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The COVID-19 Pandemic in the IGAD Region: Impact on Health and the economy

For presentation at the Validation Workshop

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- Region hit by the pandemic on top of problem of weak or fragile states, lack of capacity and wide spread poverty, conflicts, and the locust attack on most member countries:
- Many also under major economic difficulties, have significant vulnerable populations, and large numbers of IDPs and refugees.

- Suffer persistent fiscal and BOP deficits, debt burden, high inflation, forex shortage, high unemployment (with no social security).

- also face **common shocks** (recurrent drought, floods, and conflict - causing displacement and migration) and **common vulnerabilities** (environment degradation, land pressure, poverty and food insecurity, malnutrition, limited access to health services and sanitation).

- Region has large **pastoral population** (≈ 30 m) and border cumminities who **move across borders** (movement difficult to trace let alone control).

- Porous borders with regular movement of **informal traders and smugglers** (potential for unchecked spread of the virus).
- Exposed to both **direct effects** of the pandemic and **pandemic-induced recession** in developed countries (both **demand and supply sides**).
- Need to: **deal with the Pandemic (containment measures), minimize** negative economic, social, etc. impact (**rescue measures**) and **activate** the economy (**recovery measures)**.
- Rapid study - Overview of pre-COVID socio-economic situation and state of health services, outbreak and spread of pandemic, broad adverse health, economic and social impacts of pandemic and measures - based on review of continental and IGAD frameworks for health services, data from key multilateral organisations, quick country case studies and other studies.
- Here we highlight the impact and measures

- 203,927 cases and 4,108 deaths (1,893,633 and 45,433 in Africa) as of 11/9/2020.
- Huge health, social and economic impact (its full extent still unfolding):
- **Considerable decline in growth** –
- **Collapse in exports demand and prices** (following deep recession and disruption of supply chains)
- Oil exporting IGAD countries suffered (although net oil importers got forex savings).
- **Impact differs by sector** (based on extent of exposure, importance in the economy and sensitivity of products) – e.g.: tourism, exports, perishable products, migrant-labor based agric.
- **Collapse in remittances** – expected to decline by half in 2020

- the **source, transfer mechanism and transfer cost hit** (with implications on forex earnings, consumption, education, health, and MSMEs investment) - remittance has been important source of forex, business I, HH income and start-up capital for MSME. Remittance inflows in many developing countries had become single most important source of forex (surpassing FDI, portfolio I, aid and exports) and has been consistently rising.

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- **Forex shortages and exchange rate** (decline in export earnings, remittances and FDI) - hit ability to import; pressure on exchange rate (depreciation, high parallel market premiums), and inflationary pressure.
- **Loss of tax and non-tax revenue** - Shortage of **global demand**, weakened **domestic demand** (both C and I demands by private and public sectors due to lockdowns/restrictions and business closures associated layoffs, disruption of supply chains), **tax exemptions** in connection with pandemic, and **challenges of revenue collection** (tax avoidance & evasion) - translated into reduced government revenue in face of additional health expenditures.
- Squeezed from both revenue and expenditure side (**constraining capacity for counter-cyclical fiscal measures**) – **limited room for <u>increased</u> health expenditures or <u>switching</u> expenditures through re-prioritization** to deal with the pandemic without compromising on basic services.
- **Suspension of projects** - Governments forced to prioritise expenditures and access to forex in addition to shifts in attention to fight the pandemic - Projects thus faced suspension or delays.

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- **Reversal** of progress in key SDGs:
- Coming on top of locust infestation that affected most IGAD countries, lockdown/restriction related layoffs, closure of SMEs or loss of business, decline in remittances, disruption of supply chains, and consequent **rise in cost of transport and food prices** push many to **fall below poverty line** and further to destitution – may exacerbate inequality.
- **School Feeding Programs** disrupted – exacerbating malnutrition and vulnerability to disease.
- Disruption of education (including health training) with implications in human capital …..
- Travel restrictions and lockdown also **preclude migration as means of securing livelihood**.

Measures

- **Health related measures** – coordination, public awareness and mobilisation, containment (restrictions & prevention, enforcement), health measures - ….
- **Socio-economic Measures** –

- Rescue measures – fiscal, monetary and exchange related measures.

- In addition to increased health and emergency spending to protect public from pandemic, spending in economic support of HHs and firms affected by pandemic was essential –

<u>Fiscal:</u>

- **Range and type** of fiscal instruments used differ, partly to reflect country context and capacity – But, all gave emphasis to 'saving lives and businesses').
- Took series of quick fiscal measures **to support firms and employment** – tax and related measures to **cushion businesses and the public** from impact of pandemic.
- But, conventional fiscal measures (common in developed countries) **inadequate**.
- had to use **non-conventional** measures – opportunities differed based on country context

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- e.g. In Ethiopia, state ownership of power, telephone and water utility companies and stock of houses (residencial and businesses) permitted use of certain measures:
- Suspending payments of utility bills that directly benefited HHs and businesses; Provided relief on rents to occupying tenants. ……..
- Countries introduced economic-support package to businesses based on **cost sharing principles** – e.g. tripartite agreement b/n government, labor unions and Federation of Employers.
- “tax relief on rental income”, partly intended to encourage landlords to pass on the benefits to their tenants – materilisation of benefits to intended beneficiaries depends on persuasion of the landlords.
- But, still effectively reaching **informal workers and informal businesses with suppo**rt proved difficult. …..

Monetary

- Deposit mobil. and loan collection/repayment affected (liquidity squeeze); Business also required working capital.

Measures:

- liquidity to banks (Ethiopia, Kenya, Sudan, Uganda and Somalia),
- relaxing regulation on loan classification and provisioning,
- Flexible terms to borrowers (e.g. re-scheduling or temporary freeze of repayment of loans and interest, relaxed lending criteria, etc.) (Ethiopia, …)
- Working capital loans to businesses (Ethiopia, Kenya, Somalia, Uganda),
- **Disincentivise** use of cash and reduce frequent visit to banks - raising limits on mobile money transfer, daily withdrawals from ATM, etc., easing interbank money transfer, removing/reducing charges/commissions on transfers, withdrawals, renewal of loans, etc.

Foreign exchange and related

- Uganda took exchange rate and BOP measures in connection with COVID-19.
- Ethiopia gave **priority access** to foreign exchange to both importers and local producers of COVID-19-related goods.
- Ethiopia removed **minimum prices** on flower exports (had been introduced to deal with transfer pricing and under-valuation).
- Permitted **domestic selling** of products meant for exports.
- **Social safety net measures – by** government, private sector and citizens**.**
- Direct cash transfer, in-kind distribution of food staffs, unemployment benefits and delivering basic food baskets to poor families at discounted prices, salary increases to and unemployment benefits for families previously working (e.g. Ethiopia, Kenya, and Sudan).
- **Public works** programs to create jobs and healthier environment (e.g. a hygiene program in Kenya, improvement/maintenance of pedestrian walkways, roadside green areas, etc. in Ethiopia)
- **Contributions -** to government pool fund, in-kind (masks, sanitizers and sanitation materials food items, buildings/houses for use as quarantine), discount or relief of rents on houses/business premises.

Recovery measures

- Expectations regarding speed of recovery vary - Quick ***V-shape*** , gradual ***U-shape***, a ***Hockey stick-shaped*** (2-3 years stagnation before economy picks up), **W-Shape**, or **L*ong-term stagnation***.
- Debate regarding type of recovery – "**opportunity that must be seized to 'build back in a green and low carbon way' - avoid "return to 'business as usual' and environmentally destructive I patterns and activities**" (OECD 2020).
- Recovery packages should aim **beyond** "getting economies and livelihoods quickly back on their feet" - include I and behavioral changes that **decrease likelihood of future shocks** (focusing on wellbeing and inclusiveness) and **enhance resilience** and alignment with **long-term emission reductions** (OECD 2020).
- Distinguish b/n recovery packages focusing on **consumption** (benefits current generation) vs on **productive I** (promise returns for future generation) (Hepburn, O'Callaghan, Stern, Stiglitz and Zenghelis, 2020).
- Suggest an alternative way to **restore confidence** consistent with global climate goals - one that "steers I towards a **productive and balanced portfolio** of sustainable **physical, human, social, intangible, and natural capital** assets".

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- Recovery packages should address **societal and political** concerns – **poverty** alleviation, **inequality** (gender, ethnicity, poor HHs, etc.), and **social inclusion**.
- Direct resources "towards I in high productivity assets, with higher economic multipliers, to deliver a capital stock and a labour force suited to the challenges of the future" (Hepburn et al 2020).
- These are important for IGAD countries but challenges their resource capacity – already high debt burden, decline in revenue, inflation and decline in remittance, FDI and aid flow →**Where to inject limited resources is crucial.**
- some proponents of "building back better" argue for subsidies, loan guarantees and other government supports to be **conditional** on 'environmental improvements and better overall resilience and phasing out of fossil-fuel subsidies' (Energy Transitions Commission 2020, OECD 2020:).

Others argue for gov't support to focus on "growth sectors of the future" than "**protecting all jobs" – e.g. pressure on investors/FIs to <u>exit/bar investing in coal sector</u>**.

<u>Q</u> - **Return of (new form) of donor conditionality on external aid and loans**?

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e.g.: Countries with fossil-fuel based industries may face pressure –

● So far, the commonly used ‘green recovery’ measures are grants, loans, tax deductions, & subsidies – demanding in terms of resource requirement.

● Also suggest making bailout of emissions-intensive companies conditional

● concern that being limited to ‘green measures’ may slow recovery

● Capacity constraint to identify and design ‘green projects’

● Balancing **quick recovery** with maintaining **environmental standards and regulation**

- **Timeliness and flexibility** of recovery policy important -
- Making its design **consultative and evidence-based** emphasized.
- Potential role for IGAD - initiating research, analysis and policy advice (drawing on region’s pool of knowledge) that inform design of such recovery packages (with possible regional components) and consultative formulation processes.

THANK YOU