Impact of COVID-19 on Sub Saharan Africa

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With the ultimate impact of COVID-19 on African markets still unknown, Kroll's Alexander Booth shares some perspectives from ground level.

By early April, many of Africa's key markets responded to the threat of the coronavirus by adopting stringent lockdown conditions to match those already imposed in East Asia, Europe and North America. The regional heavyweights of South Africa, Nigeria and Kenya were some of the earliest countries to announce social distancing policies, lockdowns and blocks on international air travel. Today, some six weeks later, it is now increasingly clear that the social and economic costs of the COVID-19 crisis will likely be severe across many African markets. While the crisis has now come to fruition in many parts of the world, and lockdown conditions are beginning to be eased in Europe, over the coming months we are likely to see the political and economic frailties associated with many African markets become starker and more visible.

It is not yet fully clear what the human impact will be in Africa. Health data tracking infections and mortality has not been reliably generated in much of the region. While Africa's youthful population could lead to reduced mortality rates overall, living conditions for many of Africa's poor, especially in informal districts around major cities, have made social distancing unrealistic and may have caused higher rates of (undetected) infection. Whether in Alexandra Township in Johannesburg, the sprawling Kawangware in Nairobi or in hundreds of similar low-income locations across Africa, settlements are crowded and population densities are extreme. Interpersonal contact is unavoidable. In such conditions, the lockdown approach has been unenforceable at best, and at worst entirely unworkable. In rural areas where density is not a problem, the infection may be spread by people returning from employment in urban centres. In many countries, rural health services are rudimentary and access to testing and treatment has been near impossible.

Development economists have long claimed that aggregated macro-economic figures and high growth rates in many African markets obscure inequality and fail to include the economic activity of the vast informal sector. In Kenya, for example, the World Bank estimates that the informal sector employs some 80% of the national workforce. This sector—comprised of subsistence farmers, informal traders, street vendors, car washers, pavement barbers, etc.—has been the most severely impacted by lockdowns and reduced freedom of movement in and out of city centres. The enforced inhibition of the informal sector in Kenya and elsewhere has adversely impacted an already precarious economic position and threatened basic living standards for millions of *wananchi* or ordinary citizens.

The ability of African state institutions to step in and provide much needed support has been limited when economies have needed it most. Similarly, as international donor countries face their own domestic crises, there has been limited scope for 'development partners' to provide the hands-on support required to fully support African economies. International Monetary Fund (IMF) debt relief will be welcomed but will not translate into adequate health services in the coming weeks and months.

The full response of African governments, and its ultimate effectiveness, remains to be seen, but it seems likely that maintaining fiscal discipline and the stability of the investment climate may fall lower on the priority list. For most of the African region, the policy tools and resources to deal with the situation are minimal or are already stretched. Few African countries have announced policies—such as income assistance, welfare support, essential services or other remedial measures—that can compensate for the reduced earning potential of their workforces.

For international investors and businesses operating in African countries, there is an increased chance of currency depreciation and debt vulnerability and a lack of stability in the investment environment. Human rights issues may become a concern in agricultural or mining operations where personal protective equipment is limited, and vulnerable communities are left stranded with little access to paid work or state safety nets. In working-class districts of Nairobi and Mombasa, for example, Kenyan riot police have fired tear gas and rubber bullets at commuters struggling to return home before the curfew. This undermines the popularity of the lockdown policy and exacerbates instinctive community distrust of central government, further destabilising the operating environment for businesses and their employees.

There are some glimmers of hope. In some areas of Africa—perhaps most notably Guinea, Sierra Leone and Liberia, which suffered a serious outbreak of Ebola in 2014—local healthcare systems have accumulated useful experience in monitoring and containing infectious diseases and in communicating effective response strategies to local populations. The World Health Organisation has also stepped forward to play a coordinating and information-sharing role across Africa—not least in correcting several "fake news" narratives in circulation—and filled a communications vacuum left by the some of the less responsive governments.

Against this backdrop, as the COVID-19 crisis continues to unfold across Africa and operating conditions become increasingly precarious, companies and businesses active in Africa need to stay informed. The wellbeing of employees, the welfare of local partners, the financial position of investee companies and the postures and attitudes of host governments will all be in a state of flux. Similarly, even the most well-entrenched of compliance controls, accounting procedures and environmental, social and governance policies may prove vulnerable to compromise as managerial attention is focussed on the immediate practicalities of the health crisis.

Through Kroll's investigative and advisory work in Africa, we are already beginning to see the impact of the COVID-19 crisis on businesses operating in the region. Disputes are arising as some African businesses seek to take advantage of the current disruption to renegotiate contracts, dismantle joint ventures or default on obligations. Production of commodities for export has been interrupted, supply chains are under stress and transitioning to new suppliers takes time as companies need to vet them financially, operationally and reputationally. In addition, we have seen a number of companies that employ social media influencers in Africa facing brand and reputational damage from the posting of inaccurate, inflammatory or disruptive material by individuals associated with their name and products. Increased levels of fraud and corruption are also likely to surface in the wake of hastily-deployed, poorly-monitored stimulus packages and as forthcoming budgetary constraints focus attention on leakages. Perhaps now more than ever, it is critical that international investors and businesses active in the African region remain clear-sighted about the true situation on the ground in their market.

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