

SOCIO-ECONOMIC IMPACT OF COVID-19 ON THE EAST AFRICAN COMMUNITY

**IMPLICATIONS ON INDUSTRY, TRADE,
HEALTH AND WELFARE, AND
RECOMMENDATIONS**

SEATINI



Strengthening Africa in World Trade

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INTRODUCTION

The World Health Organization on 11th March 2020, declared the global outbreak of the corona virus as a pandemic. As of 9th April 2020, there were more than 2,623,231¹ registered cases of COVID -19 globally with about 182,740 deaths. So far 177 countries have reported cases of the virus since it emerged in China in December 2019. In Uganda and the EAC region, 816 cases (303-Kenya, 153-Rwanda, 284-Tanzania, 61-Uganda, 11-Burundi, and 4-South Sudan) have been registered within the past couple of months. In order to curb the spread of the virus, the Presidents of the EAC partner states together with their counterparts on the continent and globally have taken certain steps and announced a number of drastic measures that have had and continue to have far reaching implications on the social and economic outlook of the region.

To contain the deadly virus, a series of lockdowns and travel restrictions have been enforced by several countries. Such restrictions on the movement of people, and containment measures such as border closures have created a lot of uncertainty on the global economy. Additionally, key sectors have been affected, particularly travel and tourism, and retail and other services sectors; business operations hence supply chains disrupted; employment and livelihood put at risk; while consumer confidence has declined. The COVID-19 outbreak has diminished prospects of an economic recovery from a broad global slowdown last year.

THE RESPONSES TO THE COVID PANDEMIC

Since the outbreak there have been a number of responses have been undertaken at the global, continental and regional level, and most especially the national efforts by respective countries. On 26th March 2020, the Bureau of the Assembly of the African Union (AU) Heads of State and Government during a

teleconference on COVID-19 agreed to establish a continental anti-COVID-19 Fund to which member states of the bureau agreed to immediately contribute US \$12.5 million as seed funding. They also agreed to contribute an amount of \$4.5 million towards boosting the capacity of the Africa Centre of Disease Control and Prevention (Africa CDC). At the EAC level, under Article 118 of the Treaty establishing the EAC, Partner States commit, among others, to *“take joint action towards the prevention and control of communicable and non-communicable diseases and to control pandemics and epidemics of communicable and vector-borne diseases..... that might endanger the health and welfare of the residents of the Partner States.....”*.

Aside from these decisions, more practical decisions have been taken in response to this COVID-19 outbreak. Partner States have adopted a number of measures including either partial or total lockdowns and curfews in a bid to restrict people’s movement; promotion of social distancing through banning of gatherings at places of worship, schools, weddings, and sports events; suspension of all domestic and international commercial passenger flights, including movement of persons, workers, and traders across the EAC borders, and into and out of the region.

Suspension of public passenger motor vehicle transport, restrictions on private passenger motor vehicle transport, and limiting of local markets to selling of only foodstuffs. In some countries, governments have ordered businesses to close operations and or change their means of operations, with billions of people now currently staying and working from home in an effort to fight coronavirus. Restrictions such as curfews, closing of all non-essential businesses², and in some areas the use of non-cash in purchases have also been adopted.

² Essential services such as medical care, telecommunications, security, banking, Revenue Authority, food markets including super markets among others. These have been allowed to continue operation but under stricter Standards of Operation.

Additionally, and on an affirmative note, the governments have also taken extra steps to provide food relief to citizens classified as the vulnerable poor, but even further, governments such as in Europe have offered to take over payment of workers' salaries for businesses affected by the COVID-19 pandemic.

Numerous donations have also been granted by the private sector and individuals, both in kind and in cash in a bid to fight the pandemic. However, could the private sector demand for their pound of flesh from government later?

IMPLICATIONS ON EAC'S SOCIAL AND ECONOMIC OUTLOOK

A number of researches and commentaries so far project that COVID-19 threatens to disproportionately devastate economies world over. It is also obvious that the social and economic challenges arising from the pandemic will particularly affect the economies and individuals from developing and least developed countries as their governments gear up to tackle a health crisis with extremely limited resources. For Africa in general, the UNDP has warned that due to COVID-19, nearly half of all jobs in the continent could be lost³ and 5%-10% of the Continent's GDP could be wiped out as commodity prices sink and receipts from tourism, trade and remittances shrivel⁴. This could have severe repercussions for societies, including in areas such as education, health, human rights and food security. Indeed, it can be argued that the socioeconomic hit on EAC in terms of loss of incomes and livelihoods might take years to recover from.

1. Implication on the tourism sector: The broad value chain of tourism comprises of travel and tour services like booking and reservation; transportation industry (international and national travel and transportation); accommodation; hospitality industry; food & beverages; tourism products and destinations

and related products and services; local travel and transportation.

In the EAC region, the pandemic has so far brought immediate disruptions in the tourism sector across the region, as evident in the decline in tourism flows owing to disruption in travels especially air travels, weakening in consumer and business confidence, imposition of lockdowns by several countries, community quarantines, stay-at-home orders, temporary business closure of support services, and other restrictions or prohibitions to contain the virus. Tourism has been one of the largest foreign exchange earners and fastest-growing sectors in the EAC. According to the Report by East African Legislative Assembly on tourism development in the EAC-2018, tourist arrivals in the EAC region increased from 3.5 million persons in 2006 to 5.7 million persons in 2017. Tourism contributed to the Gross Domestic Product (GDP) of the EAC Partner States by an average of 12% in 2017. The percentage contribution was higher than the average in Rwanda (14.9 %), Kenya (10%) and Tanzania (14%), Uganda (9.9%), Burundi (4.3%). Tourism contributes an average of 18.8% to EAC total exports, although the percentage contribution was higher, in Rwanda (30.5%) and Tanzania (26%). The total contributions of tourism to export earnings were at 1.5% for Burundi, 18% for Kenya, and 17.9% for Uganda.

Recommendations: Although it may take a long time to return the entire value chains of the sector back to its initial performance, it is imperative that the actors become creative. Adopting the use of digital platforms could offer global access to consumers and allow service providers to enhance the development of the tourism sector and its competitive standards. Visual information has increased among various websites, allowing tourists to explore and see destination images. Many individuals and companies/organizations are also willing to purchase photos at up to US\$500 and more. The Ministries of ICT should therefore partner with the Ministries of Tourism to

³ Al Jazeera

⁴ <https://www.ft.com/content/07716a2b-2ba5-44aa-80ff-13d5eafb4bad?segmentid=acee4131-99c2-09d3-a635-873e61754ec6>

support the tourism actors in pursuance and implementation of these alternatives.

In addition, the imperative to diversify into production and supply of more demanded products and services cannot be overemphasized. For instance, the Ministry of Trade should support actors previously engaged in the transportation within the tourism sector to embark of transportation of cargo (food stuffs, medical supplies within the region; accommodation; hospitality industry; food & beverages; tourism products and destinations and related products and services; local travel and transportation.

2. Implications on Industrialisation and manufacturing sector: At the onset of the COVID-19 outbreak in Wuhan, the primary concern was the possible impact on supply chains because of the temporary closure of factories in the Hubei province due to lockdowns. Hubei is a major industrial hub, particularly for machineries and electronics on which many EAC industrialists and manufacturers rely for their participation in the regional, and even global supply chains. When production there went on a standstill, it created shortages in supply of parts, and intermediate products, which caused a reduction in operations along the supply chains, not only within the region, but also those abroad.

It is also imperative to note that the adverse impacts of the pandemic had already been felt prior to its outbreak in the region, with shortages of, especially intermediate goods necessary for production. Operations of factories has been disrupted further complicating trade networks, jobs, and incomes. For example, in Uganda, some factories, that had already, prior to the outbreak, was facing challenges accessing some of their key markets, i.e. export markets, have been completely run out of business leading to their temporary closure. The lock down has especially affected Micro Small and Medium Enterprises (MSMEs) which produce small quantities during specific production phases, due to limited access to machinery to support largescale production, limited finances to purchase large amounts of input, coupled

with limited storage space in case of largescale production. This situation has led to enterprises announcing that they will not be paying some salaries/wages. In Arusha, Tanzania, the price of sugar has already risen from 2,200 tsh per kg to 2,800 tsh/kg and 3000tsh/kg. Aside from the economic effects of the temporary lock down of states, changes in people's life styles, and consumers' interests, domestically, regionally, and at the global level have also been altered further affecting production. For example, the flower sector, which is a source of forex for many of the EAC partner states, and especially Kenya has adversely been affected by reduced demand from their biggest markets, Europe.

Recommendation: Given that majority of the region's private sector, especially MSMEs in the industry and manufacturing sector have already been struggling to meet debt obligations, the EAC partner states should grant as well as direct the provision of interest free loans. Governments' intervention in regulating the award of loans is imperative given the already underlying challenges banks face in the loans businesses, high interest rates, influenced by low savings, risky private sector, a risky and unpredictable policy ecosystem, domestic borrowing by government, and weak regulation, among others. The governments should also put caps on utility tariffs such as electricity and water towards support to lower costs of production amidst the current crisis.

Through the EAC Development Fund (EACDF) Partner States should also provide support packages to MSMEs such as tax reliefs now and for a period of 6 months after the lock down ends. Moreover, one of the objectives of the fund is to create a structural adjustment support mechanism for development projects with a regional outlook⁵. Government should also ensure that public procurement targets the countries' MSMEs, and that this is also used as a strategy to save businesses from collapsing. Government should also support industries and other production firms to venture into new opportunities such as making medical supplies and equipment like masks by tailors, and sanitizers by soap and alcohol

⁵ <https://www.eac.int/privacy/17-basic-page/432-641-643-development-fund>

beverage producers. MSMEs are key to economy, and employment and therefore need to be supported in this difficult period.

3. Implications on trade and commerce: The pandemic has led to a slowdown in the global economy, something that has inevitably had a negative impact on EAC's trade and commerce. The current economic disruptions have revealed a number lessons. The domestic economy offers a big opportunity for growth of supply chains, trade and commerce. In fact, the COVID- 19 outbreak has not only revealed gaps in Africa's participation in global supply chains but has also shined light on the already existing failures, weak, unsystematic and uncoordinated regional value chains. This, coupled with the decisions taken by the partner states to lock down and lock up their countries has paralyzed business operations hence hampering trade, leading to reduced sales, and threatening job loss.

Majority of the EAC partner states' imports of consumer goods which come from China, India and EU and amount to \$7 billion, \$3.9 billion and \$3.7 billion respectively, and constitute 18.1 per cent, 10.2 per cent and 9.8 percent of total imports respectively have declined. The already low EAC intraregional trade estimated at 20% has declined, but efforts to keep the formal trade moving has been prioritized across the region. Consequently, many entrepreneurs, both large and small within the trade sector i.e. wholesale and retail trade has been slowed or paralyzed further slowing down or paralyzing business cash flow. For instance, Rwandan sellers of coffee, chilli and other products valued at approximately \$10,000-\$20,000 sold on Alibaba's T-mall e-commerce platform were reported to be stuck, struggling to ship their goods to China⁶. Informal cross border trade, which is a source of livelihood for many border communities, especially women across the EAC's 13 major border points has also been disrupted owing to the current border closures in a bid to contain the pandemic. This trade which is largely dominated by perishable, low value produce relies on daily sales,

implying that the individuals involved in this trade largely rely on a daily income.

Recommendations: As the adverse impacts of the lockdowns continue to increase and people's incomes reduce, governments must consider putting price caps for foodstuffs, utilities and other essential goods. In order to mitigate the possibility of price gouging during the crisis, EAC governments could even consider capping the quantity of each product an individual can buy each day to prevent hoarding.

In addition, partner states should also financially cushion businesses. The government of Kenya for example has proposed tax reliefs including Reduction of Personal Income Tax top rate/Pay As You Earn⁷ from 30% to 25%, 100 % Tax Relief for persons earning below Ksh. 24,000, and reduction of Resident Corporate Income Tax rate from 30% to 25%, reduction of recently introduced Turnover Tax rate for Small Medium Enterprises (SMEs) from 3% to 1%, and reduction of Value Added Tax (VAT)⁸ rate from 16% to 14%.

In addition, the partner states should adopt more strategies to buttress MSMEs already faced with the burden of servicing loans amidst limited cash flow. Notably, adopting strategies such as debt restructuring, granting grace period for payment of loans while ensuring that the loans do not attract any additional interest, or allowing entrepreneurs to pay only interest.

In the long term, partner states should adopt a balanced approach to development in which both export promotion and import substitution approaches are promoted. There is need for the EAC partner states to shift from focusing their efforts on integrating into the global supply chains to strengthening their domestic production, including addressing the existing failures, and strengthening a systematic and coordinated regional value chains. This will reduce trade dependence, trade deficits and cushion the EAC

⁶ <https://eabc-online.com/news/257-eabc-brief-on-impact-of-the-coronavirus-covid-19-outbreak-to-eac-businesses>

⁷ Pending parliamentary approval as at 23rd April 2020

⁸ <https://www.reuters.com/article/health-coronavirus-kenya-tax/kenyas-parliament-approves-value-added-tax-cut-in-virus-relief-idUSL5N2C24RM> Accessed on 23rd April 2020

Partner States against economic shocks in the global trade.

4. Implication on individuals' welfare and their capacity to afford basic needs: The decline in industry, manufacturing, trade, commerce has inevitably led to a reduction in individual's incomes, for both wage and salary earners. The situation, which could worsen, has already resulted into a disruption in the capacity of households to afford and access – food supplies, basic health care, utilities such as water and energy resources, and other basic necessities. According to the World Bank forecasts, this situation is projected to worsen with a sharp fall in the growth of African economies from 2.4% in 2019 to -2.1 to -5.1% in 2020. The expectation of state's support to their citizens is expected to increase with an increase in the number of vulnerable individuals each day.

Recommendation: Partner states should offer some financial cushion to both business and citizens. The government of Kenya for example has given tax reliefs including Reduction of Personal Income Tax top rate/Pay As You Earn 30% to 25%, 100 % Tax Relief for persons earning up to Ksh. 24,000, reduction of Resident Corporate Income Tax rate from 30% to 25%, reduction of recently introduced Turnover Tax rate for Small Medium Enterprises (SMEs) from 3% to 1% and reduction of Value Added Tax (VAT) rate from 16% to 14%.

The governments should also ensure access to food supplies through food distribution while taking measures to ensure that it is not market distorting, provision of social protection, including cash transfers, and fee waivers, to support citizens, especially those working in the informal sector. They should also take measures such as intervening and temporarily supporting industries, factories, workshops, farms or premises of any nature, including operating privately owned health centres; putting a cap to electricity/ energy and water tariffs to ensure affordability; and remunicipalizing public services.

As a post COVID-19 measure, states should ensure decent jobs, decent pay, and environment protection, as corporations will be seeking to minimize costs in a bid to get back to their initial levels of productivity, competitiveness and profitability.

5. Implications on Health sector: The COVID-19 pandemic has revealed a number of gaps in the EAC partner state's health sector financing and approach. While the Abuja treaty recommends at least 15% of national budgets for the health sector, each of the partner states have maintained a budget below 10%. Currently, a majority of governments, and even donors, have concentrated their health financing on curative rather than the preventive approach to health care. Investment in primary health care, and supply of medical equipment and related supplies that are critical for preventing disease has remained very low. However, the global pandemic has led to an intertwined health emergency of dramatic scope which has triggered multi-layered economic and financial crises, all equally rooted in patterns of hyper-globalization that have amplified structural disparities among nations, within nations and at household level. Within the EAC, the spread of COVID-19 is likely to overwhelm the already fragile and overstretched public health systems beyond limits and cause an enormous regional economic, social and humanitarian meltdown. The EAC economy would suffer a double hit i.e. a collapse in revenue and a need to ramp up spending both on emergency health measures amidst the lockdown measures. Furthermore, the region is already suffering from high poverty and inequality levels, poor sanitation, a heavy disease burden, high risk of hunger and malnutrition, and the lack of basic personal protective equipment, sanitizing facilities such as soap and water. This means that the pandemic could explode in an even more catastrophic way than has been seen to date. It is for this reason also, that the efforts thus far, by the governments of the EAC partner states have focused on the preventive approach amidst the absence of a vaccine, as opposed to the curative approach which would require medical supplies such as test kits, masks, and ventilators.

Recommendation: With Post COVID-19 needs to provide a rethink beyond business as usual, especially for a shift from Curative to Preventive healthcare strategies. This pandemic has revealed that achieving public health requires international cooperation and global solidarity, and that global trade rules, such utilization of the flexibilities provided under the World Trade Organization (WTO) Agreement on Trade-related Aspects of Intellectual Property Rights

(TRIPS) agreement for LDCs. Given the global demand for medical products to combat COVID-19, the risk to attach intellectual property rights to these products is high. Therefore, the WTO and WHO should work to rethink in research on a global scale and set up research facilities that aim at enhancing public health instead of profit.

The EAC Partner States should coordinate efforts to increase investment in strengthening home based research into both COVID-19 for a vaccine but also most importantly into neglected diseases, both communicable and non-communicable diseases. In addition to increasing investment in the health sector, the partner states should also invest in the industry sector to increase production and availability of medical products and equipment regionally, as opposed to importation. Establish Green Lanes' for fast customs clearance of medical supplies, and related intermediate goods necessary for the manufacture of selected medical supplies should be employed in the Covid-19 response as is being done in China and the EU. These lanes will facilitate quick inspection and release of imported pharmaceuticals, disinfection supplies, protective supplies, treatment equipment and other disease prevention and control related goods. At the institutional level, there is a need for the establishment of the EAC Centre for Disease Control and Prevention to strengthen the capacity and capability of EAC's public health institutions as well as partnerships to detect and respond quickly and effectively to disease threats and outbreaks.

At the national level, the EAC partner states should finance long term strategies. The governments should finance and empower industries and pharmaceutical companies with the legal rights to produce medical supplies, equipment, and medicines currently being used and after the COVID-19 vaccine is developed, through compulsory licensing.

CONCLUSION

In conclusion, throughout history, the poor have always been the hardest-hit by pandemics. While EAC Partner States are scaling up emergency preparedness despite deep resource limitations, their commodity-trapped economies are already heavily impacted by marked drops in prices and slowdown of global value chains. More still, whereas governments in rich countries can borrow cheaply in a crisis as investors flock to safety, poor countries like those in the EAC are more likely to see their borrowing costs soar. The trade-off between saving lives and saving livelihoods in EAC is therefore excruciating. The COVID-19 pandemic demands swift and unprecedented action from both national governments and joint efforts by EAC Partner States. As EAC Partner States take steps to ensure immediate relief and long-term recovery, it is critical that they consider the interrelated crises of inequalities and vulnerabilities, food insecurity and weak health systems.

ⁱ The brief was written by Jane S. Nalunga, Faith Lumonya, and Africa Kiiza. The discussion paper was developed with financial support from Diakonia Africa Economic Justice Program, Open Society Initiative for East Africa, and Argidius Foundation.

ⁱⁱ Society for International Development, Haki Madini Tanzania, and Transparency International Kenya. The East Africa Trade Network is a multi-sectoral group comprising civil society, faith based organizations, trade unionists, and the academia that influence trade, investment and financial policy reforms in the EAC, Africa, and at the global level by providing alternatives to ensure inclusive and sustainable development for improved livelihood.