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MACROECONOMIC AND SOCIAL DEVELOPMENTS IN EASTERN AFRICA 2021:

FROM PANDEMIC TO A SUSTAINED RECOVERY



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Macroeconomic and Social Developments in Eastern Africa 2021:

From Pandemic to a Sustained Recovery



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A first draft of this report was prepared for the discussion at the 24th Meeting of the Intergovernmental Committee of Senior Officials and Experts (ICSOE) on the 24 – 25 November 2020. Because of rapidly moving developments in the subregion, it has subsequently been thoroughly revised to take into account new data and analysis. The report uses high frequency national data, available as at July 2021, to capture the immediate impacts of the Covid-19 crisis. The crisis is a reminder of the importance of the timely dissemination of data, so that economic and social impacts can be fully measured and help inform policy.

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EXECUTIVE SUMMARY



The COVID-19 pandemic has caused unprecedented economic and social disruption globally. In Eastern Africa, the pandemic continues to threaten the region's recent economic and social progress, registering its first economic recession since 1992. GDP is growth estimated to have contracted by 0.7 percent in 2020, after expanding by an impressive 6.5 percent in 2019. Although the region's economic recovery looked assured in the early months of 2021, with growth projected of 3.1 percent (UNDESA, 2021), the prospects are currently subdued due to new waves of the pandemic.

The pandemic threatens the region's recent economic and social progress, registering its first economic recession since 1992, with GDP growth estimated to have contracted by 0.7 percent in 2020.

Over the longer run, the greatest risk is that the region fails to return to its previous high growth path. This would be particularly worrying given the high demographic pressures in Eastern Africa, because the growth does not translate into a restoration of rapid gains in per capita income, with obvious and negative implications for poverty-reduction. The social consequences of the pandemic have thus far been serious, with ECA estimating that an additional 34 million people fell into extreme poverty in 2020.

The effects of the pandemic on growth in Eastern Africa have not been uniformly distributed. While the whole region has been adversely affected by this crisis, the impact has been more severe for countries more heavily dependent on certain services sub-sectors where greater human contact is required, such as tourism, hotels, restaurants, education, etc. The contraction of the tourism sector alone has resulted in the loss of anywhere between 6.0-9.3 percent of regional GDP (UNCTAD, 2021).

Several economies in this region have been also facing severe challenges from weather-related shocks and huge locust swarms. Weeks before the spread of the coronavirus reached the region, South Sudan, Somalia, Ethiopia, Kenya and Uganda saw the biggest desert locust invasion in 70 years. Conflict in the Horn of Africa, particularly in Tigray, has also caused serious dislocation and loss of life. In South Sudan alone, after severe flooding, it is estimated that 7.2 million people will face severe acute food insecurity between April and July 2021 (OCHA, 2021). Meanwhile in Madagascar, as of April 2021, over 1.1 million people were suffering acute food insecurity due to insufficient rainfall, rising food prices and sandstorms. In June 2021 OCHA warned that in Somalia at least 2.9 million people were facing displacement due to both conflict and drought. The impression is given that climate-related crises are becoming endemic across Eastern Africa. The confluence

The prospects are currently subdued for returning to the region's previous high growth path. This is particularly worrying given the high demographic pressures in Eastern Africa, with obvious and negative implications for poverty-reduction.

Climate-related crises are becoming endemic across Eastern Africa, and new and urgent measures are required to address these challenges. of circumstances led to highest number of refugees and internally displaced people in Eastern Africa on record in 2020 - 16.6 million, or 3.7 percent of the regional population. New and urgent measures are required to address these challenges, including greater investments in the agricultural sector.

The Eastern African labour market has always been a precarious one, but the crisis has compounded that vulnerability, with the ILO estimating the equivalent of 18 million jobs lost in the second quarter of 2020 alone (ILO, 2021). Several countries have adopted fiscal packages in response to the crisis, particularly to support incomes and businesses. But the scale of the stimulus packages is insufficient to replace the jobs lost in the region, generating only 2 million jobs. Although precise estimates are elusive, survey data suggests that the loss of informal sector employment has been especially serious.

Subdued economic activity in the region due to the Covid-19 crisis has led to a corresponding reduction in fiscal revenues, amplifying pre-existing debt vulnerabilities in the region. Even before the crisis, there were six out of fourteen countries with debt-to-GDP ratios exceeding 50 percent in 2019. Additionally, an increase in risk aversion in financial markets has raised borrowing costs for African countries while public revenues have decreased against a background of sustained public spending to offset the effects of COVID-19. The international community has already undertaken a few initiatives with regards to alleviating the debt burden alleviation (e.g. the Debt Sustainability Initiative), but improved access to concessional financing and debt service relief would assist countries lower borrowing costs and redirect finances away from debt servicing and towards addressing the health and economic crises.

While they are concerns about debt sustainability in the region, in the short-term countries should continue to provide fiscal and monetary support. As stressed by the AfDB (2021), a premature scaling back of such support risks pushing the economy back into recession.

A modest recovery in economic activity became evident in the second half of 2020 and the first quarter of 2021, pointing to the relative resilience of the sub-region. Despite the severity of the economic crisis, with the lifting of containment measures (the easing of lockdown measures and the partial reopening of international borders), a modest recovery in economic activity became evident in the second half of 2020 and first quarter of 2021, pointing to the relative resilience of the sub-region. This is particularly notable in the area of merchandise trade which, after experiencing a sharp drop in the initial period of the pandemic, registered a robust recovery. A few sectors in the region have actually benefited from the crisis – notably ICT.

From a public health perspective, as of July 2021, most countries still had confirmed infection and death rates significantly below the continental average, although since April there has been a worrying uptick in cases, as the Delta variant has become more widespread. Nonetheless, in terms of the financing, quality and adequacy of the health system, the region was ill-prepared for a pandemic. Most Eastern African economies spend less than USD50 per capita annually on health - less than half of the African average. The shortage of healthcare workers has been a serious constraint and increases the risk of fatalities in case of an upsurge in infections. Communicable diseases were already the leading cause of deaths in Eastern Africa prior to the recent pandemic, accounting for more than half of deaths in the region. This rate is likely to increase due to the diversion of already scarce medical resources to fight the current pandemic.

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Beyond the health impacts, the closures of educational institutions impacted over 96 million learners. Besides a reduction in expected years of schooling, there are many other consequential impacts of reduced school attendance, such as poor nutrition, increased exposure to violence and exploitation, childhood pregnancies, and increased challenges to the mental development of children (UNICEF and WHO, 2020). Governments in the region have responded by introducing or ramping up distance learning solutions. Nonetheless, access to technologies such as internet, television, and radio is limited, especially among poorer households. UNICEF (2020a) estimates that at least a half of students in East and Southern Africa have been unable to access remote learning, and have thus urged governments to prioritize the safe reopening of schools as they begin easing lockdown restrictions.

To soften the impact of widespread job losses, many governments in the region quickly reorganized budgets and sought international financing to support affected workers. These programmes, while responsive to the urgent needs emanating from the COVID-19 crisis, are expected to conclude within the next few months, if they have not already. This has demonstrated the need for more comprehensive contributory and non-contributory (government or aid-financed) social protection schemes that are both wide and deep in coverage – a necessary step towards universal provision.

There is a need for more comprehensive contributory and non-contributory (government or aid-financed) social protection schemes that are both wide and deep in coverage – a necessary step towards universal provision.





1. ECONOMIC PERFORMANCE

Eastern Africa has registered its first economic recession in recent decades, with GDP growth estimated to have contracted by 0.7 percent in 2020.

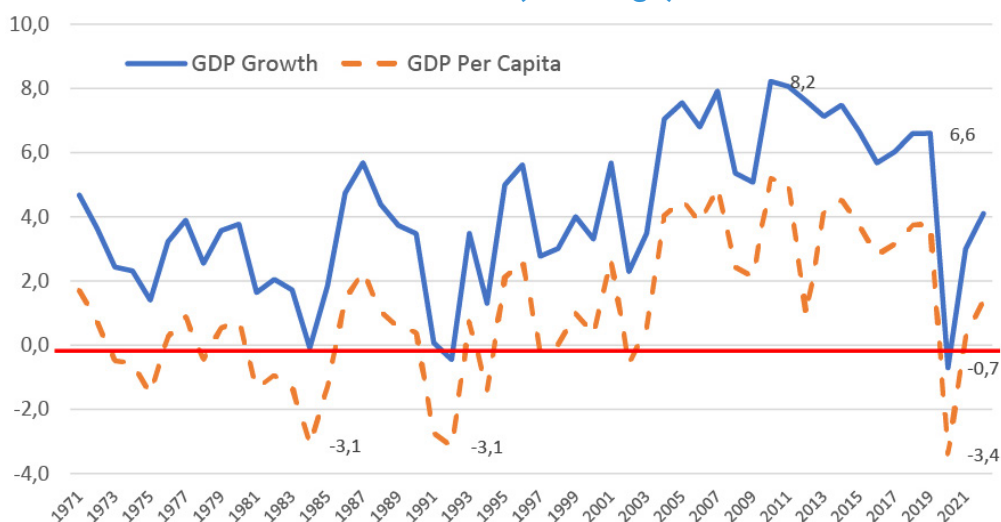
The COVID-19 pandemic has caused unprecedented economic and social disruption globally. After a contraction of -3.4 percent in 2020 - the first in 27 years and the largest on record - Africa is projected to achieve a modest recovery, with regional GDP expanding by 3.4 percent in 2021 and 3.6 percent in 2022 (UNDESA, 2021), although that recovery is highly contingent on progress in controlling new waves of Covid-19. In Eastern Africa, the pandemic threatens the region's recent economic and social progress, with GDP growth estimated to have contracted by -0.7 percent in 2020, after expanding by an impressive 6.5 percent in 2019.

1.1 Largest Fall in Per Capita Income Over the Last 50 Years...

Per capita income contracted by -3.4 percent in 2020, representing the largest fall in per capita income over the last 50 years.

Although early in 2021 Eastern Africa began showing signs of economic recovery, with growth projected of 3.1 percent for 2021 and 4.0 percent in 2022, serious downside risks to regional growth still exist due to new waves of Covid-19, which have precipitated new lockdown measures of varying intensity. Notably the prospects are currently subdued for returning to the region's previous high growth path. This is particularly worrying given the high demographic pressures in Eastern Africa, because the growth does not translate into a restoration of rapid gains in per capita income. The regional population is expanding annually at a rate of 2.7 percent, (UNDESA, 2021), one of the fastest rates of demographic expansion in the world, implying that per capita income contracted by -3.4 percent in 2020, representing the largest fall in per capita income over the last 50 years (Figure 1).

Figure 1: Eastern Africa GDP Growth – The Long-Term Perspective 1971-2022* (% Change)



Source: UNDESA and ECA calculations. *2020 are estimates, and 2021-2021 forecasts

Table 1: GDP Growth Performance, Eastern Africa, 2015-2022

Real GDP Growth (%)		UNDESA				
		Estimates			Projections	
Country	Av 2015-2017	2018	2019	2020	2021	2022
<i>Burundi</i>	2.2	4.2	4.1	-3.3	3.0	3.2
<i>Comoros</i>	2.7	3.8	2.0	0.2	2.9	3.0
<i>Congo, Dem. Rep.</i>	4.3	5.8	4.4	-2.2	3.5	4.0
<i>Djibouti</i>	6.6	8.4	6.6	1.2	4.5	5.0
<i>Eritrea</i>	3.1	4.2	3.8	-2.5	4.1	3.0
<i>Ethiopia*</i>	9.5	7.7	9.0	6.1	2.3	4.2
<i>Kenya</i>	5.5	6.3	5.4	-0.4	3.0	4.0
<i>Madagascar</i>	3.7	3.2	4.4	-2.6	3.0	2.8
<i>Rwanda</i>	6.3	8.6	9.5	-3.4	4.5	6.0
<i>Seychelles</i>	4.6	1.3	1.9	-13.4	1.8	4.3
<i>Somalia</i>	3.3	3.1	2.9	-3.7	2.7	3.1
<i>South Sudan</i>	1.0	3.4	11.3	-7.2	2.0	2.2
<i>Tanzania</i>	6.6	7.0	7.0	1.5	3.0	4.0
<i>Uganda*</i>	4.6	6.2	6.8	2.9	4.1	4.8
Eastern Africa	5.8	6.7	6.5	-0.7	3.0	4.1
Africa	2.6	3.4	2.9	-3.4	3.4	3.6
World	2.8	3.1	2.5	-4.3	4.7	3.4

Note*: Ethiopia and Uganda used Fiscal year data (2014/15 to 2019/20)

Source: BRB (2021), Banque Centrale des Comores (2021), Autorités de Djibouti (MEFI-MB-BCD 2021), BCC (2021), NBE (2021), NISR (2021), UBOS (2021), CBK (2021), BOT (2021), CBS (2021), and UNDESA (2021)

The contraction in regional growth has already led in 2020 into an additional 34.1 million people of people in Eastern Africa living in extreme poverty. This has some serious implications in terms of reversing progress towards poverty reduction, as households are pushed back under the threshold of poverty, with one recent modelling exercise ([Morse et al., 2021](#)) suggesting that at the continental level the number of poor could increase by up to 49.2 million as GDP growth falls below population growth rates. For Eastern Africa, which is home to a disproportionate number of the continental poor, the implications for poverty reduction could be considerably worse. According to calculations by SRO-EA, based on an average poverty reduction to growth elasticity of -1.6 for Eastern Africa prior to the crisis, the contraction in regional growth has already led in 2020 to a 14.7 percent increase in the share of the population living under US\$ 1.90 a day, the poverty line below which people live in extreme poverty. This translates into an additional 34.1 million people of poor people in Eastern Africa¹. The longer the economic impact of the crisis is prolonged, the larger the potential implications for regional growth and development.

The economic impact of the crisis has been compounded by weather-related shocks and locust swarms in parts of the region. The economic impact of the crisis has been compounded by weather-related shocks and locust swarms in parts of the region. In South Sudan alone, after severe flooding, it is estimated that 7.2 million people will face severe acute food insecurity between April and July 2021 ([OCHA, 2021](#)). In Madagascar, as of April 2021, over 1.1 million people are suffering acute food insecurity due to insufficient rainfall, rising food prices and sandstorms ([Ahmed and Razafison, 2021](#)). Weeks before the spread of the coronavirus reached the region, countries such as South Sudan, Somalia, Ethiopia, Kenya and Uganda saw the biggest desert locust invasion in 70 years².

Displacements of human populations caused by environmental crises, as well as people fleeing from conflict, led to the highest number of refugees and internally displaced people in Eastern Africa on record in 2020. There has been a secular increase in dislocation within the Eastern Africa region over the course of the last decade, but displacements of human populations caused by these environmental crises, as well as people fleeing from conflict (notably in the Tigray region of Ethiopia) led to the highest number of refugees and internally

1 These calculations are based on poverty reduction elasticities reported in Fosu (2017). They are calculated from a baseline which supposes that the counterfactual is that economic growth had continued at the 2019 rate. For a fuller description of the implications of the pandemic on poverty across the continent, see the forthcoming Economic Report on Africa, UNECA (2021), which will be released in September.

2 Conflict in the Horn of Africa, particularly in Tigray, has also caused serious dislocation and loss of life, with more than a million people estimated to have been displaced (UNICEF, 2021). By the end of 2020, IOM/WFP (2021) were reporting 8.7 million internally displaced people and 4.7 million refugees and asylum seekers in East Africa (excluding DRC and the island states of East Africa) due to a combination of natural disasters and conflict.

displaced people in Eastern Africa on record in 2020 (16.6 million, or 3.7 percent of the regional population).

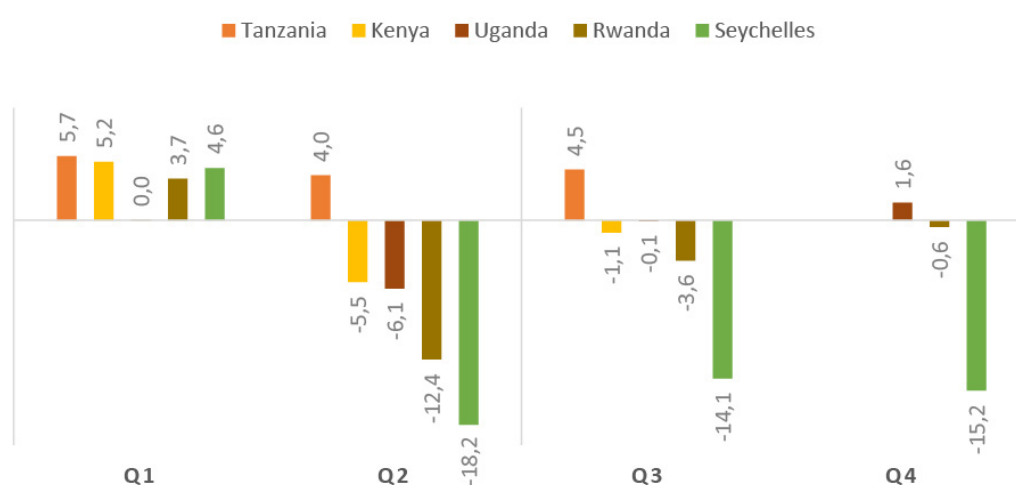
All these factors highlight the extreme vulnerability of the region to climate change, and remind us of the importance of maintaining higher levels of investment in agricultural development to confront these challenges, as well as the need to increase intra-African trade in agricultural produce with the objective of improving food security in the region.³

1.2 Signs of Relative Resilience...

Despite the gravity of the crisis, compared with forecasts for other sub-regions, Eastern Africa has proven to be relatively resilient, an outcome attributable primarily to structural characteristics such as: (i) the region's heavy dependence on its agricultural sector and rural economies; (ii) its lower degree of integration into global value chains; (iii) a low share of the population in urban areas; (iv) and the region's predominance of net commodity importers (Mold, 2020). So far, the available quarterly data for 5 countries in the region confirm a severe contraction of economic activity in the 2nd Qtr of 2020, followed by a modest rebound in subsequent quarters, as countries reacted to the crisis and adopted mitigating measures (Figure 2).⁴

Quarterly data for 5 countries in the region confirm a severe contraction of economic activity in the 2nd Qtr of 2020, followed by a modest rebound in subsequent quarters.

Figure 2: Quarterly GDP growth rates for selected Eastern African countries (%), 2020Q1-Q4



Source: NISR (2021), CBK (2021), UBOS (2021), Tanzania NBS (2021), Seychelles NBS (2021).

³ See Section 2 of this report for a discussion on the food security situation.

⁴ First quarter data for 2021 is only available for Rwanda and Seychelles. The Rwandan economy experienced a modest recovery, expanding by 3.4 percent y-o-y, but because of a surge in Covid cases, the Seychelles economy continued to contract, by a massive -24 percent y-o-y.

There is also evidence of a recovery of formal sector trade flows for a few member states, thanks to measures adopted to secure cross-border transport, although informal sector trade – upon which a lot of border communities are heavily dependent – remains highly restricted (Mold and Mveyange, 2020). Members of EAC amended their Common External Tariff to protect their vulnerable sectors, promote local manufacturing of essential products, while protecting consumers for products unavailable in the region (TRALAC, 2020).

Nonetheless, uncertainty around the spread and duration of the COVID-19 pandemic persists and could continue to depress household consumption and private investment.⁵ Eastern African growth rates are expected to recover in 2021 and 2022, but not to the pre-pandemic levels (AfDB, 2021; IMF, 2021). A brisk and strong economic recovery in Eastern Africa will partly remain dependent on the recovery of the global economy, particularly in the key trading partners in Asia and Europe, and a revival in the tourism and transport industries, as well as the extent to which vaccination campaigns are carried out. We will return to this point in Section 3 of this report.

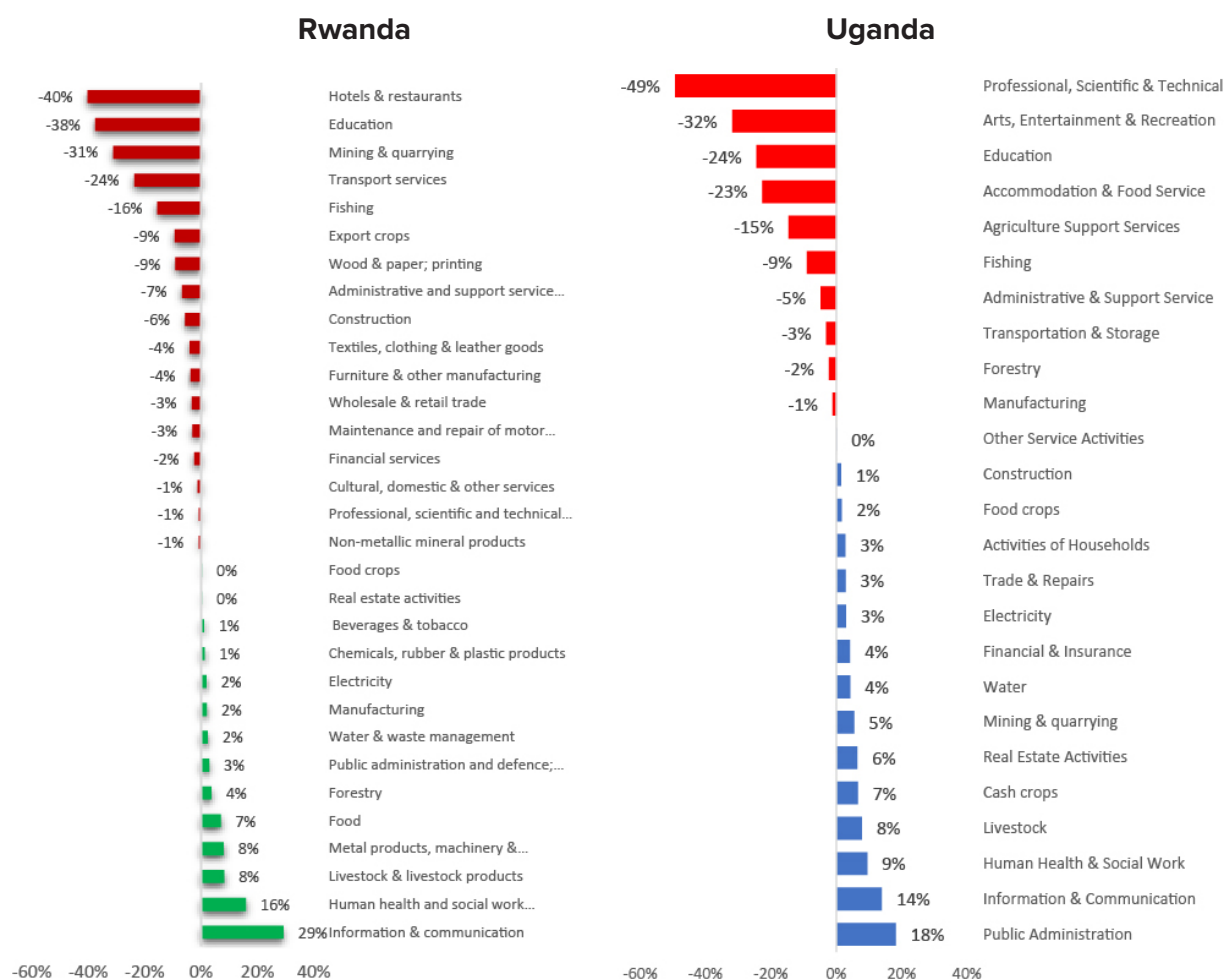
1.3 Sectoral Impacts of the Pandemic...

Figure 3 provides an insight into the sectoral impact in two countries which have already published GDP data for the whole of 2020 – Rwanda and Uganda. Although the sectoral disaggregation differs, there are some commonalities in terms of the way the crisis has impacted on economic activities.

Tourism and the hospitality industries have been hit hard by the crisis, as well as dependent industries such as arts and entertainment. Unsurprisingly in view of the closure of schools and universities, the education sector has been among the worst-hit sectors. Transport services have also been negatively impacted. Manufacturing presents a more mixed picture, with some sub-sectors managing to continue to expand (e.g. metal products, chemicals) while others contracted (e.g. wood and paper, textiles, clothing and leather goods). Disruptions to supply sides in some sub-sectors, as well as the curtailing of domestic demand are explanatory factors.

⁵ In addition, the impact of the pandemic could affect private savings, given that the suspension of economic activities suppresses wages and business income. In the absence of social protection schemes as well debt and rent payment cancellation or restructuring, households must draw from their savings to cover their expenses. An analysis conducted by Makanga et al. (2020: 15) in Uganda found that those financially and economically affected by the pandemic have a higher propensity to seek early access to their long-term savings.

Figure 3: Sectoral composition of growth, Rwanda and Uganda, 2020



Source: ECA calculation from NISR (2021) and BoU (2021)

Broadly speaking, food production does not seem to have been excessively impacted by the crisis, although there is evidence of a contraction in export crops in Rwanda (but not Uganda). Among the sectors which continued to grow in spite of the pandemic, information and communications experienced strong growth due to increased demand because of lockdown measures, and there was a significant expansion in both countries of human health and social work activities, as their governments increased assistance to deal with the health and social consequences of the pandemic. In sum, the picture is a mixed one, but one that broadly supports our contention about the resilience of parts of the Eastern African economy.

ICT, health and social work activities experienced strong growth in 2020 due to increased demand because of lockdown measures.

1.4 What High-Frequency Data Tells Us about the Pace of Economic Recovery...

Rwanda's manufacturing production index declined sharply by 46 percent at the height of the country's first lockdown. As lockdown measures were eased, however, there was a sharp recovery, with manufacturing production surpassing its level in January by June and remaining high for the rest of 2020.

The fortunes of Kenya's manufacturing sector – the main manufacturing hub of Eastern Africa and responsible for around half of total value added in manufacturing in the East African Community – is indicative of more general trends. A comprehensive early survey into the crisis' impact on Kenya's manufacturing sector (KPMG and KAM, 2020) found that the loss of demand has paid a toll on the production capacity, with the worst hit sub-sectors being textile and apparel, timber, wood and furniture sectors followed by the leather and footwear, all reporting a loss in turnover of more than -65 percent.⁶

Kenya's cement production recorded a significant increase between May and August 2020, rising by 28 percent. Rwanda also reported a large (+52.2 percent) increase in imported cement, on top of a 10 percent increase in domestic production.

Although not available for all countries, high-frequency data – composite or sector-specific indicators – can provide further insights into how the economic crisis has manifested itself across the region. Rwanda's manufacturing production index, for instance, declined sharply from 139 in January to just 76 by April - a decline of 46 percent - at the height of the country's first lockdown. As lockdown measures were eased, however, there was a sharp recovery, with manufacturing production surpassing its level in January by June and remaining high for the rest of the year (Figure 4). In Uganda, a similar pattern emerges when reviewing the Uganda Central Bank's Composite Index of Economic Activity, although the indicator does show that, after an initial sharp recovery in June, the economic recovery started to falter in the second half of the year (Figure 5).

Figure 4: Rwanda Manufacturing Production Index 2020

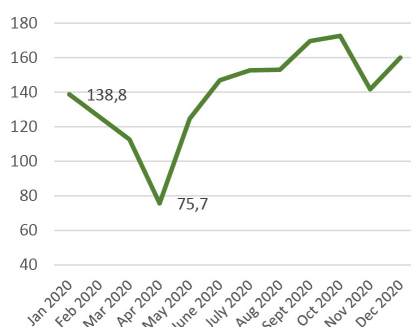


Figure 5: Uganda Manufacturing index

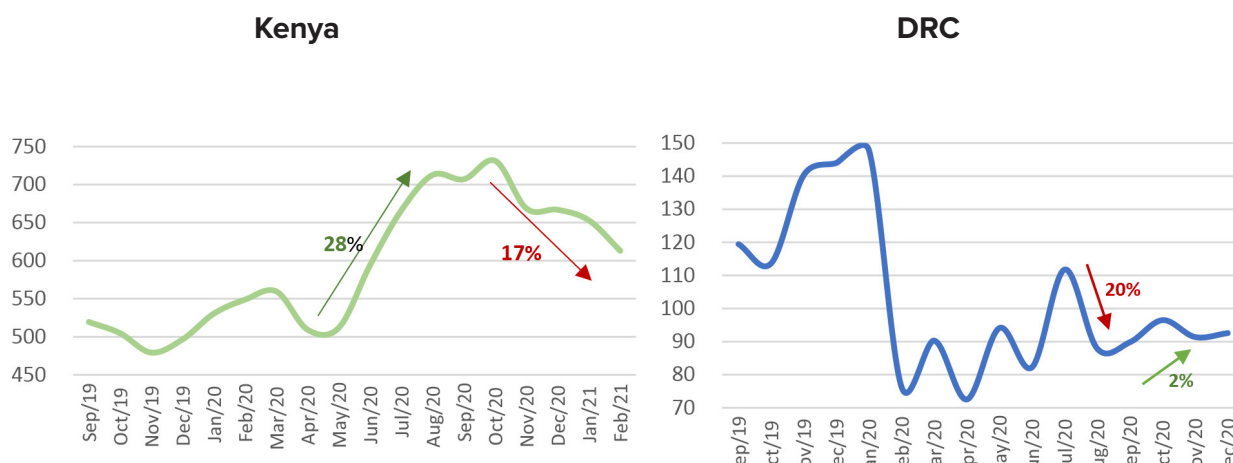


⁶ Notably, a few sectors - namely metal and allied, chemical and allied, paper and paperboard, and food and beverages - actually saw a slight increase in turnover, reflecting again the differential impact that the crisis has had on parts of the regional economy.

Another insightful indicator of economic performance in the real economy is cement production, which shadows activity in the construction sector – an important generator of employment opportunities in Eastern Africa.⁷ Cement production data shows a dichotomy between a resilient performance of Kenya, on the one hand, and DRC, on the other (Figure 6). Kenya’s cement production barely showed any signs of pausing during the crisis, and indeed, recorded a significant increase between May and August 2020, rising by 28 percent. Rwanda (BNR, 2021) also reported a large increase in imported cement, rising by 52.2 percent in volume, as well as growth in domestic production, rising by 9.6 percent in 2020 compared to 2019. These trends are hardly indicative of a languishing construction sector, a positive sign giving the major role of the sector in the creation of employment. In DRC, by contrast, there was a sharp contraction in cement production in the early months of the year, with little signs of a sustained recovery over the rest of 2020.

A similar picture emerges when comparing electricity consumption – another good indicator of general economic performance. Kenya’s electricity consumption declined by over 15 percent between March-April 2020, but subsequently recovered quite rapidly so that by the end of the year consumption was as high as it had been earlier in the year. Data from DRC, however, shows that the recovery has only been partial (Figure 7)

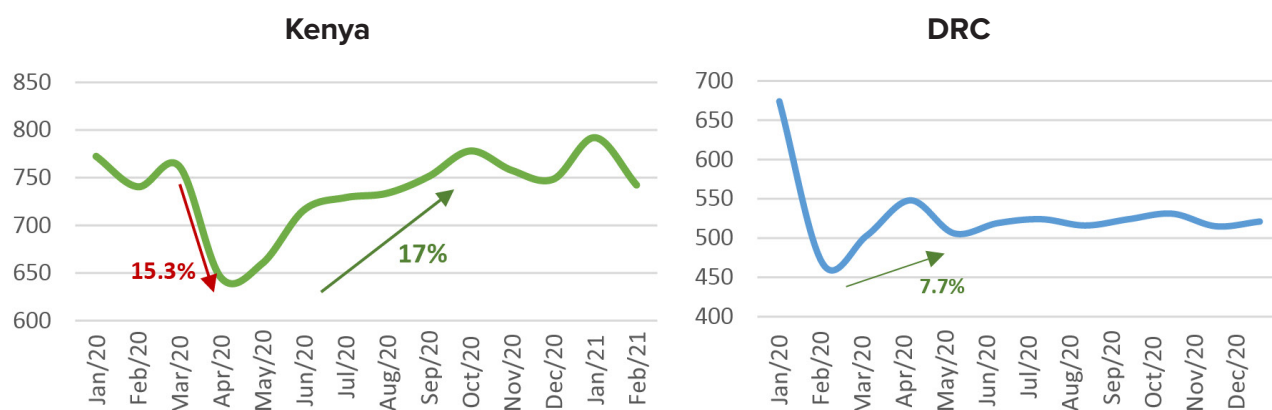
Figure 6: Cement production, 2019-2020 (Thousand Tonnes*)



Source: KNBS (2020) and BCC (2021) *

7 A report by Deloitte (2020) suggests that the number of major infrastructure projects in East Africa fell from 182 in 2019 to 118 in 2020, while the total value of the projects declined by 47 per cent to \$77.7 billion from \$146 billion in the same period. The same report notes that China - the main financier of the region’s infrastructure projects - reduced its funding to 14 per cent of the total projects in 2020 from 21 per cent in 2019, after it began to rethink the debt repayment prospects of African countries.

Figure 7: Electricity consumption, 2019-2020



Source: KNBS (2021) and BCC (2021)

The crisis in global tourism has hit the region hard, with UNCTAD estimating that the regional economy has lost anywhere between 6.0 and 9.3 percent of GDP due to the severe downturn in this one sector.

Finally, travel and tourism industries in the region have been particularly hard hit by travel restrictions and the decline in global demand. Tourism is a leading foreign exchange earner for Eastern Africa, so clearly the crisis in global tourism has hit the region hard. Seychelles is the most vulnerable economy in this respect, where the direct and indirect impact of tourism is responsible for around two thirds

of the country's GDP. The indirect impacts associated with the collapse of the tourism sector in the region include a diminished demand for agricultural produce from hotels and restaurants, the loss of multiplier effects of tourism spending on the local economy, the sharp fall in demand for associated services,⁸ as well as the negative repercussions on the air transport sector.⁹

Although there was a small recovery in visitor numbers in the latter half of 2020 and early 2021, the number of tourism arrivals in the region remained well below pre-pandemic rates (Figure 8). UNCTAD (2021) estimates that East Africa has lost anywhere between 6.0-9.3 percent of GDP due to the severe downturn in this one sector.

1.5 Has the Pandemic been Inflationary?...

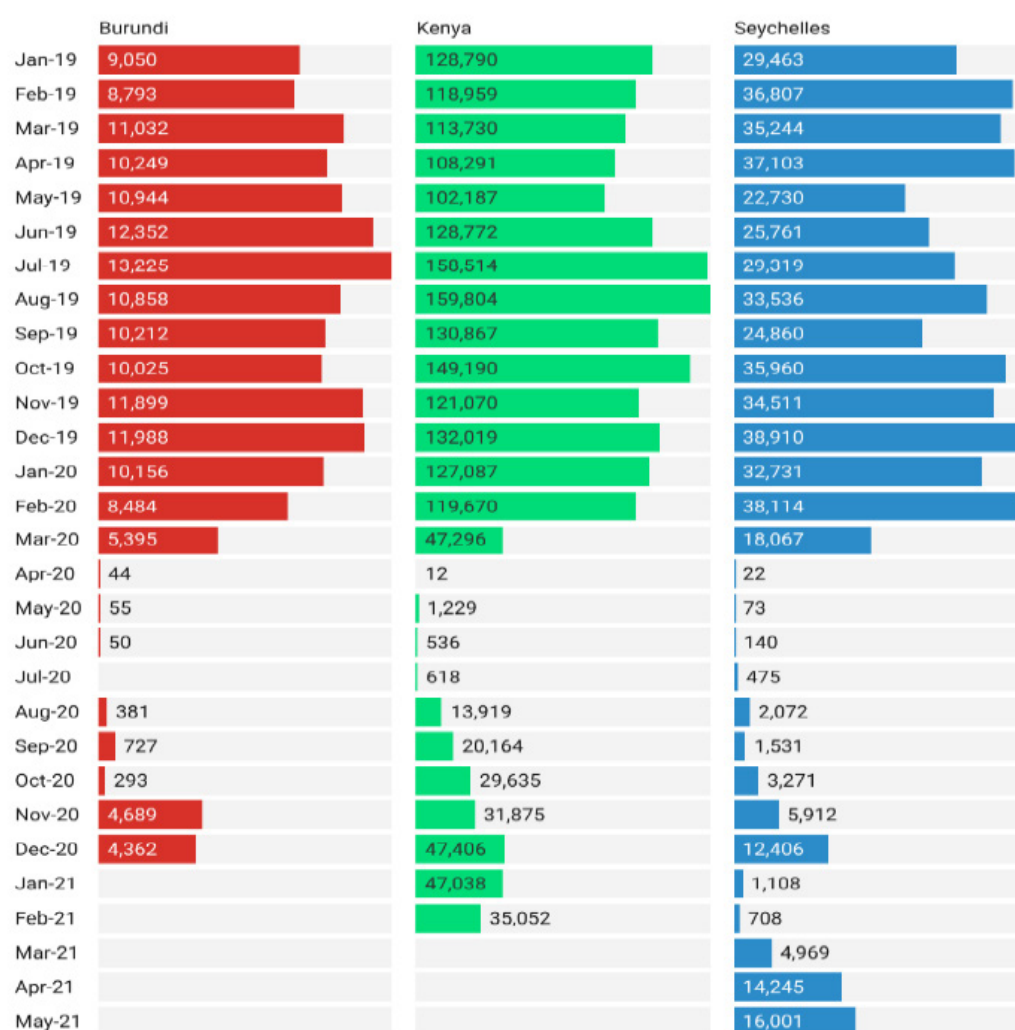
Globally, there is some debate amongst economists about whether the pandemic

8 In Kenya, for instance, the impact of the crisis on the accommodation sub-sector is estimated to have cost the country 149,000 full-time equivalent jobs, Kshs 12.8 billion in lost labour income, Kshs 35.7 billion in reduced value addition and Kshs97.1 billion as lower output (UNECA SRO-EA, June 2020). According to UNCTAD (2021), the reduction in tourism causes a 5.5% rise in unemployment of unskilled labour on average, with a high variance of 0% to 15%, depending on the importance of tourism for the economy.

9 Airlines in the region have taken major hits as a result of suspended routes and low demand, leading to increased financial strain for most companies. On the other hand, African airlines' cargo demand experienced a 44.2% increase (IATA, 2021).

has been broadly inflationary or deflationary¹⁰ – the consensus feeling being that there is a risk of a resurgence of inflation if rising debt is financed in an inflationary manner. In an analysis of the historical impact of previous pandemics on inflation, [Daly & Chankov \(2021\)](#) note that inflation typically remains subdued during pandemics and declines in aftermath. In Eastern Africa this would certainly seem to be the case and the pandemic has not in the main been inflationary – in most sectors it has depressed aggregate demand. Nonetheless, principally for domestic reasons, inflation has been on an upward trend in number of countries in the region (DRC, Ethiopia, and Seychelles).

Figure 8: Visitor arrivals, January 2019 – latest month available



Source: [Banque de la République du Burundi \(2021\)](#), [KNBS \(2021\)](#), [Seychelles National Bureau of Statistics \(2021\)](#)

Note: Burundi statistics represents all arrival traffic at Bujumbura International Airport

¹⁰ The arguments cut both ways, in fact. The crisis has disrupted many supply chains, leading to cost-push inflation in some sectors. But it has also depressed consumer spending and investment, which could in turn depress prices. Worries have been expressed by some economists about long-term financing implications (e.g. [Krugman 2021](#) vs. [Wolf, 2020](#))

Table 2: Annual headline inflation rate (%), latest available

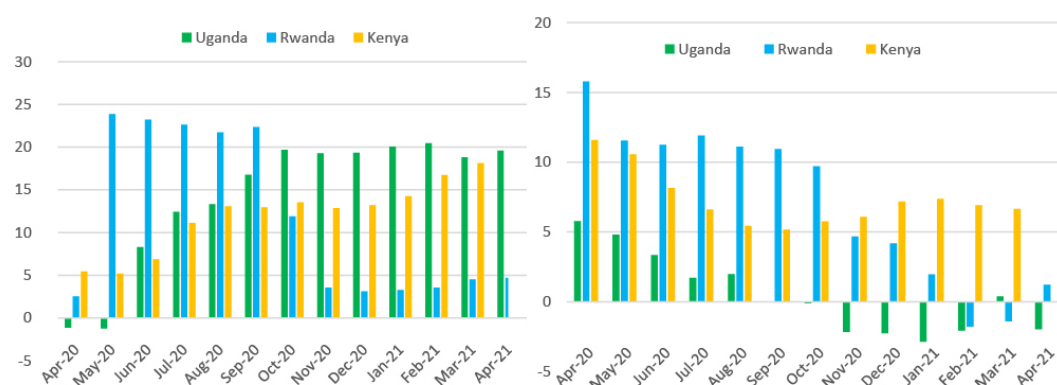
ANNUAL HEADLINE INFLATION RATE % CHANGE								
	BURUNDI	DRC	ETHIOPIA	KENYA	RWANDA	SEYCHELLES	TANZANIA	UGANDA
Jan-20	5.1	4.8	18.7	5.8	11.5	0.8	3.7	2.6
Feb-20	7.7	4.6	21.8	7.2	13.5	0.8	3.7	3.0
Mar-20	7.1	5.3	22.6	5.8	13.0	0.9	3.4	2.0
Apr-20	7.6	7.2	22.9	6.0	10.1	0.1	3.3	2.6
May-20	9.2	9.3	19.8	5.3	9.9	-0.2	3.2	2.7
Jun-20	8.5	11.7	21.6	4.6	10.3	0.2	3.2	3.4
Jul-20	7.7	14.7	22.3	4.4	11.5	1.0	3.3	3.2
Aug-20	6.7	15.7	20.0	4.4	10.9	1.2	3.3	3.0
Sep-20	6.3	15.6	18.7	4.2	10.8	1.8	3.1	2.7
Oct-20	7.0	15.6	19.3	4.8	9.3	1.9	3.1	3.0
Nov-20	9.0	15.5	19.0	5.3	4.5	2.3	3.0	2.5
Dec-20	8.0	15.8	18.2	5.6	3.9	3.8	3.2	2.5
Jan-21	6.5	15.8	19.3	5.7	3.5	7.6	3.5	2.0
Feb-21	6.1	15.6	20.6	4.7	2.2	8.7	3.3	2.3
Mar-21	7.8	-	20.6	5.9	1.7	9.6	3.2	2.7
Apr-21	-	-	19.2	5.8	2.7	10.7	3.3	2.1
May-21	-	-	19.8	5.9	-	11.4	-	1.9

Source: ISTEEDU (2021), BCC (2021), CSA (2021), CBK (2021), NISR (2021), NBS (2021), BOT (2021), UBOS (2021)

That said, a generally observed trend in the region is the rapid increase in transport, housing, utility and food prices.¹¹ This is problematic, particularly for poor households in urban areas given the importance of these items in their consumption basket. High food prices (particularly cereals and vegetables) have been highlighted as the cause of Ethiopia's struggle with persistent inflation (World Bank, 2021). In spite of the country's domestic marketable surplus for cereals, the price of food has remained high due to challenges such as low import capacity, currency depreciation, shortage of US dollars, low foreign exchange reserves and high input and fuel prices; which have been exacerbated by the pandemic (WFP, 2020). In addition to high prices of staple food items prevailing since December 2019, the rising inflation in DRC is related to the country's mushrooming money supply. This stems from the inability of the government to repay the funds borrowed from the central bank at the beginning of the year to balance its budget, which resulted in significant money creation (RFI, 2020).

11 A report by COMESA (2021), of which 11 of Eastern Africa's countries are members, found that the regional rate of inflation had nearly doubled in the first half of 2020, driven by pandemic-induced changes in consumption of housing, water, electricity, gas and other fuels, health and communication due to supply shortages and confinement measures.

Figure 9: Monthly Transport and Food Inflation, Y-o-Y, April 2020-April 2021



Sources: NISR (2021), BoU (2021) and KNBS (2021)

In other countries of the region, transport inflation has been very significant – in the case of Kenya, Rwanda and Uganda surpassing 15 percent year-on-year during various months of 2020 (Figure 9). In Rwanda, alongside food price inflation, this was an important contributory factor to pushing domestic inflation into two-digit levels in the first half of 2020 (BNR, 2021, World Bank, 2021) though it has subsequently moderated significantly in the early months of 2021 due to policy measures taken to reduce inflationary pressures.

1.6 Some major shifts in commodity prices...

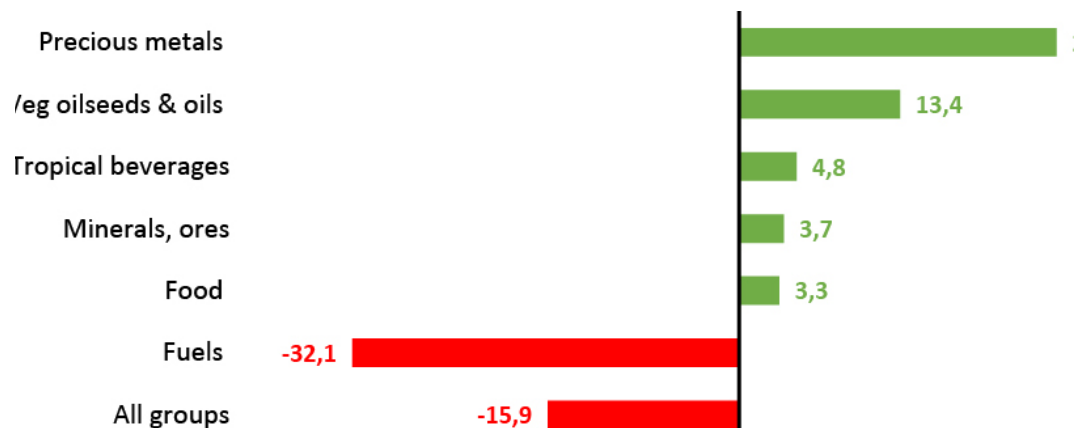
Further evidence of the broadly deflationary nature of the pandemic is provided by trends in commodity prices. UNCTAD's Commodity Price Index saw a contraction of 16 percent over the course of 2020, although it is worth stressing the extent to which this result hinged on the precipitous crash in fuel prices, which was already underway prior to the outbreak of the

Covid-19 crisis¹². As a region of net-fuel importers (apart from South Sudan), this has had a beneficial impact on the region, reducing the import bill significantly at a time of significant economic contraction. Interestingly, outside of fuels, most commodity sub-groups experienced price rises, particularly in precious metals – again benefiting several countries (principally, DRC, Eritrea, Ethiopia, Rwanda, Uganda and Tanzania) in the region through the rising value of gold exports. Tea and coffee export prices have also generally been buoyant.

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¹² Fuels have a weighting of 47.38 percent in the total commodity price index (UNCTAD, 2018).

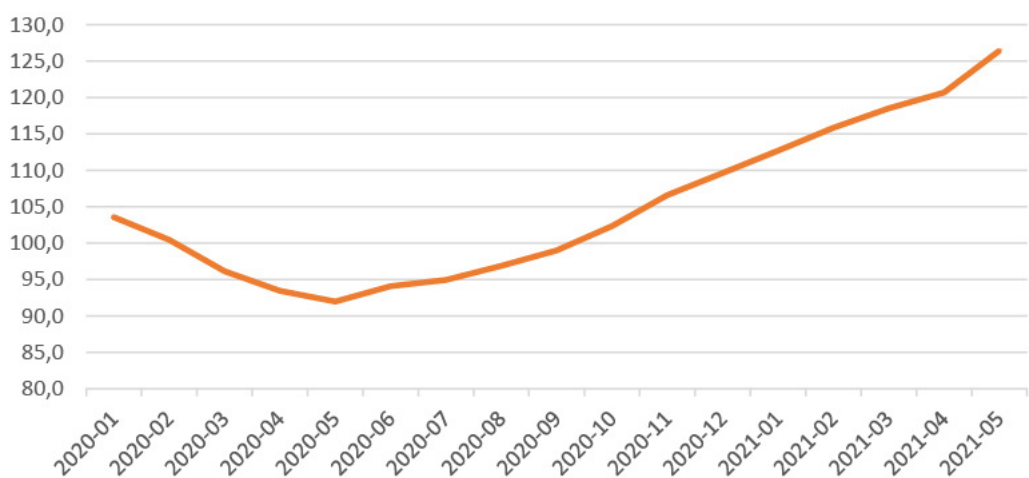
**Figure 10: UNCTAD Commodity Price Indexes 2020
(% Change vis-à-vis 2019)**



Source: UNCTADStat (2021)

There is one major exception to this more positive story of shifting relative prices. We discussed in the previous section trends in food prices in the region, where local shortages manifested themselves in inflationary spurts in some countries. Globally, there has been pressure on food prices since mid-2020, where disruptions to food production systems has resulted in inflationary pressures globally. That pressure picked up in the first half of 2021, to such an extent that FAO began warning of the largest spike in food prices in May 2021 in over a decade (Terazono, 2021), driven by both sharp increases in cereal and oils prices.¹³

Figure 11: FAO Food Price Index (2014-2016=100)



Source: FAO (2021)

¹³ Import dependency ratios for vegetable oils, at 86 percent of total consumption, are reported as the highest on the African continent (FAO, 2021: Table 2).

The rise in world food prices will further increase food price inflation in the region, especially among countries reliant on imports for staples, with 8 of the 14 countries in Eastern Africa being net food importers (Figure 12 , Figure 13). Food security in the region is already fragile and guaranteeing local food production will be essential in the face of current uncertainty in global markets. We will return to this point in the conclusions to this report.

The rise in world food prices will further increase food price inflation in the region, especially among countries reliant on imports for staples, with 8 of the 14 countries in Eastern Africa being net food importers. Food security in the region is already fragile and guaranteeing local food production will be essential in the face of current uncertainty in global markets

Figure 12: Net Food Trade Balance, millions USD 2018

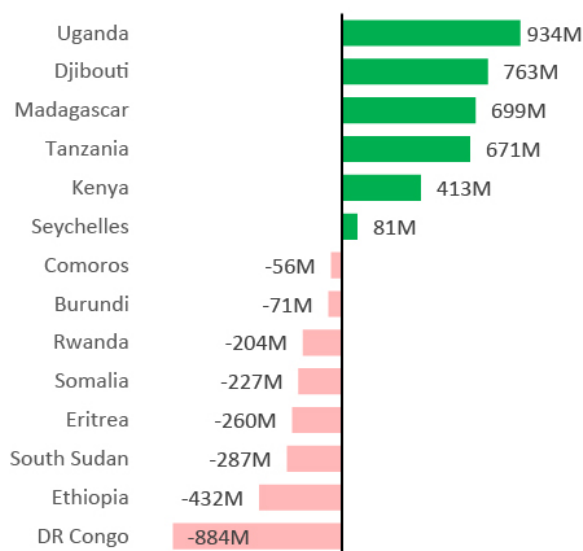
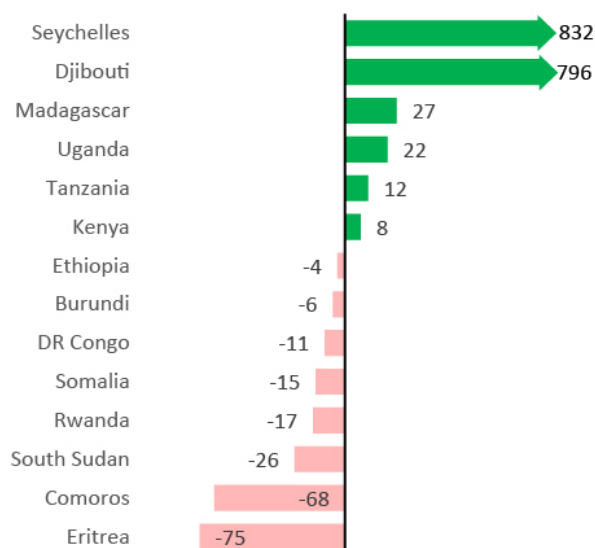


Figure 13: Net Food Trade Balance USD per capita, 2018



Source: Calculated from UNCTADstat (2021)

Note: Djibouti’s food trade surplus includes re-exports to Ethiopia. Seychelles high per capita food trade surplus on account of high fish exports and a relatively small population.

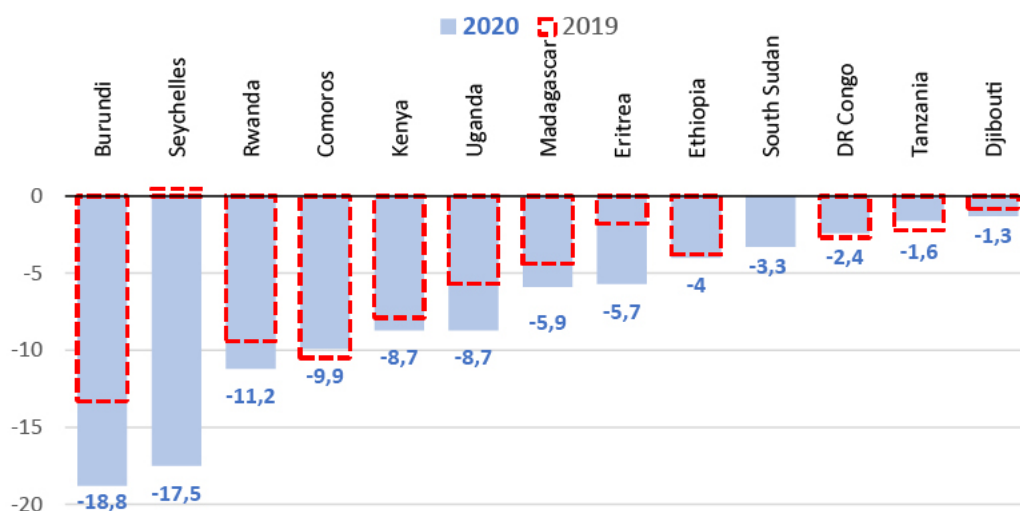
1.7 Fiscal Pressures are mounting...

Even prior to the COVID-19 crisis, fiscal pressures were already acute in parts of the region (Figure 14) and most governments in the region had recognised the importance of reducing their budget deficits over the short-to-medium term. For example, Kenya’s fiscal deficits were increasingly being financed by debt, but the government planned to improve its tax administration and cut spending to halve its deficit by 2024.¹⁴ For the Sub-Saharan region, the IMF (2021:7) estimates that

¹⁴ In April, the International Monetary Fund approved a \$2.34 billion loan for Kenya (IMF, 2021) to help deal with the fiscal consequences of the crisis, although the loan was criticized in some quarters (Mureithi, 2021).

COVID-19-related fiscal packages in the region averaged only 2.6 percent of GDP in 2020, markedly less than the amounts spent in other regions (spending in advanced economies was almost triple this amount at 7.2 percent of GDP in 2020) and has often come at the expense of essential spending in other areas.

Figure 14: Overall Fiscal Balance, Excluding Grants (% of GDP), 2019 vs 2020



Source: IMF WEO (April 2021)

Fiscal deficits are expected to deteriorate further as the tax base erodes and spending on social protection measures increases.

Over the course of 2021, the rise in government expenditure will heighten budgetary pressures. Fiscal deficits are expected to deteriorate further as low domestic economic activity erodes the tax base and governments increase spending on social protection measures.

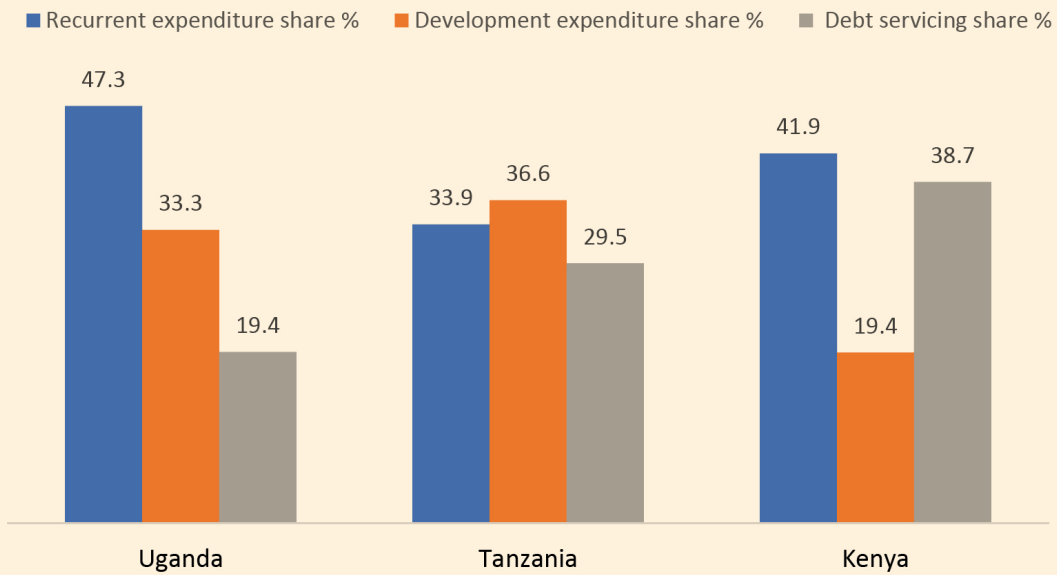
For some Eastern Africa countries, government data shows that the forecasted fall in fiscal revenues due to the drop in economic activity had either not yet materialised or had showed signs of recovery by the end of 2020 (Figure 16). In Kenya, Tanzania and Seychelles, apart from a brief fall in revenue in April 2020, in comparison to the level reported in April 2019, revenues collected in 2020 were close to or higher than the amounts from the previous year. In their budgets for 2021-2022, a number of East African countries made efforts to maintain public spending on developmental expenditures, despite the difficult fiscal context (Box 1).

In light of the pandemic's effect on already tight budgets, many governments explored new and enhanced measures to raise revenues. For example, in January 2021 Kenya started taxing digital transactions (introduced by Uganda and Tanzania in 2018 and 2019 respectively). Tanzania partially credited its satisfactory revenue performance to strengthened tax administration efforts and compliance. The Rwanda Revenue Authority prioritized and invested in the digitalization of tax

**Box 1: Efforts to Maintain Expansionary Fiscal Policy –
A Summary of the Budgets of the 3 largest economies in the EAC**

In line with EAC commitments to coordinate budgetary matters, on June 10th, 2021, the Finance Ministers of Kenya, Uganda and Tanzania presented their 2021-22 budgets. In Kenya spending is expected to increase by 3.8% to 3 trillion KSh (\$27.8 billion), compared with 2.89 trillion shillings in the previous fiscal year. In Tanzania spending is expected to increase by 4% to 36.3 trillion TZS (\$15.6billion). However, in Uganda spending plans were reduced slightly to 44.8 trillion UGX (\$12.7 billion) from 45.5 trillion the previous fiscal year. Debt servicing is expected to be a major constraint to budget financing for all the three countries in the region. The share of the budget dedicated to debt servicing was greatest in Kenya and Tanzania, accounting for 39% and 30% of expenditure respectively (Figure 15). These large shares of debt servicing have negative implications for development financing and spending on social programs, especially because the region is recovering from the COVID pandemic and in need of a fiscal stimulus to support the recovery.

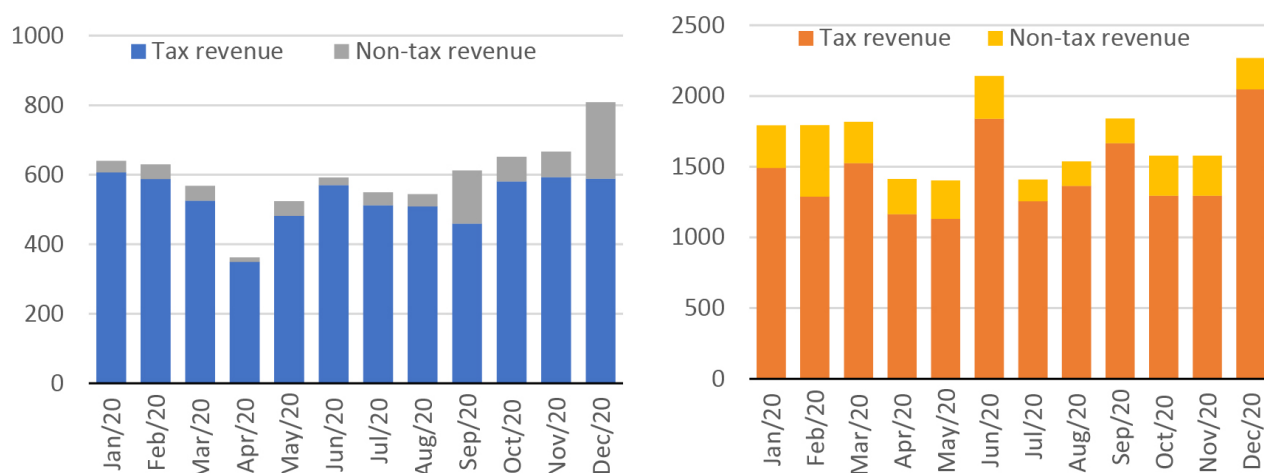
Figure 15: Budget expenditure by share %, 2021-22



Source: National sources

declaration and payments (BTCA).

Figure 16: Government revenue, January to December 2020



Source: CBS (2021), BOT (2021)

1.8 Debt Sustainability has been put a risk by the crisis...

From a longer-term perspective, the government debt-to-GDP ratio has been rising in several countries (Burundi, Ethiopia, Kenya, Rwanda), raising concerns over the sustainability and overhang problems (ECA, 2020b). Increases in debt have inevitably led to high debt service payments.¹⁵ Recent data shows that for three countries in the region, over 10% of export revenue and primary income was spent on such payments in 2019 (Table 3). Djibouti entered the pandemic period at already elevated debt levels. As in many other countries, the government tapped into its IMF Special Drawing Rights, resulting in higher debt. In Uganda, public debt rose 21.7 percent in FY2019/20 (BOU 2020). Among the more extreme cases is Seychelles, where hard-fought debt ratios that had been improving over the last decade quickly deteriorated. During 2020, as domestic output fell and the government borrowed to fill the budget shortfall, the debt-to-GDP ratio rose around 40 percentage-points almost to 100 percent (CBS 2021).

As the largest economy in the sub-region, the Kenyan fiscal situation needs close monitoring. Interest payment alone for 2020 (both domestic and external) represented nearly a third (29.5%) of Government revenues, equivalent to about 4.2% of GDP. Domestic debt accounts for more than half of that total. Total debt service payments (i.e. including repayment of the principle plus interest) for 2020 are just under 50% of government revenues.

¹⁵ An important caveat here is the share of the debt financing that is on concessionary terms. In the case of Rwanda, for instance, the majority of Rwanda's debt is still external (77.9 percent), and essentially concessional (86.7 percent) (MINECOFIN Budget Framework Paper, 2021-2024: 10).

Table 3: National Debt Statistics, Latest Available

	Government Debt (% of GDP), as at end of:		Percentage -point Change	Total Debt Servicing (% of exports and primary income)
	2019	2020		
<i>Seychelles</i>	57.7	98.4	+ 40.7	
<i>Rwanda</i>	51	61	+ 10	7.4
<i>Burundi</i>	60.1	69.5	+ 9.4	9.7*
<i>South Sudan</i>	35.5	44.9	+ 9.4	
<i>Uganda</i>	37.3	45.7	+ 8.4	4.9
<i>Kenya</i>	62.1	68.7	+ 6.6	38.2
<i>Madagascar</i>	37.8	43.6	+ 5.8	2.5
<i>Djibouti</i>	38.7	42.2	+ 3.5	1.5
<i>Comoros</i>	25.2	26.6	+ 1.4	3.1
<i>Tanzania</i>	38.2	38.2		14.7
<i>D.R. Congo</i>	15.5	15.2	- 0.3	8.4
<i>Ethiopia</i>	57.7	55.3	- 2.4	28.9
<i>Eritrea</i>	189.3	184.7	- 4.6	

Source: IMF (April 2021), World Bank (2021)

*Note: Figures for 2018

The IMF raised Kenya's risk of debt distress to high from moderate due to the impact of the COVID-19 shock (Nyang, 2020). In response to the COVID-19 pandemic, development partners such as the IMF and the AfDB have approved disbursements and concessional loans to Eastern African countries (Figure 18) in order to assist countries mitigate the effects of the crisis.

Despite some countries' reticence to utilise the Debt Service Suspension Initiative (DSSI) because of the fear of a negative impact on future access to private capital markets (Reuters, 2021), the problem of exposure to debt has become a global one, requiring a global response. Debt levels in high income countries are now far higher than those that prevail in Eastern Africa. However, because of a weaker export performance, the capacity to repay debt is also much more limited in the region. Pragmatic programme of bringing fiscal deficits under control are thus required. This is well illustrated with the example of Ethiopia which, prior to the eruption of the conflict in Tigray, had modestly managed to bring down its debt-to-GDP ratio from 57.6% of GDP in 2019 to an estimated for the fiscal year 56.1% of GDP in 2020. Although those figures are no longer applicable because

of the gravity of the current crisis, the country is set to benefit from the DSSI, saving an estimated US\$ 472.9 million in 2020. Thus, the potential benefits from a coordinated approach to the reduction of the debt burden are large.

Some governments will have to take on additional debt to finance widening budget deficits in 2021. To meet the unusual needs of this crisis, there has been increased global conversation on providing fiscal relief through emergency aid, concessional financing, and a moratorium on debt servicing (Okonjo-Iweala et al., 2020; G20 Finance Ministers and Central Bank Governors, 2020). This assistance will target the poorest countries, and will be available for all Eastern African countries, except Seychelles. The Paris Club endorsed the G20's DSSI to suspend payments from countries eligible for support from the International Development Association. However, an increasing share of the African governments' debt burden is related to non-concessional loans from private lenders and other non-Paris club members, such as China. In 2018, approximately 20% of external debt in Africa was owed to China and more than half of external interest payments were to private creditors (Jubilee Debt Campaign, 2018). In Eastern Africa, the degree of dependence on Chinese debt is even higher.¹⁶ The suspension of these payments would therefore depend on whether private lenders and China choose to collaborate on these debt relief efforts. Additionally, some countries have turned to international markets to raise funds, for example Kenya raised USD 1 billion by issuing a 12-year Eurobond at 6.3 percent on June 17, 2021, the country's fourth sovereign debt issuance since 2014 (CBK 2021).

1.9 Development Finance Holds Its Own...For Now

Remittances to Kenya have increased from the diaspora in the USA and Europe but declined from those within the African continent. The situation is not helped by the fact that other forms of development finance and private investment have been impacted by the crisis. Global business confidence has been severely affected by the crisis, leading to weaker foreign direct investment (FDI). UNCTAD (2021) reported that global FDI global FDI flows dropped by 35 per cent to \$1 trillion, from \$1.5 trillion in 2019. FDI flows to Africa fell by 16 per cent to \$40 billion – a level last seen 15 years ago. Greenfield project announcements, key to industrialization prospects in the region, fell by 62 per cent. Commodity exporting economies were the worst affected.

Prior to the crisis, Eastern Africa had been doing well in terms of gradually improving its ability to attract FDI, especially in diversified sectors of manufacturing

¹⁶ As of June 2019, China is Kenya's largest bilateral creditor with Ksh 661 billion, accounting for over 60 percent of the Kenyan total bilateral debt (KNBS, 2020: 88). Ethiopia has also been one of the top borrowers, borrowing at least \$13.7bn between 2002 and 2018 to finance its industrial development programmes (e.g. roads, sugar factories, and the railway line to Djibouti). Over the past two years, China has pledged to restructure some of Ethiopia's loans (Pilling, 2020).

Box 2: The Impact of COVID 19 on FDI in Eastern Africa has been heterogeneous.

Covid-19 has had a negative impact on global FDI. According to the [FDI report 2021](#), in 2020, both the number of FDI projects and capital investment fell by a third from 2019's levels. However, recent data published by [fDi Markets](#) shows that the impact on FDI has not uniformly distributed across sectors and countries in Eastern Africa. For example, reflecting bullish sentiment about the recovery in mineral prices, DR Congo experienced an increase in FDI project numbers from 5 in 2019 to 12 in 2020. Capital investment into the country grew to \$1.1bn in 2020 from \$566m in 2019, an increase of 95%. At the same time, however, the more diversified economy of Kenya actually experienced a decline in FDI projects by 60%, from 87 projects in 2019 to just 35 in 2020.

Similarly, there was a sharp contrast in the ability of the tourism and communication sectors to continue attracting new FDI inflows. In 2020, the global hotel and tourism sector experienced a 67% contraction in FDI project numbers. By contrast, the communications sector saw cross-border capital investment grow to \$56bn in 2020, a 41% increase from 2019. Against the backdrop of strong performance in the global communication sector, it is not surprising that an international consortium led by [Safaricom](#)¹ of Kenya won a \$850 million licence to operate in Ethiopia, edging out MTN of Mauritius, who bid \$600 million. Safaricom has offered to invest \$8 billion in Ethiopia over the coming ten years. The license will allow Safaricom and its partners to operate telecoms services, becoming the first foreign firm to provide such services in Ethiopia. FDI to Somalia increased marginally (4 per cent) to \$464 million, according to UNCTAD (2021). The country launched a new investment promotion strategy in 2020 that outlined 10 priority areas for foreign investment, including livestock, fisheries, energy and manufacturing.

1 Comprising Vodafone and Vodacom, UK's CDC Group and Japan's Sumitomo Corporation

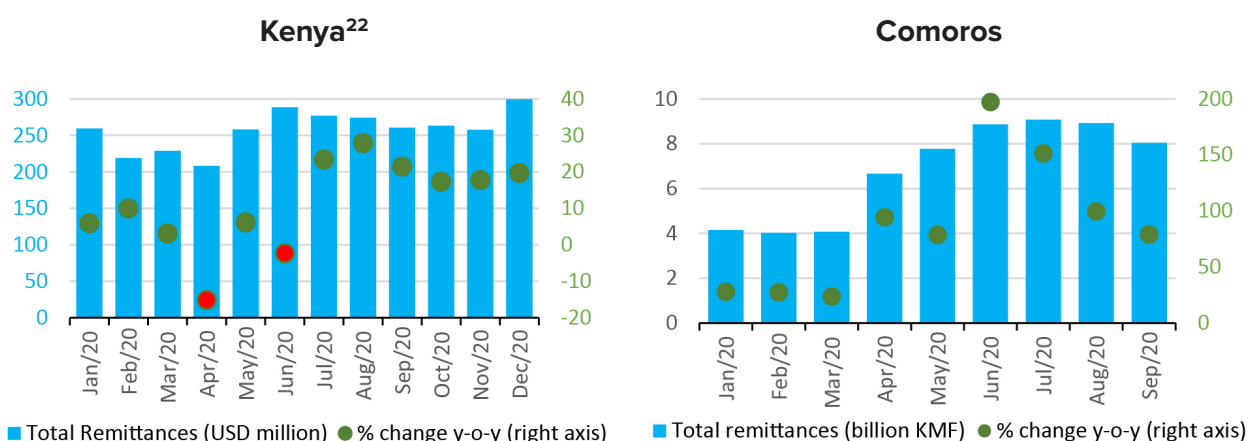
and services. FDI inflows into the region since the pandemic struck have been subdued¹⁷, but the performance has been uneven. During 2020, recorded investments in Rwanda declined from USD2.5 billion in 2019 to USD1.3 billion but were still expected to create almost 25,000 jobs ([RDB, 2021](#)). In the case of DRC, new investments in the energy and copper mining sector have led to a rise of 11 percent in FDI.¹⁸ DRC is currently well placed as one of the world's leading copper suppliers, to benefit from the copper mining boom resulting in the growth of renewable energy product manufacturing ([Moneyweb, 2021](#)). FDI to Tanzania and Uganda is also likely to be boosted by the approval of the \$3.5 billion East African Crude Oil Pipeline project, which will result in the construction of a 1,400 km pipeline from Uganda to the Tanga seaport in the United Republic of Tanzania, augurs well for investment to both countries.

17 UNCTAD (2021) reports a decline of FDI to East Africa to \$6.5 billion, a 16 per cent decline from 2019. But there regional definition

18 A US\$100 million initial investment partnership involving the DRC government and UK investor Gridworks was launched, aiming to provide solar energy to a population of half a million people. Similarly, Canadian mining company Ivanhoe Mines partnered with Chinese Zijin Mining in Copper mining deal, projected to extract 200,000 tonnes of copper per year with initial payment of \$150 million ([African Business, 2021](#))([Reuters, 2021](#)).

Other financial flows may be less heavily impacted by the pandemic. At the outset of the crisis, the consensus opinion was that aid flows and remittances would be negatively impacted.¹⁹ However, evidence is emerging that thus far this has not been the case. Globally, remittances were just shy of their 2019 total, standing at US\$ 540 billion in 2020, compared to US\$ 548 billion the previous year (World Bank, 2021). In Eastern Africa, remittances seem to have held up well. For instance, diaspora remittances increased in Kenya and Comoros by 20% and 123%, respectively from March to November 2020.²⁰ By contrast, private transfers, including remittances, to Ethiopia had already started declining at the beginning of the 2020, registering a 17% drop year-on-year in March 2020.²¹

Figure 17: Diaspora remittances, January to end-2020



Source: Banque Centrale des Comores (2021), CBK (2021a)

Global trends in development aid have also surprised. Total ODA in 2020 rose by 3.5% in real terms compared to 2019, to USD 161.2 billion, reaching its highest level ever recorded (OECD, 2021). According to the OECD, the increase was in part due to DAC members' support of an inclusive global recovery in light of the pandemic and in part due to an increase in bilateral sovereign lending by some loan-giving members. In addition, most donors had already adopted their ODA budgets for 2020 by the time the pandemic hit and were able to maintain their planned ODA commitments. In addition, some were able to rapidly mobilise additional funding to support developing countries face exceptional circumstances.

¹⁹ See, for instance, Adams et. al. (2020). The Eastern Africa region is still highly dependent on these remittance inflows, with an average share of remittances in GDP of 3.8% GDP per country.

²⁰ In the Kenyan case, the bulk of the transfers were received from citizens working and living in the United States, United Kingdom and the rest of Europe. Conversely, the effect of the pandemic was detectable through lower inflows from other countries such as South Africa, United Arab Emirates, Mauritius and Oman (Okoth, 2020).

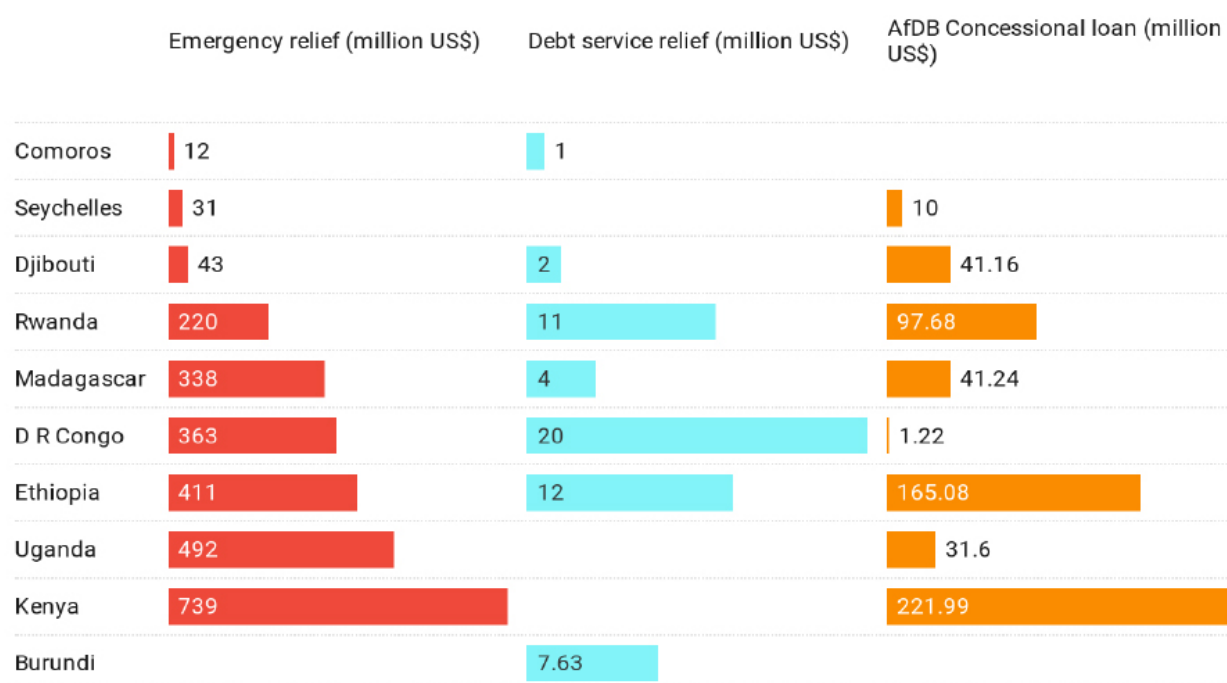
²¹ Beyene and Gebrewolde (2020) estimated that a reduction in remittances induced by COVID-19 would decrease GDP by between 1.3-1.9%; and reduce overall household consumption by between 2.1-3.1%.

²² These figures produced by the Central Bank of Kenya are considered as estimates since remittances through other unofficial channels are usually not captured. The total inflow could thus be higher (Okoth, 2020).

All this said, there are still concerns over the future trends regarding the availability of concessional finance for the poorest developing countries. This is particularly a concern for the Ministers of Finance in Eastern Africa. Firstly, because of the severe contraction of GDP in high income countries, and high debt levels, may make it difficult for donor countries to meet their commitments in the coming years. Secondly, the UK, a major donor to the Eastern Africa region, has already announced major cutbacks (as much as £4bn) in its overseas aid budget.

Finally, the scale of resources is still totally disproportionate to the scale of the challenge. The increase in ODA flows over the past 12 months across all DAC members has been \$8.4 billion, equivalent to one twentieth of a percentage point (0.05%) of the \$16 trillion of fiscal measures taken by national governments to address the pandemic. A growing share of ODA flows are also loans, to be repaid in the future (Miller and Prizzon, 2021). Adam et. al (2020) call for an increase in net ODA flows to low-income African countries of the order of US\$40–50 billion to support adjustment over the next few years. They acknowledge this is substantial—equivalent to a doubling of current flows—but the case for increased ODA in these exceptional times rests as much on the national interests of donors as it does on traditional developmental considerations, and on collective international action: the benefits of conquering the COVID-19 pandemic globally.

Figure 18: COVID-19 loans to Eastern African countries (USD millions, 2020)

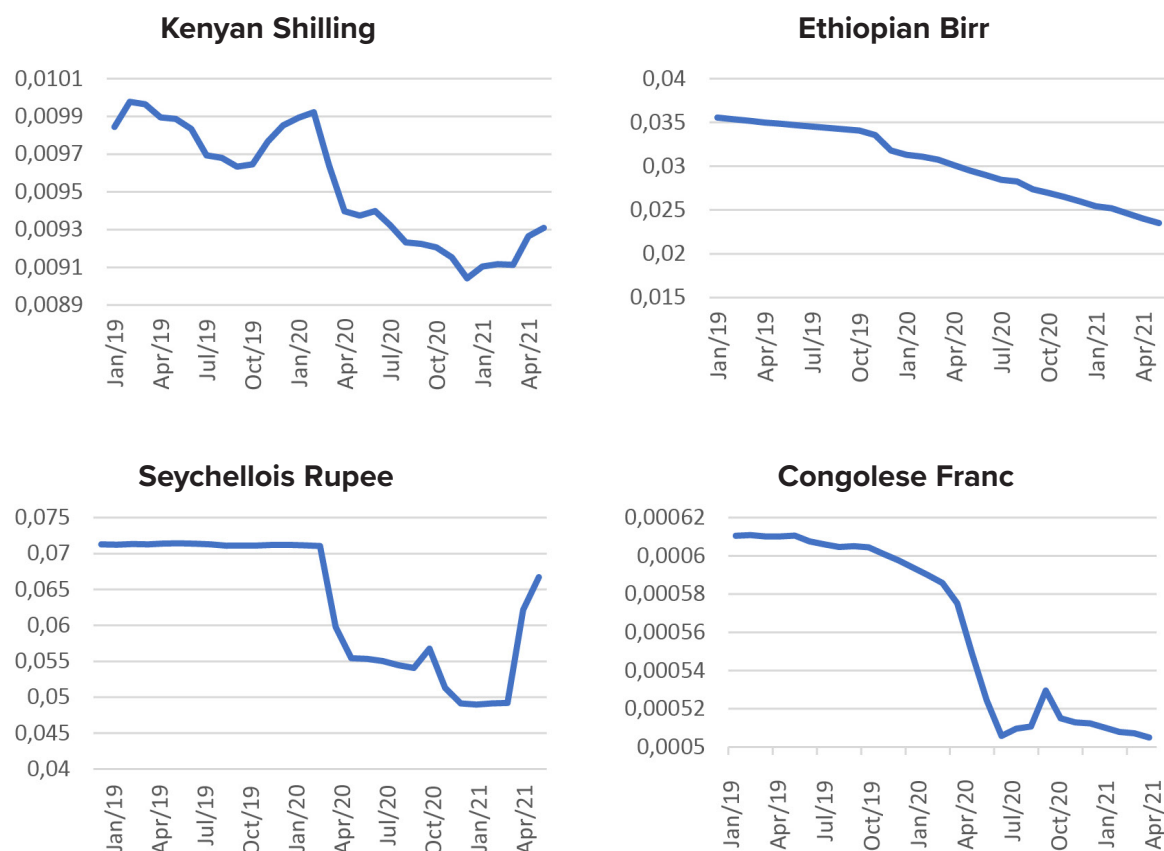


Source: IMF (2020) and AfDB (2020)

1.10 Regional Currencies Under Pressure...

Currencies for Ethiopia, DR Congo, and Seychelles devalued the most – thus increasing the cost of imports and foreign debt repayments. Depressed global demand and heightened uncertainty also caused the main currencies in the region to lose value against the US dollar (Figure 19), particularly for the tourism-dependent and commodity-exporting countries, although these pressures reversed in early 2021 as the dollar also began to weaken against the major currencies. Between January and December 2020, the Kenyan shilling depreciated by 9%. The Seychellois rupee, the Ethiopian Birr and the Congolese Franc²³ were the most challenged in the region, down 35%, 19% and 15% respectively against the dollar over the same period. While the weakened currencies helped to absorb some of the global market shocks, they make imports more costly and reduce the ability to repay foreign currency-denominated debt. Fortunately, in the early months of 2021, these depreciations mostly reversed, with a significant weakening of the US dollar (Plender, 2021).²⁴

Figure 19: Selected Currencies-to-USD Exchange Rates, January 2019 to May 2021



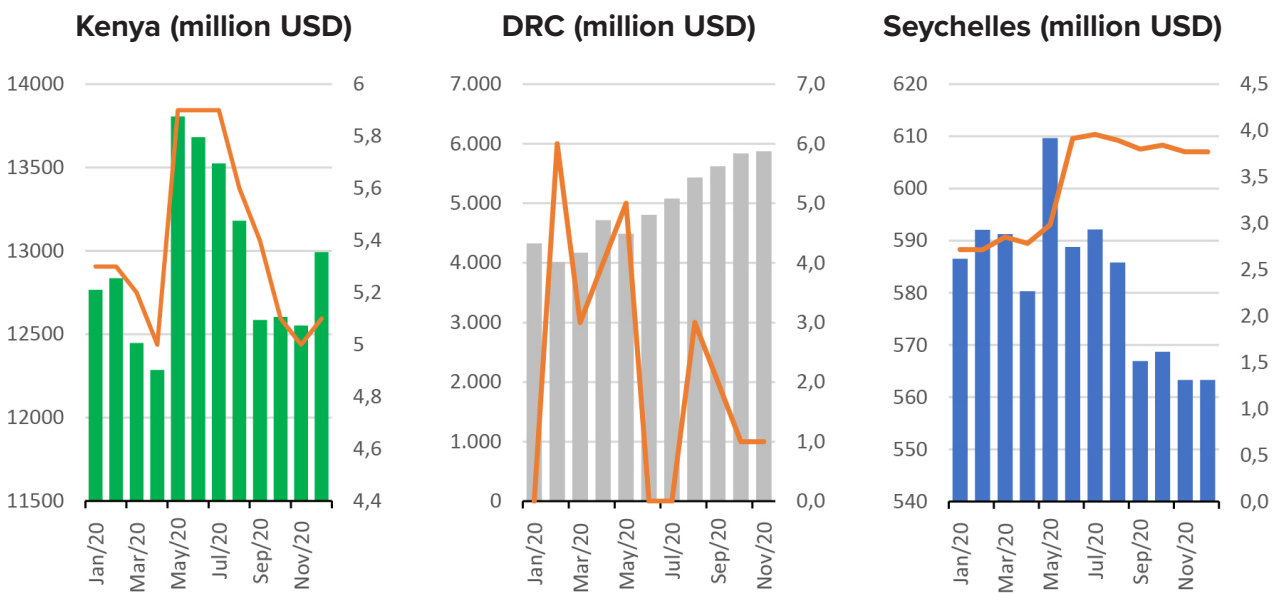
Source: National sources

23 The pressure on the Congolese Franc has been primarily attributed to the continuously expanding budgetary expenditure which is not offset by corresponding revenues (RFI, 2020). Moreover, this is compounded by the fact that 90% of Congolese bank deposits and loans are in US dollars, while the government spends in Congolese Franc (Kavanagh, 2020).

24 Reflecting the high degree of uncertainty in the global economy, the US dollar started to recover in June 2021, due to announcements about potential interest rises in 2022 (Rovnick et. al, 2021).

Despite the loss in remittances inflow and tourism earnings caused by the pandemic, Eastern African countries like Kenya and DRC have done well with regards to the management of their foreign exchange reserves. In fact, by the end of 2020, their reserves had recovered and even reached levels higher than those at the start of the year (Figure 20). However, since August 2020, Kenya has chosen to use its foreign exchange reserve in an attempt to support its local currency against volatility amid an increase in the country’s import bill (Kivuva, 2020). Seychelles also initially recovered as it received an injection of budgetary support through international lenders, but the reserve level dropped slightly by the end of the year.

Figure 20: Foreign exchange reserves, January to December 2020



Source: BCC (2021a), CBK (2021b), CBS (2021)

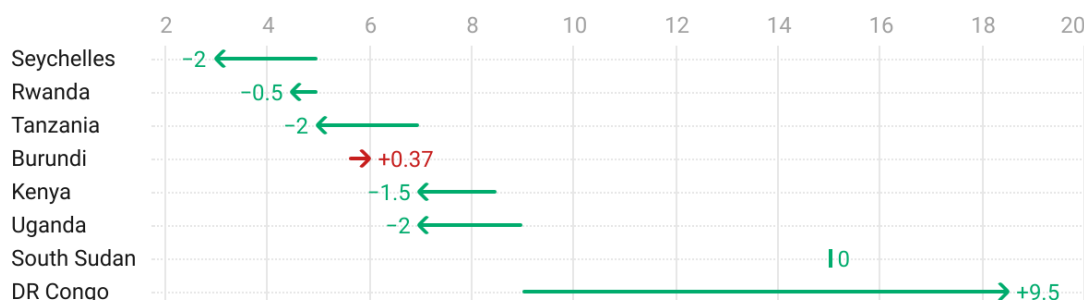
Note: Reserves presented in USD millions and as import cover (right axis)

Besides Kenya, only a couple of countries in the region implemented, or expressed their readiness to implement, foreign exchange market interventions. The Central Bank of Madagascar made some limited interventions and the exchange rate depreciated by about 4.5 percent vis-à-vis USD since the beginning of the year. While the Central Bank of Rwanda (BNR) maintained its commitment to keep exchange rate flexible and limit foreign exchange market interventions to avoid excessive exchange rate volatility (IMF, 2020b); the Bank of Uganda affirmed that it stands ready to intervene in the foreign exchange market to smooth out excess volatility of the exchange rate (EABC, 2020a).

1.11 Monetary Policy Has Been Relaxed...

In contrast, countries quickly adopted monetary and macro-financial measures aimed at mitigating the effects of the lockdown and the slowdown of activities on their economies and their populations. In countries with policy space, monetary authorities cut policy rates aggressively, with cumulative reductions since end-2019 of as much as 500 basis points (bps) in South Sudan²⁵, 200 bps in Uganda, Seychelles and Tanzania, and 150 bps in Kenya. While DRC had initially also reduced its rate by 150 bps (from 9% to 7.5%) in March 2020 to support the economy following the coronavirus fallout; the Central Bank of Congo increased it by 1100 bps (from 7.5% to 18.5%) in August 2020. This is the rate's highest level since April 2018. This measure was implemented in order to rein in inflation, fight the depreciation of its currency and maintain a positive real policy rate (Kavanagh, 2020).

Figure 21: Changes in monetary policy rates between December 2019 and April 2021 or latest available month, (percentage point)



Source: BCC (2021b), BRB(2021), BNR (2021), BOT (2021b), BOU (2021), CBK (2021), CBS (2021), Dumo (2020)

Other monetary measures adopted across the region have been the restructuring of commercial loans, the reduction of reserve requirements and the provision of credit facilities to commercial banks allowing them to assist struggling businesses. It remains to be seen, however, whether and to what extent these measures have been effective in supporting economic activity in the region. So far, for the wider Sub-Saharan region, financial soundness indicators do not point to any major deterioration in the financial system's health, thanks, in part, to the exceptional policy support provided by local authorities. For countries where data are available, the average non-performing loan (NPL) ratio has increased only modestly from 7.2 percent at the end of 2019 to 8.3 percent as of October 2020—still below levels from 2018 (IMF, 2021:10). In February 2021, Bank of Tanzania indicated that the national NPL ratio was stable at 9.3 percent - however, this was still well above the target 5 percent (BoT, 2021). In 2020, NPLs in East Africa have increased the most in Kenya, Rwanda, Tanzania, and Uganda. (AfDB, 2021: 17). With widening fiscal needs, and limited finance, a few countries tapped their central banks in 2020 to help fund their crisis spending (Democratic Republic of the Congo, South Sudan, Uganda) (IMF, 2021:9)

²⁵ In November 2020, the central bank reverted and increased its lending rate to 15 percent, citing concerns around excess liquidity, weakening currency and high inflation. (Nasdaq - Dumo, 2020)



2. IMPACT ON TRADE AND THE CURRENT ACCOUNT BALANCE

2.1 Goods trade has recovered

Initial reports into the impact of the Covid-19 pandemic were extremely pessimistic²⁶ but by early 2021, it became apparent that the prospects for a quick recovery in world trade had improved, as merchandise trade expanded more rapidly than expected in the second half of 2020. According to new estimates from the [WTO \(2021\)](#), the volume of world merchandise trade is expected to increase by 8.0% in 2021 after having fallen 5.3% in 2020, continuing its rebound from the pandemic-induced collapse that bottomed out in the second quarter of 2020.

In Eastern Africa, merchandise trade recovered strongly in the second half of 2020. The latest data from the region indicates that, after the initial shock to trade in April/May, goods trade (both imports and exports) improved steadily, so that by the end of the year, exports were up on 2019 values in 9 of the 14 member states.

Table 4: Merchandise Trade in Eastern Africa 2020 (% change)

	Exports	Imports	
Burundi	-6%	6%	National Sources
Kenya	8%	-9%	
Rwanda	13.6%	10.6%	
Tanzania	21%	-10%	
Uganda	5%	-0.5%	
Seychelles	41%	6%	
Comoros	-20%	8%	IMF DOTS
DRC	3%	-54%	
Djibouti	14%	-2%	
Eritrea	19%	8%	
Ethiopia	1%	-10%	
Madagascar	-23%	-22%	
Somalia	-14%	73%	
South Sudan	-56%	12%	

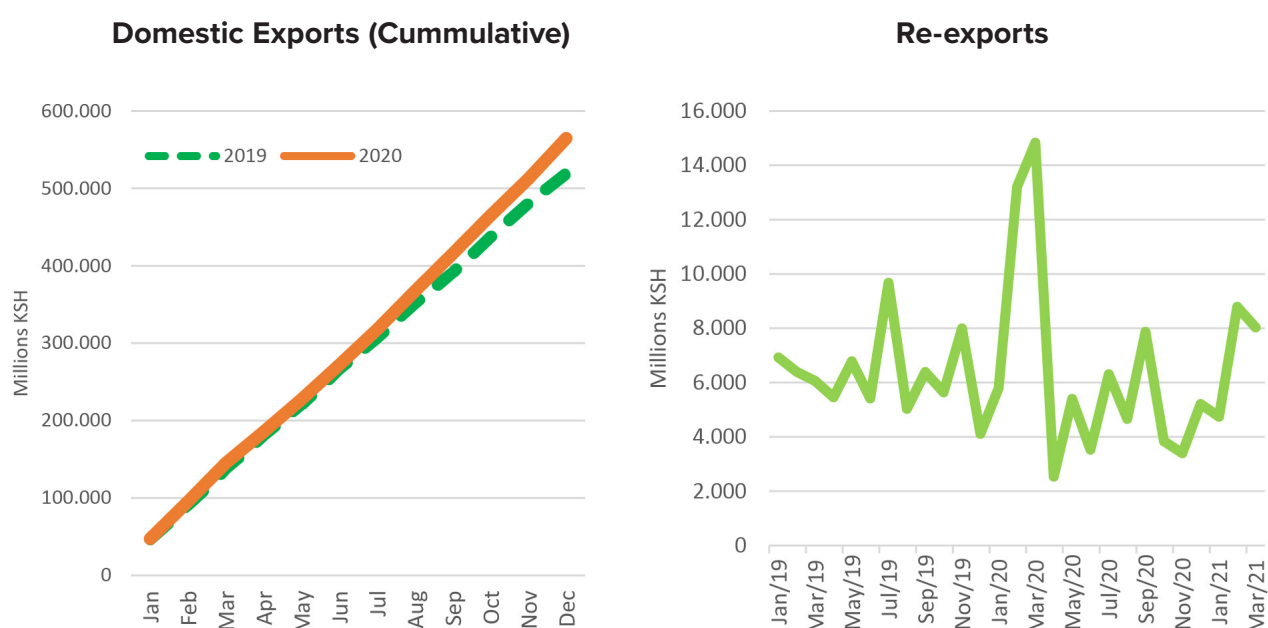
Source: BRB (2021), CBK (2021), NISR (2021), BOT (2021), BOU (2021), CBS (2021), IMF DOTS 2021

²⁶ In May 2020, WTO (2020) was forecasting a contraction of global merchandise trade of between 13 percent and 32 percent in 2020. In June 2020, UNCTAD (2020) was forecasting a drop of 20 percent.

Only Burundi, Comoros, Madagascar, Somalia and South Sudan suffered a contraction in total export values.²⁷ In several countries, export growth was strong (Rwanda, Seychelles, Tanzania, Eritrea and Djibouti), buoyed up by mineral exports and, in the case of Seychelles, fish exports.

Reflecting the extent of recovery in intra-regional trade, Kenya's total re-exports for 2020 were marginally up on the 2019 figures, having displayed a lot of volatility in the early months of the pandemic²⁸, a testimony to measures taken to protect regional transport corridors from excessive disruption. (Mold and Mveyange, 2020). Kenya's total domestic exports (i.e. excluding re-exports) also ended the year up on 2019 figures (Figure 22).

Figure 22: Kenyan Domestic Exports and Re-Exports, Jan-Dec 2020



Sources: KNBS (2021).

This is partly attributable to a rapid response of national and regional governments. At regional level, EAC issued a common-region wide recovery strategy. The Consultative Meeting of the East African Community (EAC) heads of state held on May 12 agreed on a harmonized regional response to the COVID-19 pandemic that includes: (i) adopting a harmonized system for certification and sharing of test results; (ii) establishing a regional mechanism for testing and certifying truck drivers and the adoption of an EAC digital surveillance and tracking system for drivers and crew; (iii) supporting agro-processing and value chains; and (iv) establishing special purpose financing schemes for SMEs.

²⁷ The picture changes for Burundi if IMF estimates for the whole of 2020 are used instead of the national trade statistics up until September.

²⁸ The sharp fluctuations in re-exports in the early months of the pandemic partly reflect efforts by buyers and traders to anticipate the disruptive impact of the crisis by increasing stocks (Mold and Mveyange, 2020).

On the import side, the story has been rather different. Imports were down in half (7) of the 14 countries. The contraction was especially sharp in the cases of DRC and Madagascar, but was also notable in Ethiopia, Tanzania and Kenya). As a consequence of these trends, merchandise trade balances have generally been improving in the region during the crisis. However, there is a long-term cost to the reduction in imports when it deals with capital goods and intermediate products, as this can impact on long-term growth performance.

Effective July 2020, the EAC partner states also adopted various measures on their Common External Tariff (CET) in an effort to boost local production of essential goods, while protecting the welfare of East African consumers against high import duty for product currently unavailable in the EAC region (TRALAC, 2020) Import duty measures included: 1) Duty Remission for industrial inputs currently unavailable in the region, which allows local manufacturers to import raw materials and inputs at a lower rate; 2) Stays of Application, applying a common higher/lower external tariff on final products, and 3) Amendments of the East African Community Customs Management Act, 2004. A higher duty rate, aiming at stimulating local production by safeguarding manufacturing of that particular product against similar cheap imports, were applied on products such as include textile (garments) and textile products; leather (shoes) and leather products; edible oil; tiles, processed tea; coffee & cocoa; meat & meat products; and steel articles, iron & metal products. While lower duty rate was applied to a few products such as mobile phones, rice in the husk, semi milled or wholly milled rice, sugar, wheat, and barley.

At the regional level, COVID-19 created some frictions in movement across the EAC region. Cross border restrictions due to COVID-19 testing of cross border drivers across the region created extra delays and tensions. The subsequent recovery in regional trade can be partly attributed to governments in the EAC adopting a regional approach to solving the trade restrictions and boosting trade (see ECA, 2020; Mold and Mveyange, 2020). Additional initiatives like TradeMark East Africa's \$20million Safe Trade Emergency Facility (STEF) and GIZ's support of mobile laboratories, test kits, and personal protective equipment to the East African Community were also important for boosting trade

There are a number of important caveats with regard to this broadly positive evaluation of the recovery of regional trade:

- ▶ Informal cross border trade is yet to recover significantly because most of the borders in the region remain closed to passenger travel.²⁹ This raises serious issues for border communities which were heavily dependent on informal sector

²⁹ As an example, between DRC and Rwanda, in the Rubavu district, currently only between 6000 and 8000 traders are allowed to cross every day, down from between 50,000 and 55,000 people before the pandemic (Mugisha et. al. 2021).

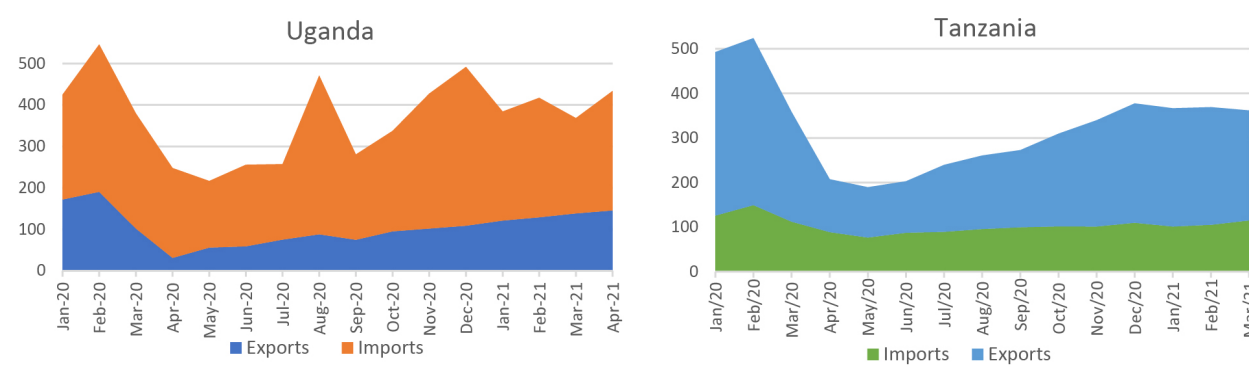
trade, in terms of the decline of the associated economic activity.

- ▶ The disruption to trading networks has been especially harsh for landlocked countries, who saw an initial interruption to their trade that was more severe than for coastal states in the region.³⁰
- ▶ For some countries, there is evidence that there has been a structural shift in their exports during the crisis, away from diversified exports and towards the export of minerals.³¹ This is not desirable over the long term, and the recovery of non-traditional exports needs to be a priority for regional governments.

2.2 Services trade remains severely depressed

However as discussed earlier the services sector continues to struggle, services trade performance has remained dismal for countries in the region, mainly due to the sharp drop in tourism (Figure 19 & Figure 20). The sector remains severely depressed is yet to recover to pre-COVID level, tourist arrivals in Seychelles and Kenya were down 94% and 91% between August 2020 and August 2019.

Figure 23: Services trade, Jan-2020-latest month 2021, millions USD



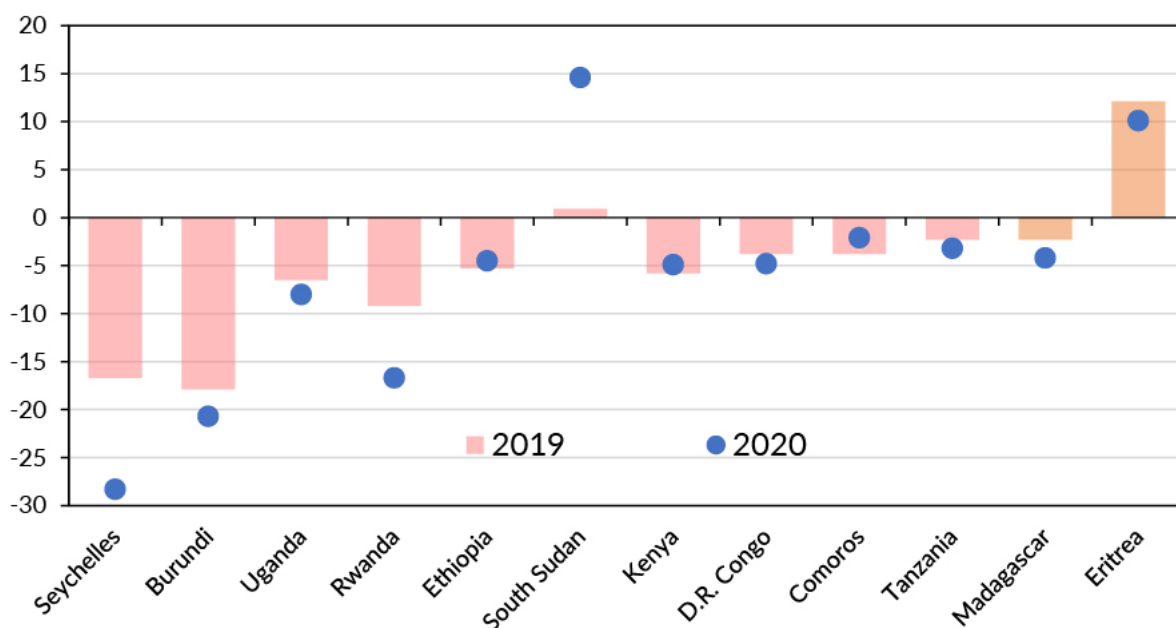
Source: [Bank of Tanzania \(2021\)](#), and [Bank of Uganda \(2021\)](#)

Overall the current account balance for the region deteriorated in 2020 (Figure 24), particularly in countries with a high share of tourism exports. These changes in the current account could worsen the financing constraints in the region especially because there is still no clear idea as to the duration of the pandemic.

³⁰ South Sudan stands out, where the disruption to necessary imports was severe, and exports seem to collapse.

³¹ National data shows that this has been the case, for example, for both Rwanda and Uganda.

Figure 24: Current account balance, 2019 and 2020 (% of GDP)



Source: IMF (2021)

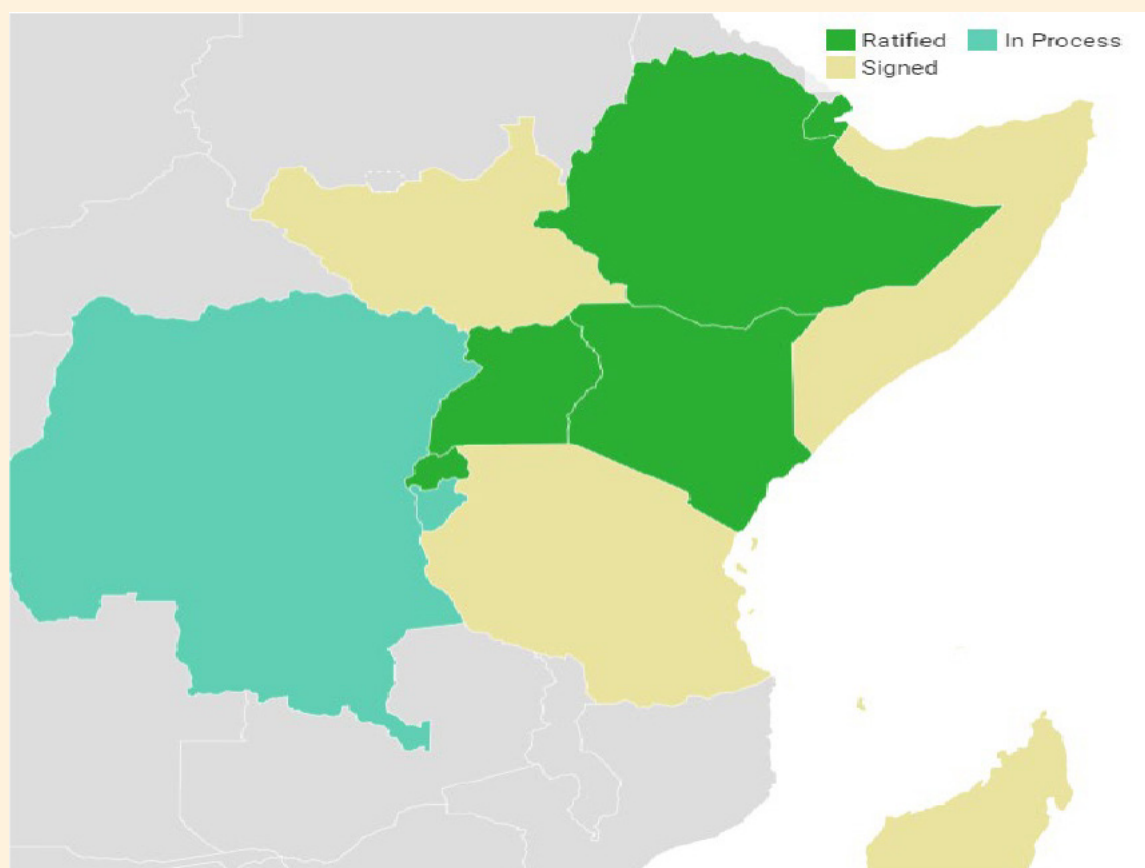
Box 3: The African Continental Free Trade Area Comes into Force in Eastern Africa

The implementation stage of the African Continental Free Trade Area (AfCFTA) began on the 1st January 2021. While the COVID-19 crisis has undoubtedly complicated the picture, the East Africa region is well-placed to implement the AfCFTA. Despite the scepticism expressed in some quarters about the ability of countries to get the landmark trade agreement up and running, there are strong reasons for optimism. Thus far, it is true that only five countries in Eastern Africa have deposited their ratification of the AfCFTA.¹ However, it is not the number of countries that counts but the fact that a regional block of contiguous countries representing around three-quarters of regional GDP—is coalescing. From January 1, 2021, Djibouti, Ethiopia, Kenya, Rwanda, and Uganda all began the tariff reduction process—starting with a linear reduction on 90 percent of tariff lines—leading to the elimination of tariffs on intra-regional imports over a period of five years (10 years in the case of countries classified by the United Nations as “least developed countries”); by the standards of regional trade agreements, this pace of liberalization will be quite rapid.

One of the big boons from the AfCFTA for the region will be unblocking the trade barriers between Kenya and Ethiopia—the two largest economies in Eastern Africa. Despite previous efforts to deepen economic relations, the volumes of bilateral trade between the two remain exceedingly low. In fact, total bilateral trade did not even reach \$70 million in 2019, accounting for just 0.5 percent of Ethiopia’s total exports and 0.09 percent of Kenya’s and consisting principally of food and live animals and some manufactured goods

¹ In May 2021, Tanzania also announced that it will shortly ratify the agreement. Burundi is also thought to be close to ratification.

Figure 25: East African countries that have deposited the ratification of the AfCFTA with the African Union, June 2021



Source: (Tralac, 2021)

Table 5: Bilateral Ethiopian/Kenyan trade, 2015-2019 (millions USD and %)

Direction of Trade	2015	2016	2017	2018	2019	2020
Kenyan exports to Ethiopia	16.9	15.8	30.9	20.0	17.0	17.7
Kenyan exports to the World	20,950	17,803	18,005	20,069	18,528	18,433
Share of Kenyan exports to Ethiopia	0.08%	0.09%	0.17%	0.10%	0.09%	0.10%
Ethiopian exports to Kenya	72.7	79.3	67.5	62.6	63.8	59.9
Ethiopian exports to the World	13,533	12,937	12,807	13,591	13,577	12,005
Share of Ethiopian exports Kenya	0.54%	0.61%	0.53%	0.46%	0.47%	0.50%

Source: IMF DOTS (2021)

The reasons for this neglect so far of these neighbouring markets are fairly clear and go beyond the usual considerations of prevailing low per capita incomes. On the one hand, Ethiopia retains a fairly protectionist tariff policy, with high tariff peaks in some sectors. But East African Community (EAC) members like Kenya (and not Ethiopia) also currently impose a high common external tariff on imports of Ethiopian goods although both countries are members of regional grouping the Common Market for Eastern and Southern Africa (COMESA). The reason is that Ethiopia has not yet acceded to the COMESA Free Trade Area, and, hence, relatively high tariffs are still imposed on bilateral trade. A similar problem impacts Burundian, Rwandan, and Ugandan trade with neighbouring Democratic Republic of the Congo (DRC)—all are members of COMESA, yet the DRC has yet to accede to the FTA.

In principle, the implementation of the AfCFTA will pave the way for a rapid dismantling of such impediments to cross-border trade. Alongside the removal of tariff barriers, the AfCFTA will also focus attention on outstanding nontariff barriers (NTBs), an important step toward increased trade in the region as studies consistently show that NTBs constrain intra-regional trade as much as or even more than tariff barriers. East Africa has already made some progress in this area by, for example, installing 25 one-stop border posts, significantly reducing the time taken for goods to pass through customs. Accompanying regional programs to the AfCFTA, like the African Union's Action Plan for Boosting Intra-Africa Trade (BIAT), should help accelerate the progress.

A dark blue silhouette of a city skyline, including a prominent tower, is positioned in the upper half of the page. The background is a solid blue color with a decorative pattern of curved, parallel lines in various shades of blue at the bottom.

3. HEALTH IMPACTS AND CONTAINMENT MEASURES

As of June 2021, a new and highly infectious wave of the Delta variant was starting to change the narrative, with a surge of cases reported in a number of countries in the sub-region

While this report is largely focused on the economic impacts of the COVID-19 crisis, it is important to reflect on the health and social implications for Eastern Africa. From a public health perspective, most countries initially register confirmed infection and death rates significantly below the continental average (Figure 26). This was partially attributed to under-reporting, as death registration systems in the region are weak. But could also be explained by the strict containment measures adopted early on by some countries to mitigate the spread of the disease and avoid overwhelming their health systems and also to its relatively youthful population³². When the first cases were recorded in the region, most nations moved quickly to contain the virus, by launching high-profile public health campaigns, screening all travellers at points of entry, restricting movement and repurposing factories to produce protective equipment.³³

However, as of June 2021, a new and highly infectious wave of the Delta variant was starting to change the narrative, with a surge of cases reported in a number of countries in the sub-region, including Kenya, Rwanda and Uganda.³⁴ As containment measures eased, COVID-19 cases rose significantly towards the end of 2020 into 2021. For most countries in the region, the November – January period more than doubled the number of cases witnessed throughout the entire crisis (OWID, 2021). Seychelles presented a particular conundrum because, despite having succeeded in vaccinating 71 percent of its population³⁵, it suffered a recent surge, with 37% of new cases and 20% of hospitalisations being among people who were fully vaccinated (MacIntyre, 2021).














32 Older people and people with pre-existing medical conditions appear to be more vulnerable to becoming severely ill with COVID-19. The mortality rates are higher for people aged 55 and above. Meanwhile, young people are statistically less likely to suffer severe symptoms (WHO, 2020).

33 This swift response also reflects the fact that the region is no stranger to health crises. For instance, since 2018, DRC has been grappling with the second largest Ebola epidemic on record, with 3,481 cases and 2,299 lives lost as of July 2020. Neighbouring countries such as Burundi, Uganda and Rwanda cite measures implemented to prevent the spread of the Ebola virus to their territories as highly instrumental in the fight against COVID-19.

34 In Uganda, for instance, cases increased dramatically, with the country recording upwards of 1,700 new cases per day by mid-June. The country's death toll from COVID-19 almost tripled in this second wave (Mafigiri and Schmidt-Sane, 2021).

35 Around 71% of people have had at least one dose and 62% have been fully vaccinated. Of these, 57% have received the Sinopharm vaccine and 43% AstraZeneca.

Figure 26: Status of COVID-19 as of 3 June 2021

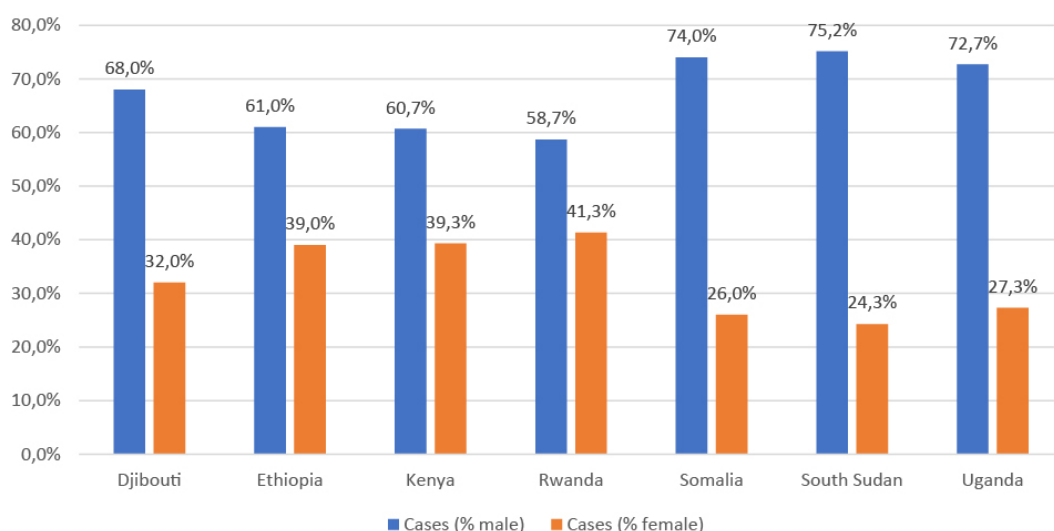
Country	Cases per mn	Deaths per mn	Total Cases	Total Deaths
 Seychelles	118,172	427	11,621	42
 Djibouti	11,684	156	11,544	154
 Comoros	4,464	168	3,882	146
 Kenya	3,192	60	171,658	3,223
 Ethiopia	2,368	36	272,285	4,185
 Rwanda	2,094	28	27,119	358
 Madagascar	1,498	31	41,488	850
 Eritrea	1,169	4	4,145	14
 Uganda	1,088	8	49,759	365
 South Sudan	955	10	10,688	115
 Somalia	925	49	14,699	771
 Burundi	407	1	4,844	6
 DR Congo	359	9	32,177	789
Eastern Africa-13	1,685	28	655,909	11,018
Africa	3,636	98	4,867,658	131,352

Source: WHO, Our World in Data (2021)

One less commented aspect of the crisis is the gender imbalance in the way the pandemic is striking. From the available data, we know that men account for around two-thirds of all confirmed cases in Eastern Africa, rising to three-out-of-four in Somalia, South Sudan, and Uganda. Moreover, in most countries, women are less likely to die from COVID-19 than men – in some cases markedly so. For instance, the case fatality ratio in the DRC is 2.2% for women versus 2.7% for men, and 0.1% versus 0.5% in Seychelles. This comes despite women accounting for a large part of the health workforce which puts them at higher risk of infection (WHO, 2021).

Men account for around two-thirds of all confirmed cases in Eastern Africa, rising to three-out-of-four in Somalia, South Sudan, and Uganda. Moreover, in most countries, women are less likely to die from COVID-19 than men – in some cases markedly so.

Figure 27: Gender Breakdown of Confirmed Cases* of Covid-19 in Eastern Africa



Source: [The Sex, Gender and Covid-19 Project \(2021\)](#) *on the basis of the latest available gender-disaggregated data

Vaccine scepticism among the population has been reported as a serious problem in some countries and logistical hurdles in securing a steady supply of vaccines has also delayed mass inoculation in countries such as DRC and Uganda.

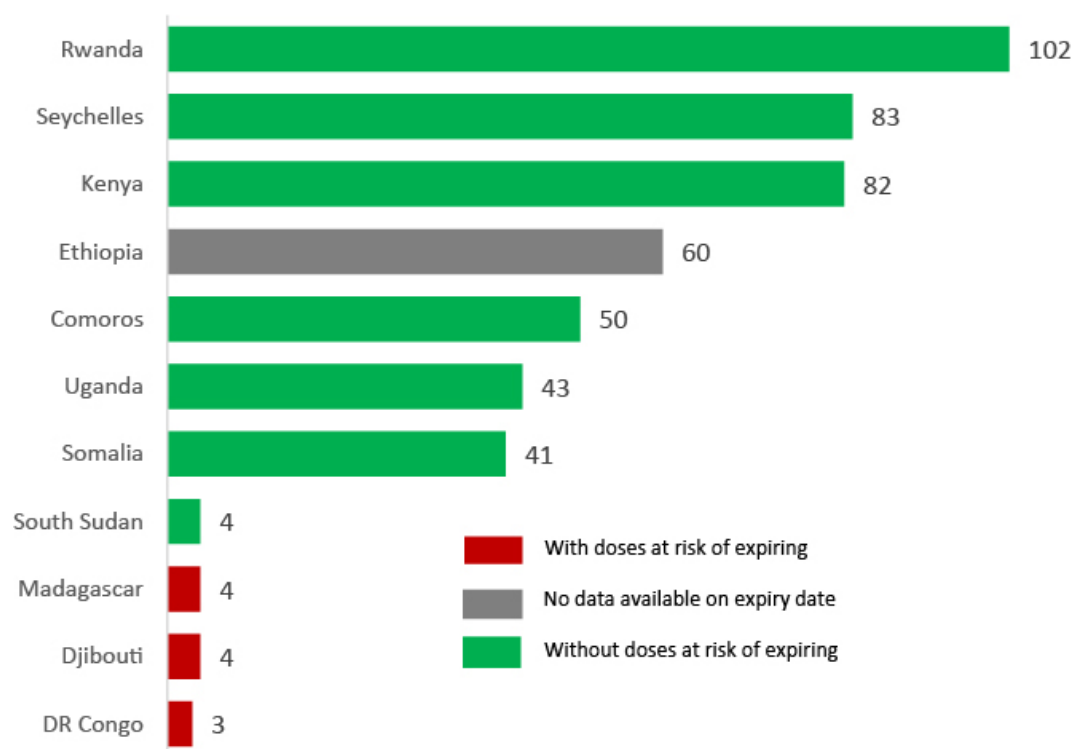
Government responses to these new spikes of Covid infections were varied. In December 2020, the Eritrean government reintroduced several coronavirus-related restrictions to curb what is being deemed a second wave in the country (EIU, 2021). Rwanda and South Sudan reintroduced national lockdowns in January and March 2021. Comoros experienced a second wave of Covid-19 in January-February 2021, prompting the government to reimpose stricter containment measures, including increased enforcement of public hygiene directives (EIU, 2021). Tanzania instigated new containment measures in May 2021 (Africa News, 2021), and Uganda did likewise in June, followed by Rwanda in July.³⁶

Most countries are looking to achieve herd-immunity through vaccinations over the next few years. Through the global Covax facility, Kenya and Rwanda were among the first African countries to receive vaccines to begin a large-scale national campaign (The EastAfrican, 2021). In response to calls for a more proactive response in increasing vaccine rollout, the AU launched the Partnership for African Vaccine Manufacturing initiative, aimed creating a coordinated approach to vaccine manufacturing on the continent (Devex, 2021). Finally, vaccine

³⁶ Early on in the crisis, Fairhead and Leach (2020), questioned whether strict lockdowns were the best way to deal with the pandemic in Africa, because of the radically different age demographics to those in Asia and Europe. Take two extremes. In Japan, 40% of people are over 55. In Uganda, the equivalent figures are 5%. Mortality rates for coronavirus start to increase for people aged 55 and higher. Meanwhile, young people are statistically highly unlikely to suffer severe symptoms, meaning that in countries with a lower proportion of old people, the relative benefits of lockdown are more limited and are more likely to be outweighed by the downsides.

scepticism among the population has been reported as a serious problem in some countries and logistical hurdles in securing a steady supply of vaccines has also delayed mass inoculation in countries such as DRC and Uganda (EIU, 2021). This is causing serious problems in terms of the actual usage of vaccines, and as a consequence there is a grave risk in some countries of supplies passing their use-by dates (Figure 28).³⁷

Figure 28: Ratio of Vaccines Administered (total doses) over Vaccines Received, May 2021



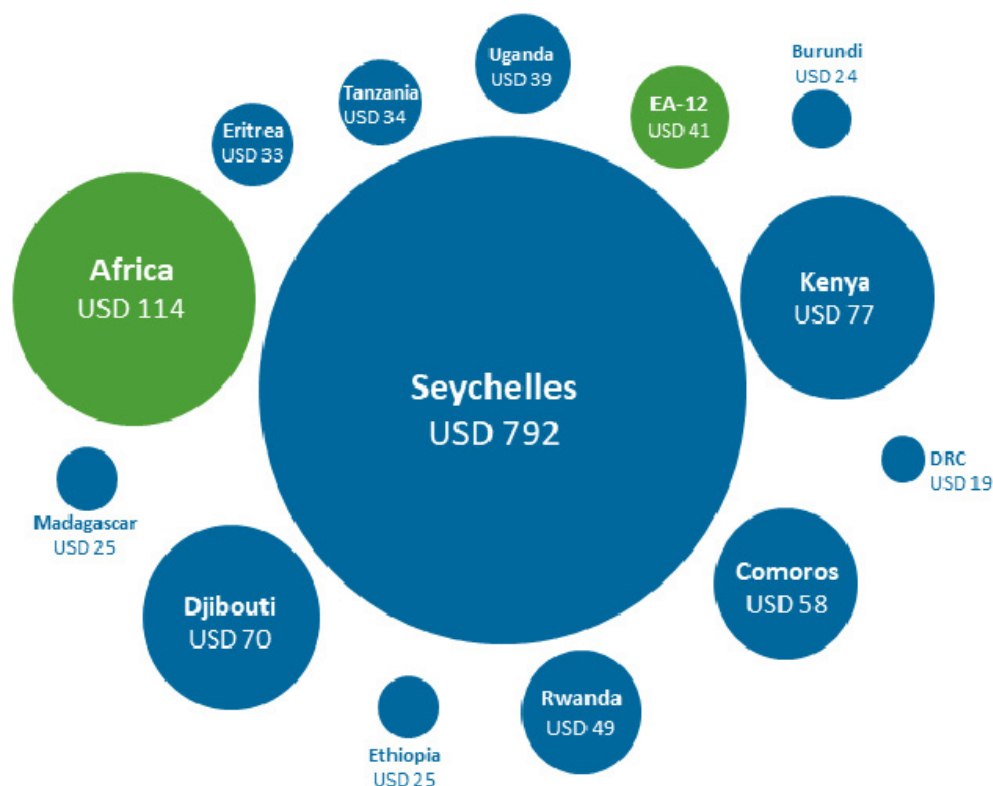
Source: WHO (June 2021)

The consequences of this could be very serious, in terms of undermining efforts at the continental level to attain a share of global vaccines that corresponds to the Africa's share of the global population. As of 31st May 2021, the African continent has received only 2.1 doses of Covid-19 vaccines per 100 people, vis-à-vis 23.7 per 100 globally. The continent is thus lagging behind seriously in the roll-out of its vaccine programmes. Yet if existing allocations of vaccines are not being used effectively, arguments for increasing the allocation to Africa carry much less weight.

³⁷ South Sudan, for example, stopped administering 60,000 doses of the Covid 19 AstraZeneca Vaccine in April 2021 after they passed their expiration date. (Voice of America, 2021)

The crisis has at the same time exposed critical gaps in the regional health system. In terms of the financing, quality and adequacy of the health system, the region was unfortunately ill-prepared for a pandemic. Most Eastern African economies spend less than USD50 per capita on health, which is less than half of the African average ([Figure 29](#)). It is estimated by the [IMF \(2021\)](#) that for most countries, the cost of vaccinating 60 percent of population will be sizable—representing an increase of up to 50 percent in existing health spending.

Figure 29: Current health expenditure per capita (USD), 2017



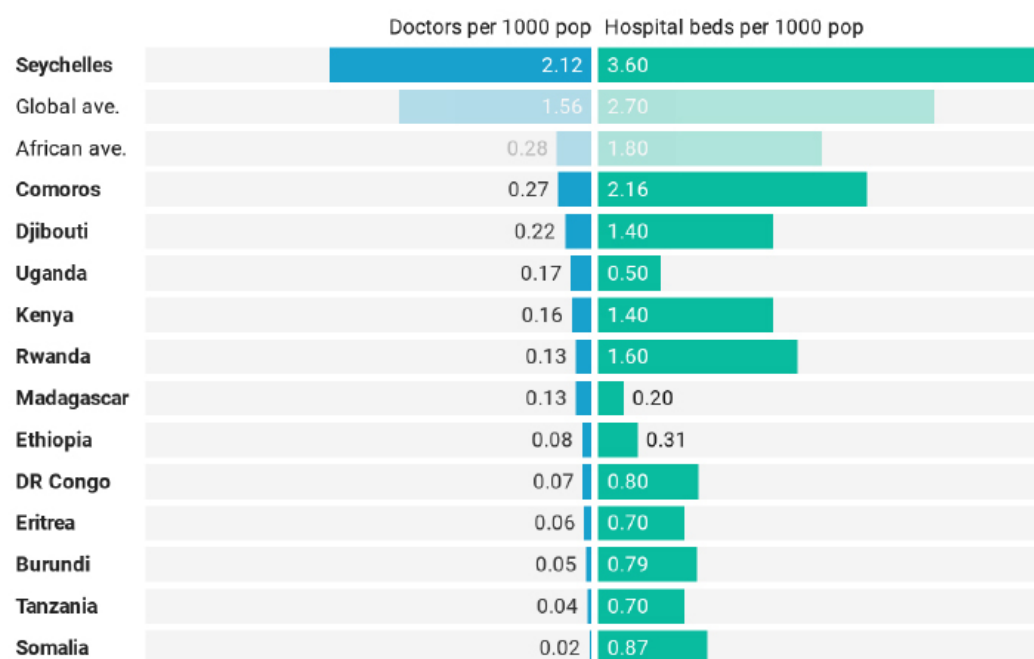
Note: Africa average as of 2015

Source: [Global Health Expenditure database \(2020\)](#)

Further reflecting the relatively low healthcare spending are the low density of doctors and the poor hospital beds density ([Figure 30](#)). Seven countries in the region are well below the African average of 1.8 beds, which itself is far from the EU rate of 5.1 beds per 1000 inhabitants (OECD and EU, 2018). Moreover, the shortage of healthcare workers in most countries (with less than 3 medical doctors per 10 000 inhabitants) is a serious constraint and increases the risk of fatalities in case of an upsurge in infections. Prior to the COVID-19 crisis, communicable diseases were already the leading cause of deaths in Eastern Africa. In 2016, these diseases, along with maternal, perinatal and nutrition conditions accounted for more than half of deaths in the region ([Figure 31](#)). This is rate is likely to increase this year due to COVID-19 and due to the diversion of already scarce medical resources to fight the current pandemic. In Burundi, for instance, the number of births with skilled attendants fell from 30,826 to 4,749 between April 2019 and April 2020 ([Kinyondo, Pelizzo 2021](#)).

Additionally, sharp declines in essential health services such as treatment of malaria cases, provision of pentavalent vaccines and overall patient consultation in 14 African countries. This resulted in missed immunization for millions of children for tuberculosis vaccine and others (WHO Africa, 2021)³⁸.

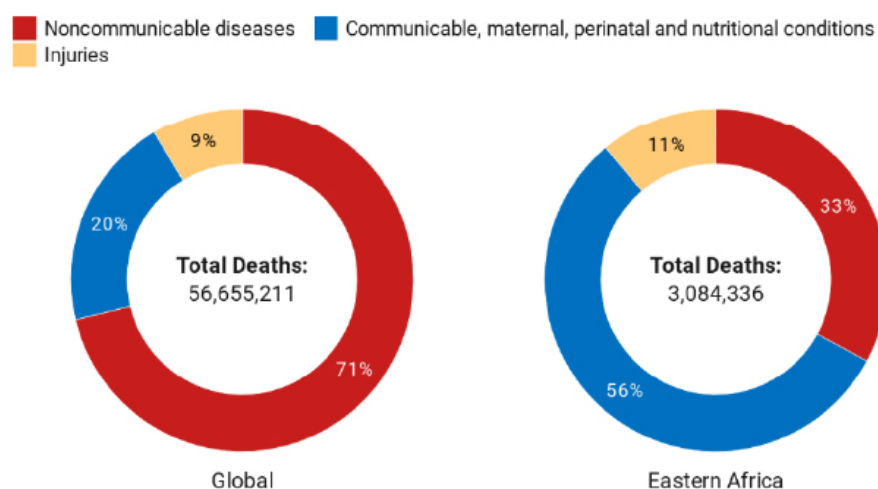
Figure 30: Public Health Resource Density



Note: Latest available statistics are from 2006 – 2018

Source: World Health Statistics (2020), Global Health Expenditure database (2020)

Figure 31: Deaths by Cause, 2016



Source: WHO (2018)

38 As another example, in July, Kenya initiated a vaccination campaign against highly contagious measles and rubella surged in the country during the Covid restrictions. The campaign targeted 4 million children aged nine months to five years in 22 of Kenya’s 47 counties where outbreaks are highest (Muiruri, 2021).

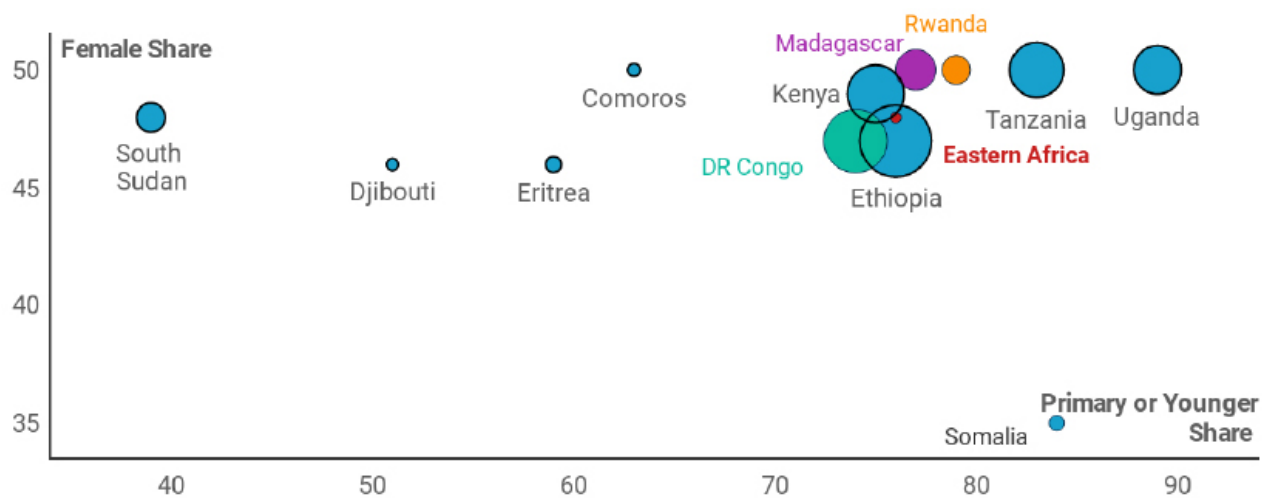




4. EDUCATIONAL IMPACTS

School closures impacted over 96 million learners in Eastern Africa – mostly primary school-aged. Many governments around the world temporarily closed education institutions in an attempt to contain the spread of the COVID-19 pandemic. In Eastern Africa, partial and nation-wide closures would have impacted over 96 million learners. In almost all countries, most of these learners are very young (Figure 32). In aggregate, 49 percent of impacted learners across the region are female, and 79 percent are primary school-aged or younger. While it was necessary to protect students and their families from COVID-19, these disruptions had the potential to significantly slow progress to SDG 4 (Inclusive and Equitable Education for All). Researchers have predicted that the long-term social and economic impacts of school closures in sub-Saharan Africa include a reduction in expected years of schooling from 4.9 to possibly 4.5 years, and significant lifetime earning losses of USD4,593 (or around 3 years of earnings) per child (World Bank, 2020). Furthermore, there are many other consequential impacts of reduced school attendance such as poor nutrition, increased exposure to violence and exploitation, childhood pregnancies, and increased challenges to mental development of children (WHO and UNICEF, 2020).

Figure 32: Share of Female and Young Students Among Total Impacted by School Closures



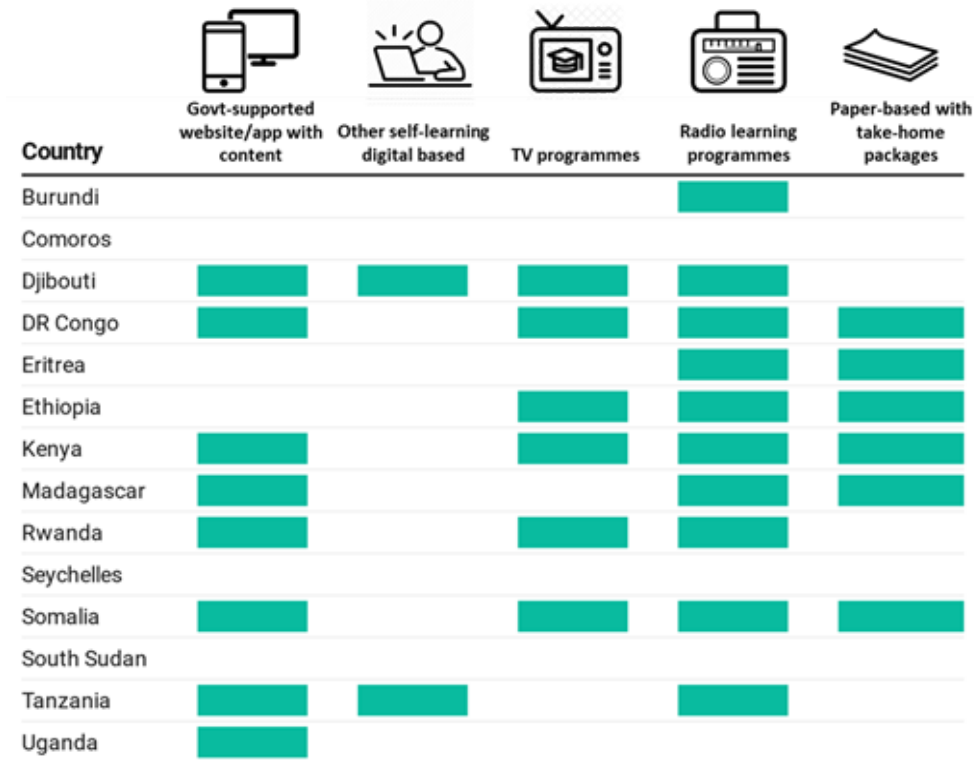
Note: Except for the Eastern Africa point, country bubbles are sized by the total number of students impacted.

Source: UNESCO (2020)

To minimise the destructive impact that school closures have on learning outcomes, many governments have introduced or ramped up remote teaching strategies. Distance learning solutions vary widely, from fully online and digital, live video conference calls between teachers and pupils to fully offline and paper-based materials that are physically delivered to students' homes. Access to technologies such as internet, television, and radio is limited in low-income countries, especially among poorer households. Many governments in Eastern Africa opted for a hybrid solution, hoping to meet the needs of the widest possible range of students (Figure 33). Despite this, UNICEF estimates that at least 49%

of students in East and Southern Africa were unable to access remote learning and thus have urged governments to prioritise the safe reopening of schools when they begin easing lockdown restrictions (UNICEF, 2020a).

Figure 33: COVID-19 Response through Remote Education



Source: UNECA analysis of UNICEF survey data (UNICEF, 2020b)³⁹

39 UNICEF – COVID-19 education response survey results presented in Innocenti Research Brief, October 2020.



A dark blue silhouette of the Eastern African continent is centered in the upper half of the page. The background is a vibrant blue with a pattern of thin, curved lines that create a sense of motion and depth, particularly in the lower half of the image.

5. GRAVE EMPLOYMENT CONSEQUENCES FOR WORKERS IN EASTERN AFRICA

Job losses in Eastern Africa were largest in the second quarter of 2020, with an estimated 16 million jobs lost in that quarter alone. Global estimates of working-hour losses due to the pandemic in the third quarter of 2020 have been revised substantially downwards to 7.2 per cent from 12.1 per cent (ILO 2021), reflecting a stronger-than-expected rebound in working hours, especially in lower-middle income countries. The relatively lower working-hour losses in low-income countries may reflect the greater importance of agricultural employment. Additionally, while low-income countries acted swiftly to close their borders and implement public health restrictions in the second quarter of 2020, they subsequently lifted them more quickly than wealthier countries. Regarding the distribution of job losses in Africa, according to ILO estimates, Eastern Africa has been the worst hit, with 10 million jobs lost over the course of 2020, (Figure 34) although the equivalent job losses were largest in the second quarter when lockdown measures were most stringent, with an estimated 16 million jobs lost in that quarter alone. As noted earlier in this report, several countries in the region have adopted fiscal packages in response to the crisis, notably to support incomes and businesses. Estimates from ILO (2020) indicate that, on average, an increase in the fiscal stimulus of 1% of annual GDP would have reduced working-hour losses by 0.8 percentage points in the second quarter of 2020. Regarding the impact of the fiscal stimulus on jobs in Eastern Africa, estimates of the value of the fiscal stimulus expressed as a job equivalents show that the stimulus has not been enough to replace the jobs lost in the region. The fiscal stimulus in Eastern Africa is estimated by ILO (2020) to have generated only 2 million jobs (Figure 35).⁴⁰

Figure 34: Full-time jobs lost (millions)

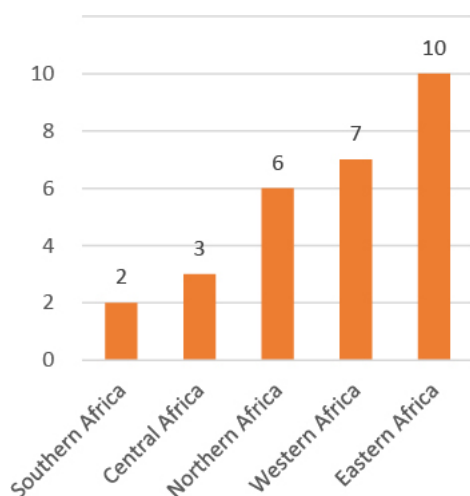
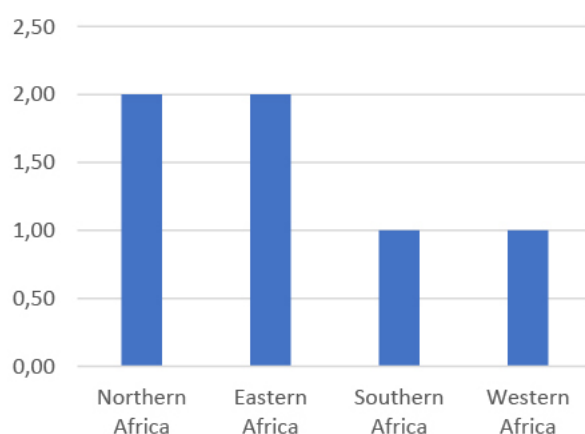


Figure 35: Value of fiscal stimulus expressed as full-time jobs (millions)



Source: ILO (2020 & 2021)

⁴⁰ By contrast, the fiscal stimulus in Southern Africa is estimated to have generated 33% of the jobs lost

Beyond estimates of formal sector job losses due to the pandemic, a major source of concern for Eastern Africa is the impact it has had on the informal sector, which accounts for around 92 percent of employment in the sub-region (ILO, 2021). Informal sector employment is characterised by low wages, precarity and poor working conditions. The pandemic has undoubtedly intensified these challenges for informal sector workers. One survey of domestic workers in Dar es Salaam found that while Tanzania did not enforce a generalized or strict lockdown, domestic workers' conditions—already precarious—still deteriorated because of the general slowdown in economic activity (WIEGO, 2021). Twelve per cent of domestic workers reported incidents of hunger in their households (affecting either children or adults), but this rate increases to 47 per cent among workers who stopped working in April 2020. To offset the impacts of the crisis, 54 per cent of all domestic workers resorted to strategies such as borrowing money, drawing down savings or seeking help from family, friends or neighbours. More research is clearly required into the impact of the crisis on the informal sector, and measures are clearly required to improve the coverage of social protection across the region – the subject of the next section of this report.



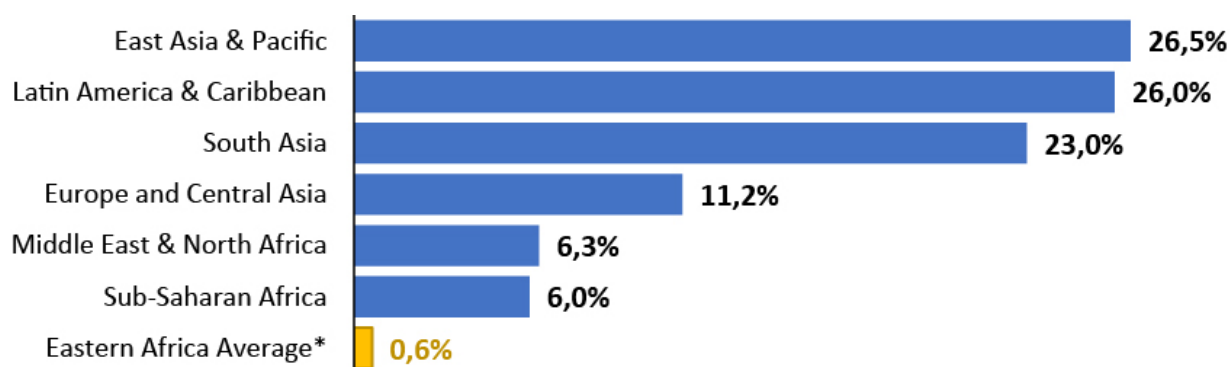


**6. RISE OF RESPONSIVE
YET SHORT-TERM
SOCIAL PROTECTION
FOR WORKERS IN
EASTERN AFRICA**

Africa's health and income social security coverage are the lowest globally – and lower still in Eastern Africa.

The crisis has highlighted the need for adequate social protection in the region. The global Sustainable Development Goals (1.3 and 3.8) and the African Union's Agenda 2063 each promote social security floors as a core part of its development strategy. However, Africa's health and income social security coverage are the lowest globally – and lower still in Eastern Africa (Figure 36). Furthermore, although dated, some evidence suggests that social assistance programmes within the last decade may not have adequately covered the lowest income brackets (Table 6). Other challenges include: low social protection budgets and limited fiscal space; high rate of informal employment; and rapid demographic and urbanisation changes (OECD, 2017). Income insurance programmes are only available to full-time workers in formal employment, which is often limited to government schemes for public servants (ILO, 2020b). Workers in the informal sector would be more effectively supported through: (1) social assistance programmes, such as cash transfers, in-kind assistance, or subsidised access to essential goods and services; or (2) targeted assistance from local governments and NGOs (Gerard et al., 2020).

Figure 36: Public Spending on Social Assistance Programmes (% of GDP)



Source: World Bank ASPIRE database (2020)

Note: Eastern Africa figure is a straight average of available estimates from Djibouti (2015), Ethiopia (2017), Kenya (2017), Madagascar (2018), Rwanda (2016), Tanzania (2016) and Uganda (2016)

Table 6: Social Protection Population Coverage, Latest Available Year

Country-year	Coverage Total Population (%)	Coverage in poorest quintile (%)	Average per capita transfer - total population (daily \$ PPP)	Average per capita transfer held by poorest quintile (daily \$ PPP)
Madagascar 2010	5.7	1.0	NA	NA
DRC2012	11.1	5.5	0.84	0.29
Tanzania 2014	12.9	9.0	0.11	0.03
Ethiopia 2010	13.2	16.2	NA	NA
Djibouti 2012	20.9	35.7	1.02	0.31
Kenya 2015	27.4	34.7	0.06	0.03
Rwanda 2013	31.4	35.3	0.09	0.05
Uganda 2012	60.7	75.7	0.02	0.00

Source: World Bank ASPIRE database (2020)

To soften the impact of widespread job losses, many governments in the region quickly reorganized budgets and sought international financing to support affected workers. For example:

- ▶ DR Congo provided free water and electricity to households for two months;
- ▶ Djibouti has provided cash transfers, food distribution and other interventions addressing the basic needs of vulnerable populations;
- ▶ Kenya's Ministry of Sports, Culture, and Heritage redirected almost USD1 million from an existing sports fund to support those in creative arts field;
- ▶ Rwanda tapped into its decentralized local government network to quickly identify the families in most need for food and other essential items; and
- ▶ Seychelles' government guaranteed the jobs of 37,000 employees in the private and non-profit sectors and launched a programme to pay salaries for up to six months for many redundant workers.

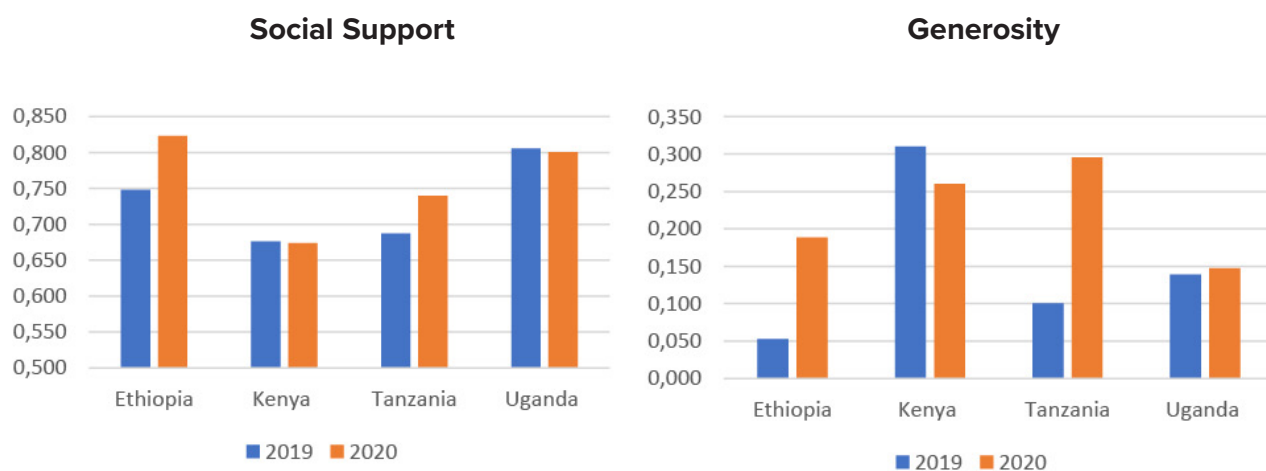
While responsive to the urgent needs emanating from the COVID-19 crisis, some of these programmes only lasted for a few months. This has demonstrated the need for continuous contributory and non-contributory (government or aid-financed) social protection schemes that are both wide and deep in coverage.⁴¹

Finally, it is interesting to reflect on people's perceptions in the region with regard to the support provided within their communities. A [Gallup \(2021\) World Poll survey](#) found that people's perceptions of the degree of social support and generosity

41 The terms 'wide' and 'deep' refer to the percentage of the population covered, and a sufficient scale of the support measures provided, respectively.


increased markedly in Ethiopia and Tanzania during this period of crisis compared with their responses in 2019, although this was not the case in Kenya nor Uganda.⁴²

Figure 37: People's Perceptions of Changes in Social Support and Generosity 2019-2020



Source: Gallup, World Happiness Report (2021)

⁴² Measures of social support varied by region but were generally comprised of perceptions in changes in quality of relationships, feelings of connectedness, loneliness, community cohesion, etc. Measures of generosity were based on how many people gave.



7. CONCLUSIONS AND POLICY RECOMMENDATIONS

Governments need to maintain health and economic interventions, encourage digitalization, and promote transparency. This report summarizes the extensive impacts of the Covid-19 pandemic on the region. Many of these impacts are expected to persist over the short-to mid-term, with a lot of concerns being aired about third and fourth waves of the pandemic. In response, governments will need to maintain support to the economy, especially the sectors that have been severely affected. Against this backdrop, government priorities in terms of macroeconomic management will inevitably include similar elements, including i) greater prudence in debt management ii) raising new sources of development finance iii) restricting recurrent government expenditures and iv) ring-fencing development spending. Where there is still fiscal space or access to liquidity, policymakers should continue fiscal and monetary support until the expected economic recovery has fully materialized (AfDB, 2021:35). Beyond these priorities, this report argues that member states, development partners and regional organisations urgently need to address the seven key challenges:

- ▶ **1. ACCELERATING THE ROLL-OUT OF COVID-19 VACCINATIONS:** Recent months have made it apparent that long-lasting economic and social recovery in Eastern Africa will be contingent on achieving a high level of vaccinations across large segments of the population. Yet currently, as noted in Section 3, much of the region has been performing poorly in this metric, and has not even been using effectively the vaccines that it has received. This undermines the case internationally for making more vaccines available for the continent, and clearly has major implications with regard to the delaying the economic recovery of the region. Efforts therefore need to be made to accelerate the vaccine roll-out in the region.
- ▶ **2. EXTENDING EMERGENCY SUPPORT MEASURES** — Macroeconomic policy interventions in Eastern Africa have not thus far not been sufficient to offset the severe job losses caused by the pandemic (ILO, 2021). There is thus a need to maintain and expand support measures to the hardest-hit sectors and groups. Those measures should include deferral mechanisms for tax payments, credit subsidies for firms, and expanded income support programs for the unemployed and most vulnerable segments of the population (e.g. the elderly, low-income, informal workers, etc.). Additionally, the governments may consider manoeuvring within the available fiscal space to adjust VAT rates to favour economic recovery.
- ▶ **3. MAINTAINING CRUCIAL INFRASTRUCTURE PROJECTS:** Following on from the previous recommendation, well-targeted infrastructure spending programmes could play an important role in accelerating the economic recovery and boosting employment creation. Prior to the crisis, Eastern Africa

was already in the midst of a veritable infrastructure boom.⁴³ Despite the adverse fiscal circumstances since the pandemic struck, governments have made efforts to maintain capital expenditure and complete ongoing projects, such as the Kenya TGV, the Grand Ethiopian Renaissance Dam, the Nairobi-Mombasa highway extension, and the Mtwara Fertilizer Plant in Tanzania. As the region recovers from the pandemic, governments should focus on pre-approved planned infrastructure projects, accelerate those that are already under construction and create a portfolio of new bankable projects (Deloitte, 2020).⁴⁴ There will also be a need to prioritise the maintenance and upgrading of existing infrastructure.

- ▶ **4. ACCELERATING DIGITALISATION:** Globally, the pandemic has heightened attention on the need to accelerate the digitalisation of economies. But it has also put into stark relief the challenge of the digital divide between developing and developed economies.⁴⁵ Although great progress has been made in internet and mobile phones usage in Eastern Africa over the last decade,⁴⁶ the region still lags behind in many dimensions of digital access. Even within Eastern Africa, firms, employees and students without access to digital infrastructure have been more badly affected than those with. Access remains especially low among poor households and in rural areas. Governments will thus need to invest more in extending and reducing the cost of accessing digital infrastructure. E-government services should also be expanded, particularly in countries which have thus far lagged behind in the provision of such services (e.g. Comoros, Eritrea, Somalia, and South Sudan).
- ▶ **5. IMPROVING FOOD SECURITY IN THE SUB-REGION:** In Section 2 of this report, we highlighted a worrying rise in food insecurity in Eastern Africa. Global food prices also display worrying inflationary trends - for a net-food importing region like Eastern Africa, this is of grave concern. Together with

43 According to Construction Trends 2019, Eastern Africa had become the leading construction hub in Africa, accounting for 40 percent of total projects across the continent and 30 % of the value (CCENews, 2020).

44 There are some encouraging developments in this sense. In April (Barigaba, 2021), for instance, fifteen years after discovering commercially viable crude oil deposits, Uganda signed a landmark deal with Tanzania and French oil company Total, expected to unlock upwards of \$15 billion in investments, key element of the project is the crude oil export pipeline to run from Uganda to the Indian Ocean at Tanga.

45 See, for instance, the joint call for immediate action by the World Bank, the International Telecommunication Union (ITU), GSMA and the World Economic Forum (December, 2020) to respond to challenges presented by COVID19, from governments and regulators around the world, supported by the private sector and the digital development community.

46 For instance, 4G internet coverage accelerated rapidly, reaching 51.4 percent of East Africa's population in 2019, up from just 21.3 percent of the population in 2015. The region also enjoys the highest penetration rate of mobile money in the world (AU/OECD, 2020), something that has proved particularly useful during times of a pandemic when access to traditional financial services has been constrained. Kenya, Rwanda, Tanzania and Uganda lead the world in mobile money transactions, mostly because policy makers and regulators took the risk of investing in this innovation which has made the financial sector more inclusive (Groothuizen, 2019). Other countries in the region, including the Comoros, Ethiopia, Mauritius, Seychelles, Somalia and South Sudan, have also launched or are in the process of launching mobile money services.

the extreme vulnerability of the region to climate change, maintaining high levels of investment in agricultural development is required to confront these challenges, as well as the need to increase intra-African trade in agricultural produce with the objective of improving food security in the region (see [FAO, 2021](#)). In a recent analysis of government spending in the agricultural sector in 13 African countries (including 6 in our sub-region), none in Eastern Africa were close to meeting the Maputo target of dedicating 10 percent of government spending, with the average being closer to just 5 percent ([Pernechele et. al, 2021](#)). In the coming years, more agricultural investment is going to be required to confront the challenges of climate change and greater food insecurity, through better irrigation, more extension services, and, where necessary, support for agricultural inputs.

- ▶ **7. ACCELERATING THE IMPLEMENTATION OF THE AfCFTA:** Eastern Africa has been lagging behind other sub-regions in the number of ratifications of the AfCFTA, with thus far only 7 of the 13 signatories. In collaboration with member states and development partners, ECA has been providing technical support to the development of national AfCFTA strategies in Burundi, Comoros, DRC, Kenya, Rwanda, and assistance is already underway for Tanzania and Uganda. ECA is also providing technical assistance in the development of both EAC and IGAD regional strategies. Although the AfCFTA is a long-term policy for deepening regional integration across the African continent, and thus is not necessarily the most appropriate policy response to the urgent requirements of the Covid-19 crisis, it is necessary to accelerate the implementation of the agreement through, inter alia, i) the rapid ratification by all East African signatories to the agreement ii) the reduction in tariff barriers in line with the agreed tariff reduction schedules; iii) the active engagement of Eastern African member states and regional secretariats in Phase II negotiations. The latter is especially important so that Eastern Africa contributes to and shapes the agenda in crucial AfCFTA areas such as the treatment of intra-African investment, competition rules, and outstanding issues like the finalisation of service trade negotiations⁴⁷ and the free movement protocol. If member states are not actively engaged, their interests will not be reflected in the outcome.

- ▶ **8. ALIGNING HEALTH SERVICES WITH REGIONAL PRIORITIES:** Understandably in a global pandemic, a considerable share of government healthcare resources and personnel have been focussed on fighting Covid-19. However, this should not be done at the expense of attending to other health care priorities. ‘Lockdowns’ and restrictive measures, especially, have complicated health service provision and access, and disrupted key medical supply chains ([Hrynicky et. al, 2021](#)). As noted in Section 3 of this report, primary and secondary care have been negatively impacted, with registered increases in cases of other medical conditions like malaria, tuberculosis, and

47 For a review of regional strengths and weaknesses in the services sector, see [ECA \(2020\)](#).

life-threatening delays in diagnosing and treating conditions like cancer, as well as disruptions to child vaccination programmes.⁴⁸ Despite the need to maintain strict measures to fight the pandemic, member states should ensure the continuity of non-covid vaccination campaigns and ensure that healthcare service delivery is not disrupted for other medical conditions.

- **9. MOVING TOWARDS UNIVERSALISM IN HEALTH CARE AND SOCIAL PROTECTION:** Our final recommendation is about the urgency of moving towards universal systems of health and social care. Already prior to the crisis, [The Economist \(2018\)](#) was recognising that the arguments for universal health care – even in the poorest of countries - had been won. The pandemic has made such arguments all the more compelling. Granted, given the prevailing low per capita incomes and corresponding low level of government expenditure, the context may be considered more difficult for Eastern Africa. But experiments in universality, like the Rwanda Assurance Mutuelle de Santé, shows that it is possible to implement.⁴⁹ In a similar manner, in a region characterised by large swathes of vulnerable populations and a predominant informal sector, the crisis has exposed the need to provide social protection for the whole population rather than the targeted interventions that were promoted yesteryear. In the words of Mkandawire (2007: Chapter 13),

“For poor countries there is a strong case for leaning toward universalistic policies when addressing issues of poverty. In many of the late industrializers that confronted problems of social dislocation and poverty, it became obvious that where poverty was widespread, targeting was unnecessary and administratively costly.”

Experiments in non-targeted social protection in the region, like Ethiopia’s The RPSNP, launched in 2005 to support chronically food-insecure households, also show the path towards achieving a more ambitious agenda.⁵⁰

48 In the words of WHO Regional Director for Africa, Dr. Mathidiso Moeti: “*The longer, large numbers of children remain unprotected against measles and other childhood diseases, the more likely we could see deadly outbreaks flaring up and claiming more lives than COVID-19*” (WHO Africa, 2020).

49 The scheme, which requires participants to pay an annual fee of about 2000 to 7000 RWF (approximately 2 to 7 USD) depending on the social category, has so far been able to cover 88% of the population. Despite facing issues contextual to low per capita incomes and low government expenditure capacity similar to other eastern African nations, the government’s creative financing methods such as public private partnerships and sourcing from diverse revenue pockets has shown that it can be done ([The NewTimes, 2020](#)).

50 The RPSNP covers two types of beneficiaries: public works beneficiaries, who receive benefits in exchange for the provision of labour, and direct support beneficiaries, who receive transfers on an unconditional basis. Public works beneficiaries accounted for 86% of the RPSNP’s 8 million beneficiaries in 2016/17 ([Endale et. al. 2019](#)).



The background is a solid blue color. In the upper half, there is a dark blue silhouette of the United Kingdom and Ireland. Within the UK silhouette, a white city skyline is visible. A thick white horizontal line is positioned below the word 'REFERENCES'. In the lower half, there are several curved, wavy lines in various shades of blue, creating a sense of motion and depth.

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