SUPPORTING ECONOMIC TRANSFORMATION

A $100 billion stimulus to address the fall out from the coronavirus in Africa

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Key messages

- African leaders and the global community urgently need to agree a $100 billion financial stimulus for sub-Saharan Africa to address the fall-out from the coronavirus crisis.
- This is just 2.3% of the value of global stimulus packages announced so far, and worth 5.6% of sub-Saharan Africa GDP in line with the global average of stimulus to GDP of 5.1%.
- A stimulus with appropriate financial instruments will protect the most vulnerable livelihoods from the crisis.
- African countries need to step up and donors need to support them.
- The G20 should coordinate a major financial stimulus, and part of this should support Africa.

The costs Africa is facing

Sub-Saharan Africa is facing at least a $100 billion balance of payment shortfall in 2020 compared with what was previously forecast. The coronavirus crisis is still unfolding, and impacts are only slowly becoming clearer. But there will be considerable declines in trade revenues and financial flows this year, as well as other effects. All of this needs detailed examination, and the effects will differ markedly by country. Previous ODI SET analysis has examined which countries are most at risk to a global slowdown. Estimates also face uncertainty depending on the spread of the coronavirus in Africa itself, and there is separate analysis ongoing.

Trade. At current oil price levels, net oil exports will fall by at least $35 billion (the costs are $30 billion following the halving of the oil price, but prices have dropped by more). Other exports (and imports) of goods and services will also decline. There will be other effects. International tourism revenues were some $35 billion in 2018, and most of this is at risk this year. Transport services are under threat (e.g. ships not docking in Mombasa). IATA estimates that African airlines lose $4.4 billion this year. Countries will be affected differently.

Finance. FDI to sub-Saharan Africa could fall by 15% (if not more), according to UNCTAD, which represents a fall of some $7.5 billion. Much of portfolio flows worth more than $15 billion in 2018 is at risk (because of a flight to safety). Remittances may be under threat because jobs will be lost, potentially reducing remittances (currently worth some $48 billion in sub-Saharan Africa in 2018), though sometimes remittances are anti-cyclical. Cross-border bank lending will also be under threat. Bond yields will go up in vulnerable countries with high debt without more liquidity in financial markets such as those provided by the ECB in Europe. This will affect those countries linked into financial markets.

The total balance of payment effects could well be $100 billion (or 5.6% of GDP) and are likely to evolve further.

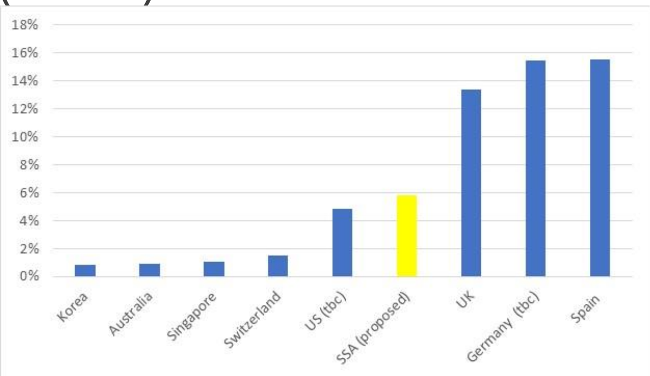
There will be other economic effects throughout African economies. For example, the lack of inputs and imported consumer goods through broken supply chains will push up prices, affecting real disposable income. Less trade also means fewer trade taxes. Domestic services such as transport and entertainment services will also go down. Stock prices have dropped globally, including in Africa, which makes it harder for African firms to attract finance. The production or value addition effects could be less than the total financing shortfall, but, with a likely 20% drop in 2020Q1 in Chinese GDP, declines in African GDP are hard to estimate. The economic and distributional consequences will differ by country and need further examination; such examination should also look at how societies, different groups of people (including the poorest) and different types of firms (including informal SMEs) are affected differently.

The size of an African stimulus compared with stimulus packages globally

The world is currently seeing efforts that will take the global stimulus to be at least $2.8 trillion, or some 3.3% of world GDP. In addition, the ECB and IMF have recently announced financial packages, making the total stimulus worth 5.1% of GDP.

A $100 billion stimulus for sub-Saharan Africa to address the balance of payments shortfall would be around 5.9% of African GDP, similar to the global average, and would be only 3.6% (or 2.3% if we include ECB, IMF) of the global stimulus (1% of the global stimulus is $26 billion). Now is the time to protect African lives by investing in the health sector and keeping African economies afloat.

Figure 1: Size of stimulus packages announced (% of GDP)



Source: ODI based on newspaper sources (some packages close to agreement; Africa: propose in this note).

Financial instruments (with examples from UK development cooperation)

The size, direction and appropriateness of instruments (e.g. loans, grants, other money creation mechanisms) will depend on the economic challenges and social needs. Country-specific analysis is needed to guide support in the future but a stimulus with scale and speed is necessary now. Any delay in stimulus will increase hardship for the poorest countries and people inside it. African countries themselves will need to contribute some of the stimulus, and further analysis is needed on current and desirable policy responses in African countries. However, many African countries and poor people within them have already become more indebted, face declining revenues and are less able to pay. In such a case, rapid disbursement of grants is crucial. Even if African countries contributed half of the stimulus, donors should contribute $50 billion to the stimulus.

Donors already support the response by the World Bank and IMF, which have announced packages worth $14 billion and $50 billion (of which $10 billion for the poorest), respectively. The Africa component of these is not clear at this stage. Donors can support the RDBs; however, so far AfDB has not yet announced a stimulus, see this ODI inventory.

There are other financial instruments. CDC, the UK's DFI, announced in January 2020 it would invest £2 billion over 2020–2021. It is essential that DFIs are counter-cyclical and can support trade finance.

Bilateral UK aid to Africa is close to £3 billion annually. UK could scale up social protection bilaterally (cash transfers). Donors could perhaps use mobile money solutions while building on African policy responses. The value of remittances and FDI depends on private individuals and firms, and is still unfolding. Unfortunately, the drop in the pound does not help.

Financial flow	UK example	Global examples
Aid	Bilateral aid to Africa = £2.9 billion in 2018	Total ODA to Africa is $52.8 billion in 2017
	Multilateral and regional aid to IMF, World Bank, RDBs such as AfDB	
DFI	CDC (new investments of £752 million in 2018) now promising £2 billion per year in 2020 and 2021. Could do more on trade finance	EIB new investments $1.3 billion in SSA in 2018, $3.4 billion to Africa IFC $1.4 billion to SSA $1.9 billion to Africa
FDI	UK FDI (2009-2018) = £765 million in 2018	FDI flows to Africa $46 billion in 2018
Remittances	UK to Africa = $7 billion in 2015	Remittances to Africa: $46 billion (2018)

It is important to analyse economic and social challenges. For example, are the constraints around liquidity of firms or loss of jobs by workers? Can a stimulus protect the environment and support inclusive and sustainable economic transformation, so that countries emerge from this crisis in better shape? How can a stimulus support new, clean industries and energy and transport systems that are more resilient to oil price shocks in the future, and a more transformative and higher quality type of growth? How can a stimulus best support the health sector and similar international public goods? Which countries need support the most? How can a stimulus best reach the poorest, some of whom do not have mobile money solutions? Which countries face the largest poverty effects? How is the sector and rural–urban transformation profile of countries affected? The stimulus is likely to have red, blue and green elements. We now need a rainbow stimulus to support African efforts.

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