

# Strategies for the African Governments in Mitigating Severe Economic Downturn: A Case of Covid-19

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**Abstract:** *This paper is organized in such a way that, a brief overview of different economic crises that have affected the world are presented. The objective of this paper is to find out the specific strategies to be adopted by African governments in mitigating severe economic downturn: A case of COVID-19 through a theoretical viewpoint. In order to understand the specific strategies, the paper concentrated on secondary sources of data and expert reviews regarding the economic and strategic policies on sustainable economic growth under severe economic conditions. Finally, the research propositions and conclusion were submitted.*

**Keywords:** Strategies, Economic crisis and COVID-19

## 1.1 Introduction

Economic crisis is a situation in which the economy of a country experiences a sudden downturn brought by unforeseen circumstances. It is characterized by unemployment, low prices, low levels of trade and investment (Sanusi, 2017). According to Abubakar (2014) historical evidence shows that the economic crisis in the world economy is not a new issue but an event that recurs after a long period of time. In 1930 the world experienced the Great Depression that started in the United States after a major fall in stock prices. During this time the world gross domestic product (GDP) fell by an estimated 15 percent while international trade fell by more than 50 percent. Personal income, tax revenue, profits and prices dropped. Unemployment in the United States rose to 23 percent and in most African countries rose as high as 33 percent (Abubakar, 2014).

The financial crisis of 2007-2008, well known as the global financial crisis, was a severe world economic crisis. According to Tobat and Akbar (2016) the crisis was the worst of its kind since the Great Depression of 1930. The effect of the global financial crisis was similar to that of great depression of 1930. Currently (2020) the world is yet experiencing another crisis after the outbreak of a new virus (COVID-19) which was declared a global pandemic by the world health organization (WHO) on March 11<sup>th</sup> 2020. The outbreak began in China in November 2019 and by 27<sup>th</sup> March 2020 more than 571,678 people globally had been confirmed to have contracted the COVID-19, out of whom 148,000 had recovered, and more than 26,494 had died (WHO, 2020). In Africa by 19<sup>th</sup> March 2020 34 African countries had reported 640 COVID-19 cases with 16 deaths from the virus (Africa CDC). According to United Nations Department of Social and Economic Affairs (UN-DESA) Global economic growth is expected to decline by 1%. According to a report by World Bank the economic growth in sub-Saharan Africa will decline from 2.4 percent in 2019 to between -2.1 percent and -5.1 percent in 2020, depending on the success of measures taken to mitigate the pandemic's effects.

## 1.2 Statement of the Problem

It is evident that global economic crises caused by different factors ranging from financial to pandemic is not new; but events that recur after a long period of time. The effects of these crises to the African economy is the same overtime because African governments have not put in place proper mechanisms to deal with unforeseen economic crises. Hence the need to interrogate short term and long-term economic policies and strategies to help in mitigating the effects of current economic crisis caused by COVID-19 and also to prepare African governments for such economic crisis in the future.

## 1.3 Research Objective

The objective of this paper was to find out the specific strategies to be adopted by African governments in mitigating a severe economic downturn.

## 1.4 Research Question

What are the specific strategies to be adopted by African governments in mitigating a severe economic downturn?

## 2.1 Methodology

This paper concentrated on secondary sources of data and expert reviews regarding the economic and strategic policies on sustainable economic growth under severe economic conditions.

## 3.1 Theoretical Framework

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The theoretical foundation for this study anchored on the Dynamic Capability Theory.

### **3.1.1 Dynamic Capability Theory**

In organizational theory, dynamic capability is the capability of an organization/government to adapt adequately to changes that can have an impact on its functioning. Teece et al. (1997), defines dynamic capability as the firm's ability to integrate, build, and reconfigure internal and external competences to address rapidly changing environments. He added that the term dynamic refers to the capacity to renew competences so as to achieve congruence with the changing business/economic environment. Capabilities and capacities lead to superior sustained performances because they are specific to each organization/government.

### **4.1. Short Term Strategy**

This strategy is recommended to the African governments in combating the current COVID-19 crisis.

#### **4.1.1 Suppression Strategy**

In controlling an outbreak there two main strategies that can be adopted; that is suppression or mitigation strategies. Suppression strategy aims to keep cases to an absolute minimum for as long as possible. Mitigation aims to allow a controlled outbreak to occur, with the aim of preventing significant overloads on healthcare systems and gradually allowing the population to develop herd immunity (Roubini, 2020). The strategy adopted by African governments will determine whether or not the African countries faces a severe recession or a greater depression. A global recession worse than the 2007-2008 global financial crisis is already baked into the cake. However, pursuing a mitigation strategy to contain the coronavirus pandemic will most likely lead the African economy into a severe depression. Only a suppression strategy as first implemented by China (currently with no new cases of infections) and now Italy can prevent the worst economic damage, this is because the virus is not wide spread in Africa. Though a suppression strategy that shuts down the economy for 2 or 3 months is very painful, a mitigation strategy will ensure that Covid-19 spreads like wildfire, leading to a temporary reopening of the economy followed by further and deeper shutdowns. This report urges policymakers to adopt suppression measures as the only alternative to prevent a more calamitous economic collapse.

#### **4.1.2 Micro Enterprises Stimulus Programme (MESP)**

Informal enterprises and low-income households, are the most affected groups in Africa mainly due to the imposed curfews and decline in business activities. For example, according to the Kenya National Bureau of Statistics, low-income households represent 27.4% of the Kenya's population. This includes laid-off workers and self-employed persons in the informal sector who due to their hand-to-mouth lifestyle, are left at a disadvantage. This relates most to families in major crowded urban area's and informal settlements in Africa where social distancing and working from home is not practical. An estimated amount should be set aside by all African governments to cater for these vulnerable groups, for example in Kenya an estimated amount of Kshs 55.6 bn (equivalent to 0.6% of Kenya's GDP) can be set aside.

#### **4.1.3 Renegotiating International Obligations**

African governments should Initiate a conversation on a possible debt moratorium or even forgiveness of its foreign debts. Given the current market conditions, with the volatility of the African currencies also in play, debt repayments would be more expensive and as such elevating the risk of a higher fiscal deficit. The debt relief will allow the governments redirect funds towards the containment of the pandemic.

### **4.2 Long Term Strategies**

The current wave of unprecedented monetary and fiscal measures, adopted in a very short timeframe, are correct. However, such extraordinary measures are unsustainable in the long-term, and will lead to stagflation. Therefore, the following strategies are recommended to African governments in preparing them for such economic crisis in the future.

#### **4.2.1 Single Citizen Database**

At a national level the African governments should create a single citizen database that will contain a wide range of personal information about their respective citizens. The data should be updated regularly and shared widely across departments within their national boundaries. The objective of the database will include the improvement in public policy, as well as simplifying data sharing between government departments. Data sharing should take into account any legal restrictions, requirements around information and communications security, as well as general data protection Act to be enacted by various African countries (Kenya has one which was enacted in 2019). The data to be added to the database will include details such as name, date of birth, address, identification number, social security and disability status, as well as employment details and bank account details. This will help in having accurate data as to the number of employed, unemployed, disabled and aged citizens for effective planning based on facts and figures.

#### **4.2.2 Economic Crisis Fund**

Based on the information gathered from the single citizen database, governments should come up with mechanisms of creating a crisis fund to be available to governments in times of deep economic crisis. For instance, the Kenyan government should

come up with mechanisms of ensuring a particular percentage of the PAYE is reserved as a Crisis levy and channeled to the crisis fund. The fund should be adequate to sustain the government for several months during the crisis. A Crisis fund Authority should be formed and given the mandate of managing the fund.

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