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The Financial Implication on the Global COVID 19 Pandemic on African Countries

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Abstract

The coronavirus pandemic continues to take its toll on the African continent. While the continent as a whole still accounts for relatively few deaths from the disease, the numbers are rising, with more than 4,700 confirmed cases and 127 deaths. As countries scramble to contain the virus and are affected by the efforts of other countries to do the same the economic impacts grow. Even before the outbreak, the outlook for the world economy and especially developing countries like Nigeria was fragile, as global GDP growth was estimated to be only 2.5 percent in 2020. While many developing countries have recorded relatively fewer cases, Nigeria currently has 238 confirmed cases and 5 deaths as of this writing, the weak capacity of health care systems in these countries is likely to exacerbate the pandemic and its impact on their financial economies.

Keywords: Global COVID 19 Pandemic Public Financial Administration, Economic Management, Financial Implication, Development Economics

1.0 INTRODUCTION

The number of new infections and deaths continues to rise rapidly and, as yet, there are no signs of Covid-19 being brought under control. Whilst the vast majority of infections and deaths have thus far occurred in China, concern is rising across the world that a global pandemic is upon us. Businesses in African Countries have been severely impacted. Shopping malls and restaurants are deserted, whilst travel and tourism revenues have collapsed. It is possible that Covid-19 may burn out as temperatures start to rise during Spring and into Summer in the northern hemisphere, but at this point, nobody knows. It is therefore important that businesses are proactive in assessing their capability to withstand disruption from both an operational and a financial standpoint, and that they act decisively to mitigate actual or potential issues. This article addresses the financial impact of Covid-19.

Africa is expected to see a dip in its GDP growth rate of between five and eight percentage points, due to the novel coronavirus outbreak, a study warned. "Africa's economies could experience a loss of between $90 billion and $200 billion in 2020," according to a study entitled Tackling COVID-19 in Africa, which was released this week by global auditing firm McKinsey & Company's experts. Noting that these losses stemmed mostly from cuts in private spending and widespread travel bans in Africa, as well as supply-chain disruptions, lowered demand for the continent's non-oil exports, and delays or cancelations foreign investments caused by the ongoing epidemic, the report argued that roughly 15% were due to "oil-price effects." "Africa is likely to experience delayed or reduced foreign direct investment (FDI) as partners from other continents redirect capital locally," it added.

While the economic impact of the virus, alongside the oil price shocks, are expected to be serious acros Africa, the study predicts that these effects will manifest "differently in different countries," such as Nigeria, South Africa, and Kenya. "If leaders across sectors translate their already proven resolve into more targeted, collaborative action in the coming weeks, we believe they can make significant progress in mitigating the economic impact of the pandemic," said the study. "To help them do so, we suggest an organizing framework for action," the study stressed.

1.2 Mitigating Impact

The report advised African governments and development partners to "explore several far-reaching solutions, such as stimulus packages or economic development plans "modeled on the Marshall Plan that provided aid to Europe following World War II." It also recommended an "Africa Solidarity Fund"

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that would allow businesses and individuals to contribute to relief efforts for "the most vulnerable households and businesses."

Further, a liquidity fund for the private sector could be established to offer grants, loans or debt for equity swaps to "support businesses and limit job losses." As demand for personal protective gear against the virus mounts, the report also advised governments to form a common African platform to "procure medical supplies and equipment to combat the pandemic could provide an Africa-wide solution to challenges that each individual country is trying to address." According to the study, the deadly contagious disease has infected roughly 5,300 cases across 47 African nations as of March 31. "Even though the rate of transmission in Africa to date appears to be slower than that in Europe, the pandemic could take a heavy toll across the continent if containment measures do not prove effective," the study warned. Since appearing in Wuhan, China, last December, the novel coronavirus has spread to at least 181 countries and regions, according to data compiled by the U.S.-based Johns Hopkins University. The data shows more than one million cases have been reported worldwide so far, with the global death toll around 58,000, and recoveries over 225,400.

2.0 GROWTH AND INCOME ANALYSIS

McKinsey proposes different scenarios for Africa's growth in the wake of COVID-19. Before the crisis, the 2020 growth estimate for the continent was 3.9 percent. In the "least-worst case," characterized by the outbreak being somewhat contained both globally and in Africa, growth drops to 0.4 percent. In other scenarios (including a lack of containment globally and in Africa), the rate drops as low as -3.9 percent. The scenarios explicitly do not take into account either fiscal stimulus packages or currency devaluations.

Breisinger and others estimate monthly GDP losses for Egypt under a range of scenarios, with estimates around 0.7 to 0.8 percent.

2.1 Sector and sub-population analysis

The World Food Programme's analysis for West and Central Africa highlights that 2019/2020 had been a strong agricultural season "with overall higher than average production of cereals," which is good for food security. But despite that, the "consumer price index for food is at its highest since 2008 in the Monetary Union of West Africa zone." They talk about informality, remittances, and migration, and here's their take on agriculture:

"More than 80 percent of rural population rely on subsistence farming in West and Central Africa. The 2020 off season harvests should be reaching markets and providing substantial incomes of stallholder farmer. However, market closure, restriction on internal and cross borders movement limit markets access. Planting period starts in May/June for the main agricultural season while the Covid-19 epidemic is forcing governments to cut agricultural expenses and to prioritize health-related expenditures. If the above-mentioned restrictions continue, famers won't have access to market to buy good quality seeds and fertilizers."

Reardon, Bellemare, and Zilberman propose seven ways that COVID-19 will likely affect the food supply. They also discuss policy paths for the short, medium, and long run: "In the short run, implement new, broad safety nets for SMEs and workers in the midstream and downstream segments of FSCs; for example, governments could use cash-for-work schemes to employ workers to distribute emergency food rations, upgrade sanitation in wholesale markets and wet markets, and maintain essential operations in their own enterprises so that the latter are there when the crisis passes."

In Kenya, day laborers are dramatically affected, according to Mpungu's Al Jazeera report: "The coronavirus containment measures are expected to bring additional economic hardship in a country where … informal labourers account for 83.6 per cent of the total workforce." Resnick highlights dangers for informal traders during lockdowns: "African governments have a history of cracking down on informal traders, especially during public health outbreaks. When the Zambian government used the military to close down markets during Lusaka's 2018 cholera outbreak, farmers who sold their fresh produce to informal traders lost a significant amount of income."

Kestler-D'Amours at Al Jazeera highlights the particular dangers in Africa's refugee camps: "Scary, distressing, catastrophic: A bleak assessment by experts, humanitarians and epidemiologists on what a severe coronavirus outbreak would look like in countries across Africa sheltering millions of refugees

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and other vulnerable people." She reports that the UN High Commissioner for Refugees is taking steps to change the crowd dynamics in camps.

Turse writes that Burkina Faso, the first country to suffer a COVID-19 fatality, faces "a new kind of threat to a country wracked by a war that has displaced around 700,000 Burkinabe in the last year. Many of those people now find themselves under great physical and emotional strain, lacking proper shelter, food, and the other necessities — all of which makes them more vulnerable to the pandemic."

2.1 Economic policy responses

Various countries are implementing social safety net policies, as reported by Gentilini: Uganda is allowing businesses to reschedule social security contributions, Namibia is offering an emergency income grant to workers who lost jobs, Cabo Verde is offering cash transfers and food assistance, and the Central Bank of West African States has abolished a number of transaction fees. Dell'Ariccia and others at the International Monetary Fund propose three key objectives of economic policy in the face of COVID-19—guarantee functioning of essential sectors, provide resources for people hit by the crisis, and prevent excessive economic disruption. At the end of their post, they propose a series of economic policy options to target households, businesses, and the financial sector.

Zimbabwe entered a COVID-19 lockdown this week, following other countries. Dzirutwe reports that "unlike in South Africa, where many citizens defied calls to stay indoors with some clashing with security forces at the weekend, Zimbabweans mostly stayed home... Central Harare's streets were deserted. Banks, government offices and businesses were shut. Kenya has proposed tax relief and governments leaders are accepting pay cuts, as reported by Golubski.

3.0 COVID 19 FINANCIAL IMPACT ON AFRICA

3.1 World Bank Group Supports Ghana's COVID-19

The World Bank is providing $100 million to Ghana to assist the country in tackling the COVID-19 pandemic. This $100 million will be made available to the government and the people of Ghana as short, medium and long-term support. This financing package includes $35 million in emergency support to help the country provide improved response systems. Under this emergency package the World Bank will support the Government of Ghana to help prevent, detect, and respond to the COVID-19 pandemic through the Ghana Emergency Preparedness and Response Project (EPRP).

The EPRP will help strengthen Ghana's National Laboratories by providing robust systems for the early detection of COVID-19 cases and providing real time disease surveillance and reporting systems of outbreaks. It will also improve response systems by providing social and financial support and free health services to COVID-19 patients and families who are isolated or quarantined. Finally, the project will focus on risk communications and community engagement for increased awareness and compliance with prevention measures engaging the Ministry of Health, Ghana Health Service, Ministry of Information and other agencies.

"We are working with the government through this fast track facility to support the country's efforts to slow transmission, prevent outbreaks and provide better-quality care for all patients, especially the seriously ill," said World Bank Country Director, Pierre Laporte. "It's crucial that we all work together with other partners to help minimize the negative impact of the pandemic on health systems, social services and economic activities."

In addition to the emergency facility, a $65 million contingency emergency response component) was triggered from the Greater Accra Resilient and Integrated Development Project (GARID). This contingency financing will support critical activities such as laboratory equipment and chemicals essential medical equipment and supplies including test kits and personal protection equipment. The World Bank Group is rolling out a $14 billion fast-track package to strengthen the COVID-19 response in developing countries and shorten the time to recovery. The immediate response includes financing, policy advice and technical assistance to help countries cope with the health and economic impacts of the pandemic. The IFC is providing $8 billion in financing to help private companies affected by the pandemic and preserve jobs. IBRD and IDA are making an initial $6 billion available for the health-response. As countries need broader support, the World Bank Group will deploy up to $160 billion over 15 months to protect the poor and vulnerable, support businesses, and bolster economic recovery.

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The World Bank's International Development Association (IDA), established in 1960, helps the world's poorest countries by providing grants and low to zero-interest loans for projects and programs that boost economic growth, reduce poverty, and improve poor people's lives. IDA is one of the largest sources of assistance for the world's 76 poorest countries, 39 of which are in Africa. Resources from IDA bring positive change to the 1.6 billion people who live in IDA countries. Since 1960, IDA has supported development work in 113 countries. Annual commitments have averaged about $21 billion over the last three years, with about 61 percent going to Africa.

3.2 COVID-19 Drives Sub-Saharan Africa

Growth in Sub-Saharan Africa has been significantly impacted by the ongoing coronavirus outbreak and is forecast to fall sharply from 2.4% in 2019 to -2.1 to -5.1% in 2020, the first recession in the region over the past 25 years, according to the latest Africa's Pulse, the World Bank's twice-yearly economic update for the region.

"*The COVID-19 pandemic is testing the limits of societies and economies across the world, and African countries are likely to be hit particularly hard*," said Hafez Ghanem, World Bank Vice President for Africa. "*We are rallying all possible resources to help countries meet people's immediate health and survival needs while also safeguarding livelihoods and jobs in the longer term – including calling for a standstill on official bilateral debt service payments which would free up funds for strengthening health systems to deal with COVID 19 and save lives, social safety nets to save livelihoods and help workers who lose jobs, support to small and medium enterprises, and food security.*"

The Pulse authors recommend that African policymakers focus on saving lives and protecting livelihoods by focusing on strengthening health systems and taking quick actions to minimize disruptions in food supply chains. They also recommend implementing social protection programs, including cash transfers, food distribution and fee waivers, to support citizens, especially those working in the informal sector. The analysis shows that COVID-19 will cost the region between $37 billion and $79 billion in output losses for 2020 due to a combination of effects. They include trade and value chain disruption, which impacts commodity exporters and countries with strong value chain participation; reduced foreign financing flows from remittances, tourism, foreign direct investment, foreign aid, combined with capital flight; and through direct impacts on health systems, and disruptions caused by containment measures and the public response.

While most countries in the region have been affected to different degrees by the pandemic, real gross domestic product growth is projected to fall sharply particularly in the region's three largest economies – Nigeria, Angola, and South Africa as a result of persistently weak growth and investment. In general, oil exporting-countries will also be hard-hit; while growth is also expected to weaken substantially in the two fastest growing areas the West African Economic and Monetary Union and the East African Community due to weak external demand, disruptions to supply chains and domestic production. The region's tourism sector is expected to contract sharply due to severe disruption to travel. The COVID-19 crisis also has the potential to spark a food security crisis in Africa, with agricultural production potentially contracting between 2.6% in an optimistic scenario and up to 7% if there are trade blockages. Food imports would decline substantially (as much as 25% or as little as 13%) due to a combination of higher transaction costs and reduced domestic demand.

Several African countries have reacted quickly and decisively to curb the potential influx and spread of the coronavirus, very much in line with international guidelines. However, the report points out several factors that pose challenges to the containment and mitigation measures, in particular the large and densely populated urban informal settlements, poor access to safe water and sanitation facilities, and fragile health systems. Ultimately, the magnitude of the impact will depend on the public's reaction within respective countries, the spread of the disease, and the policy response. And these factors together could lead to reduced labor market participation, capital underutilization, lower human capital accumulation, and long-term productivity effects.

"*In addition to containment measures, we have seen that in responding to COVID-19, countries are opting for a combination of emergency fiscal and monetary policy actions with many central banks in the region taking important actions like cutting interest rates and providing extraordinary liquidity assistance*," said Albert Zeufack, Chief Economist for Africa at the World Bank. *"However, it is important to ensure that* *fiscal policy builds in space for social protection interventions, especially targeting workers in the informal sector, and sows the seed for future resilience of our economies*."

The authors emphasize the need for a customized policy response to reflect the structure of African economies (especially the large informal sector) and the peculiar constraints policymakers currently face, particularly the deteriorating fiscal positions and heightened public debt vulnerabilities, and the overall low operational capacity to respond. "*The immediate measures are important but there is no doubt there will be need for some sort of debt relief from bilateral creditors to secure the resources urgently needed to fight COVID-19 and to help manage or maintain macroeconomic stability in the region*," said Cesar Calderon, Lead Economist and Lead author of the report.

Due to the COVID-19 pandemic, economic circumstances within countries and regions are fluid and change on a day-by-day basis. The macroeconomic analysis in the report is based on data available by the first quarter of March 2020. The World Bank Group is taking broad, fast action to help developing countries strengthen their pandemic response, increase disease surveillance, improve public health interventions, and help the private sector continue to operate and sustain jobs. It is deploying up to $160 billion in financial support over the next 15 months to help countries protect the poor and vulnerable, support businesses, and bolster economic recovery.

3.3 The Impact On Nigerian Economy

Before the pandemic, the Nigerian government had been grappling with weak recovery from the 2014 oil price shock, with GDP growth tapering around 2.3 percent in 2019. In February, the IMF revised the 2020 GDP growth rate from 2.5 percent to 2 percent, as a result of relatively low oil prices and limited fiscal space. Relatedly, the country's debt profile has been a source of concern for policymakers and development practitioners as the most recent estimate puts the debt service-to-revenue ratio at 60 percent, which is likely to worsen amid the steep decline in revenue associated with falling oil prices. These constraining factors will aggravate the economic impact of the COVID-19 outbreak and make it more difficult for the government to weather the crisis.

3.3.1 Aggregate demand will fall, but government expenditure will rise

In Nigeria, efforts were already being made to bolster aggregate demand through increased government spending and tax cuts for businesses. The public budget increased from 8.83 trillion naira ($24.53 billion) in 2019 to 10.59 trillion naira ($29.42 billion) in 2020, representing 11 percent of the national GDP, while small businesses have been exempted from company income tax, and the tax rate for medium-sized businesses has been revised downwards from 30 to 20 percent. Unfortunately, the COVID-19 crisis is causing all components of aggregate demand, except for government purchases, to fall (Figure 1).

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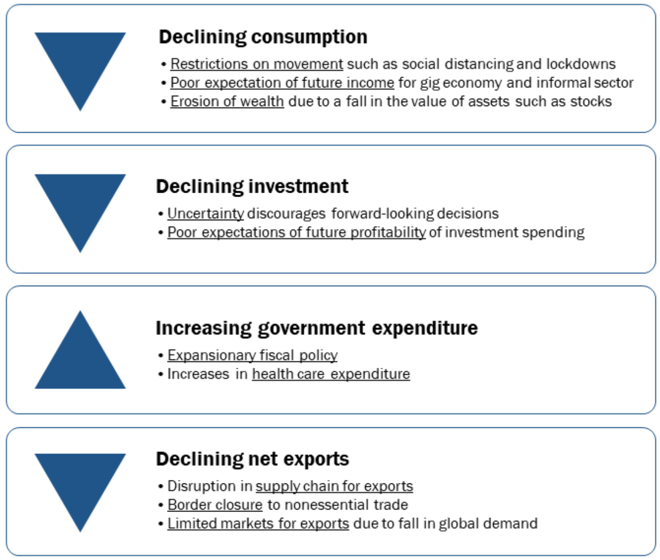
Figure 1. How the COVID-19 pandemic affects the components of aggregate demand



The fall in household consumption in Nigeria will stem from 1) partial (or full) restrictions on movement, thus causing consumers to spend primarily on essential goods and services; 2) low expectations of future income, particularly by workers in the gig economy that are engaged on a short-term/contract basis, as well as the working poor in the informal economy; and 3) the erosion of wealth and expected wealth as a result of the decline in assets such as stocks and home equity. The federal government has imposed a lockdown in Lagos and Ogun states as well as Abuja (which have the highest number of coronavirus cases combined). Subnational governments have quickly followed suit by imposing lockdowns in their states. Nigeria has a burgeoning gig economy as well as a large informal sector, which contributes 65 percent of its economic output. Movement restrictions have not only reduced the consumption of nonessential commodities in general, but have affected the income-generating capacity of these groups, thus reducing their consumption expenditure.

Investments by firms will be impeded largely due to the uncertainties that come with the pandemic-limited knowledge about the duration of the outbreak, the effectiveness of policy measures, and the reaction of economic agents to these measures—as well as negative investor sentiments, which are causing turbulence in capital markets around the world. Indeed, the crisis has led to a massive decline in stock prices, as the Nigerian Stock Exchange records its worst performance since the 2008 financial crisis, which has eroded the wealth of investors. Taking into consideration the uncertainty that is associated with the pandemic and the negative profit outlook on possible investment projects, firms are likely to hold off on long-term investment decisions.

On the other hand, government purchases will increase as governments, which typically can afford to run budget deficits, utilize fiscal stimulus measures to counteract the fall in consumer spending. However, for governments that are commodity dependent, the fall in the global demand for commodities stemming from the pandemic will significantly increase their fiscal deficits. In Nigeria's case, the price of Brent crude was just over $26 a barrel on April 2, whereas Nigeria's budget assumes a price of $57 per barrel and would still have run on a 2.18 trillion naira ($6.05 billion) deficit. Similarly, with oil accounting for 90 percent of Nigeria's exports, the decline in the demand for oil and oil prices will adversely affect the volume and value of net exports. Indeed, the steep decline in oil prices associated with the pandemic has necessitated that the Nigerian government cut planned expenditure. In fact, on March 18, the minister of finance announced a 1.5 trillion naira ($4.17 billion) cut in nonessential capital spending.

The restrictions on movement of people and border closures foreshadow a decline in exports. Already, countries around the world have closed their borders to nonessential traffic, and global supply chains for exports have been disrupted. Although the exports of countries that devalue their currency due to the fall in the price of commodities (like Nigeria), will become more affordable, the limited markets for nonessential goods and services nullifies the envisaged positive effect on net exports.

3.3.2 What are the Policy Responses by the Nigerian Government?

Already, the Central Bank of Nigeria (CBN) has arranged a fiscal stimulus package, including a 50 billion naira ($138.89 million) credit facility to households and small and medium enterprises most affected by the pandemic, a 100 billion naira ($277.78 million) loan to the health sector, and a 1 trillion naira ($2.78 billion) to the manufacturing sector. In addition, the interest rates on all CBN interventions have been revised downwards from 9 to 5 percent, and a one-year moratorium on CBN intervention facilities has been introduced, effective March 1. With oil being Nigeria's major source of foreign exchange, amid the steep decline in oil prices, the official exchange rate has been adjusted from 306 to 360 naira. The exchange rate under the investors and exporters (I&E) window has also been adjusted from 360 to 380 naira in order to unify the exchange rates across the I&E window, Bureau de Change, and retail and wholesale windows. Furthermore, the government has introduced import duty waivers for pharmaceutical companies and increased efforts toward ensuring that they receive forex.

3.3.3 What Other Policy Responses Can be Implemented?

Given the size and scope of the economic impact of the pandemic, there is the need to implement other recovery strategies to stimulate demand. Thus, we recommend the following fiscal and monetary policy measures:

- Although there is a cash transfer program in place, the federal government should improve efforts towards enhancing the efficiency and effectiveness of the distributive mechanisms to reach households that are worst-hit by the pandemic.

- The Federal Inland Revenue Service (FIRS) as well as State Inland Revenue Services (SIRS) should waive payments on personal and corporate income tax for the second quarter of 2020, considering that the shock has affected the income and profits of households and businesses.

- The CBN's decision to increase the cash reserve ratio (CRR) from 22.5 percent to 27.5 percent in January 2020 should be revisited to provide liquidity for banks so that banks can, in turn, create credit to the private sector.

- FIRS and SIRS should delay tax collection for the worse-hit sectors including tourism, the airline industry, and hoteliers in order to enable them recover from the steep decline in demand.

- To provide additional liquidity in the forex market, the CBN should establish a swap facility with the U.S. Federal Reserve and/or the People's Bank of China, as was done in 2018, to provide dollar and yen liquidity to financial institutions, investors, and exporters. This move would ease up forex shortage in the financial market and economy.

- While the naira has been adjusted as a result of the forex shortage, it is important that the CBN maintains exchange rate stability by deploying external reserves in order to avoid investors selling off naira-denominated assets.

The COVID-19 pandemic is a wake-up call to policymakers as the unusual and unprecedented nature of the crisis has made it impossible for citizens to rely on foreign health care services and more difficult to solicit for international support given the competing demand for medical supplies and equipment. A more integrated response spanning several sectors—including the health, finance, and trade sectors—is required to address structural issues that make the country less resilient to shocks and limit its range of policy responses. In the long term, tougher decisions need to be made, including but not limited to diversifying the country's revenue base away from oil exports and improving investments in the health care sector in ensuring that the economy is able to recover quickly from difficult conditions in the future.

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4.0 ECONOMIC POLICIES TO COMBAT COVID-19 IN AFRICA

The COVID-19 pandemic is likely to impose heavy human, financial, economic, and social costs on Africa. But the crisis also creates an opportunity to re-examine the continent's fiscal and economic-policy priorities, build stronger health and social sectors, and establish a global fund to support productive investment. The coronavirus pandemic could not have come at a worse time for Africa. Despite improved macroeconomic management over the last decade, the continent still lacks the resources to tackle high levels of poverty and inequality, create formal-sector jobs, and foster the structural transformations needed to absorb 12 million young people into the labor market every year. And now COVID-19 threatens to break Africa's back economically.

Africa's low average annual growth of 3.3% in 2014-19 was mainly the result of erroneous development strategies that focused on unviable capital-intensive industries (often in commodity sectors), instead of promoting competitive labor-intensive sectors. Insufficient growth has in turn constrained public finances, leading to underfunded health systems, weak governance, rapid increases in public debt, and large infrastructure deficits.

Given Africa's precarious health institutions, and its shortage of doctors, health workers, medicine, and medical supplies, COVID-19 infections are likely to soar, sparking a humanitarian crisis that most likely will go unreported. The virus could spread widely in poorer areas with no water or sewage hook-ups, and in communities where low education levels, prevailing social habits, and skepticism toward government complicate containment efforts. If a cure for COVID-19 is not made widely available soon, the pandemic could devastate Africa.

Moreover, the prolonged halt to economic activity in the G20 countries (some of which are facing deep recessions) will cause global growth to decelerate sharply. That will hit African exports, the main engine of the continent's growth, and worsen countries' trade and current-account balances. Worker remittances and foreign direct investment will decline, too, as the pandemic throttles advanced economies.

In addition, lower prices for oil, natural gas, metals, and minerals will significantly undermine the fiscal position of many large African economies, especially Nigeria, South Africa, Algeria, Cameroon, Angola, the Democratic Republic of the Congo, Equatorial Guinea, Chad, the Congo, and Tanzania. That will force governments to make painful macroeconomic adjustments at the most challenging time.

Worse, Africa's ability to use monetary and fiscal policies to mitigate the pandemic's economic impact is limited. Whereas governments and central banks around the world have adopted robust and often unprecedented short-run stimulus measures, most African countries lack the policy space and capacity to do so, or are constrained by monetary arrangements that prevent them from implementing national strategies.

True, a few countries such as Morocco, Ghana, Mauritius, and Kenya have initiated national stimulus programs while also launching structural reforms to improve their medium-term fiscal outlook. But such policies would be more effective if they were designed and implemented at the continental level.

In the short term, Africa needs greater fiscal space to boost health expenditures, contain the spread of COVID-19, help the hardest-hit sectors, and stimulate domestic consumption, while the continent's central banks should cut interest rates and channel liquidity to firms and households. But all spending measures should be implemented transparently, monitored by independent fiscal councils, and complemented by credible reform agendas that strengthen medium-term expenditure frameworks. To achieve these goals, African Union heads of state and government should hold an emergency virtual meeting to mobilize about 10% of the continent's gross domestic product ($250 billion), including from central banks and development banks, and coordinate spending across borders.

Continent-wide measures should also be adopted to improve coordination of national tax policies, increase collection, and boost economic growth so that all countries can strengthen their national health systems. In particular, speeding up implementation of the African Continental Free Trade Area would provide additional fiscal space. A recent study has shown that a few easily implementable trade-policy actions – such as eliminating current bilateral tariffs and all non-tariff barriers on goods and services within the continent, and reducing the time it takes to cross borders – would generate $134 billion per year, or 4.5% of Africa's GDP.

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Second, Africa needs a special international financing facility aimed at enhancing its future productivity growth. Such an initiative would support emergency spending on health systems in budget-constrained countries while also boosting domestic demand. In addition, it would help to finance the construction of profitable infrastructure in competitive sectors, thus laying the foundations for future industrialization and growth.

This facility could initially be funded with an endowment of $1 trillion from institutional investors, regional development banks, the private sector, and G20 governments. It would allocate global savings to high-return projects that have a significant impact on economic development and employment. Such a facility would eventually generate self-sustaining public financing for Africa's health and social sectors, reduce the widening gap between rich and poor, and make the continent an important contributor to global demand.

Third, existing monetary arrangements and financial-sector regulations that hamper external competitiveness – especially that of the 14 CFA franc zone countries whose currency is pegged to a strong euro – should be reformed to enable exchange-rate flexibility. Likewise, initiatives such as the US African Growth and Opportunity Act and the European Union's Everything but Arms, under which imports from Africa are duty- and quota-free, should be open to all African countries without political conditionality.

Finally, a comprehensive new debt-relief scheme should be considered for African countries with good governance. The continent currently has a total external and domestic debt stock of $500 billion, and the median debt-to-GDP ratio has risen from 38% in 2008 to 54% in 2018. By causing a collapse in exports and terms of trade, the COVID-19 pandemic is pushing African countries into negative *per capita* growth. Given the continent's financing needs and demographic growth, debt levels will quickly become unsustainable without debt forgiveness and policies to make Africa's debt more transparent and better managed.

The COVID-19 pandemic is likely to impose heavy human, financial, economic, and social costs on Africa. But the crisis also creates an opportunity to re-examine the continent's fiscal and economic-policy priorities, build stronger health and social sectors, and establish a global fund to support productive investment.

5.0 CONCLUSION

The Coronavirus (COVID-19) has resulted in mass production shutdowns and supply chain disruptions due to port closures in China, causing global ripple effects across all economic sectors in a rare "twin supply-demand shock". With South Africa having just reported its first cases of COVID-19, Africa is beginning to feel its full impact and plans to control and manage the humanitarian challenges of the virus are underway across the continent. Economically, the effects have already been felt - demand for Africa's raw materials and commodities in China has declined and Africa's access to industrial components and manufactured goods from the region has been hampered. This is causing further uncertainty in a continent already grappling with widespread geopolitical and economic instability.

The number of cases is reportedly slowing down in China, increasing expectations that it will eventually reach a plateau and be brought under control. However, in early March the Organisation for Economic Co-operation and Development noted that "annual global GDP growth is projected to drop to 2.4% in 2020 as a whole, from an already weak 2.9% in 2019, with growth possibly even being negative in the first quarter of 2020", with global markets plunging in the days thereafter. Although Chinese growth will fall in the short term, it is expected to rebound quickly, some suggesting this could even happen in the second quarter of 2020 when the virus will hopefully be contained. In the meantime, central banks are implementing measures to mitigate the effects of the virus on the economy, cutting interest rates and injecting liquidity into the banking systems in some countries.

In early March, the World Bank announced it would commit USD 12 billion in aid to developing countries to help them to deal with the impact of the virus and limit its spread. The Bank said it would prioritise the most at-risk countries. The World Bank also introduced a pandemic bond in 2017, which, as part of the Pandemic Emergency Finance Facility intended to provide money to help developing countries in the event of a pandemic reaching certain thresholds and conditions. So far, these criteria have not been met and the bond has not paid out. Uncertainty regarding the spread of COVID-19 is high and its impact on Africa is expected to be serious, given the continent's exposure to China. So far, cases have been reported in Algeria, Cameroon, Egypt, Morocco, Nigeria, Senegal, South Africa, Togo and Tunisia. If there is a widespread outbreak of COVID-19 in Africa it could overwhelm already weak healthcare systems in the region.

According to ratings agency, Fitch, the Coronavirus outbreak will have a downside risk for short term growth for sub-Saharan African growth, particularly in Ghana, Angola, Congo, Equatorial Guinea, Zambia, South Africa, Gabon and Nigeria - all countries that export large amounts of commodities to China.

5.1 Impact on Merger & Acquisition Activity

Africa has come through a period of prolonged political and economic uncertainty, but signs of future economic improvement, were pointing to a modest increase in M&A activity in Africa over the next few years. COVID-19 is likely to hamper this predicted upturn and result in increased short-term uncertainty in terms of how it will affect investment opportunities in Africa, the continent's productivity and consumer demand. There are other transactional risks. If the virus spreads rapidly in Africa, countries might have to introduce similar measures to those taken in China where areas were locked down, factories were shut, quarantines enforced and travel bans imposed. As such, these events could potentially be significant enough to trigger a change to the terms of an M&A transaction currently in progress, and deals could be delayed as a result. COVID-19 conditions could also cause delays to M&A due diligence, necessary for a transaction to progress to finalisation. Further, the virus could qualify as a force majeure event causing more delays or terminations.

There is hopeful the rebound from COVID-19 will coincide with the implementation of the African Continental Free Trade Area (AfCFTA) in July 2020, which should provide an additional boost to deal activity in Africa the coming years. The AfCFTA is the first continent-wide African trade agreement, with the potential to facilitate and harmonise trade and infrastructure development in Africa. This boost to the investment environment will be welcome after the additional uncertainty of dealing with COVID-19 impacts.

5.2 Impact on Capital Raising and IPOS

African issuers have been waiting several years for an improvement to political and economic instability in Africa before going ahead with any planned capital raising. As a case in point, Baker McKenzie's Global Transactions Forecast showed that there were no IPOs in South Africa in 2019. Also eroding investor confidence were the numerous global trade tensions, with capital raisers watching for signs of resolution before launching IPOs. With Africa looking to benefit from new global and regional trade agreements, the forecasts had been pointing to a potential recovery in capital markets in the next few years, but this might be delayed as the uncertainty around the impact of COVID-19 in Africa reaches its peak. IPOs in the region are therefore expected to decline, not directly because of the virus as is the case with equities, but because COVID-19 will have an effect on the underlying business case for IPO companies, which will impact on their ability to raise capital

5.3 Impact on Financial Institutions

Global financial institutions are currently assessing the impact of COVID-19 and reacting to its economic impact, ensuring they are able to adjust to new and unprecedented circumstances brought about by the virus. It remains to be seen whether the huge global economic downturn caused by decreased output in China will impact on African lenders and compel financial institutions on the continent to be more lenient towards borrowers and cut them some slack.

5.4 Impact on Local Markets

Since global economic growth is a key driver of commodity prices, local prices have been driven down by the virus's global impact. The uncertainty of the impact of COVID-19 on local markets is expected to lead to increased risk aversion from investors who are waiting to see its potential impact in Africa. On the plus side, a temporary fall in share prices provides opportunities for prudent investors.

5.5 Impact of the Insurance Sector

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Both businesses and individuals in Africa might find they are uninsured for any COVID-19 impacts as losses related to an epidemic or pandemic would usually not be covered in insurance policies, irrespective of whether the insurance covers business interruption, property damage, product losses or personal life and non-life insurance or even travel insurance. As COVID-19 is a new disease, it would not have been specifically listed in existing insurance contracts. Many business interruption policies will include clauses for extended damage, but it is unlikely that these extensions will provide coverage under the current circumstances. As such, the wording of policies should be carefully checked. Some insurance companies who provide cancelled event coverage that specifically includes references to epidemics or pandemics could be impacted. Reuters reported that financial services firm Jefferies estimated the insured cost of the Tokyo Olympics to be around USD 2 billion – including television rights, hospitality and sponsorship.

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