

## AU study: Covid-19 could cost Africa \$500bn, damage tourism and aviation sectors

Up to 20 million jobs in the formal and informal sectors in Africa could be lost because of Covid-19, according to a new study by the African Union.

By [Kingsley Ighobor](#) 17 Apr 2020



Image source: [Gallo/Getty](#)

Released in early April, the study found that foreign direct investment (FDI), tourism receipts and remittance flows will also suffer significant declines as the continent tackles the pandemic. Titled *The Impact of Coronavirus on the African Economy*, the study modelled two scenarios, each with an equal chance of being realised. Under scenario one (realistic), the pandemic will be contained within five months, inflicting minimal damage; under scenario two, the pandemic will last for eight months and countries will be severely affected.

The more optimistic scenario one projects a 2020 GDP growth of -0.8% while the pessimistic scenario two will result in -1.1% growth. Given that the continent's 2020 GDP growth had been projected at 3.4%, even the optimistic scenario is a significant decline of 4.18% while the pessimistic scenario projects a decline of 4.51%.

The negative growth would be due to a "disruption of the world economy through global value chains, the abrupt fall in commodity prices and fiscal revenues and the enforcement of travel and social restrictions."

Furthermore, a 35% dip in exports and imports would be worth \$270bn. Yet, Africa will require \$130bn to "fight against the spread of the virus and medical treatment," stated the African Union.

### Drop in oil prices

Africa will lose between 20% and 30% of its fiscal revenue, which was 500 billion in 2019, forcing governments to resort to borrowing to meet the shortfall. Commodity-dependent countries such as Algeria, Angola, Cameroon, Gabon, Ghana, Nigeria, and the Republic of the Congo will be most affected.

The slump in oil price to below \$30 a barrel, and a nosedive of the tourism and air transport sectors, will

depend countries' development agendas.

The tourism and oil sectors represent 25% of the GDPs of Africa's top five economies—Nigeria, South Africa, Egypt, Algeria and Morocco. The study emphasised that: "The level of the impact of Covid-19 on these five economies will be representative for the whole of the African economy."

Oil constitutes 90% of Nigeria's exports and 70% of its national budget, meaning that any dip in price will have an impact on earnings. Both Nigeria and Angola, Africa's top two oil producers, could lose up to \$65 billion in income.

## **Effects on tourism**

In South Africa, the Covid-19 pandemic threatens the countries' main sources of income—mining and tourism. With 10.47 million arrivals in 2018, the country was second only to Egypt in tourism receipts, according to the World Travel and Tourism Council. Overall, tourism contributed \$194.2bn or 8.5% to Africa's GDP in 2018.

Tourism in Morocco will take a hit too, along with its automotive industry, which represented 6% of the country's GDP in 2019.

The study mentioned that: "Tourism employs more than a million people in each of the following countries Nigeria, Ethiopia, South Africa, Kenya, and Tanzania... and more than 20% of total employment in Seychelles, Cape Verde, São Tomé and Príncipe, and Mauritius."

Already, Africa's tourism and aviation sectors are reeling from the impact of COVID-19 with hotels laying off workers and travel agencies shutting down.

"Under the average [realistic] scenario, the tourism and travel sectors in Africa could lose at least \$50bn... and at least two million direct and indirect jobs."

Top African airlines, including Ethiopian Airlines, EgyptAir, Kenya Airways and South African Airways, will be affected by travel restrictions across the world.

According to the International Air Transport Association (IATA), Africa's air transport industry contributes up to \$55.8 billion (2.6%) to Africa's GDP and supports 6.2 million jobs. By 11 March, African airlines had lost \$4.4bn in revenue due to fallout from the pandemic.

## **Drop in FDI**

The study estimated a drop of between -5% and -15% in FDI in Africa. Data published in 2019 by the UN Conference on Trade and Development (UNCTAD) lists Africa's top five FDI countries:

South Africa (\$5.3 billion), Egypt (\$6.8 billion), Republic of the Congo (4.3 billion), Morocco (\$3.6bn) and Ethiopia (\$ 3.3bn). In total Africa received \$46bn.

Remittance flows are also expected to decrease, crunching cash in many economies. "Remittances range as high as 23% in Lesotho and more than 12% in Comoros, The Gambia, and Liberia," the study stated.

With advanced economies in recession, official development assistance (ODA), which many African countries rely on to finance development, will come in trickles, if at all.

Covid-19 will likely affect the launch of a free trade that was set to begin in July 2020 under the African Continental Free Trade Area. Total Africa trade for 2019 was \$760bn or 29% of the continent's GDP. Of that amount, intra-Africa trade was just 17%.

## ABOUT THE AUTHOR

Kingsley Ighobor is a public information officer for the United Nations, New York. He is the managing editor at the Africa Renewal.

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