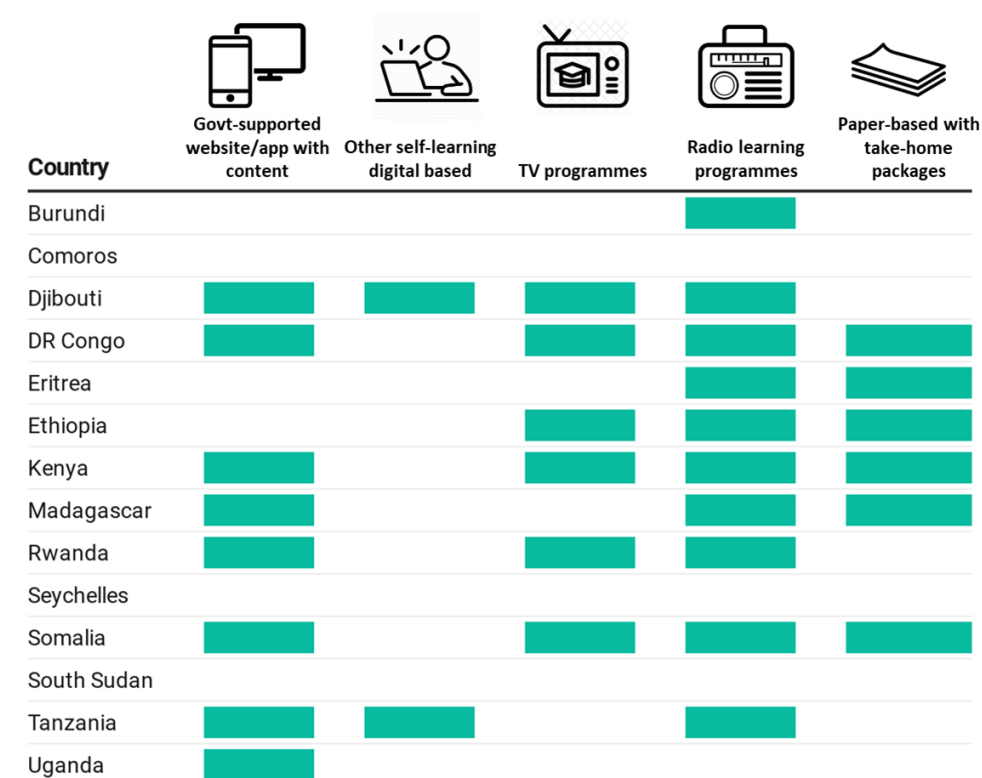
2.2 Heightened inequalities in education access and opportunities

In Eastern Africa, UNESCO (2020) estimates that closures of educational institutions impacted over 96 million learners. In aggregate, 49 percent of impacted learners across the region are female, and 79 percent are primary school-aged or younger. While it was necessary to protect students and their families from COVID-19, these disruptions had the potential to significantly slow progress to SDG 4 (Inclusive and Equitable Education for All). Researchers have predicted that the long-term social and

economic impacts of school closures in sub-Saharan Africa include a reduction in expected years of schooling from 4.9 to possibly 4.5 years, and significant lifetime earning losses of USD4,593 (or around 3 years of earnings) per child (World Bank, 2020). Furthermore, there are many other consequential impacts of reduced school attendance such as poor nutrition, increased exposure to violence and exploitation, childhood pregnancies, and increased challenges to mental development of children (UNICEF and WHO, 2020).

To minimize the devastating impact that school closures have on learning outcomes, many governments have introduced or ramped up remote teaching strategies. Distance learning solutions vary widely, from the fully online or digital to the offline and paper-based. Access to technologies such as internet, television, and radio is limited in low-income countries, especially among poorer households. Many governments in Eastern Africa opted for a hybrid solution, hoping to meet the needs of the widest possible range of students (Figure 6). Despite this, UNICEF estimates that at least 49% of students in East and Southern Africa were unable to access remote learning and thus have urged governments to prioritize the safe reopening of schools when they begin easing lockdown restrictions (UNICEF, 2020).

Figure 6: COVID-19 Response through Remote Education

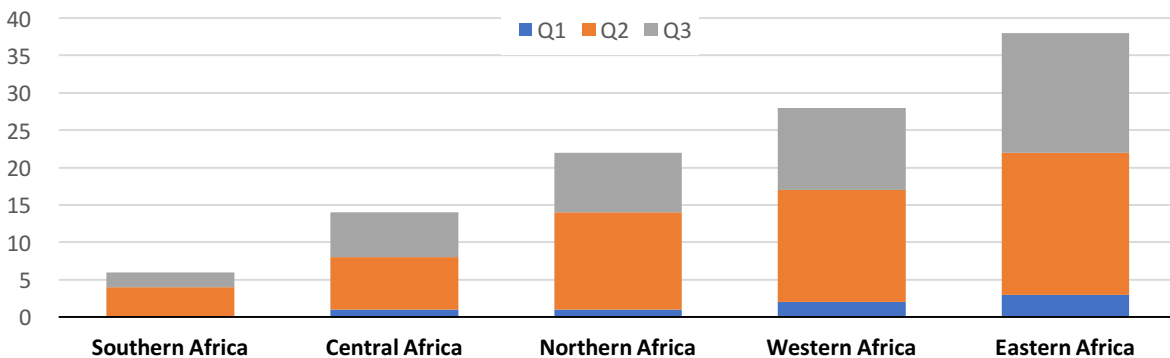


Source: UNECA analysis of UNICEF survey data via Innocenti (2020)

2.3 Dire employment situation and prospects for service workers

With respect to labour market impacts in Africa, Eastern Africa has been the worst hit region, with 38 million jobs lost (Figure 7). Several countries have adopted large-scale fiscal packages in response to the crisis, particularly notably to support incomes and businesses. Global estimates from ILO (2020a) indicate that, on average, an increase in the fiscal stimulus of 1 percent of annual GDP would have reduced working-hour losses by 0.8 percentage points in the second quarter of 2020. In Eastern Africa, estimates of the value of the fiscal stimulus expressed as a job equivalents show that the stimulus has been insufficient to replace the jobs lost in the region. The fiscal stimulus in Eastern Africa is estimated to have generated only 2 million jobs, only 5 percent of the jobs lost in the pandemic. By contrast, the fiscal stimulus in Southern Africa is estimated to have generated 33 percent of the jobs lost in that region.

Figure 7: Full-time jobs lost in 2020 (millions)



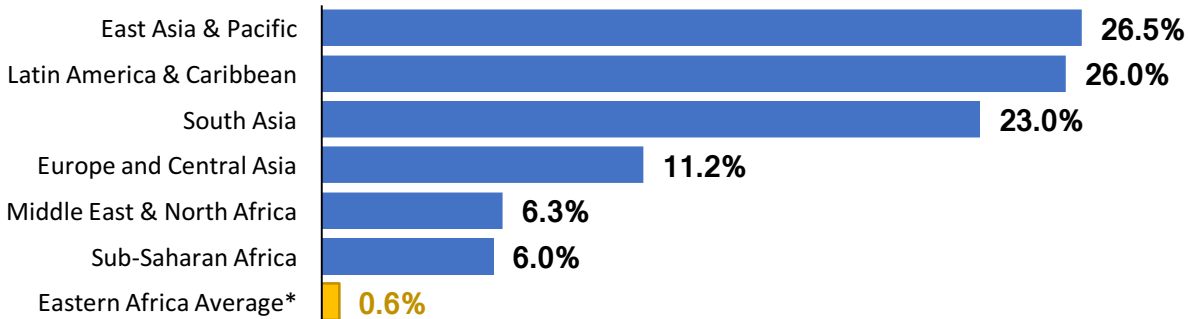
Source: ILO monitor 6th edition (2020)

2.4 Rise of responsive, yet short-term social protection

The global Sustainable Development Goals (1.3 and 3.8) and the African Union’s Agenda 2063 each promote social security floors as a core part of its development strategy. However, Africa’s health and income social security coverage are the lowest globally – and lower still in Eastern Africa (Figure 8). Some of the challenges include: low social protection budgets and limited fiscal space, poor targeting of the lowest-income or rural populations, high rate of informal employment, and rapid demographic and urbanisation changes (OECD, 2017). Income insurance programmes are only available to full-

time workers in formal employment, which is often limited to government schemes for public servants (ILO, 2020b). Workers in the informal sector would be more effectively supported through: (1) social assistance programmes, such as cash transfers, in-kind assistance, or subsidised access to essential goods and services; or (2) targeted assistance from local governments and NGOs (Gerard et al., 2020).

Figure 8: Public Spending on Social Assistance Programmes (% of GDP)



Source: World Bank ASPIRE database (2020)

Note: Eastern Africa figure is a straight average of available estimates from Djibouti (2015), Ethiopia (2017), Kenya (2017), Madagascar (2018), Rwanda (2016), Tanzania (2016) and Uganda (2016)

To soften the impact of widespread job losses, many governments in the region quickly reorganized budgets and sought international financing to support affected workers. For example:

- DR Congo provided free water and electricity to households for two months;
- Djibouti has provided cash transfers, food distribution and other interventions addressing the basic needs of vulnerable populations;
- Kenya's Ministry of Sports, Culture, and Heritage redirected almost USD1 million from an existing sports fund to support those in creative arts fields;
- Rwanda tapped into its decentralized local government network to quickly identify the families in most need for food and other essential items; and
- Seychelles' government guaranteed the jobs of 37,000 employees in the private and non-profit sectors and launched a programme to pay salaries for up to six months for many redundant workers.

These programmes, while responsive to the urgent needs emanating from the COVID-19 crisis, are expected to conclude within the next few months, if they have not already. This has demonstrated the

need for continuous contributory and non-contributory (government or aid-financed) social protection schemes that are both wide and deep (targeted) in coverage.

3.0 Recommendations and Conclusion

The analysis presented in this report shows the continuing and extensive impacts of the pandemic on the region. These impacts are expected to persist in the short term future, with a lot of uncertainty about the end of the pandemic. In response, policymakers will need to maintain support to the economy, especially the sectors that have been severely affected and to address the following key challenges.

First, maintaining the right balance and sequence of health and economic and social policy interventions continues to be critical. An untimely easing of preventative health measures creates a risk of extending the pandemic and thereby worsening its impact on the economy. Increased public expenditure and a narrowing tax base from limited economic activity have worsened the fiscal deficit, forcing governments to depend on COVID loans to meet their obligations. Mobilising additional concessional resources is therefore imperative for the financing gaps created by COVID shocks. Reallocation of meagre public finances is a priority for most countries to respond to COVID.

Second, It is important for policymakers in Africa to encourage digitalisation and digital trade. The pandemic has highlighted the importance of the digital economy and the challenge of the digital divide. Firms, employees and students with access to digital infrastructure have not been as economically affected by the pandemic as those with no access. Critical to the development of the digital economy is access to electricity and telecommunications. However, access to these digital infrastructure remains low in the region, most especially in rural areas. In the medium term, governments should invest in extending access to the digital infrastructure across the region to narrow this digital divide.

Third, the most recent data from the ILO monitor 6th edition(2020) has shown that policy interventions Eastern Africa have not been large enough to offset the job losses caused by the pandemic. Fiscal stimulus in the region has created only about 5% of the jobs lost to the pandemic. Policymakers will face the challenge of sustaining policy responses to counter the danger of growing poverty and job losses. Policymakers must maintain measures to support hard-hit sectors and groups, including women, youth and informal workers. Governments ought to implement expansionary fiscal policies including deferral mechanisms for tax payments, credit subsidies for firms, and expanded unemployment income support programs for households targeted support for vulnerable segments of the population (e.g. the elderly, low-income, informal workers, etc). Additionally, the governments

may manoeuvre within the available fiscal space to adjust VAT rates to favour industrialisation and SME recovery.

Fourth, given the concerns about debt sustainability in the region, it is critical to improve fiscal policy transparency by publishing complete and detailed information about supplementary budgets and budget allocations that are approved in response to the crisis, including emergency response and fiscal stimulus measures. Governments should make transparent both increases and reductions in public spending. Additionally, global support is needed for the Debt Service Suspension Initiative (DSSI) by bilateral official creditors which would, during a limited period, suspend debt service payments from the low-income countries. The DSSI would help to address immediate liquidity needs by providing more time for countries to assess and address debt sustainability issues adequately. Private bilateral creditors are encouraged to join this initiative.

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