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DE DÉVELOPPEMENT

AFRICAN DEVELOPMENT INSTITUTE GLOBAL COMMUNITY OF PRACTICE

Macro-Economic Policy Responses for Building Resilient Economies in Post COVID-19 Africa

G-CoP

NPM

Notes for Policymakers

NPM

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FOREWORD

The COVID-19 pandemic has tested the resilience of governments, leaders, societies, economies and institutions in a way that few crises have over the past century. Experts have gone as far as saying the pandemic may result in the first global economic depression in years. With this in mind, the African

other experts we can gather. These are the individuals who will help determine the quality of our response to this devastating crisis and will enable us to shield ourselves against similar crises in the future.

Over the past months, we have learned a lot of valuable lessons



Dr. Akinwumi A. Adesina

President of the African Development Bank Group

Development Bank Group (AfDB) has spared no effort to help its Regional Member Countries (RMCs) cushion the impact of COVID-19 and save as many lives as possible.

However, in addition to financial resources, the fight against COVID-19 requires a complex response that marshals the finest scientists, economists and

that will enable us to respond to future challenges even more effectively than we have already done.

The time to scale up our readiness is now. That's why the African Development Institute (ADI) of the AfDB has established a brand-new virtual platform that brings together a consortium of certified global experts and

anchor institutions. Entitled the Global Community of Practice and abbreviated as G-CoP, the platform offers participants a unique opportunity to engage in facilitated policy dialogue and provide evidence-based policy advice, technical assistance as well as training to the Bank's RMCs on emerging specialised policy themes.

Hosted through a virtual interactive collaborative environment under the auspices of the ADI Virtual Capacity Development Academy, G-CoP includes:

- A certified virtual community of experts and practitioners from the AfDB, governments, think tanks, universities and development practitioners;
- A virtual repository of relevant publications and opinion pieces on COVID-19 response policies and practices in Africa and from around the world;
- Regular webinars/e-seminars to brainstorm on emerging case studies of good and bad practices and lessons learned;
- Country-specific case studies on strategies for more resilient economies that can withstand exogenous shocks such as the COVID-19 pandemic; and
- An interactive virtual marketplace with an “ask the experts” function to enable policymakers to access rapid technical advisory services in real time.

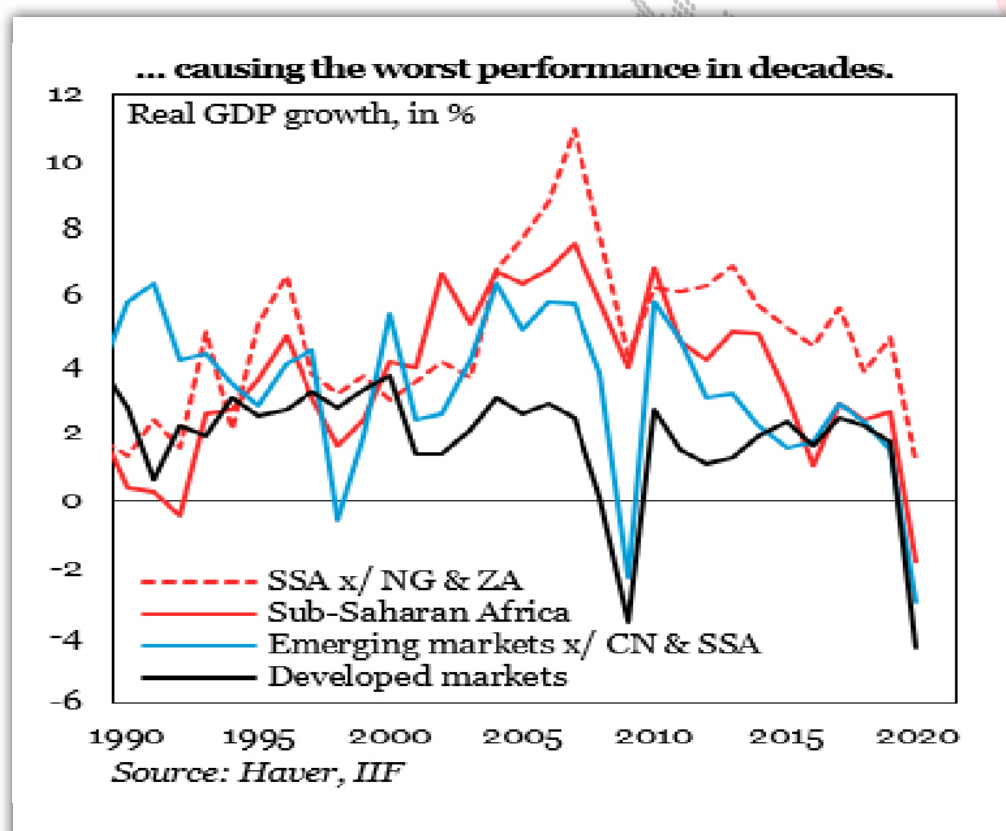
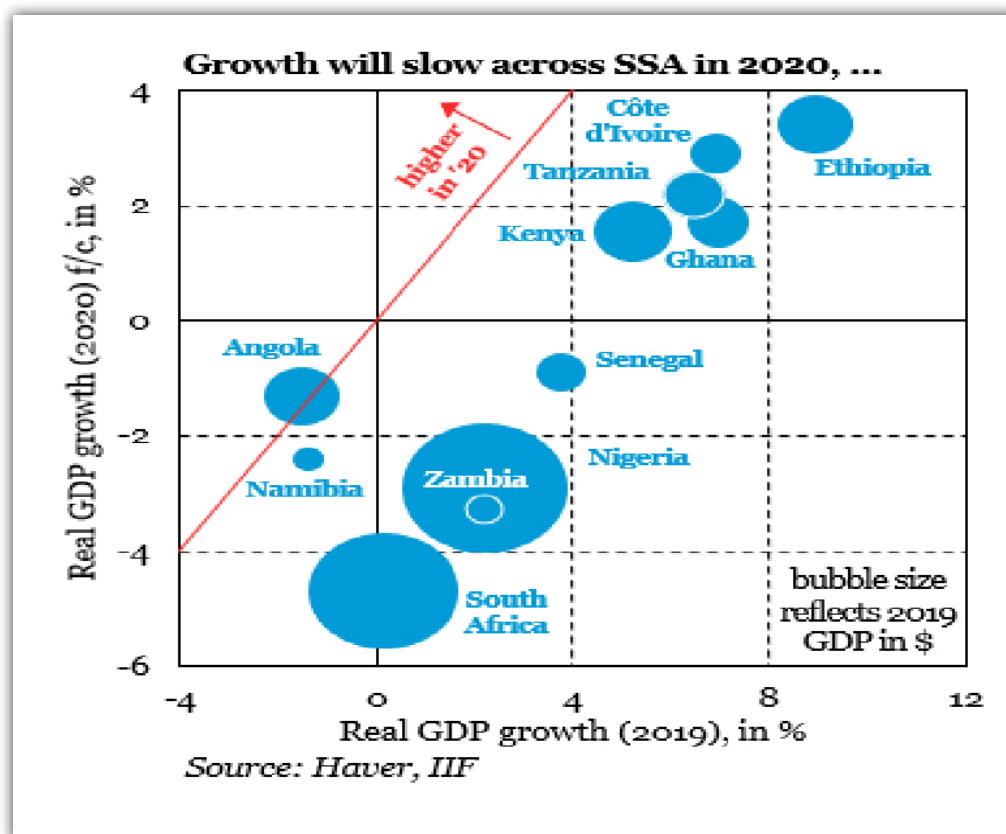
The first G-CoP webinar, held in April 2020, was assembled around the theme of macro-economic policy responses for promoting resilience in African economies post COVID-19,

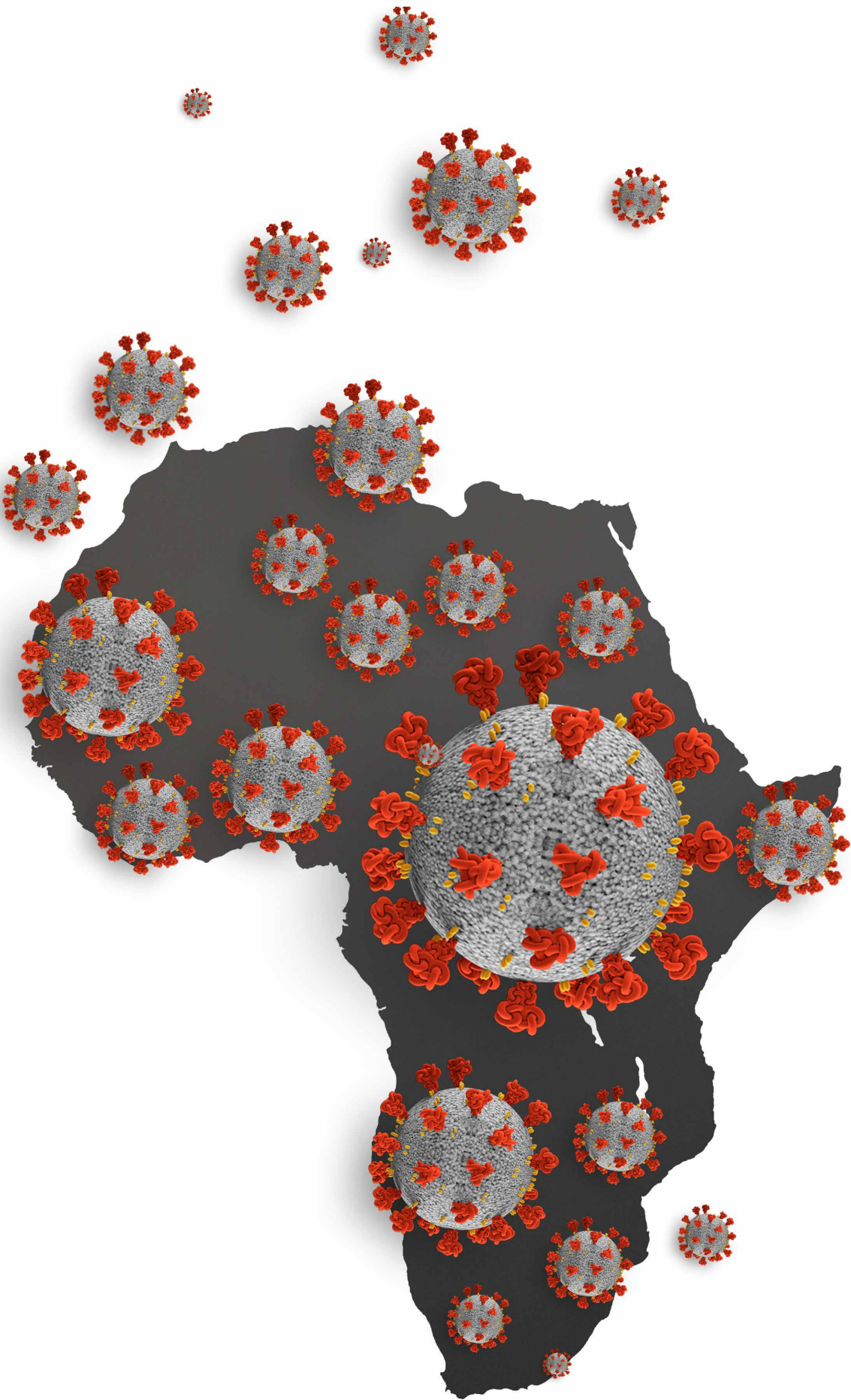
This report summarises the highlights of these highly productive and illuminating engagements and is the first in a series of policy advisory documents prepared by G-CoP with input from global experts to assist policymakers on the way forward. The outcomes will definitely inform the dialogues and decisions of policymakers, academics and pundits all over the world who are seized with the consequences of this pandemic.

I would like to commend ADI for this wonderful initiative and express my sincere gratitude to our partner organisations, including the World Bank, the International Monetary Fund and the African Economic Research Consortium as well as to the many individuals who generously participated in the seminar, which informed the policy recommendations in this report.

In the face of adversity, Africans adapt and innovate. Although the fight against COVID-19 is far from over, we know that victory will be ours as long as we keep working together. Together we will build a better Africa — an Africa where everyone is a winner.

Chart 1: Impact of COVID-19 pandemic on Africa







BACKGROUND

- The **COVID-19** pandemic has brought unexpected exogenous shocks that have resulted in global, regional, and national policy responses.
- Due to existing vulnerabilities, Africa is likely to be severely hit by the pandemic.
- Fiscal deficits are projected to double, and debt levels are estimated to build up by an additional 10 percentage points of **GDP**.
- The impacts of the **COVID-19** pandemic on the global systems of cooperation will have strong implications for Africa.
- Like other Multi-lateral Development Banks (**MDBs**), the African Development Bank Group has put in place a **COVID-19** Rapid Response Facility of up to **USD 10 billion** to help Regional Member Countries (**RMCs**) respond to the **COVID-19** crisis in 2020.
- The African Development Institute (**ADI**) of the African Development Bank Group (**AfDB**) convened a Global Community of Practice (**G-CoP**) on **COVID-19** response strategies to support countries with evidence-based policy response strategies, capacity development and technical assistance.



SHORT-TERM POLICY OPTIONS

Fiscal Policies

- Provision of essential materials for effective prevention: free availability of water, sanitary materials, inexpensive masks for all citizens; and Personal Protective Equipment (PPEs) for healthcare workers.
- Re-prioritize healthcare spending to accelerate domestic production of medical supplies including PPEs, and vaccine and drug discovery to counter supply chain disruptions.
- Implement traditional social protection and social safety-nets type measures such as targeted liquidity and in-kind support to vulnerable households (particularly food), business start-ups, SMEs and MSMEs, and direct provision of basic needs to target vulnerable households, with special attention to the informal sector.
- Implement tax reduction, tax holidays/deferrals on the revenue side.
- Targeted support for the informal private sector to access bank loans to keep afloat.
- Consider public and private debt restructuring, prudential borrowing, structured debt relief and targeted debt forgiveness.
- Consider budget restructuring and targeted fiscal deficit financing, and appropriate austerity measures to avoid new debt on the expenditure side.
- Consider fiscal stimulus packages large enough to have an impact on the economy without getting beyond the country's fiscally sustainable financing limits.
- Give targeted guarantees for private sector loans.

**Chart 2: Fiscal stimulus in response to COVID-19:
Africa vs. Others**

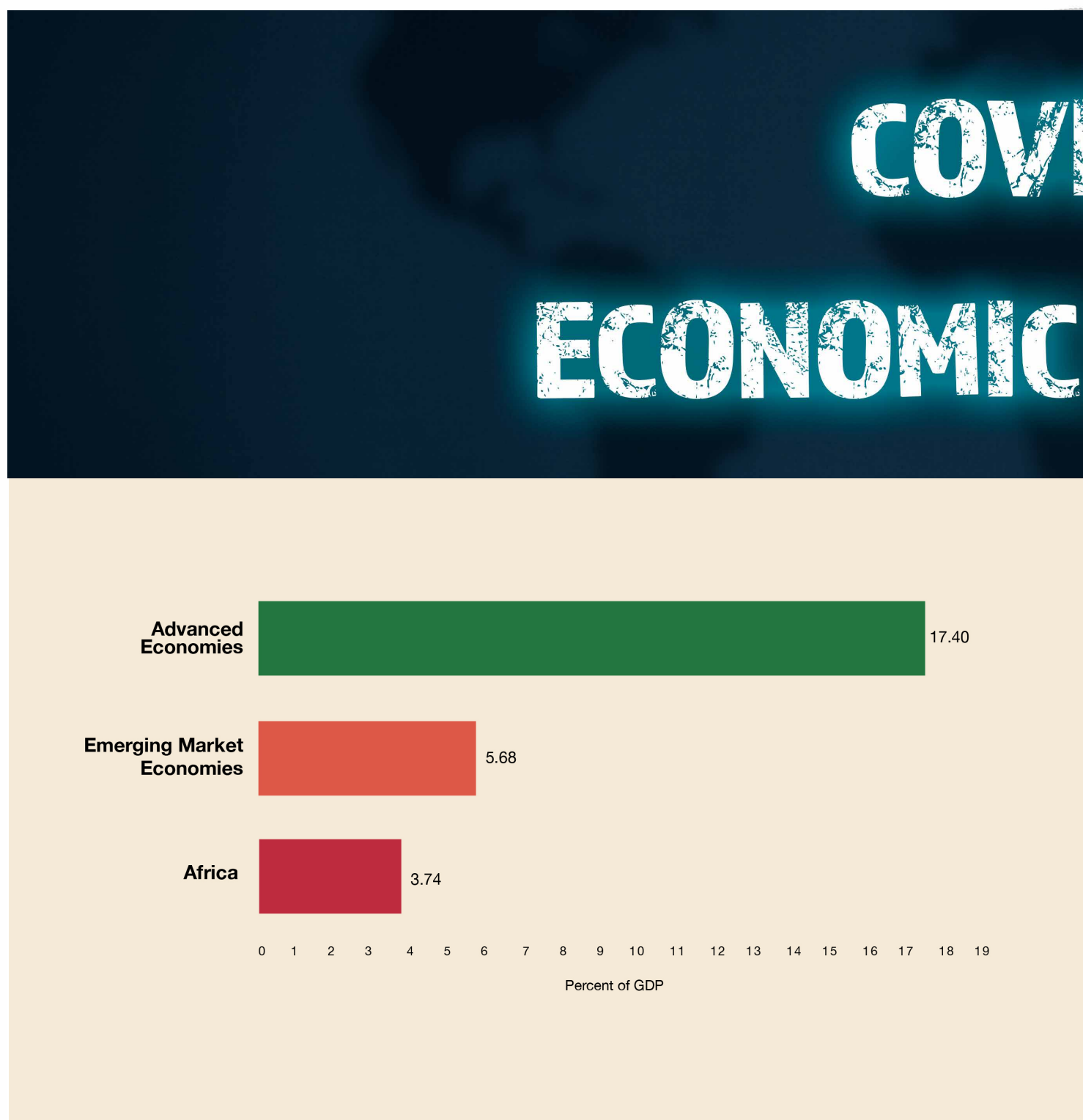
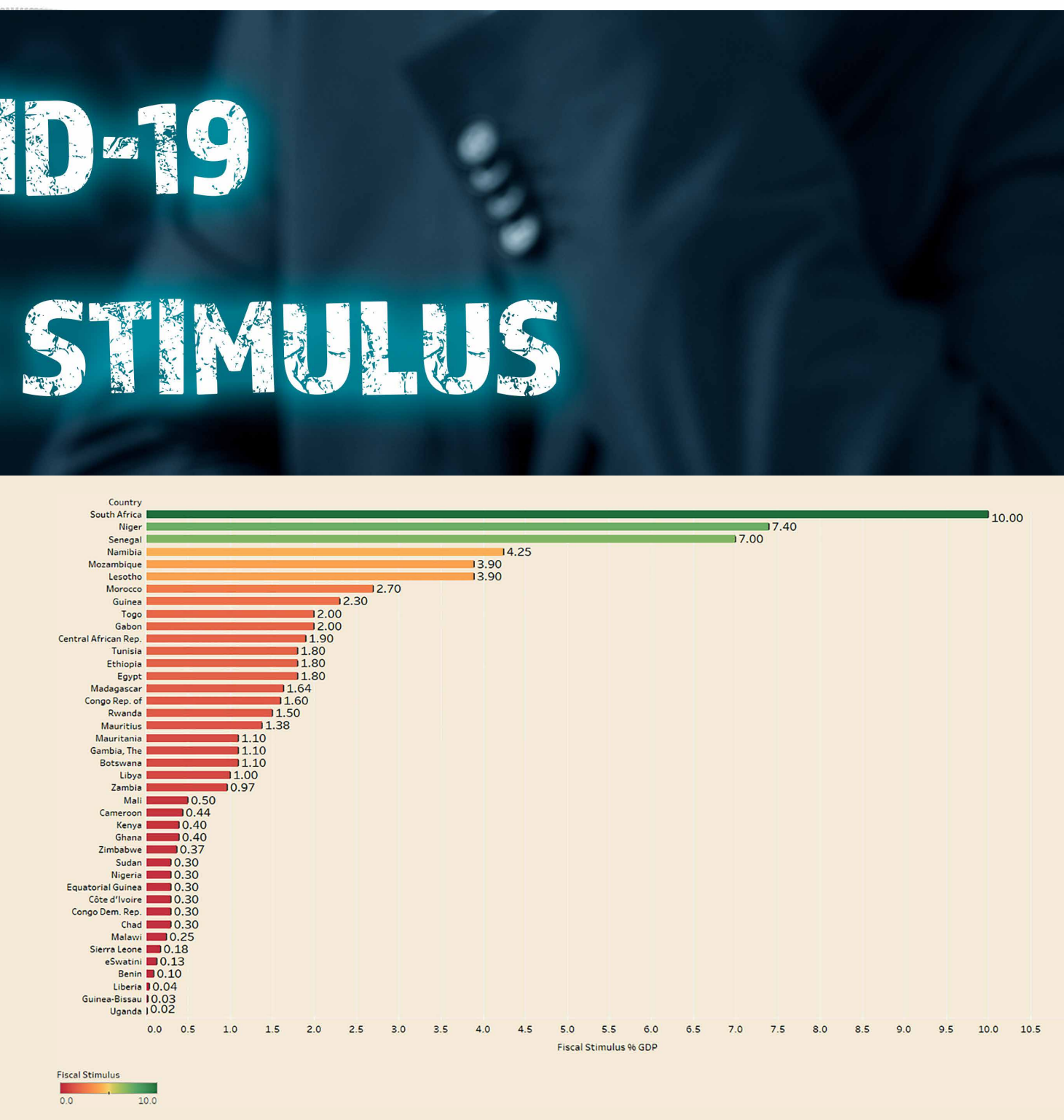


Chart 3: Size of fiscal stimulus in Africa in response to COVID-19



Monetary and Exchange Rate Policies

- Provide liquidity to commercial banks and allow bank forbearance on domestic private loans.
- Reduce collateral requirements for local production of medical supplies.
- Central Banks to provide liquidity support to the banking system.

Public Policies

- Continued implementation of all necessary non-pharmaceutical safety measures. Decongest physical markets to provide social distancing and mandate the wearing of face masks, which should also be extended to all shops, banks, public transportation, and other enclosed spaces.
- Effective communication that ensures full transparency and timeliness of communication to maintain government credibility and citizen's trust.
- Implementation of modified versions of non-pharmaceutical measures of lock-down and containment policies based on local conditions such as demography, population density, labour market structure, etc.
- Temporary redeployment of vulnerable workers in critical sectors, industries, and regions to sectors, industries and regions that are less exposed to COVID-19 virus with opportunities for teleworking.
- Public health awareness and sensitization campaigns by mobilizing community actions to educate and persuade citizens about the benefits of personal hygiene, social distancing and other behavioural changes required to contain the virus.



MEDIUM-TERM POLICY OPTIONS

Policies for Reopening the Economies

- Carefully analyze and evaluate available options to gauge preparedness for reopening the economy.
- Create widespread and far-reaching awareness through effective communication on the protocols for reopening economies.
- Scale up testing to exhaustively identify all cases of infection.
- A cautious, gradual, and orderly reopening is a way to go
- Establish workplace health and safety standards that are clear, strong, and enforceable ahead of reopening
- Articulate action plan for managing a rebound of the pandemic; do not underestimate this possibility nor leave it to chance
- Establish effective governance for the reopening process.

Policies for Rebuilding the Economies

Fiscal Policies

- Re-prioritize healthcare investments.
- Undertake effective tax reform
- Abolish perverse and inefficient fossil fuel subsidies and promote focused investment in renewable energy.
- Restructure budgets to increase investment in research, product development and local manufacturing capacity.
- Accelerate physical infrastructure investment with a focus on the Bank's Hi-5s strategic priorities.
- Public Policies
- Strength capacity for early warning systems and disaster risk mitigation.
- Undertake economic diversification, strategic value chain development and deepening domestic markets.
- Implement capacity development and training.
- Develop more inward-looking strategy for African countries along the lines of Agenda 2063 and AfCFTA.
- Invest in disruptive social innovations and technologies – e-banking, e-health, e-education.





LONG-TERM POLICIES FOR BUILDING RESILIENCE

Fiscal Policies

- Build buffers (domestic and external) in good times to weather future adverse exogenous shocks.
- Increase investments in infrastructure for long-term diversification of African economies.
- Increase funding for all types of research (scientific, economic, social) and specifically R&D advancement in their annual budgets.
- Seek debt cancellation for African countries.

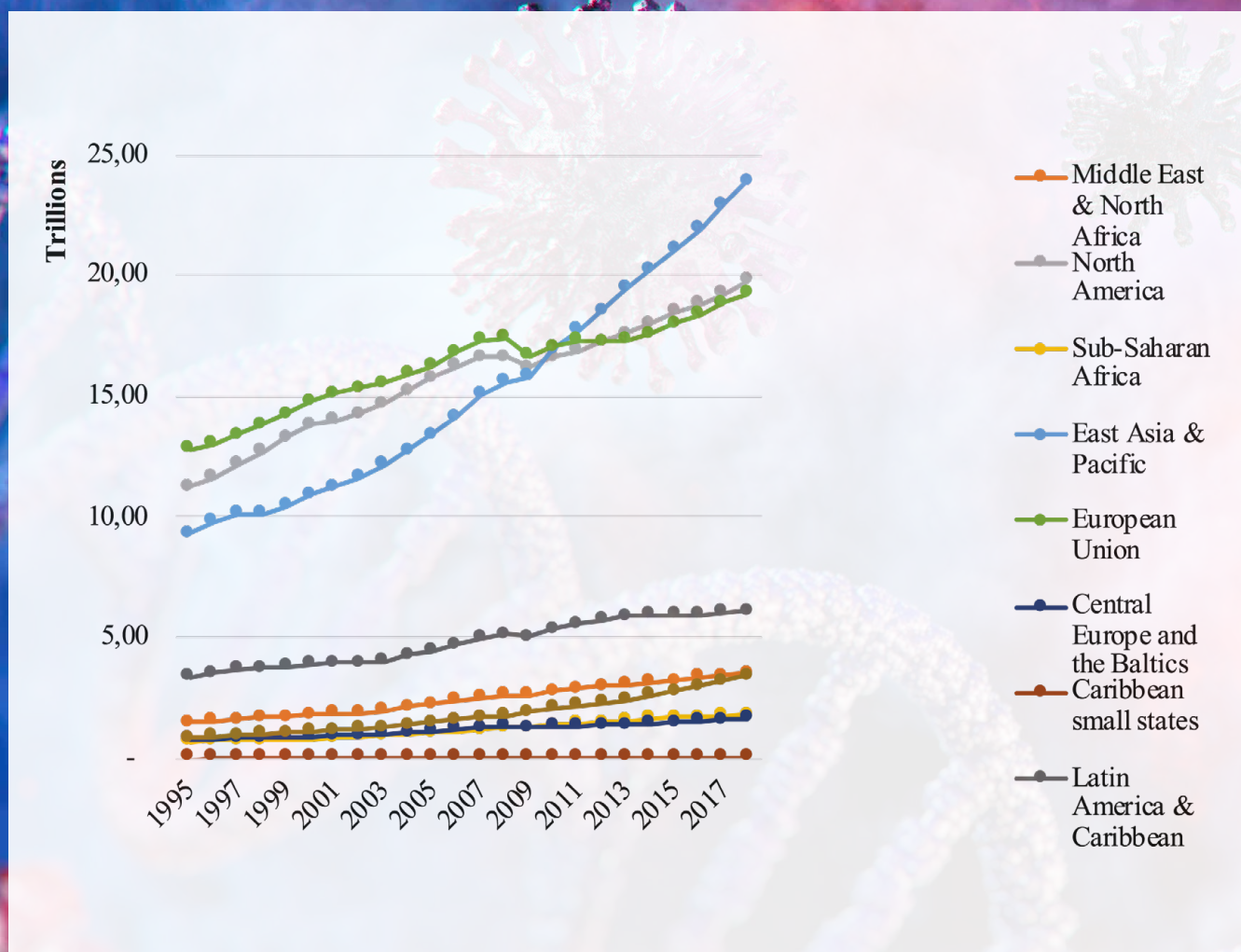
Monetary and Exchange Rate Policies

- Rethink the foreign exchange regimes in African countries.

Public Policies

- Revamp skills development policy and systems with emphasis on the future of work.
- Develop intermediary cities.
- Support private sector development.
- Pursue global partnerships in fighting future common exogenous shocks.
- Focus more on Domestic Resource Mobilisation (DRM).
- Ensure responses to the crisis are informed by different specialties, crosscutting and holistic.
- Focus on sustainable development.

Chart 4: Gross Domestic Product by Regions, 1995 – 2018 (Constant US\$ 2010)



POLICY TIMING, DESIGN AND IMPLEMENTATION

- Irrespective of policy choices, achieving the desired policy outcomes would depend largely on policy timing, timeliness and flexibility in implementation
- Avoid “copy pasting” policies designed for other contexts
- Proactively engage local experts and scientists for help in identifying the appropriateness of policies based on local contexts and priorities
- Map out potential multiplier effects and co-benefits of policies on other sectors of the economy at the design stage
- Policy design should include clear indicators of accountability and strategies for monitoring progress
- Success of recovery policies would depend on appropriateness of the specific policies adopted to specific social, political, environmental, and financial contexts of actors

LESSONS LEARNED

- The design and implementation of smart fiscal policies are extremely helpful when dealing with exogenous shocks.
- Prioritization of investment in healthcare infrastructure and health research is imperative for dealing with health-related challenges in Africa.
- Embrace the “new normal” to position the economies for the future which is already here.
- Partnerships, cooperation, and coordination are indispensable for maintaining global order.
- Non-availability of basic human needs weakens resilience.
- National strategy for dealing with pandemics must incorporate associated challenges like gender-based violence and insecurity.
- There is no magic bullet or one-size-fits-all exit strategy.

CONCLUSION

- The COVID-19 lockdowns and social distancing exposed the significant inequities in the current economic system
- COVID-19 has brought many known unknowns and unknown unknowns, e.g. recovery path could be “V”, “U”, prolonged “U” or even a “W”, multiple “W” or “L” shaped
- Equity considerations demand that recovery policies should not pass on significant liabilities to the future generations.
- Countries should not only focus on rebuilding the economy, but to build better economies that focus on sufficiency, efficiency, inclusiveness and equity.
- Domestic resource mobilization should be given high priority

**African Development Institute (ADI),
African Development Bank Group**
“Strengthening capacity for inclusive growth in Africa – without which
the global sustainable development goals and Africa’s Agenda 2063
will not be achieved”

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