Overcoming Covid-19 as a Shock to African Economies: Whither Institutions?

by

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The Covid-19 pandemic has wrought havoc globally, with many, many dead, or handicapped physically and/or emotionally.

I wish to share with you some of my recent research findings bearing on the impact of shocks on African economies (Covid-19 is prominent in this regard).

Covid-19 will not be the last shock!

Need to take a longer view.

Views my own, of course (not those of CEPA or of my other affiliations).
Implications of Covid-19 for Growth and Poverty in SSA (A. K. Fosu)

- P. C. GDP growth for SSA in 2020 was **-4.3 percent**, that is, P. C. GDP fell by 4.3 percent (IMF data).

- **Foregone** growth even higher at **5.3 percent**.

- I predict an **increase** in the headcount poverty rate ($1.90 per day) of **at least 5.6 percent** for 2020 (‘lower-bound’= inequality held const.), based on income elasticity of poverty of 1.3 (Fosu, 2017, Res. in Econ).

- Which translates into a predicted increase of **2.3 percentage points**, implying **at least 25 million** people additionally thrown into poverty.

- Variation across countries (evidence on another occasion).
Covid-19 as a Shock to African Economies (A. K. Fosu)

• Covid-19 is a shock, though different from other historical shocks.

• Historical evidence: shock-induced growth collapses lead to 1 percentage-point decrease in annual P C GDP growth (Abarche and Page, 2007, WB Working Paper)

• This estimate is huge!
  - Annual p. c. GDP growth averaged 0.5% for SSA during 1960-2000;
  - The growth collapse effect, then, is twice this performance; and
  - Equals Africa’s growth gap with ROW (Fosu, 2010, Cesifo Forum),

• Thus, avoiding growth collapses from shocks would be critical for sustaining growth in Africa.
African Economies’ Resilience to Shocks More Recently (A. K. Fosu)

- Africa has become relatively resilient to shocks, due mainly to improvements in the quality of institutions (Fosu, 2013, Journal of Int’l Dev.)
- Improvements reflected in the form of increased prevalence of ‘syndrome-free’ (SF) regimes
- And, SF constitutes “virtually a sufficient condition for avoiding short-run growth collapses” (Fosu and O’Connell, 2006, ABCDE: p. 31)
- SF: “Combination of political stability with reasonably market-friendly policies” (Fosu and O’Connell, 2006, ABCDE: p. 54)

Accentuating SF Prevalence (A. K. Fosu)

- By improving the quality of **institutions**, particularly by increasing **executive constraint** *(XCONST)* (Fosu, 2013, *Journal of African Economies*).
  - XCONST can increase SF **independently** or via **reducing the potentially adverse effect of ethnicity** on SF.

- Indeed, XCONST has been rising in Africa, consistent with Africa’s growth resurgence and increasing resilience to shocks.
  - **More than doubled** since its nadir in 1990.
  - And, it has increased by over **42 percent** since even 1960.

- But, significant variation among African countries on XCONST performance
Conclusion (A. K. Fosu)

Yes, XCONST appears to be an appropriate institutional policy instrument, in order to minimize the adverse effects of shocks, as in the case of Covid-19, but two challenges:

1. How? Constitutional change?

2. What is the ‘optimal’ level of XCONST (must be an ‘interior solution’, for the executive branch cannot be over-constrained: yet to be determined)?
Thank you.

(Prof. A. K. Fosu)