The African private sector in the COVID-19 crisis: impacts, responses and perspectives

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The African private sector in the COVID-19 crisis: impacts, responses and perspectives

In 2020, the COVID-19 crisis plunged Africa into an exceptional economic recession. Lockdown measures to contain the spread of the pandemic, combined with the slowdown in activity in its main trading partners and the drop in commodity prices, had a significant impact on the continent's growth. This paper aims to outline the impacts of the pandemic on Africa's private sector. Compared to the rest of the world, support programmes to protect the sector from the harmful consequences of the lockdown and the subsequent falling household incomes have been weak and patchy. Digitalisation only provided some form of resilience. Overall, African firms are largely unprotected against the fallout of the crisis, a reason why the recovery from the crisis will be much slower compared to other regions.

Introduction

In 2020, the COVID-19 crisis plunged Africa into an exceptional economic recession. Lockdown measures to contain the spread of the virus, combined with the slowdown in activity in its main trading partners and the drop in commodity prices, had a significant impact on the continent's growth: Africa's GDP declined by 1.5%, the sharpest decrease in more than 25 years. The impacts of the pandemic on Africa's private sector were severe. Compared to the rest of the world, support programmes to protect the sector from the harmful consequences of the lockdown have been weak in Africa. Consequently, many of Africa's private firms were hard hit by the crisis.

The aim of this paper is to unpack how the crisis has impacted on the private sector. It does so by not only describing the impacts of the crisis but by shedding some light on the policy response from governments and the practices of firms to deal with the economic fallout. As firms were dealing with shrinking revenues due to closures and falling household incomes, they received only very little support from their governments. Although digital platforms were rolled out quickly, they only provided little support.

The crisis affected the private sector in multiple ways

The pandemic's impact was felt across a wide range of sectors, all hit by the drop in external and/or domestic demand. Some activities were more heavily impacted, such as metal and mining, oil and gas – also affected by the drop in commodity prices –, as well as tourism and transportation – heavily affected by restrictions on international travel. In some places, border closures also led to the disruption of supply chains, with critical consequences for sectors such as industry and agriculture, whose production relies on imports of foreign inputs (with, for instance in the automotive industry, partial or total interruption of production). On the contrary, some companies operating in sectors on the frontlines of the COVID-19 response somehow benefitted from an increase in demand (mostly health, pharmaceuticals and telecommunications).

Policy responses in comparison: small and patchy

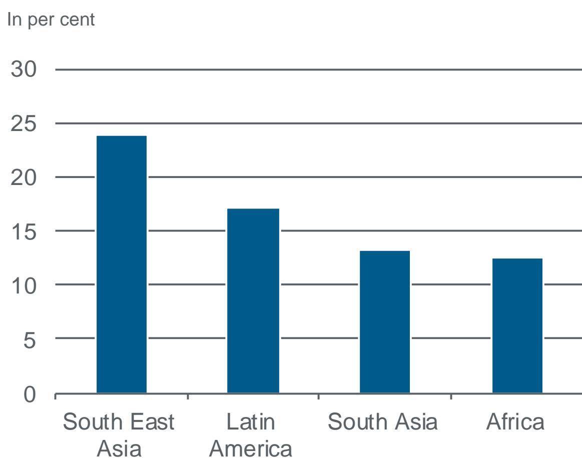
African governments adopted several measures to support companies and compensate loss of income due to lockdown. Temporary measures mainly consisted in reducing tariffs on key services such as water and electricity, accelerating the payment of invoices (or clearance of arrears) to provide hard-pressed firms with needed liquidity and deferring the payment of taxes or social security contributions. According to the IMF[1], countries such as Benin, Botswana, Cameroon, Chad, Ghana, Guinea, Ivory Coast, Namibia, Sierra Leone, Togo and Uganda were among the African countries that went for those temporary measures. Some other countries, more developed ones, were also able to implement loan guarantee programmes (South Africa, Morocco). Some others chose to relax prudential constraints, easing capital requirements (Botswana, Ghana) or delaying the transition to Basel III norms.

In addition, some authorities have relied on central banks to help provide emergency support. Monetary measures included reducing interest rates (by up to 500 bps in Zambia), injecting extra liquidity into the banking system (for a total amount comprised between 0.5 and 3% of GDP) and encouraging banks to provide temporary moratoriums on loan payments or restructuring of existing obligations. Yet monetary transmission is weak in many African countries where domestic financial markets are underdeveloped. The World Bank Business Pulse Survey[2] shows that credit as a form of government support only played a minor role. The response from companies saying that they received credit support ranged from 0.5% in Madagascar to about 9% in Nigeria. However, monetary measures helped the government by lowering their borrowing costs, which in turn helped to finance the fiscal measures.

However, because of the magnitude of the shock, these measures were not enough. Apart from a few cases, the capacity of countries to implement effective counter-cyclical policies has proved weak: fiscal measures to support the economy represented an average 2.5% of the region's GDP, much below stimulus packages rolled out elsewhere in the world – both in developing and advanced economies. The industrialised economies spent almost three times as much. As such it doesn't come as a surprise that financial support for African companies was small compared to other developing regions (see figure 1).

Figure 1: Share of companies that received or expect to receive government support

In per cent



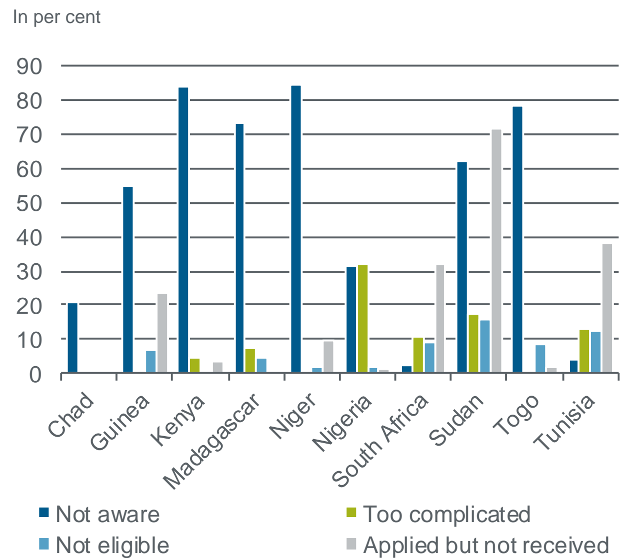
Source: World Bank Business Pulse Survey, own calculations.

According to the World Bank Business Pulse Survey, the roll-out of the fiscal stimulus packages was very uneven across Africa (see figure 2). That was due to several reasons: The most important factor is that most firms were not aware of public support. The second most important reason is that firms applied for support but didn't receive support. Another reason for the patchiness of the fiscal measures is that it was too complicated to apply. The complicated application process is in fact the most important reason for companies in Nigeria not accessing public support. On the other hand, eligibility didn't seem to be an issue in most countries.

Despite government support, the scale of the shock could be significant. The share of firms on the verge of financial distress is almost as high as in other developing regions. However, the fact that the roll-out of financial aids was relatively ineffective in Africa makes the situation worse for firms. If you plot the data, you find a negative relationship between government support and companies expecting financial distress (see figure 3). As such for countries with a low level of government support, the share of companies reporting or expecting financial distress is very high.

Figure 2: Reason for no access to public support

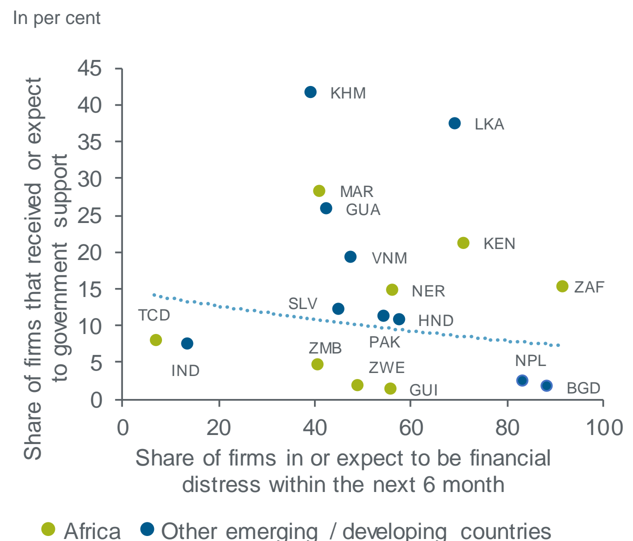
In per cent



Source: World Bank Business Pulse Survey own calculations.

Figure 3: Link between financial support and risk of financial distress across developing economies

In per cent



Source: World Bank Business Pulse Survey own calculations

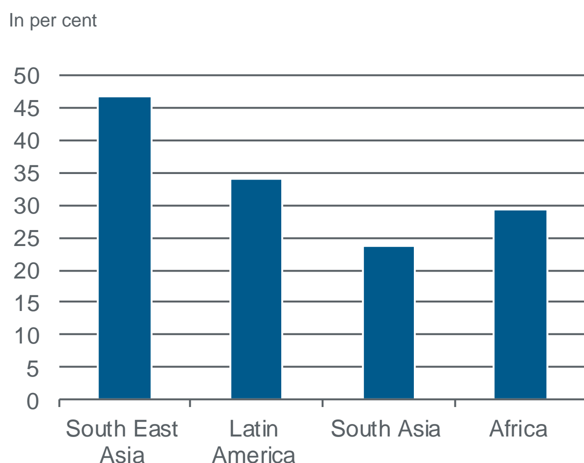
Going digital: a small lifeline for companies

One coping mechanism to create revenue over the period of the lockdowns was by increasing online sales. Digital solutions enabled companies to remain functional during the pandemic and thus increase resilience. With digitalised working processes, sales channels and the ability to analyse data in a systematic way, companies can increase efficiency and productivity. Compared to South Asia, African companies were also quick to open digital channels to sell online (figure 4). In Africa around 30% of the firms included in the survey said they opened digital platforms. The figure is slightly

higher than for South Asia, where it was around 25%. Across the regions and within Africa, the survey has shown that more firms with digital platforms were found in middle income countries. Within Africa, most firms that increased selling online are found in South Africa, followed by Nigeria, Kenya and the North African countries, Tunisia and Morocco. Another factor that seems to influence of the propensity to sell online is the sector. In this regard, retail and manufacturing firms found it easier to continue selling online during the lockdown compared to agricultural firms.

Figure 4: Share of firms that opened or extended digital platforms

In per cent



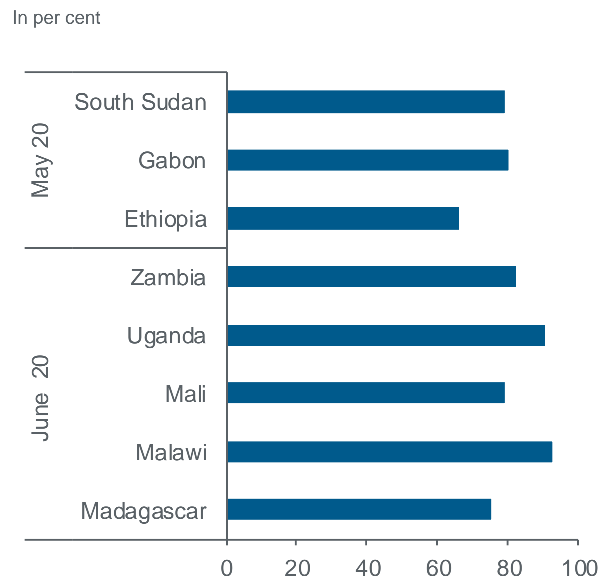
Source: World Bank Business Pulse Survey own calculations.

Although digital platforms offered a lifeline for many companies to maintain revenue, the share of online sales is still low for African firms compared to other regions. South Africa is the only exception here with 25% of the revenue of South African firms' coming from selling online. That's about the international average for emerging and developing regions. The share for Kenyan and Togolese firms is only around 9%. Interestingly, Tunisian firms lag here: Only 4% of the firms' revenue is made by selling online. Although Tunisia is relatively richer than Kenya and Togo, the sale of goods online is less established here. The wealth of a country is not always a strong determinant of a firm's capacity of selling online. The firm's age and the digital savviness of the customer base may also play a role here. The young population in many African countries seems to support establishing digital sales channels.

However, selling goods online was an alternative while shops were closed and social distancing was practiced. Due to the economic fallout from the crisis, firms had to fight against falling household incomes and subsequently lower spending (Figure 5).

Figure 5: Number of households that reported COVID-19 related loss of income

In per cent



Source: COVID-19 High-Frequency Monitoring Dashboard[3],

A similar deterioration of income was observed during the second wave in December last year. To cope with the loss of income, many households cut back on their expenses. Around a third took that measure during the first coronavirus wave, which hit the continent in June 2020. The cut back in expenses wasn't limited to non-essential items but also affected food sales.

As a result of falling firm incomes, the enterprise survey shows that most firms relied on reducing working hours and payments rather than laying off workers. Only about 20% of the companies participating in the survey chose to lay off workers as a result of the pandemic. The fact that companies tried to hold on to their staff is one of the bright spots. This can be explained by the fact that firms believed the situation might improve after a few months. However, as mentioned above, the continent got struck by a second wave in the 4th quarter of 2020. Although many countries didn't move into a full lockdown, social distancing was widely practiced and many individuals avoided social gatherings and crowds and reduced social interactions to a bare minimum, which hit the retail sector.

Therefore, several countries reported an increase in company closures and job losses. In 2020, employment decreased by 8.5% in Sub-Saharan Africa according to the IMF. Amid remaining uncertainty on the deeper impact of the crisis on Africa's private sector development and prospects, two things, however, are certain: First, increasing support to the private sector is crucial in order to contain economic destabilisation and allow economies to kick-start again. Especially in a context of growing debt levels and shrinking fiscal

space, which means that the public sector will not be able to finance the recovery without the participation of the private sector. Beyond cash-flow support and efforts to provide liquidity to firms during the mitigating period, some countries started in the recovery period to target broader development challenges and stimulate private investment (for instance, by allocating new capital to priority sectors, creating opportunities for public-private partnerships, etc.). Second, the economic landscape will probably change in the coming period, as some firms are going to be viable and others not. Therefore, there is a need for in-depth thinking about which kinds of firms should be supported and how – which also means identifying priority sectors that will count in the future. However, for now, only a very few countries have initiated these types of reflections.

Some positive changes came with this crisis that will have long term repercussions.

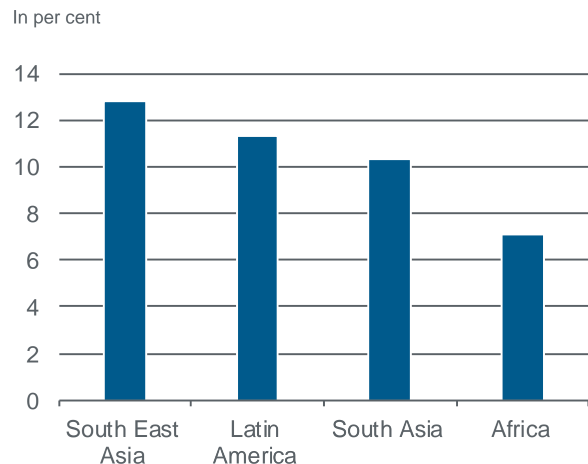
Teleworking

One major observation during the COVID-19 pandemic is the increase of teleworking. The possibility of remote working helps maintain business operation, ensure market supply, secure jobs and is essential for individuals, businesses and economic growth during the pandemic. However, only a fraction of the labour force in Africa can currently benefit from teleworking. According to the World Bank Business Pulse Survey, about 12.5% of the African firms said they increased remote working (Figure 6). That's the lowest figure for all developing regions. The estimation of the International Labour Organization (ILO) shows similar results. Taking the telecommunication infrastructure into consideration, only 7% of the African labour force have the potential to work from home, which is well behind other developing regions (Asia and the Pacific 12%, Latin America and the Caribbean 23%, for example)[4]. Making necessary investments to improve the telecommunication infrastructure can allow more jobs to be performed from home, which can in turn boost economic growth in the region.

Despite the progress and development mentioned above, Africa's digital transformation is still facing challenges in ramping up infrastructure, where reliable electricity supply and high-quality internet access play key roles. According to the World Bank's Ease of Doing Business Index, sub-Saharan Africa scores only 50.4 (out of 100) in "Getting Electricity" in 2020, which is the lowest when comparing to other regions in the world. Regarding internet coverage, there are large differences between countries in the region, as well as between urban and rural areas. Owing to under-investment in fixed broadband in the past, mobile broadband is and will continue dominating access to the internet. However, the quality of mobile connections remains poor — the average mobile download speed in the region is 7.4 Mbps, more than three times slower than the rest of the world[5].

Figure 6: Share of firms that offered remote working

In per cent



Source: World Bank, Enterprise Survey, own calculations.

Policy makers are addressing the needs. Through its Agenda 2063 flagship programmes, the African Union has 114 Information and Communication Technology (ICT) infrastructure projects, which aim to build up broadband fibre infrastructure[5]. The World Bank Digital Economy for Africa aims to double connectivity by 2021 and digitally enable every African individual, business and government by 2030[6]. The European Union and African Union Digital Economy Task Force set the goal of boosting investment with a stronger role for the private sector[7].

Based on the estimation of World Bank's Mobilizing Finance for Development programme[8], the total funding required in order to reach 1.2 billion new internet users in Africa amounts to USD 83 billion. In its indicative cost sharing distribution, the private sector can contribute 75% to the total investment, which means USD 28 billion for infrastructure Capex and USD 35 billion for network operation and maintenance. This bears enormous investment opportunities for the African private sector.

Local production

The COVID-19 crisis pointed towards the downside of the international supply chain. Once the production has been shut down in some locations, the domino effect hits all the downstream sites and the production chain comes to a standstill. Furthermore, due to export restrictions of medical and pharmaceutical goods, Africa has been cut off from supply chains during the crisis. This exposed one of the major weakness of the

African economy: supplying its citizens with critical as well as normal products is largely dependant on imports. This does not only put pressure on foreign reserves, it also makes the continent vulnerable. Therefore, the strengthening of local production is expected to have positive effects in the long run. Localised supply chains are less vulnerable to external shocks. Building a local and broad manufacturing base and pairing this with a supporting infrastructure (roads, bridges, railways, logistic centres) secures and creates local employment, increases local tax income and contributes to climate thanks to shorter delivery distances.

Conclusion

The private sector will have a decisive role to play in the post-COVID-19 economic recovery – and more broadly in unlocking Africa's growth potential, creating new employment opportunities and increasing productivity. As of now, however, the private sector has been weakened by the coronavirus crisis as most African economies didn’t have the means to cushion the impact. Job losses and closures seemed to be inevitable and hit an already weak African labour market. African governments must ensure that the sector gets back on its feet. The findings from the World Bank Business Pulse Survey are sobering in that regard: The support was not only small but also failed to reach the companies. Governments must improve their measures, both in terms of scale and scope. International community also has a key role to play in providing financial and technical resources to support the private sector in Africa. Development finance institutions should help mobilise additional financing and ensure it is channelled towards development goals and sustainable recovery, in a "building back better" perspective. Finally, cooperation will also be needed to help generate high quality projects in Africa, especially in the infrastructure sector, with an enhanced focus on digital and climate resilient infrastructures. The Summit on the Financing of African Economies that took place in France in May 2021 confirmed this set of actions as a significant way to foster the development of the private sector and build on the entrepreneurial dynamic in Africa.

[1] IMF: COVID-19: An Unprecedented Threat to Development, Regional Economic Outlook Sub-Saharan Africa. 2020.

[2] World Bank: COVID-19 Business Pulse Survey Dashboard. The World Bank Group. Washington DC.2020.

[3] World Bank: COVID-19 High-Frequency Monitoring Dashboard. The World Bank Group. Washington DC 2020.

[4] ILO: Working from Home, Estimating the worldwide potential. April 2020.

[5] ILO: Working from Home, Estimating the worldwide potential. April 2020

[6] ITU (International Telecommunication Union), Unesco: Digital Moonshot for Africa, 2019.

[7] IMF: Digitalization in Sub-Saharan Africa, Regional Economic Outlook Sub-Saharan Africa, 2020.

[8] OECD, African Union: Africa’s Development Dynamics Digital Transformation for Quality Jobs. 2021.