Executive Summary

The COVID-19 pandemic is not over yet: African countries must not let their guard down. The pandemic continues to spread, with the number of cases surpassing 36 million and more than one million deaths globally. With the notable exception of South Africa, Sub-Saharan Africa appears to have so far escaped the worst of the health crisis. As of September 28, the numbers of COVID-19 confirmed cases and deaths in the region were, respectively, 3.4 and 2.5 percent of those registered worldwide. However, great uncertainty surrounds the scale and trajectory of the pandemic in the region. The occurrence of a second wave in Europe and the United States and concerns about a potential second wave in African countries are fueling further uncertainty about the persistence and spread of the virus.

The COVID-19 pandemic has taken a large toll on economic activity in Sub-Saharan Africa, putting a decade of hard-won economic progress at risk. Economic activity in the region is expected to contract by 3.3 percent in 2020, confirming the prediction that Sub-Saharan Africa would suffer its first recession in a quarter-century in 2020. By the end of 2021, the region’s real gross domestic product (GDP) per capita will likely regress to its level in 2008. In Africa, COVID-19 could push up to 40 million people into extreme poverty, erasing at least five years of progress in fighting poverty. Similarly, COVID-19 could set back progress in building human capital, as school closures will affect nearly 253 million students, potentially causing losses in learning.

The economic contraction caused by the COVID-19 pandemic will spread broadly across countries in Sub-Saharan Africa in 2020. Due to the combination of domestic lockdowns and related spillovers from the global recession, growth is expected to slow in all countries in the region. Growth fell sharply in the second quarter of 2020 across countries, including in Nigeria (6.1 percent year-on-year) and South Africa (17.1 percent year-on-year). The decline in growth is expected to be larger in East and Southern Africa than West and Central Africa, partly because of the stronger output contractions in South Africa and Angola. Disruptions in the tourism industry and lockdowns will cause substantial slowdowns in Ethiopia, Kenya, and the island nations. In West and Central Africa, the decline in growth is projected to be driven mainly by oil exporters. Activity among non-resource-intensive countries, including Côte d’Ivoire and Ghana, will slow noticeably but not contract on aggregate, helped by relatively more robust growth in the agricultural sector. Fragile countries in the region are expected to experience a strong decline in growth as COVID-19 exacerbates the drivers of fragility.

The road to recovery will be long and steep, and it must be paved with sound economic policies. Countries need to reconstitute their fiscal space to finance programs that can stimulate recovery, improve debt management, and fight corruption. Ultimately, sustained recovery will depend on how fast African countries prioritize policy actions and investments that address the challenge of creating more, better, and inclusive jobs. These policy priorities, in turn, operate through three critical and interrelated channels: digital transformation, sectoral reallocation, and spatial integration. Several countries in the region are seizing the opportunity of the crisis to accelerate these reforms.
Long Road Ahead

- The rebound in economic activity is expected to be modest in Sub-Saharan Africa in 2021, and the economic outlook is subject to considerable uncertainty. Economic activity started to rebound in the third quarter of 2020 as the spread of COVID-19 began to abate and containment measures were progressively lifted. However, the recovery was modest and uneven across countries. Household spending on services remained subdued, industrial production slowed, and international trade remained weak, delaying the pickup in manufacturing production.

- Sub-Saharan Africa’s real GDP growth is projected to pick up to 2.1 percent in 2021, which is below the 2.4 percent rate achieved in 2019 and below population growth. Baseline projections assume that new COVID-19 cases will continue to slow across the region, new outbreaks will not lead to national lockdowns, government policy responses will boost business and consumer confidence, the global economy will continue to rebound, and commodity prices will remain stable. Under these assumptions, GDP growth could rise to 3.2 percent in 2022. East and Southern Africa is expected to experience a slightly stronger pickup in activity, with growth projected to average 2.7 percent in 2021, compared with 1.4 percent in West and Central Africa. This partly reflects the rebound in South Africa and Angola, as strict containment measures are relaxed, and a gradual strengthening of activity among East African countries, including Kenya and Rwanda. In West and Central Africa, slower growth among oil exporters, notably Nigeria, will partially offset a rebound in the rest of the subregion. Excluding Nigeria, growth in West and Central Africa is projected to rise to 3.0 percent in 2021, reflecting a more robust rebound among metals exporters and non-resource-intensive countries, including Côte d’Ivoire and Niger, as policy uncertainty declines. In the two subregions, growth is expected to remain weak among fragile countries.

- In the downside scenario, the region’s GDP is projected to expand by only 1.2 percent in 2021 and 2.1 percent in 2022. In this scenario, heightened uncertainty related to the evolution of the pandemic constrains domestic consumption and investment, while lower commodity prices weigh on exports. Growth in West and Central Africa will rise from -2.8 percent in 2020 to just 0.5 percent in 2021, compared with 1.4 percent in the baseline scenario, as a moderate rebound among metals exporters and non-resource-intensive countries is offset by a contraction in Nigeria. In East and Southern Africa, growth is projected to rise from -3.9 percent in 2020 to 1.9 percent in 2021, compared with 2.7 percent in the baseline scenario, reflecting a weaker recovery in South Africa and Angola.

Steep Climb Ahead

- The road to recovery will be steep: most countries in the region entered the COVID-19 crisis with weaker growth-supporting institutions. Economic activity in countries with stronger institutional quality has suffered a lesser blow from the pandemic. However, most countries in the region entered the crisis with weaker Country Policy and Institutional Assessment scores—particularly in the structural policies and public management and institutions clusters. Strong institutions can help design and implement effective policy responses to chart the course of recovery and improve countries’ resilience to shocks. As uncertainty related to the nature of the pandemic settles, institutional reforms that lead to more accountable and efficient governments, better service delivery, more civil society engagement, and less corruption will be key.
COVID-19 has exposed acute macroeconomic vulnerabilities across Africa. Most countries will emerge from the COVID-19 crisis with historically large budget deficits. Fiscal deficits in the region will widen, on average, by 3.5 percentage points of GDP in 2020. Debt burdens will be heavier. The risk of debt default has started to materialize for one country in the region. Declines in export revenues, including from international tourism, have compounded the domestic impact of the COVID-19 shock. At the same time, reductions in remittance flows, the slowdown in foreign direct investment, and declining private capital flows have tightened external constraints, leaving countries in the region with daunting debt challenges.

Boosting the reform momentum in times of crisis is critical but not easy. Amid weak balance sheets, governments need to implement difficult reforms to guarantee more sustainable fiscal positions in the near future. These reforms would include greater debt transparency, better debt management, and higher efficiency in public spending. For instance, publishing borrowing plans and contingent liabilities and improving recording, monitoring, and reporting systems could help reduce the opacity of countries’ debt profiles and foster debt sustainability. Strengthening tax administrations, curbing illicit financial flows, and enhancing public investment management systems—particularly infrastructure governance—would boost the output effect of such investments. These reforms could have a huge pay-off but will require significant efforts.

Sound Policies Are Needed to Pave the Road to Recovery

A desired road to recovery is one that delivers jobs and economic transformation, which are the keys to sustained, inclusive, and resilient growth. Creating more, better, and inclusive jobs can be achieved through digital transformation, sectoral reallocation, and spatial integration. Countries must expand digital infrastructure and make connectivity affordable, reliable, and universal across Africa. Shifting resources toward nontraditional economic sectors with higher productivity, lower volatility, and greater value addition and fully leveraging the African Continental Free Trade Area (AfCFTA) will be equally critical. And fostering the reallocation of resources from less to more efficient job-creating locations through enhanced rural-urban and inland-coastal connectivity will be key to creating jobs and economic transformation.

Expanding digital infrastructure and making connectivity affordable, reliable, and universal across Africa hold the promise for inclusive jobs. The use of digital business solutions is improving the productivity of Sub-Saharan African firms, creating skilled and unskilled jobs, and increasing household welfare. However, the impact of this ongoing digital revolution is curtailed by several challenges. Reforms to address digital infrastructure gaps, affordability (of devices and services), and digital literacy are critical to expand access to digital technologies and reduce the digital divide across gender, firm size, and urban-rural areas. The regulatory environment needs to provide the right incentives for fast digital technology adoption and more competition among mobile operators, including actions to attain universal affordable access to high-quality communications services, support of critical services, and high network resilience (cybersecurity). Digital skills, which rest on foundational human capital, are linked to better opportunities and will be crucial to prevent the exclusion of already marginalized segments of the population from the benefits of connectivity. And adequate analog complements are critical to reap the benefits of the digital economy. Reforms to improve access to and reliability and uptake of electricity are crucial.
Creating jobs in Sub-Saharan Africa will require a decisive shift from exporting raw materials to greater value addition and intra-African value chains. Reforms to foster market contestability, foreign trade, and foreign direct investment, as well as participation in global value chains, could expose African firms to greater competition. However, as global trade takes time to recover, policy makers in the region need to promote the development of regional value chains while they build the foundations and capabilities needed for a more comprehensive continental involvement. The AfCFTA has an important role to play by reducing the production costs associated with tariffs, non-tariff barriers, and trade facilitation problems. Regulatory reforms and capacity building in the institutions that enforce the treaty’s obligations are critical.

Enhancing rural-urban and inland-coastal connectivity and investing in cities will raise agricultural productivity and reallocate resources to more efficient job-creating locations. Well-functioning cities are the cradle of innovation and the higher productivity tradable industrial and service sectors. Boosting agricultural productivity and improving living conditions in rural areas—including food security—will play a critical role. Digital platforms offer producers and consumers greater connectivity, improve efficiency, and lead to greater transparency in the food logistics system. And investment planning across urban and rural areas requires scaling up infrastructure spending—particularly, enhancing access to basic infrastructure services.

**African Countries Are Seizing the “Opportunity” from COVID-19**

If there is a silver-lining in the global COVID-19 catastrophe, it is the increased awareness of the paramount importance of the digital economy, and many African countries are seizing this opportunity. The pandemic has clearly established that the digital economy can enable governments, businesses, and society during times of social distancing. Evidence shows that at the height of the lockdown, 25 percent of the firms in Sub-Saharan Africa accelerated the use of digital technologies and increased investments in digital solutions in response to COVID-19. Governments have partnered with the private sector to deliver online services, such as public health information and e-learning, and ease the use of digital payments. From the onset of the health crisis, governments and mobile operators have focused on reducing the prices of devices and services, avoiding disconnections for lack of payment, and increasing bandwidth. These measures have been complemented by actions to facilitate network expansion and reduce congestion, such as adopting new technologies (for example, Google Loon in Kenya and Mozambique) and temporary release of additional spectrum to boost internet efficiency (Ghana, South Africa, and Zambia). Digital campaigns have played a role in raising awareness and mobilizing people in Namibia, South Africa, and Togo. In Ethiopia, as the government and private sector moved to remote working arrangements due to Covid-19, the government fast-tracked approval of the e-Transactions proclamation, which establishes a National Digital Economy Council and provides the legal basis for use of electronic messages and documents in interactions with the government and businesses.

Digital technologies are helping to boost agricultural productivity in Africa. By providing farmers access to information on weather, available technologies (improved seeds, fertilizers, and tractors), and how to use them efficiently, digital technologies are facilitating their adoption. In several African countries, including Kenya, Rwanda, and Nigeria, digital technologies are helping to improve farmers’ access to upstream and downstream markets by facilitating price discovery, improving buyer-seller matches, and digitally enabling collective action to increase farmers’ inclusion and bargaining power in agri-food value chains. Quality control and traceability throughout the food supply chain can also be enhanced by digital technologies, as evidenced by the Namibian Livestock Identification and Traceability System.
African countries are strengthening their public health systems. While there remains huge uncertainty, the rates of infections and deaths in the region have not been as high as previously anticipated. As of end-September 2020, the region had one confirmed case for every 1,000 people and about 25,000 deaths. These relatively low numbers can be partly explained by governments that have acted rapidly, followed science, and incorporated innovative solutions. Drawing from the lessons of previous epidemics, African countries implemented effective communication strategies as well as a series of stringent containment measures. Still, the health crisis is not over, and governments need to continue running public health campaigns and strengthening public health systems, to avoid relapses and prevent the spread of future pandemics.

African countries are strengthening their social protection systems by leveraging digital technologies. As the COVID-19 pandemic affected lives and livelihoods, governments across the region implemented unprecedented emergency relief measures to alleviate the impact on their populations. By mid-September, 46 countries had put in place 166 social protection measures—with social assistance programs representing 84 percent of these measures. Digital technologies have expanded the coverage of social safety nets and protected beneficiaries amid social distancing requirements. Countries have used different approaches to deliver scaled-up payments, including mobile money accounts in Togo’s “Novissi Program” and e-wallets in Namibia, among others. Digital payments were also spurred by lowering transaction charges, as in Rwanda and Kenya.

Some African countries are accelerating the structural reform agenda. South Africa recently announced sweeping reforms to address energy shortages and reduce its dependence on the state public utility, Eskom. Private companies have been invited to submit bids to supply additional renewable energy, municipalities can directly procure electricity from private sector renewable energy producers, and businesses are allowed to produce electricity for their own use. In Nigeria, the government has taken important steps to reform its subsidy regime. It has eliminated the gasoline subsidy and established a market-based pricing mechanism with no price ceilings. The Ethiopian government continues making progress on deregulation of telecommunications. In May 2020, the government issued a call for “expressions of interest” for new telecommunications licenses.

In East Africa, there are signs that intraregional trade might be increasing in response to the COVID-19 pandemic. The COVID-19 pandemic led to an unprecedented disruption in global trade as worldwide consumption and production scaled down. The World Trade Organization estimates that the volume of global merchandise trade shrank by 18.5 percent year-on-year in the second quarter of 2020 at the height of the lockdown measures. Countries in the region with higher exposure to global trade, particularly commodity exporters, suffered the biggest blow from the pandemic. Intra-African trade has been low historically, but it has been gradually rising since prior to COVID-19. Most of the intra-African trade flows typically take place within the region’s Regional Economic Communities (RECs), thanks to lower tariffs among member countries. In the East African Community, the pandemic seems to have catalyzed greater trade flows. Kenyan exports to the rest of the East African Community have recovered rapidly. Exports to Uganda and Rwanda already surpassed their pre-COVID-19 highs, and re-exports to Tanzania sharply accelerated by July. Full implementation of the AfCFTA can play a role in further expanding intraregional trade. Addressing tariffs, non-tariff barriers, and trade facilitation problems across countries in the region may help foster inter-REC trade. The AfCFTA can also help promote regional value chains and organize production across countries in the region.
Role for the International Community

- **Sub-Saharan Africa needs ample financing from the international community for investments in human capital, energy, and digital and physical infrastructure.** Countries in the region have very limited fiscal space. Fiscal deficits in the region will widen, on average, by 3.5 percentage points of GDP in 2020—a paltry figure compared with the deficit expansion in the United States (9.7) and the euro area (6.8). Prospects for the region’s sustained and resilient recovery are limited without external financial assistance—including increased grants and concessional financing. Contributing to these investments in Sub-Saharan Africa would be providing a global public good. The region is the home of the largest number of countries in fragility and conflict situations, some driven by religious extremism. And COVID-19 may worsen the situation. It is crucial to address these issues before they turn into regional and global security threats. The region is also potentially a large market for global trade and investments. It has established the largest free trade area in the world in terms of membership—a market of 1.3 billion people and US$3.4 trillion in economic activity. And by 2050, the region will account for one-third of the global labor force. Africa’s youth will drive labor demand and serve as an engine of global growth in the future.

- **Greater access to concessional official finance will be needed.** The Debt Service Suspension Initiative (DSSI) to grant debt service suspension to the poorest countries, to help them manage the impact of the pandemic, has provided a welcome respite for some countries. However, so far, participation in the DSSI has led to small potential savings for African countries (US$5.2 billion for participating countries), while fears of downgrading by rating agencies in the event of private creditor participation are engendering coordination problems. Given the nature of the COVID-19 shock, greater access to concessional official finance will be needed to help low-income countries in the region navigate a path through the crisis that protects the economically vulnerable without jeopardizing recovery and growth.