

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

by

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AU/UN-DESA Conference

Workshop on: 'Accelerating the Implementation of the 2030 Agenda and AU Agenda 2063 in Africa:
Building Resilient Institutions for the SDGs in the time of COVID-19'

Cape Town

28-30 October 2021 (presented: 28 Oct.)



Introduction (A. K. Fosu)

- 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)
 - **Absence of anti-growth policy syndromes:** State Controls, Adverse Redistribution, Sub-optimal Intertemporal Allocation, and State Breakdown.*

*The African Economic Research Consortium (AERC) Growth Project - see Ndulu et al. (2008), *The Political Economy of Economic Growth in Africa 1960-2000*, Cambridge U Press, vols. 1 and 2.

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
 - **Best performers** most recently (2018): Botswana, Cabo Verde, CAR, Kenya, Lesotho, Mauritius, and S. Africa.



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)

