



# ADDRESSING POVERTY AND VULNERABILITY IN AFRICA DURING THE COVID-19 PANDEMIC

**ECONOMIC REPORT  
ON AFRICA**

**ERA 2021**

# EXECUTIVE SUMMARY



“Addressing poverty and vulnerability in Africa during the COVID-19 pandemic” is the theme of the 2021 **Economic Report on Africa**. The report provides a perspective of the causes and consequences of increased poverty due to the COVID-19 pandemic, as well as from other shocks such as an oil price collapse, within a vulnerability–poverty–resilience framework, providing national estimates of people vulnerable to falling into poverty in different country clusters.

The principal messages of this report are that poverty in Africa is highly dynamic and that poor people move into and out of poverty because of consumption volatility arising from exposure to risks caused by shocks like the COVID-19 pandemic and that their inability to manage uninsured risks only increases their vulnerability. Poverty in Africa is also geographically centralized, and two commodity-exporting countries—the Democratic Republic of the Congo and Nigeria—account for a large share of the continent’s poverty (Hamel, Tong and Hofer, 2019).

The framework provides useful insights into the micro-level factors associated with moving into and out of poverty and why some households remain poor for a prolonged period. These insights

can guide evidence-based policies. A major contribution of the report is the emphasis on the centrality of risk and vulnerability to shocks in the design of poverty reduction strategies in Africa.

According to data from the United Nations Economic Commission for Africa (ECA), the disruptions caused by the COVID-19 pandemic pushed an estimated 55 million Africans into extreme poverty in 2020 and reversed more than two decades of progress in poverty reduction on the continent. The adverse household-level impact of the pandemic, through a combination of supply and demand shocks, has caused a decline in economic activity, jobs and income. Non-poor people whose consumption is \$1.90–\$2.09 a day (0–10 per cent above the poverty line) are likely to fall into poverty due to the pandemic because even a small amount of consumption volatility can push them into poverty. Poor people with few assets, limited access to credit, informal employment and low wages are particularly vulnerable and have been severely hit by pandemic-containment measures. With low vaccination rates on the continent, the pandemic’s effect could be long lasting in many countries, with huge consequences to economies and households’ well-being.



## GOVERNMENT RESPONSES TO THE POVERTY IMPACTS OF THE COVID-19 PANDEMIC

African countries responded to the poverty effects of the COVID-19 pandemic in part through expansionary fiscal and monetary policies to maintain consumption and aggregate demand and prevent firm closures and job losses. By June 2020, more than 20 African central banks had reduced policy rates, and more than 30 had announced policy measures in response to the pandemic's economic and market effects. Expansionary monetary policy and reduced lending rates were initially the most used macroeconomic measures by far.

African countries spent \$2.2 billion on fiscal stimulus in 2020, comprising increased expenditure and extended payment deadlines on overdue loans and reduced taxes. On average, fiscal spending in response to the COVID-19 pandemic has doubled, to 3.3 per cent of gross domestic product (GDP). Still, average per capita spending is \$28, far less than the \$4,253 in North America and \$629 in Europe. The continent's fiscal deficit peaked at an

estimated 8.1 per cent of GDP in 2020, and it will take several years to return to the pre-pandemic rate, as it will for the public debt-to-GDP ratio (perhaps a year longer). The ratio of debt-to-GDP will remain above the 60 per cent threshold that the International Monetary Fund considers sustainable for African countries, given their elevated gross financing needs.

African governments increased social assistance to poor and vulnerable people. Given the high rates of informal and vulnerable employment in Africa, cash and in-kind social assistance transfers remain the main forms of government assistance for protecting poor people from the effects of the COVID-19 pandemic. Starting from a low base, such transfers constituted 74 per cent of all social protection programmes in 2020, much higher than the global average of 62 per cent. Yet the average amount of social transfers was too small to increase poor people's consumption and enable them to exit poverty.

Unemployment benefits, wage subsidies and job-retention schemes have helped support the income of workers in the formal sector and, to a degree, helped maintain that sector's employment rates. But informal workers have not benefitted from government-funded social protection or tax breaks.

# MAIN FINDINGS OF THE REPORT

## KEY FINDINGS

### THE PANDEMIC HAS EXACERBATED THE CONTINENT'S SOCIOECONOMIC CHALLENGES

**58 MILLION**  
*are extremely vulnerable to falling into poverty.*

**15 AFRICAN COUNTRIES**  
*are at risk of debt distress.*

**WOMEN**  
*are more vulnerable to falling into poverty.*

**47%**  
*In South Africa, 47% of employed women in the poorest tercile reported losing their jobs compared with 36% of employed men in the same tercile.*

#### **EGYPT, MAURITIUS AND SEYCHELLES**

*are likely to experience low poverty and vulnerability.*

#### **ETHIOPIA AND NIGERIA**

*are the source of most of the “new poor” created by the pandemic.*

#### **CHAD, ETHIOPIA AND ZAMBIA**

*have applied for debt relief under the G20 Common Framework.*

The key findings of the report are:

- **Workers in the informal sector and vulnerable employment are most at risk of falling into poverty.** People who rely on the informal economy—particularly women, people living with disabilities, refugees and displaced people—have suffered the most from the economic shocks of the COVID-19 pandemic. People in vulnerable employment, worsened by the pandemic, are most at risk of falling into poverty, owing to job losses. Roughly 58 million non-poor Africans whose consumption is \$1.90–\$2.09 a day (0–10 per cent above the poverty line) are extremely vulnerable to falling into poverty because of the pandemic, unless supported by cash or food transfers.
- **The impact of the COVID-19 pandemic on poverty and vulnerability varies by country.** This variation is based on the status of vulnerable and low-income groups and depends heavily on ex-ante government policies and ex-post steps taken to mitigate the pandemic’s impact through state provision of public goods such as healthcare, education and social protection; interventions in the labour market; and individual agency through, for example, savings.

- **The poverty effects of the COVID-19 pandemic also vary with government responses and policies.** The report identifies six groups of countries with differing levels of poverty and vulnerability and finds that the countries with low initial poverty and vulnerability, capacity to generate enough jobs, low youth and old-age dependency ratios, a highly educated labour force and good internet infrastructure to support a digital economy—for example, Egypt, Mauritania and Seychelles—are likely to experience low poverty and vulnerability during a shock and thus possess a strong ability to manage risks. The opposite is true for countries without these critical attributes and that can seldom afford social assistance—such as Ethiopia and Nigeria. This group is the source of most of the “new poor” created by the pandemic. The fact that poor people move into and out of poverty because of consumption volatility arising from exposure to risks implies that the pandemic radically changed those baseline conditions in 2020 and likely shifted the location and scale of vulnerability, as well as the people affected by it.
- **Fiscal space to mitigate poverty impacts is tight.** Because of the COVID-19 pandemic, fiscal space remains severely constrained in many African countries amid both increasing government borrowing to mitigate the pandemic’s impacts and diminishing government revenue. Some 15 countries are at risk of debt distress, and Chad, Ethiopia and Zambia (among the 5 debt-distressed African countries) have applied for debt relief under the G20 Common Framework. Over the longer term, countries aiming to revamp their economies, accelerate growth and reduce public debt will need to increase their revenue and invest in productive sectors of the economy.
- **Women are more vulnerable to falling into poverty.** Governments’ socioeconomic policy responses to the COVID-19 pandemic have accentuated gender inequalities. In South Africa, 47 per cent of employed women in the poorest tercile reported losing their jobs compared with 36 per cent of employed men in the same tercile. Women without a tertiary education and employed in the poorest tercile suffered the most. Among those who remained in employment, women saw a larger drop in working hours and cuts in wages than men. Women also took on more of the additional burdens of home-schooling children and related duties and of caring for the sick.
- **Households’ coping strategies are at a breaking point.** The economic impact of the COVID-19 pandemic on individual consumption and well-being depends on the size, duration and frequency of risk; exposure to risk; policy responses; and households’ ability to manage risk. Households that have little or no access to formal insurance or credit often rely on informal coping strategies to mitigate the impact of income reduced by shocks. Their weakened ability to use pre-pandemic coping mechanisms to smooth consumption, such as transfers and remittances, asset liquidation and migration, has increased their vulnerability to falling into poverty. The pandemic’s adverse shocks have interacted with existing vulnerabilities, exacerbating the continent’s pre-pandemic socioeconomic challenges.

Poverty and vulnerability are interconnected, and policy interventions must therefore address them together. The COVID-19 pandemic has confirmed the need to focus on improving vulnerable households’ risk management and building their resilience. Anti-poverty strategies should not be limited to reducing immediate poverty ex-post but should also reduce vulnerability to poverty ex-ante and strengthen resilience against future shocks. Measures for consideration include expanding social assistance, encouraging families to build household assets, generating productive jobs, establishing or expanding contributory social protection programmes and investing in social infrastructure to promote growth. As important in the long term is linking social protection to productivity gains and employment opportunities. Finally, separating out the parts of poverty that are structural versus those that stem from exposure to shocks is important for future policy initiatives.

# THE WAY FORWARD: IMPROVING RISK MANAGEMENT AND BUILDING RESILIENCE

The COVID-19 pandemic has exposed the fragility of health and socioeconomic systems across the world, including those in Africa. Governments face the dual challenge of containing the pandemic while responding to its devastating socioeconomic effects. As countries prepare to exit self-imposed lockdowns, they need to put in place measures that ensure sustainable economic recovery and that build households' resilience to future exogenous shocks.

## POLICY RECOMMENDATIONS

- **Access to targeted social protection**
- **Improve access to labour markets**
- **Promote employment for young people**
- **Provide social assistance to the vulnerable**
- **Ensure health protection**
  - Upgrade health infrastructure
  - Build skilled health personnel
  - Provide equitable access to healthcare systems
- **Build a health emergency system for future pandemics**
- **Domestic vaccine production**
- **Create decent jobs**

This report offers the following policy recommendations for African governments:

- **Adopt targeted social protection.** Governments need to put in place mechanisms that give vulnerable groups, including those earning just above \$1.90 a day, access to targeted social protection linked to productive employment. Social protection measures can serve as socioeconomic stabilizers while stimulating aggregate demand in crises and beyond. It is imperative to tie social protection to improved access to labour markets and hence active labour market programmes. This link will allow investments in human capital accumulation to be inputs and complementary to business development and promotion and to employment creation, especially among young people. Ultimately, this measure will require greater domestic revenue mobilization.
- **Provide short-term social assistance to the most vulnerable people.** In the immediate term, governments need to put in place policies and support programmes that will prevent vulnerable people from falling into permanent poverty. These could include rolling out cash and in-kind transfers to people who usually have unstable jobs and are thus likely to fall into poverty under prolonged lockdowns, such as manual labourers, informal vendors, small business owners and retail workers. Additional social assistance measures could include offering tax relief to small businesses (which often operate on small profit margins), extending the period of short-term lending for small and medium enterprises, imposing rent controls for the duration of the health crisis and subsidizing water and electricity bills.
- **Ensure health protection for all.** Over the longer term, African countries need to build resilience by investing in health protection for all, which also offers high potential for employment creation. Areas include upgrading health infrastructure and systems, building the supply of skilled health personnel (doctors, nurses, laboratory technicians, virologists, infectious disease specialists and testing and treatment specialists) and prioritizing equitable access to healthcare services through tax levies and contribution-based social or national health insurance schemes.
- **Build a national and regional health emergency preparedness and response system for future pandemics.** Countries will need to identify and assess risks; assess national capacity to respond to risks; procure essential lifesaving equipment and tools; develop detailed plans for protection, prevention, mitigation and recovery; and generally strengthen institutional and human capacity. A communication and outreach strategy will also be needed to mobilize the public towards a shared understanding of crisis prevention.
- **Build domestic capacity for vaccine production through initiatives such as the Partnerships for African Vaccine Manufacturing.** About 99 per cent of vaccines available in Africa are still imported. Some countries have already reached agreements with leading European and North American firms to manufacture vaccines under public-private partnerships or subcontracting arrangements. This initiative should draw financing from the International Monetary Fund's Special Drawing Rights allocation for Africa (an estimated \$33 billion) announced in January 2021 for leveraging resources from the private sector and financial institutions.
- **Leverage the African Continental Free Trade Area and other Africa-wide initiatives to create decent jobs and reduce poverty.** In this way, African countries could improve labour mobility across national borders, encouraging workers to upgrade their skills and move to more productive jobs. Finally, the pooled procurement of pharmaceutical products could pave the way for building global and regional supply chains in medical supplies, offering the potential to create many jobs.

The 2021 Economic Report on Africa assesses poverty and vulnerability in Africa during the COVID-19 pandemic. It provides perspective of the causes and consequences of increased poverty due to the pandemic, as well as from other shocks such as an oil price collapse, within a vulnerability–poverty–resilience framework. This framework provides useful insights into the micro-level factors associated with moving into and out of poverty and why some households remain poor for a prolonged period—insights that can guide evidence-based policies. A major contribution of the report is emphasising the centrality of risk and vulnerability to shocks in the design of poverty reduction strategies in Africa. The report’s principal messages are that poverty in Africa is highly dynamic, that poor people move into and out of poverty because of volatile consumption and that their inability to manage risks only increases their vulnerability.



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