

COVID-19 AND THE FUTURE OF WORK IN AFRICA

FINDINGS FROM THE "AFRICA'S PULSE" #23, OCT. 2020



World Bank Tokyo Office
Morning Seminar Series

19 April 2021

THE REPORT



MAIN MESSAGES

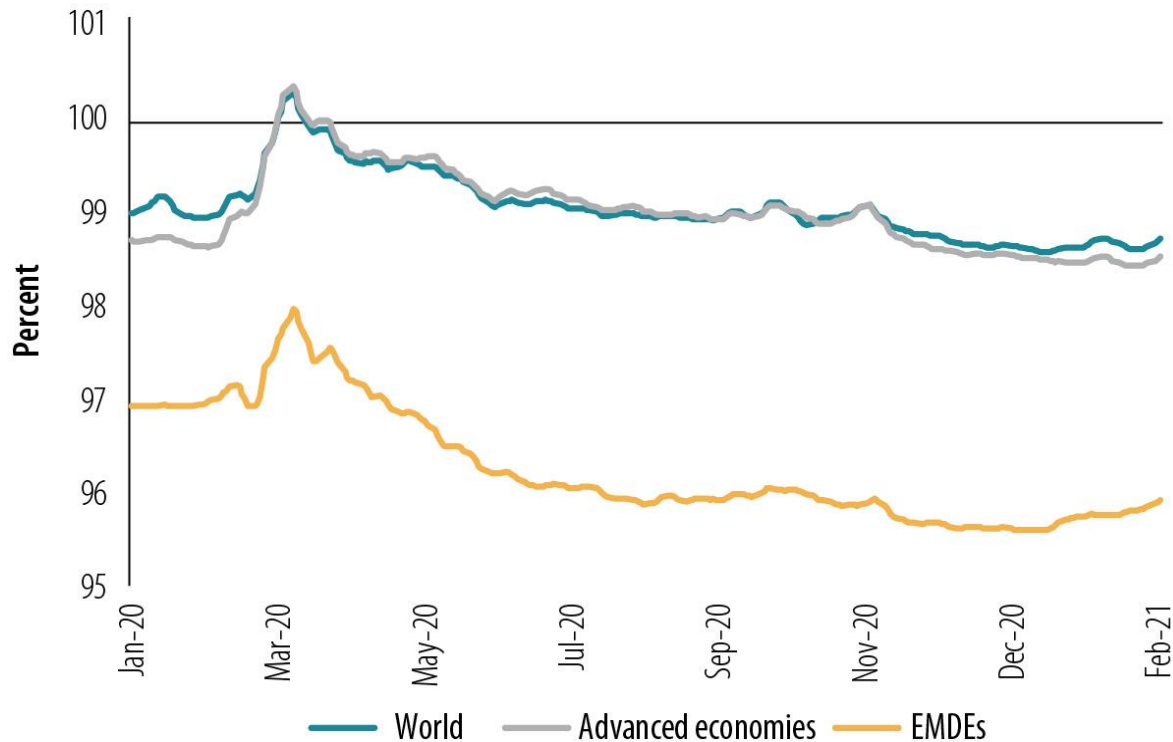
1. In Sub-Saharan Africa, the economic impact of the COVID-19 shock is severe. However, countries in the region are weathering the storm so far.
 - a. Economic activity is estimated to have contracted by 2% in 2020.
 - b. Data from 2020H2 points to economic rebound
 - c. Slower spread of coronavirus (and lower mortality), strong agricultural growth, faster-than-expected recovery in commodity prices
2. Economic activity expected to strengthen as actions are deployed to contain new waves of the pandemic and vaccine rollouts gain speed
 - a. Growth forecast to raise to between 2.3 and 3.4% in 2021.
 - b. Magnitude of recovery depending on policies adopted by countries and the international community.
3. Economic recovery in the region could be held back by resurgence of COVID-19 infections
 - a. Resurgence driven by new and more transmissible variants since Dec. 2020
 - b. Looser adherence to basic health protocols (mask, social distancing, etc.)
 - c. Daily infections in the region about 40% higher in second wave vs. first wave.
 - d. Government tightened restrictions amid second wave (South Africa)

MAIN MESSAGES

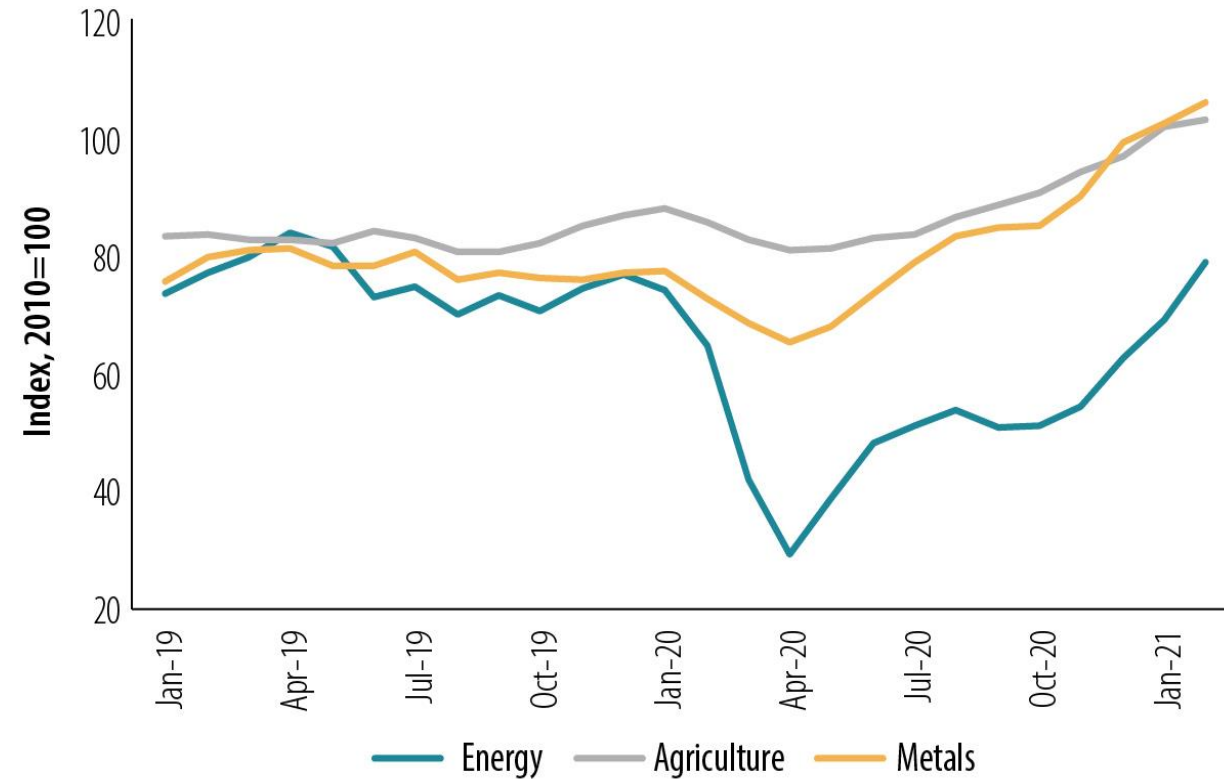
4. Sub-Saharan Africa's recovery expected to be "*multi-speed*", with wide variation across countries
 - a. The Big 3 (NGA, ZAF, AGO): Sluggish recovery on back of higher commodity prices
 - b. Outside the Big 3: Solid pace of recovery (non-resource intensive and mining-dependent countries).
5. Faster progress on vaccine deployment along with credible policies to stimulate private investment would accelerate growth to **3.4** percent in 2021 and **4.5** percent in 2022 in SSA.
6. Covid-19 exacerbated public debt vulnerabilities: Assistance will be needed to address liquidity and solvency issues.
7. In their road to recovery, Sub-Saharan African countries will need ample financing for investments in human capital, energy, digital and physical infrastructure.
 - a. Needs for concessional financing to remain significant in 2021-22
 - b. Policy reforms to foster domestic resource mobilization. Efficiency gains from revenue and expenditure side.
 - c. Greater access to concessional financing (SDFP)
8. Policies that foster investments in innovation and digital technologies can help reset economic structures, facilitate catch-up with the rest of the world, and create **more and better jobs!**

GLOBAL FINANCIAL CONDITIONS REMAIN ACCOMMODATIVE, RECOVERY IN COMMODITY PRICES

Global Financial Conditions



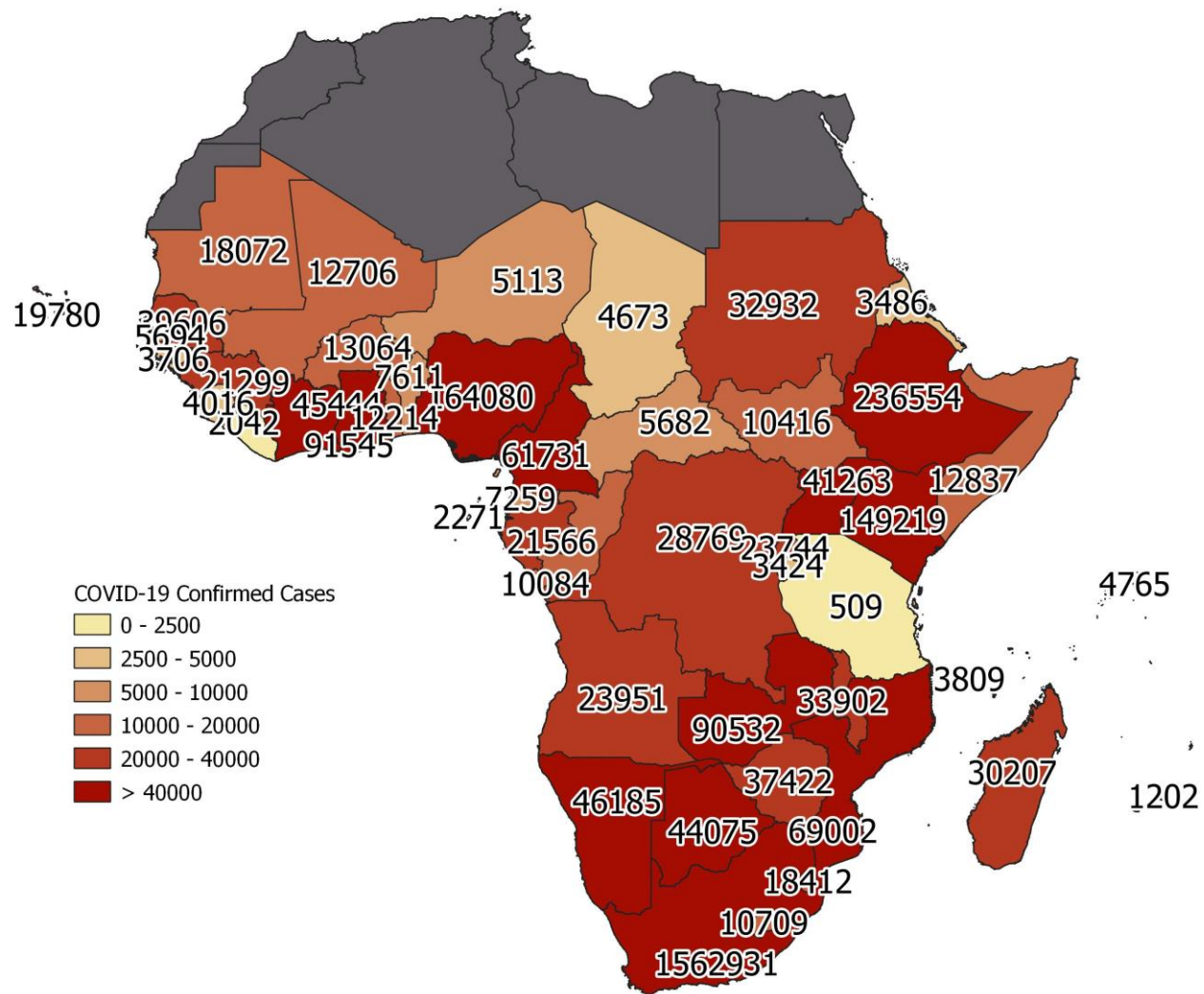
Aggregate Commodity Prices



Sources: Bloomberg, World Bank.

Note: [1] EMDEs exclude China. A value above 100 indicates tightening of financial conditions. Based on Goldman Sachs Financial Conditions Indices (FCI) for 12 advanced economies and the euro area, and 12 EMDEs excluding China, weighted by gross domestic product in constant 2010 U.S. dollars. The FCI is a weighted sum of short-term bond yields, long-term corporate yields, exchange rates, and stock market valuations. [2] The last observation as of February 2021.

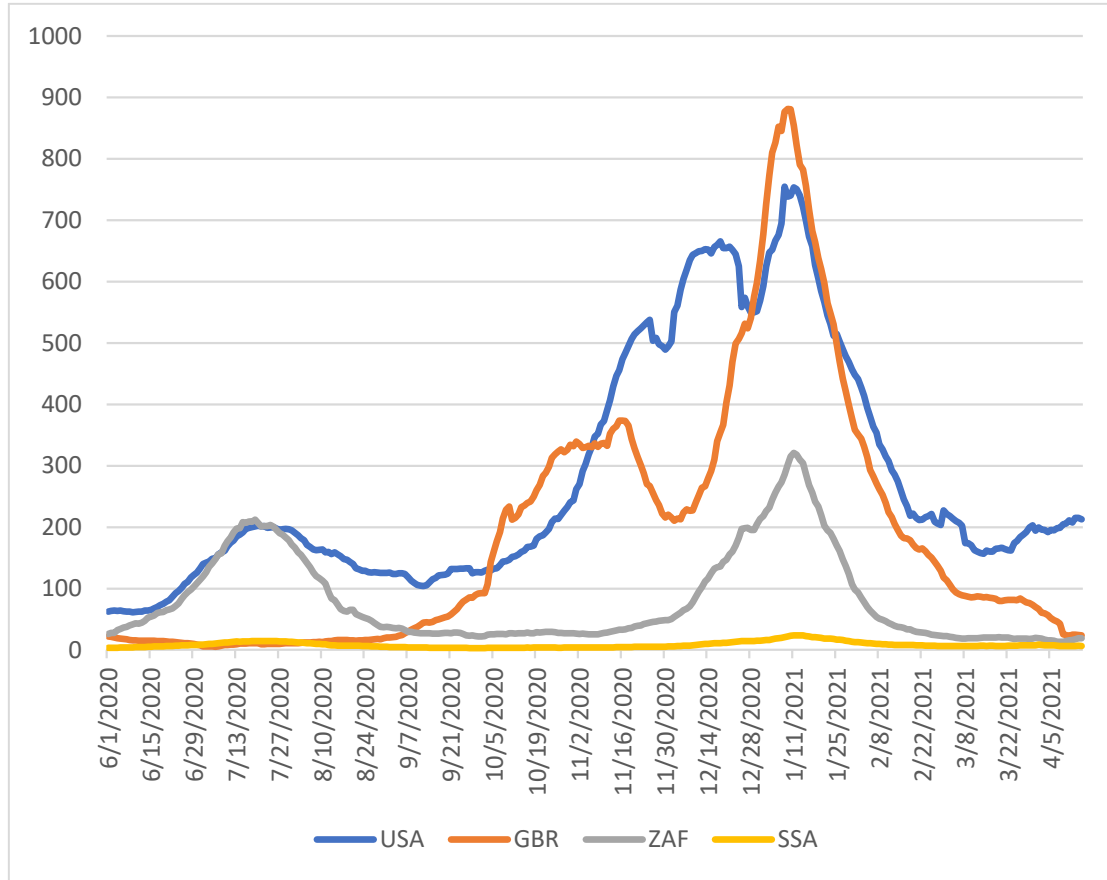
COVID-19 CASES IN SUB-SAHARAN AFRICA



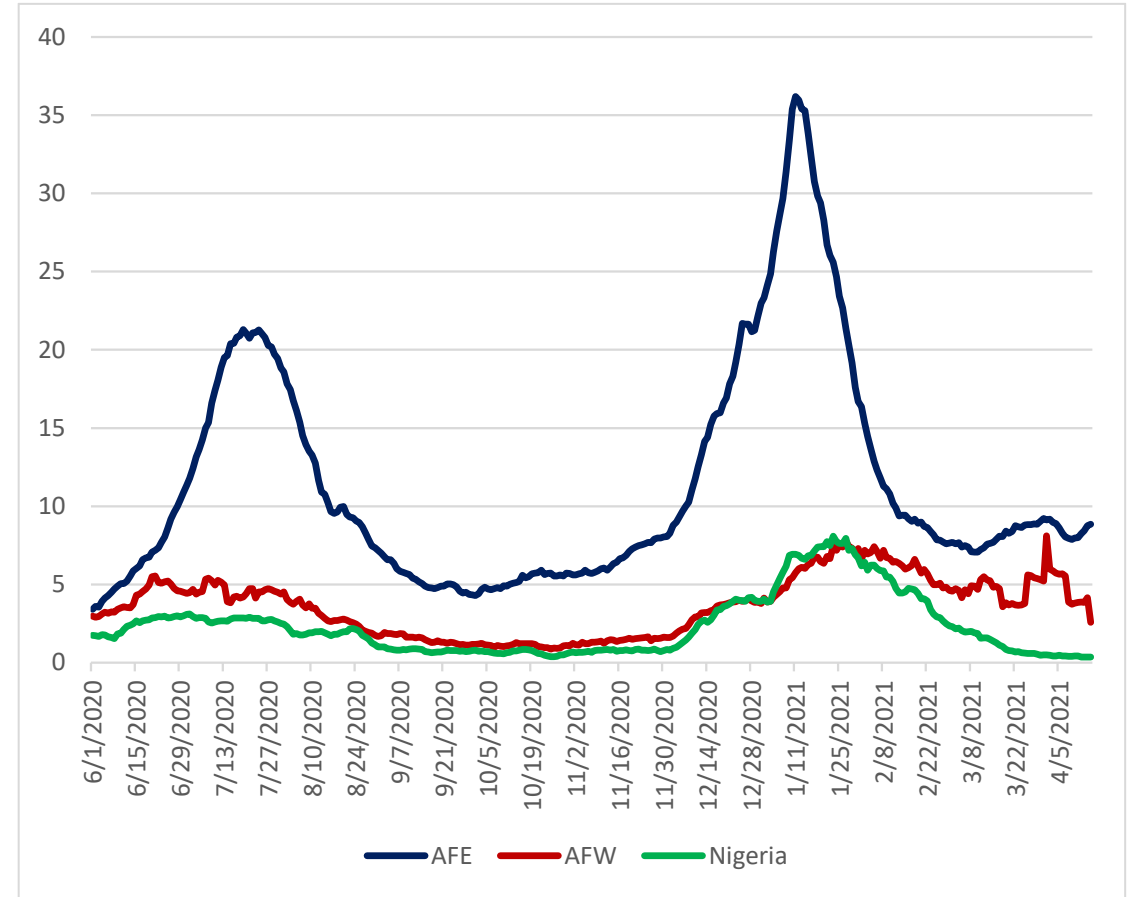
Note: Figures as of April 15, 2021. Source: Our World in Data (OWID)

APOCALYPSE AVERTED IN SUB-SAHARAN AFRICA (SSA)?

Covid-19 cases have surged across the world since Fall 2020 (7-day rolling average of cases per 1m ppl)



Within Africa, AFE has seen the worst surge so far (7-day rolling average of cases per 1m ppl)

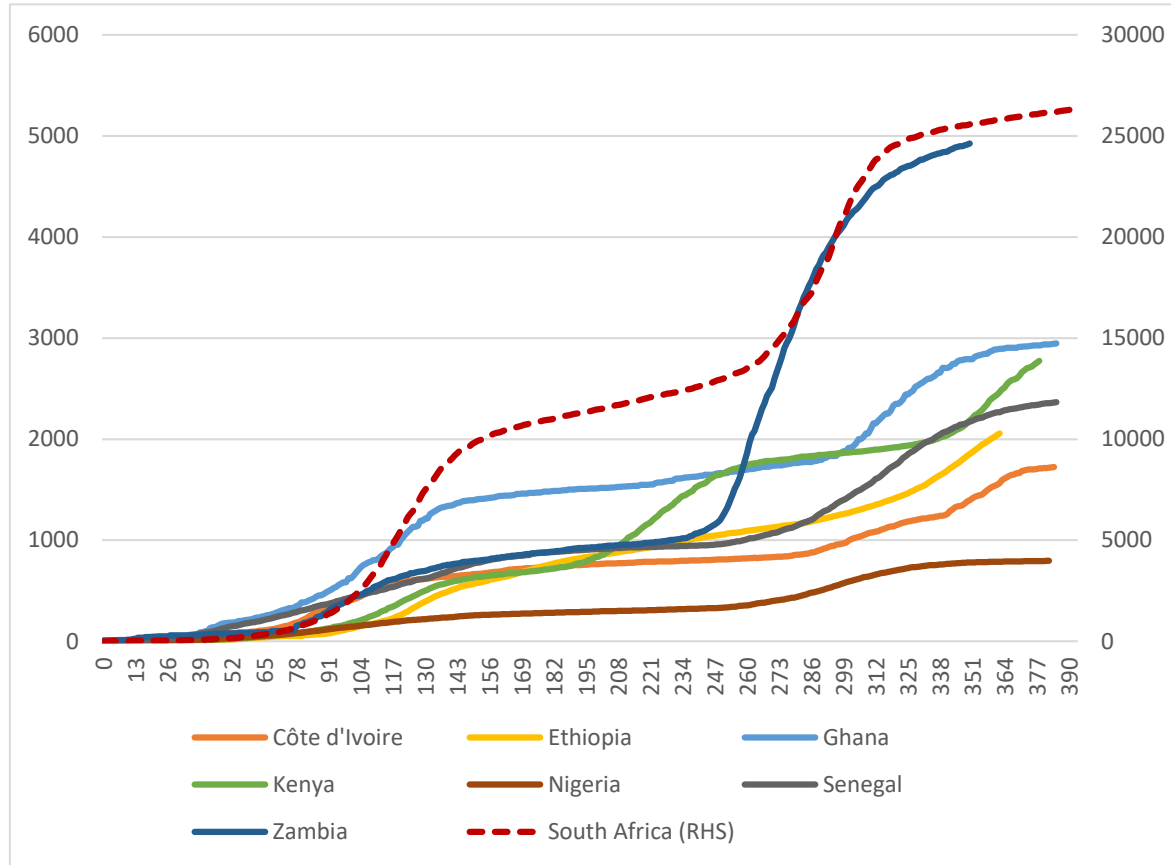


Note: AFE=East and Southern Africa, AFR=Sub-Saharan Africa, AFW=West and Central Africa, UK=United Kingdom, US=United States. Figures as of April 15, 2021. Source: Our World in Data (OWID)

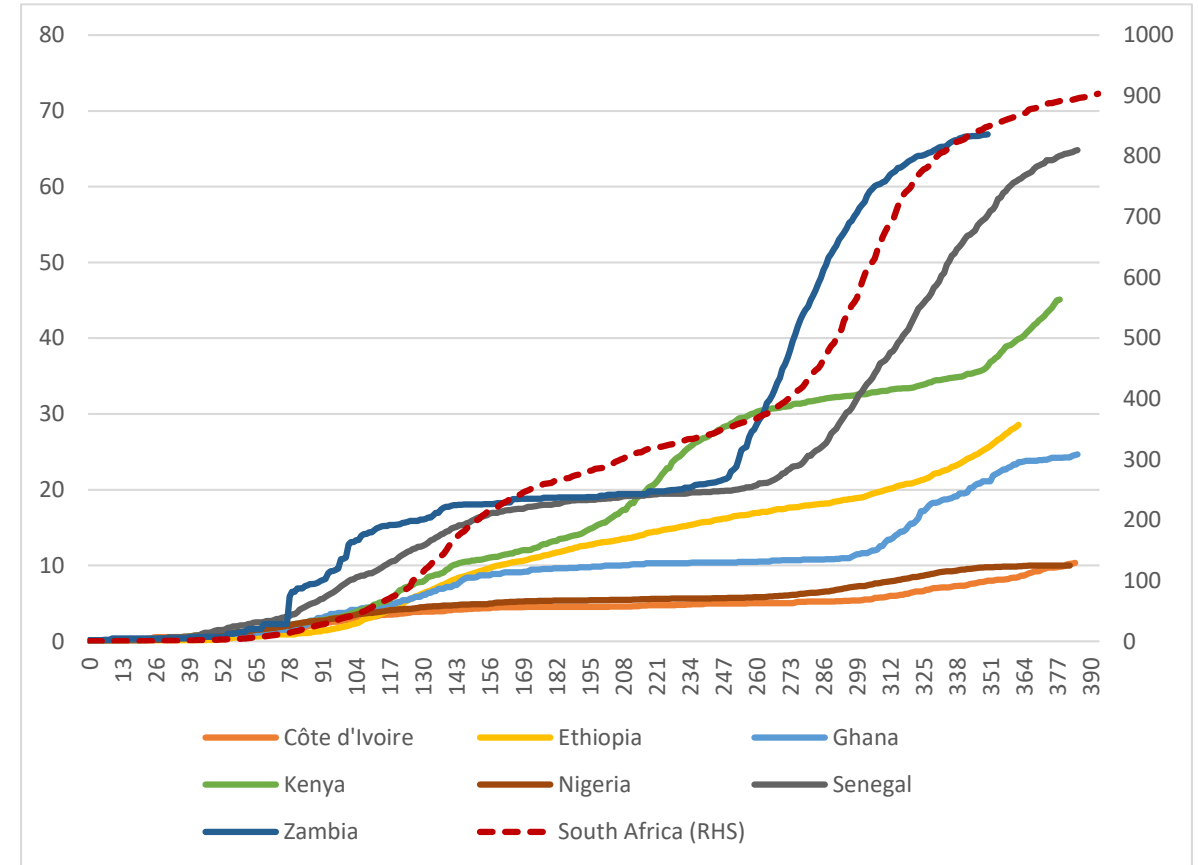
APOCALYPSE AVERTED IN SUB-SAHARAN AFRICA (SSA)?

Around 3 million cases and 80 thousand fatalities, mostly in South Africa

Confirmed Cases (per 1m people)



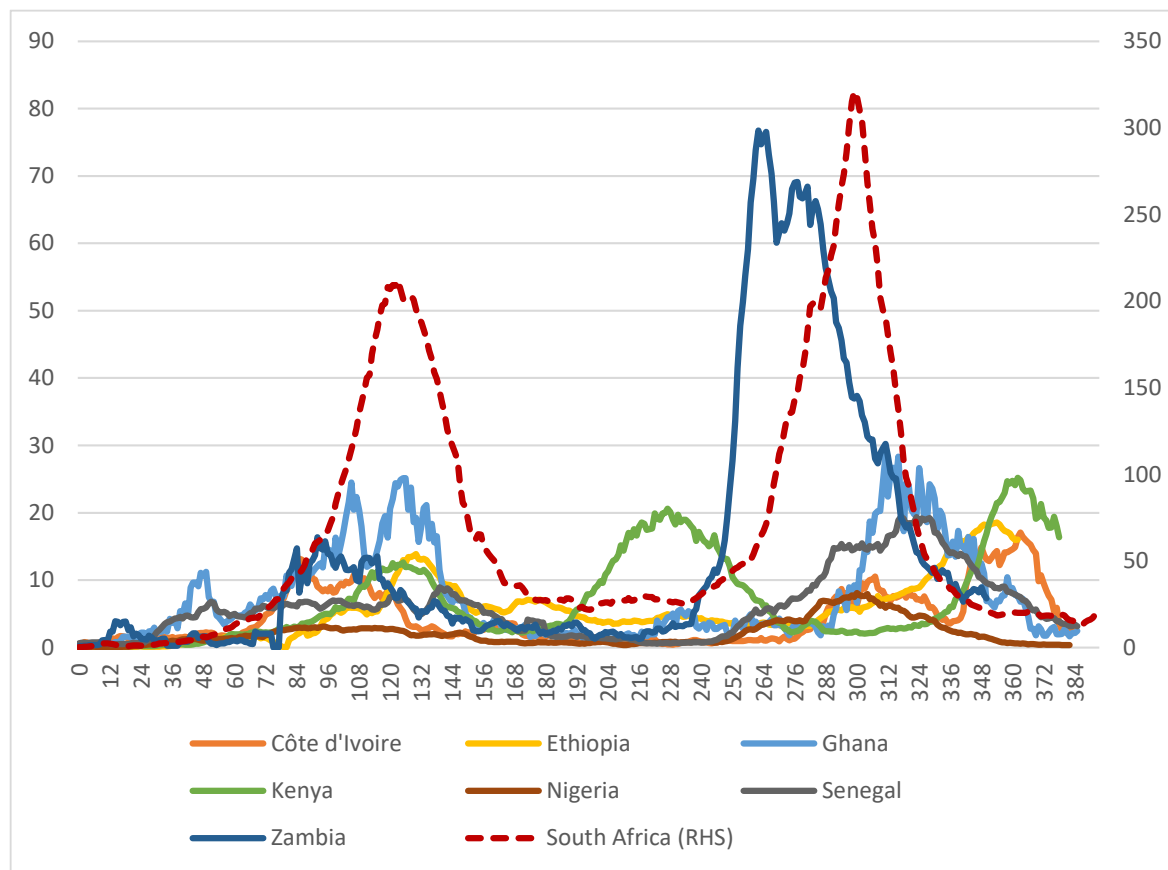
Deaths (per 1m people)



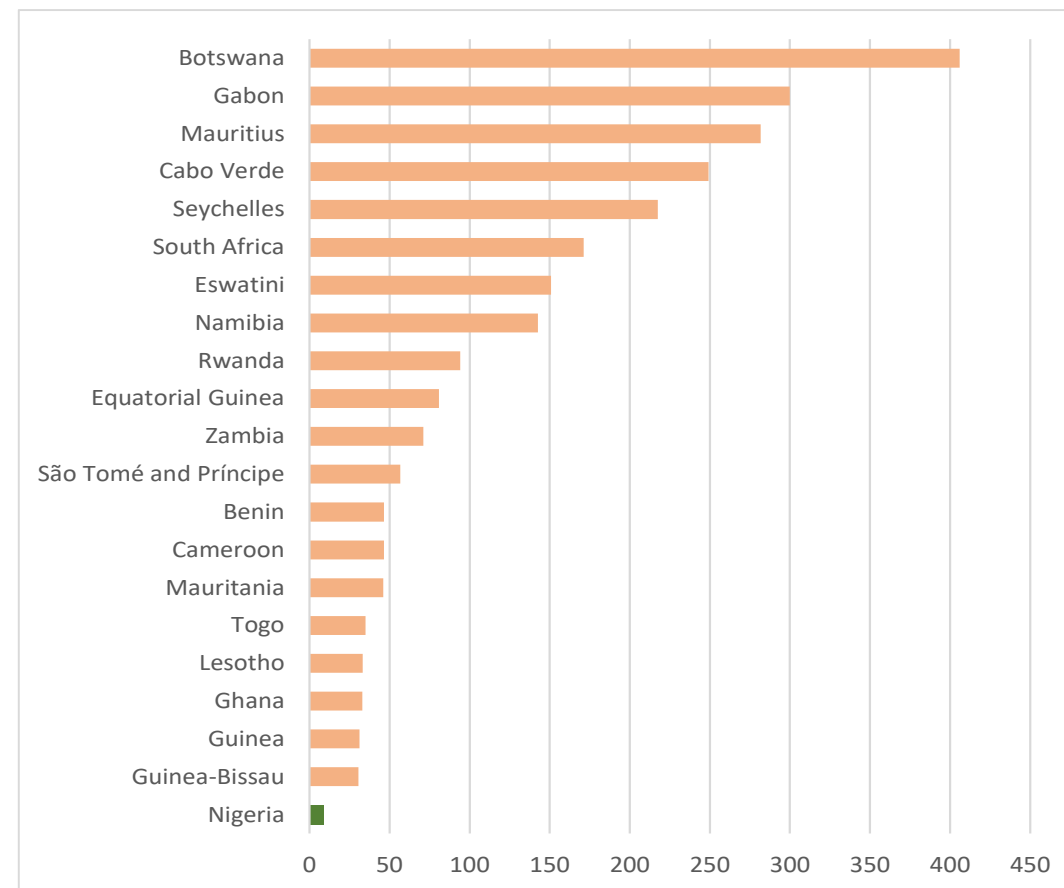
Note: T = 0 indicates the day of the 100th infected case reported. Figures as of April 15, 2021. Source: Our World in Data (OWID)

A VIGOROUS POLICY RESPONSE THAT LED TO CONTAINMENT

New Daily Cases (per million people)



COVID-19 Tests (per 1,000 people)

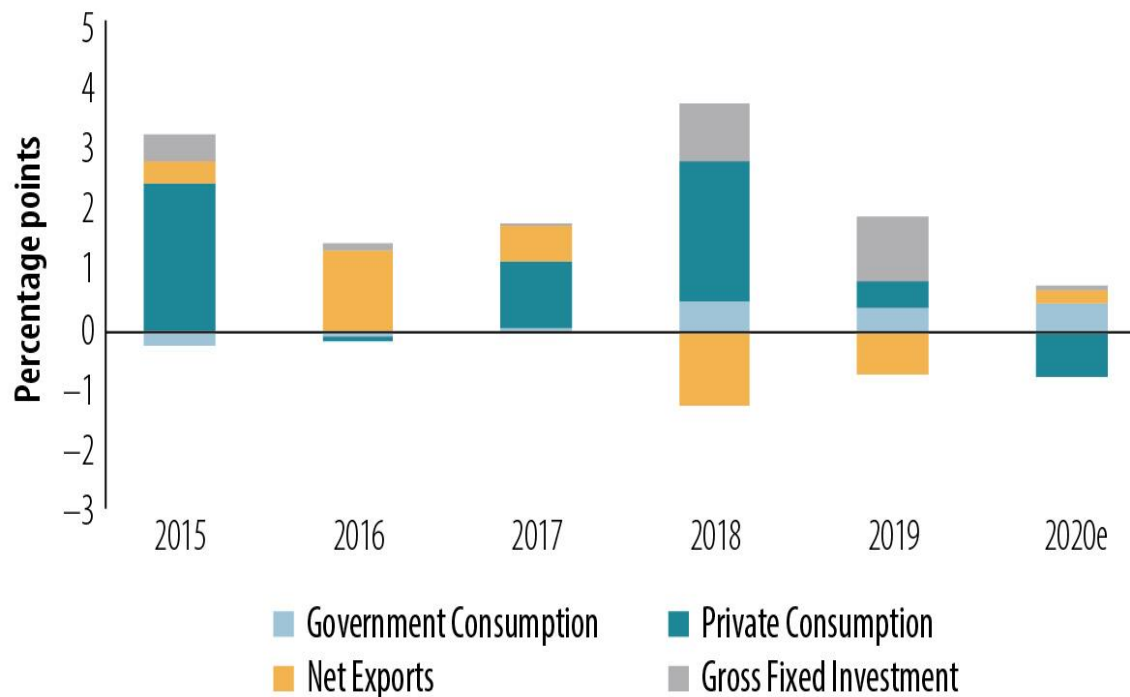


Note: T = 0 indicates the day of the 100th infected case reported. Figures as of April 15, 2021. Source: Our World in Data (OWID), Worldometers.

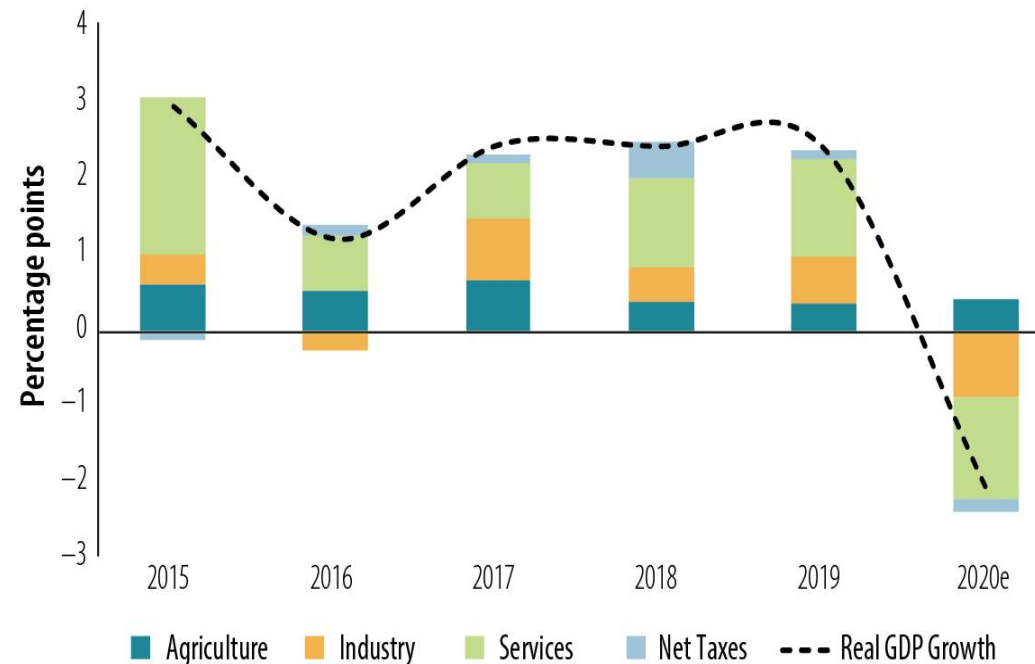
DESPITE A BENIGN HEALTH IMPACT, COVID-19 WILL LEAD SUB-SAHARAN AFRICA INTO ITS FIRST RECESSION IN 25 YEARS

-2.0% GDP growth in 2020

GDP Growth (Expenditure)



GDP Growth (Production)

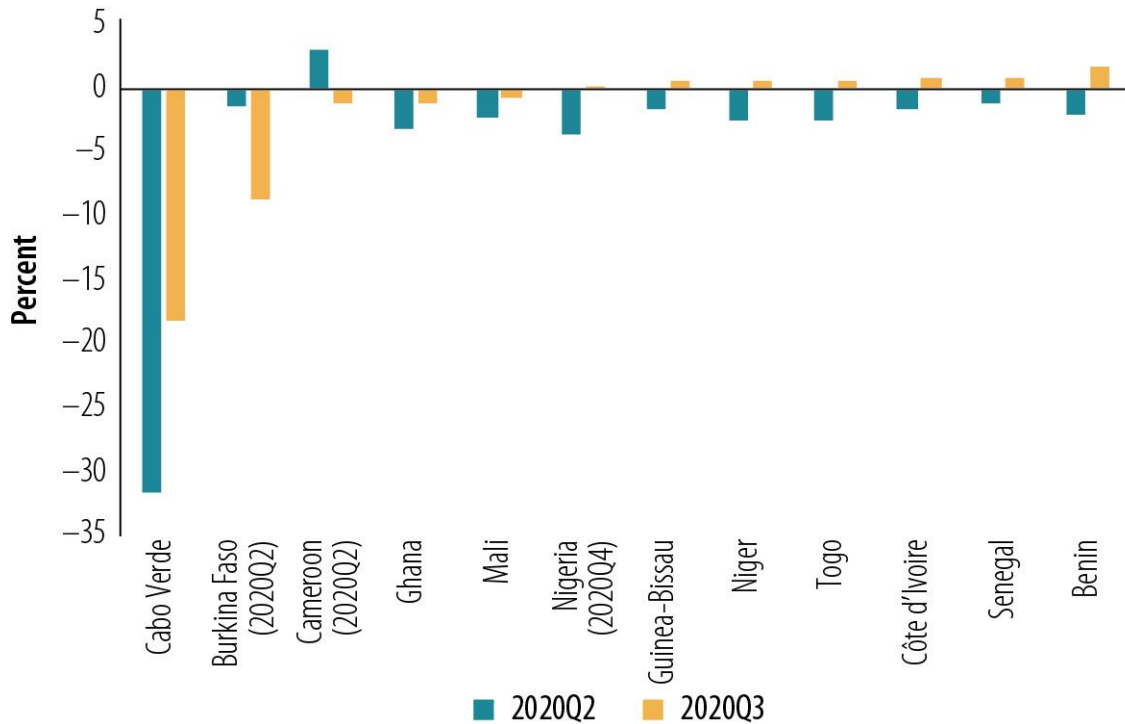


Source: World Bank staff estimates.

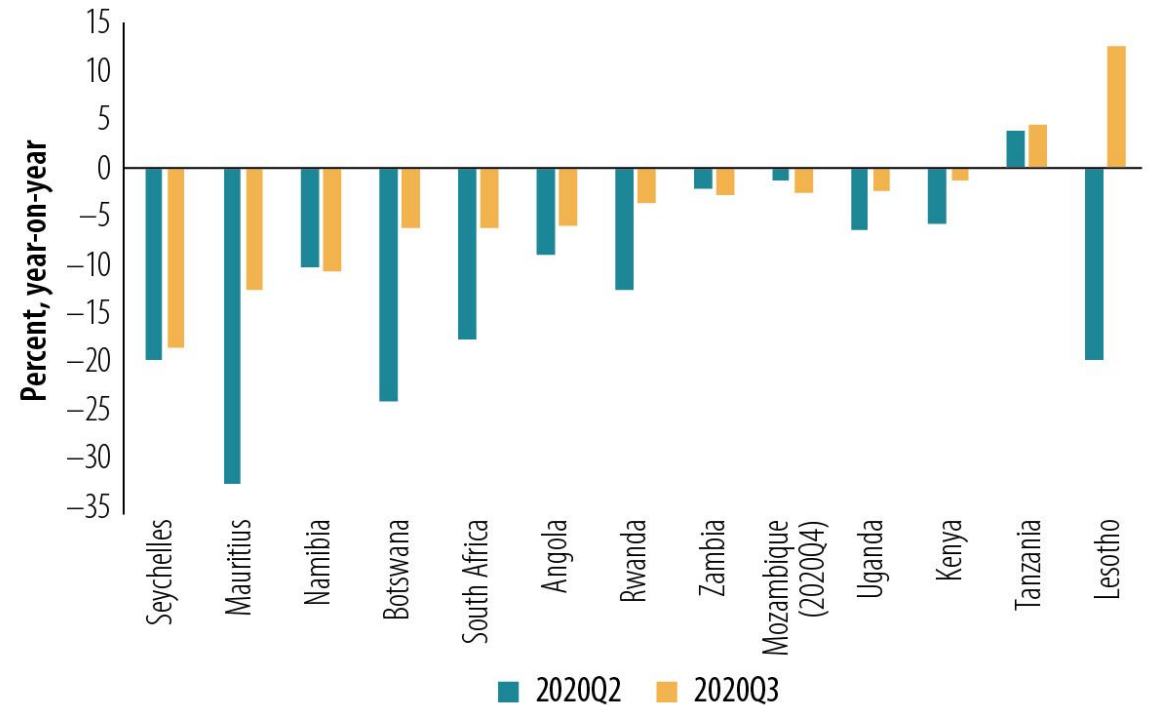
Note: On the expenditure side, change in inventories and statistical discrepancy are not displayed.

THE REBOUND IN ACTIVITY IN 2020H2 WAS UNEVEN AND VARIED BETWEEN REGIONS AND COUNTRIES

Quarterly GDP growth in West and Central Africa (AFW), % y/y



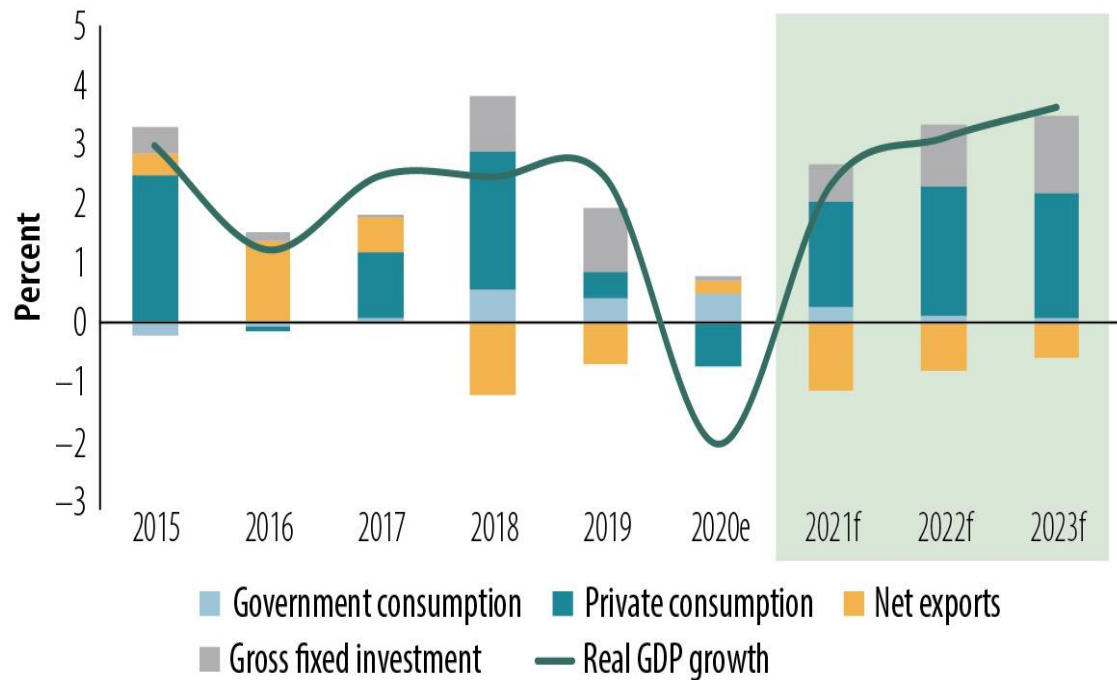
Quarterly GDP growth in East and Southern Africa (AFE), % y/y



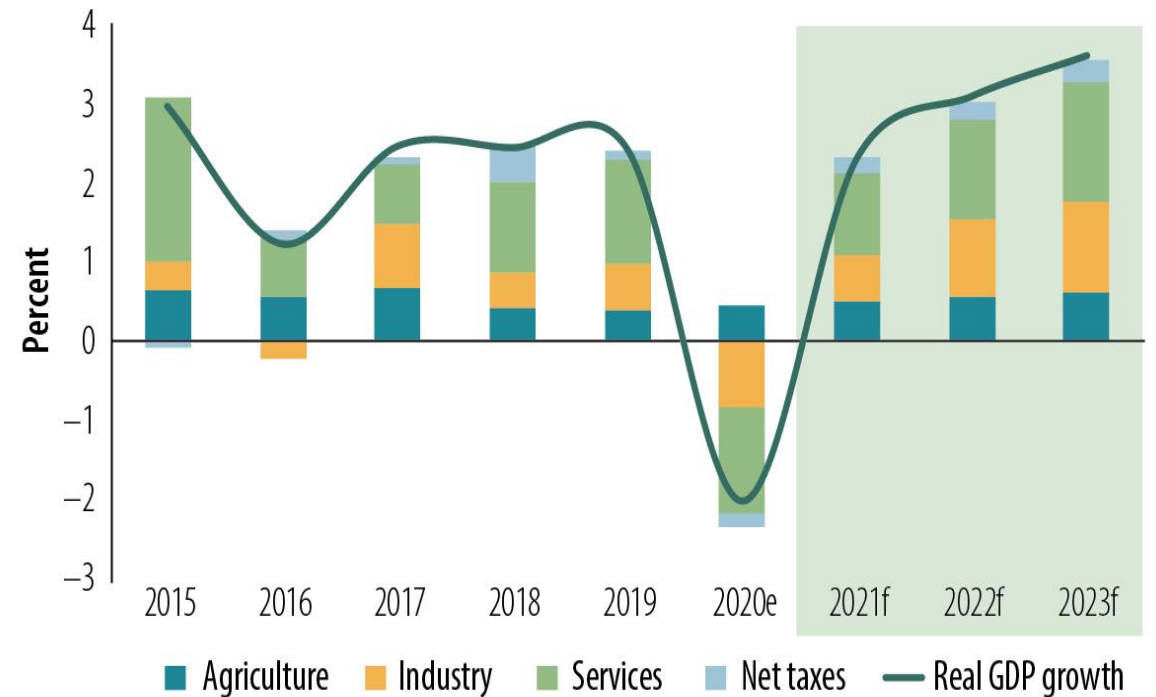
Source: Sources: Trading Economics; Statistics South Africa

GROWTH IN SUB-SAHARAN AFRICA PROJECTED TO REBOUND IN 2021

GDP Growth (Expenditure)



GDP Growth (Production)

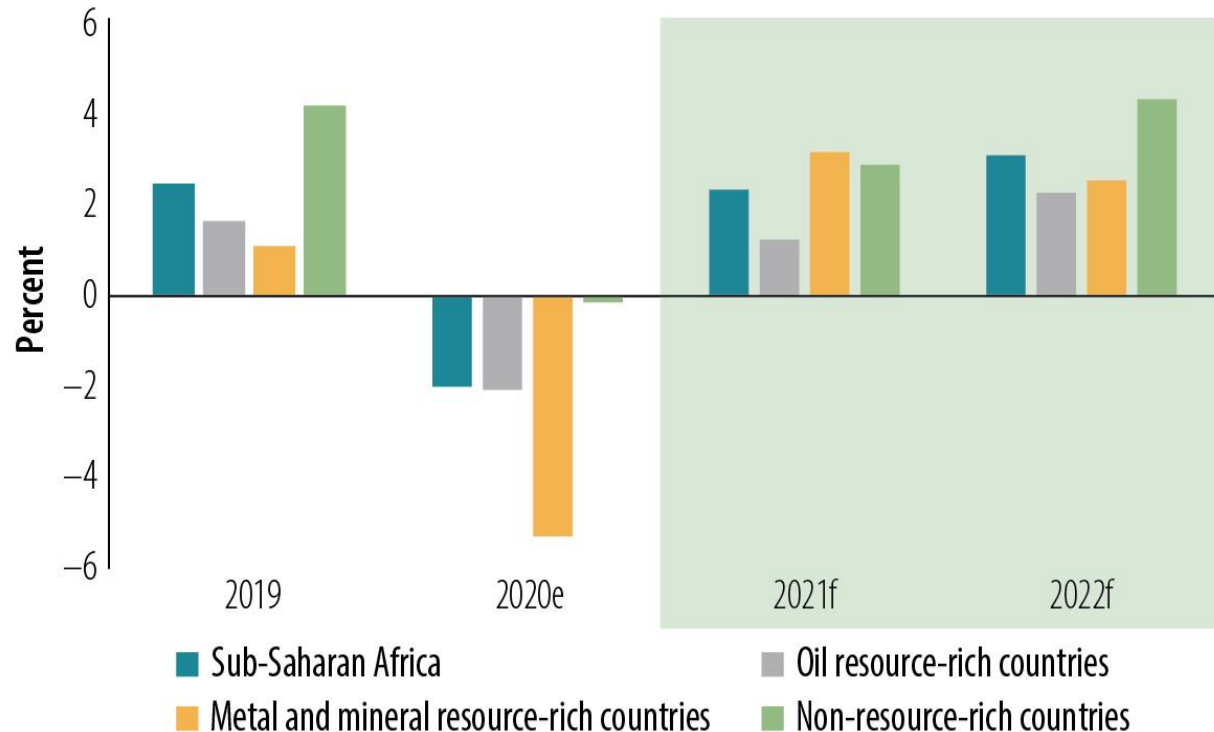


Source: World Bank staff estimates.

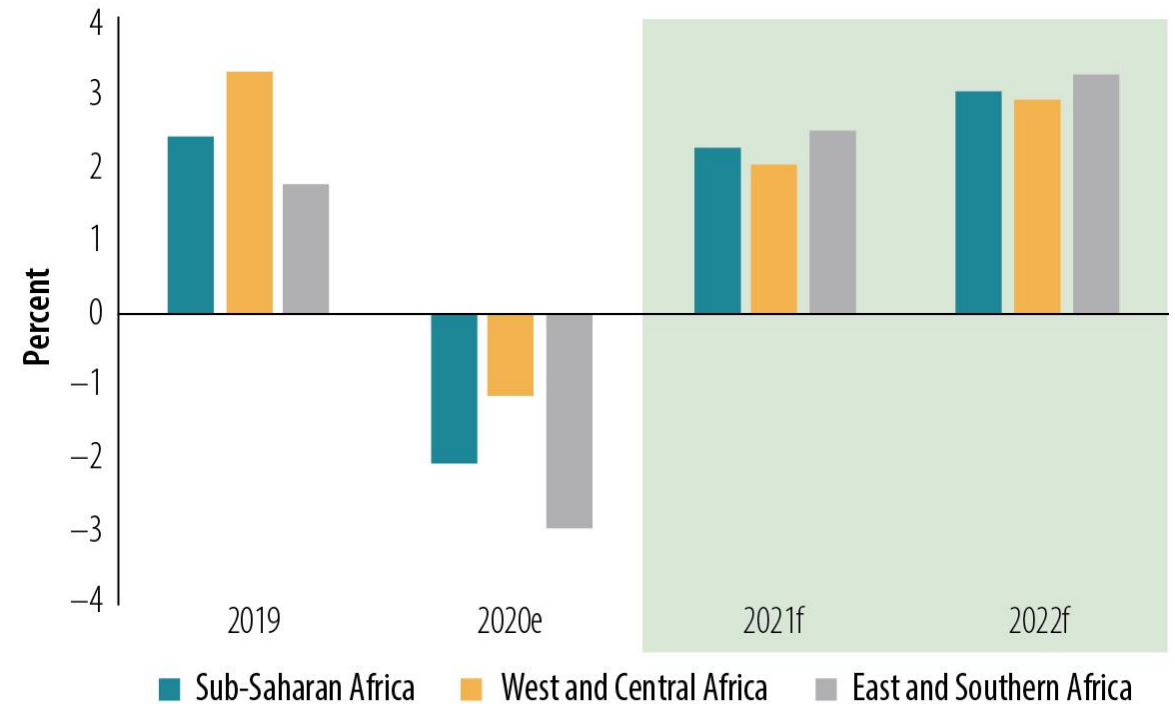
Note: On the expenditure side, change in inventories and statistical discrepancy are not displayed.

STRENGTH OF RECOVERY WILL VARY ACROSS COUNTRIES AND REGIONS

SSA, By Resource Abundance



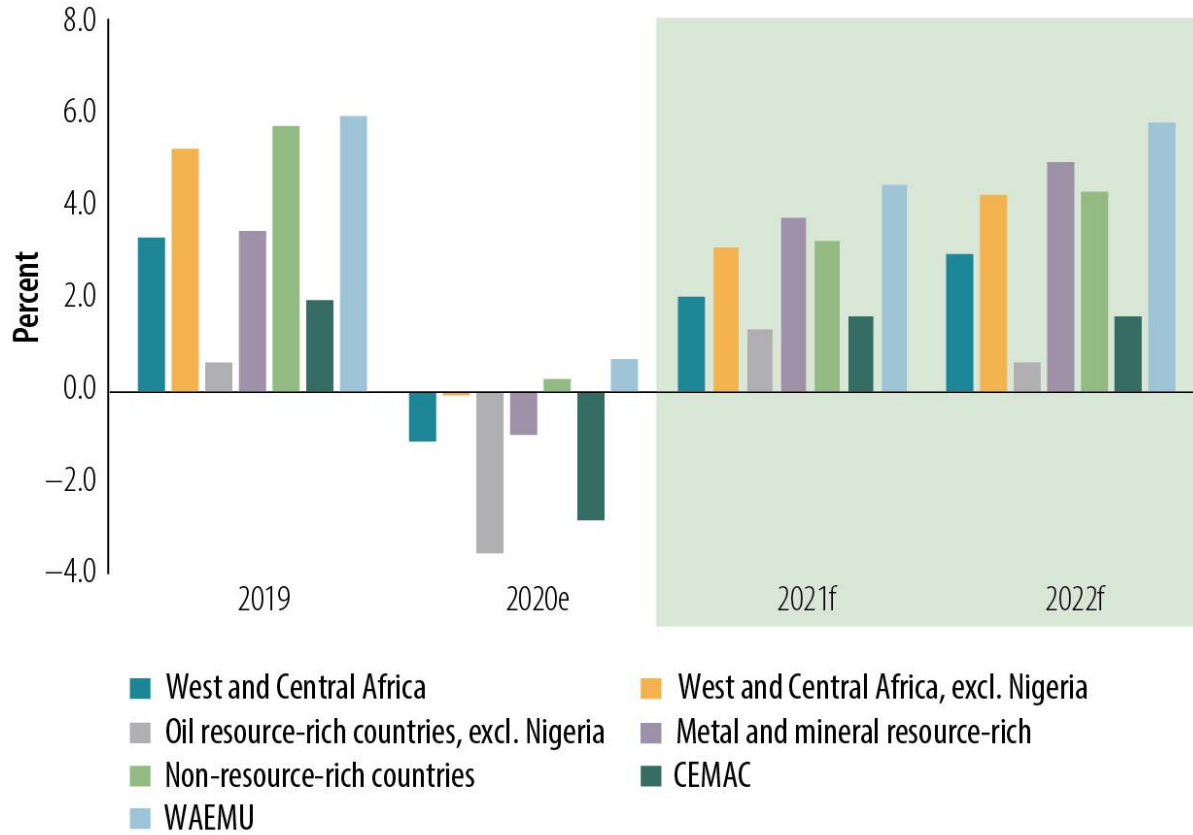
By SSA Subregion



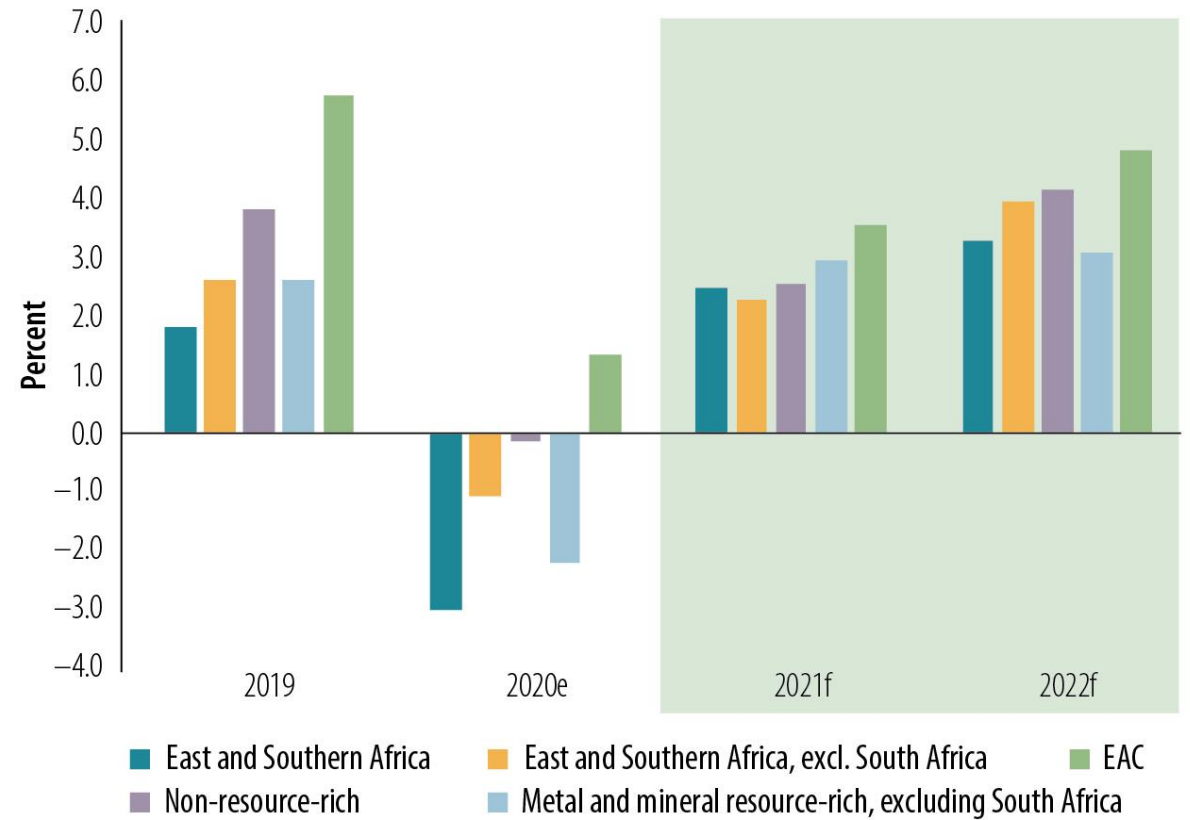
Source: World Bank Staff Projections

STRENGTH OF RECOVERY WILL VARY ACROSS SUBREGIONS

West and Central Africa (AFW)



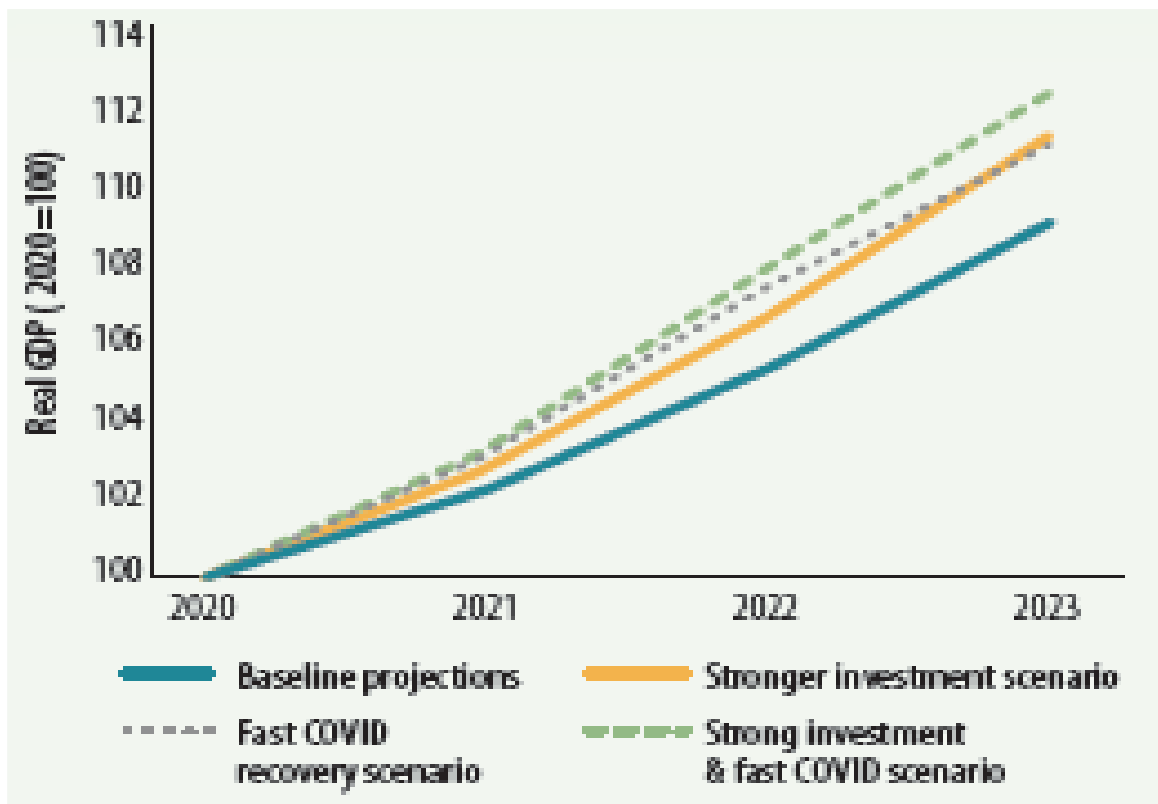
Eastern and Southern Africa (AFE)



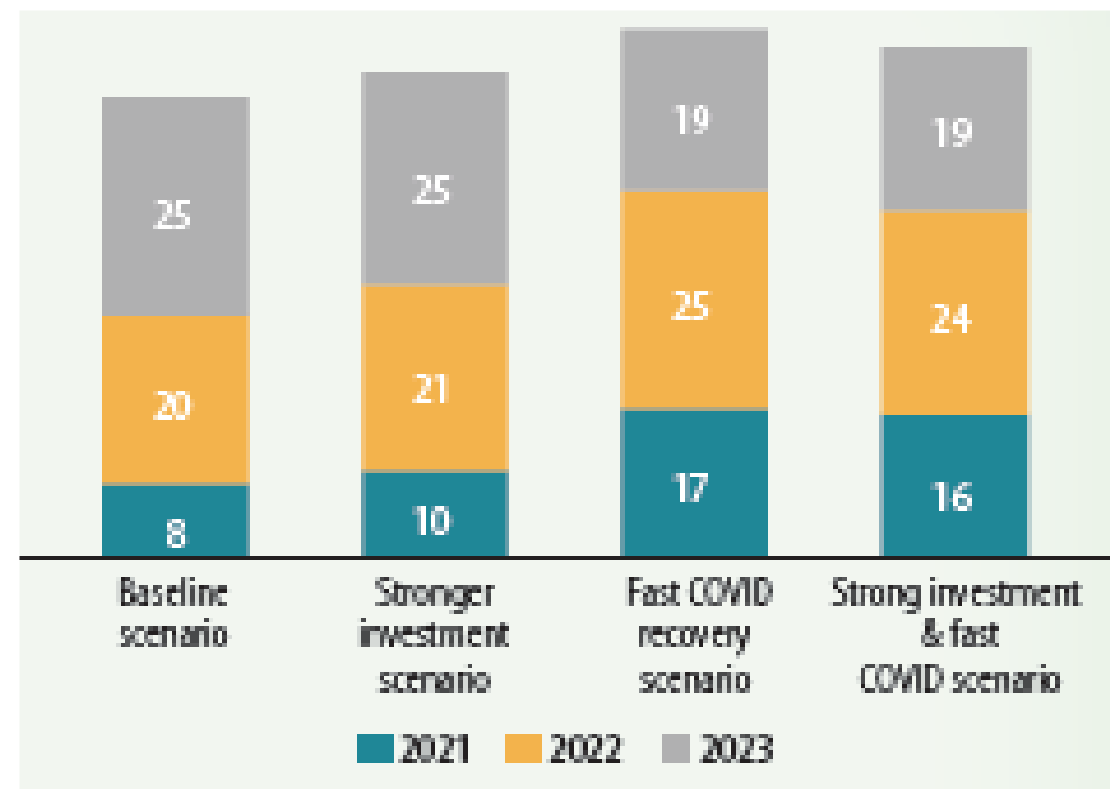
Source: World Bank Staff Projections

SSA GROWTH ACCELERATING DUE TO FASTER VACCINE DEPLOYMENT AND POLICIES TO BOOST PRIVATE INVESTMENT

Sub-Saharan Africa



SSA Growth Performers (4%+)

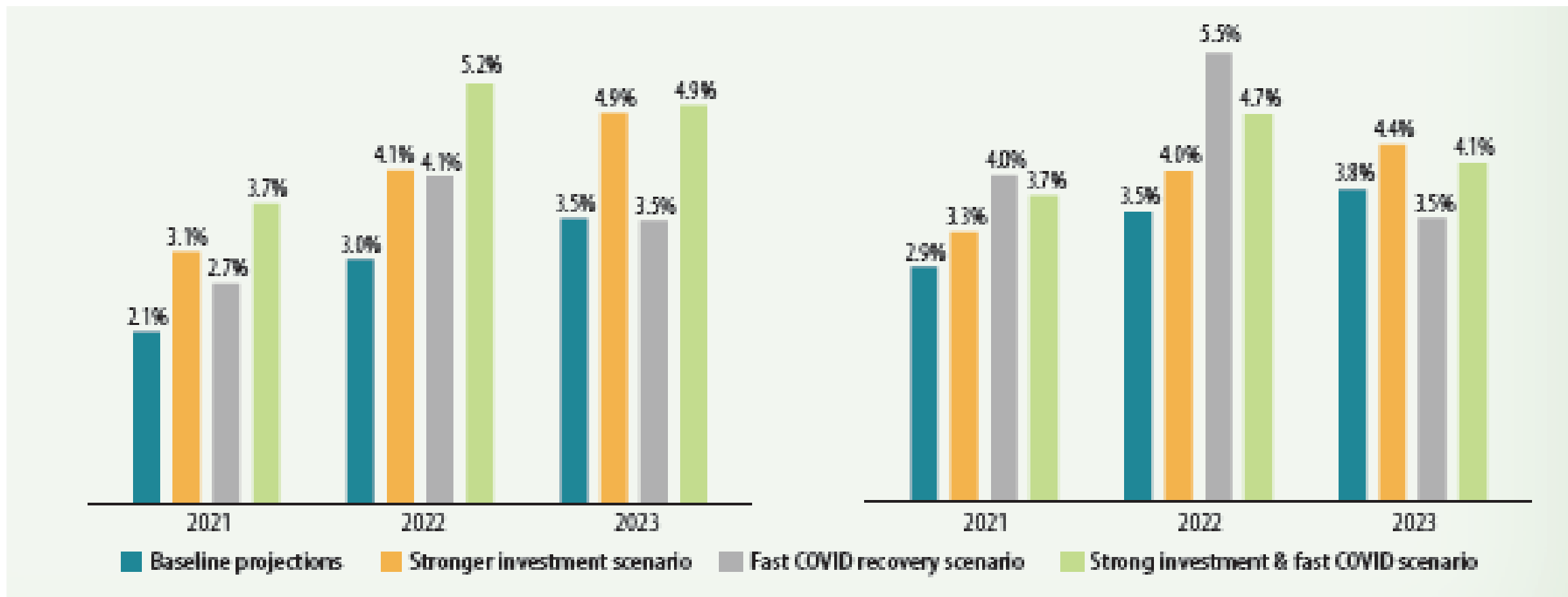


Source: World Bank Staff Projections

ALTERNATIVE GROWTH SCENARIOS IN SUB-SAHARAN AFRICA

West and Central Africa

East and Southern Africa



Source: World Bank Staff Projections



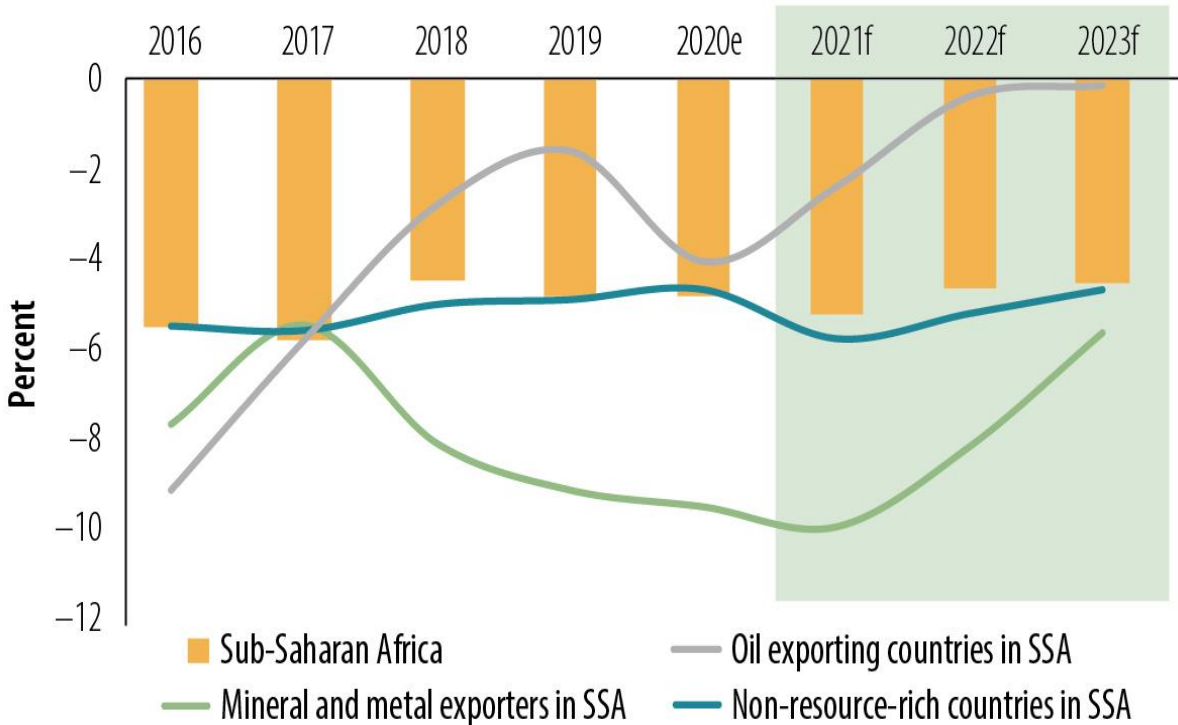
AFRICA'S ROAD TO RECOVERY WILL BE LONG AND STEEP

***THE COVID-19 CRISIS WILL CONTINUE TO EXERT PRESSURE ON THE
REGION'S MACROECONOMIC POLICY FRAMEWORK***

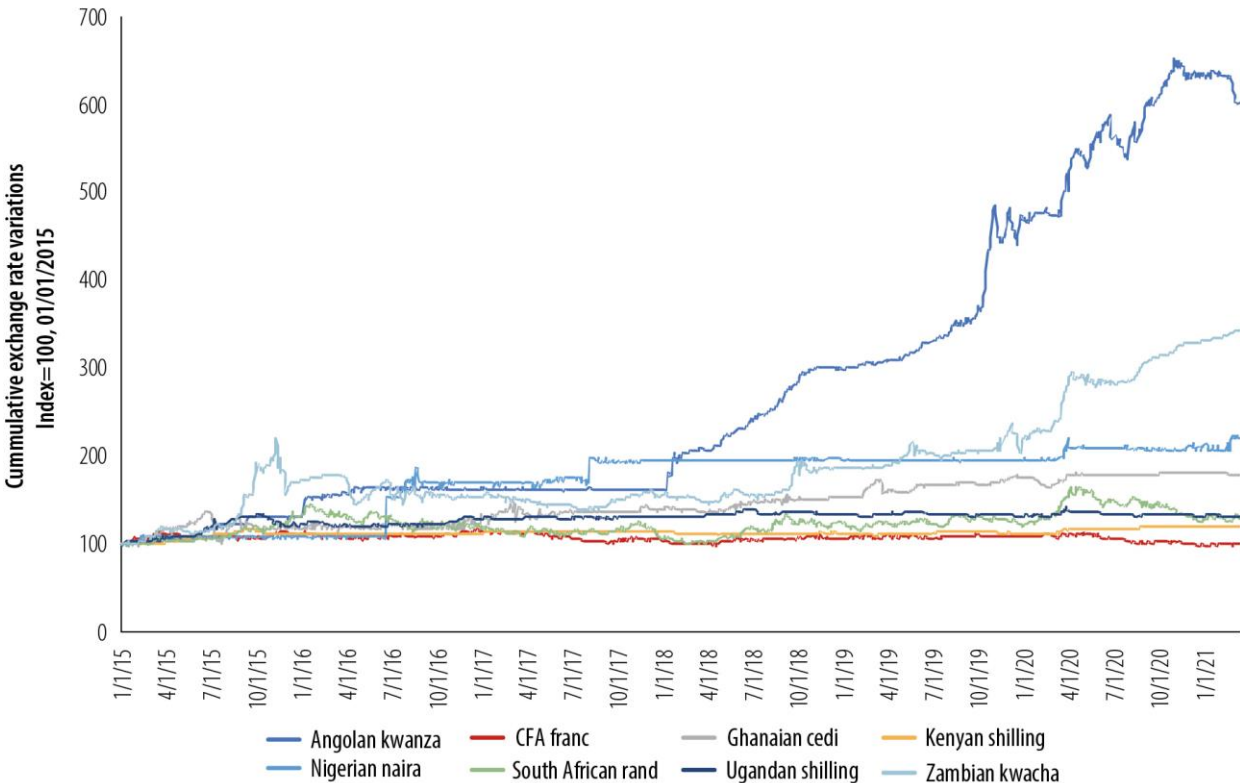


CURRENT ACCOUNT DEFICITS TO REMAIN ELEVATED

Current Account Balance (% GDP)



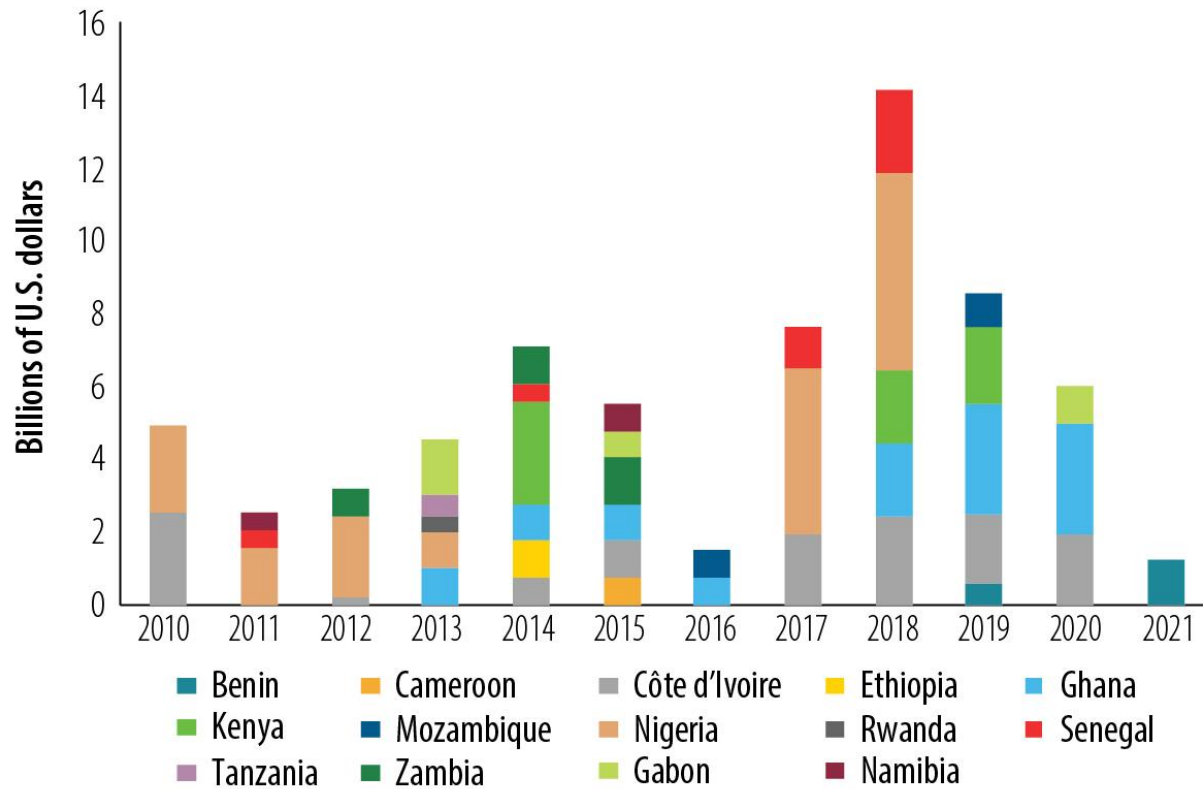
Exchange Rates (LCU/US\$)



Source: [1] World Bank Staff Projections. [2] Bloomberg

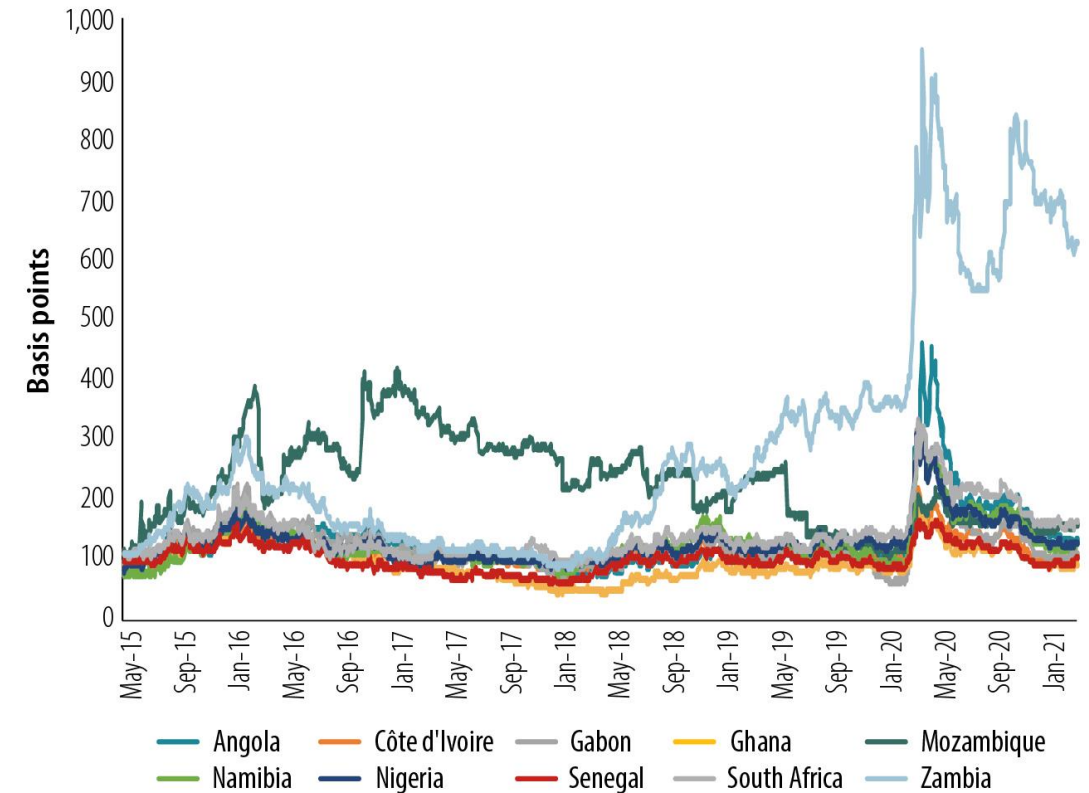
AFRICAN GOVERNMENTS REGAINED ACCESS TO MARKETS IN 2020Q3, BOND SPREADS NARROWING

Eurobond Issuances



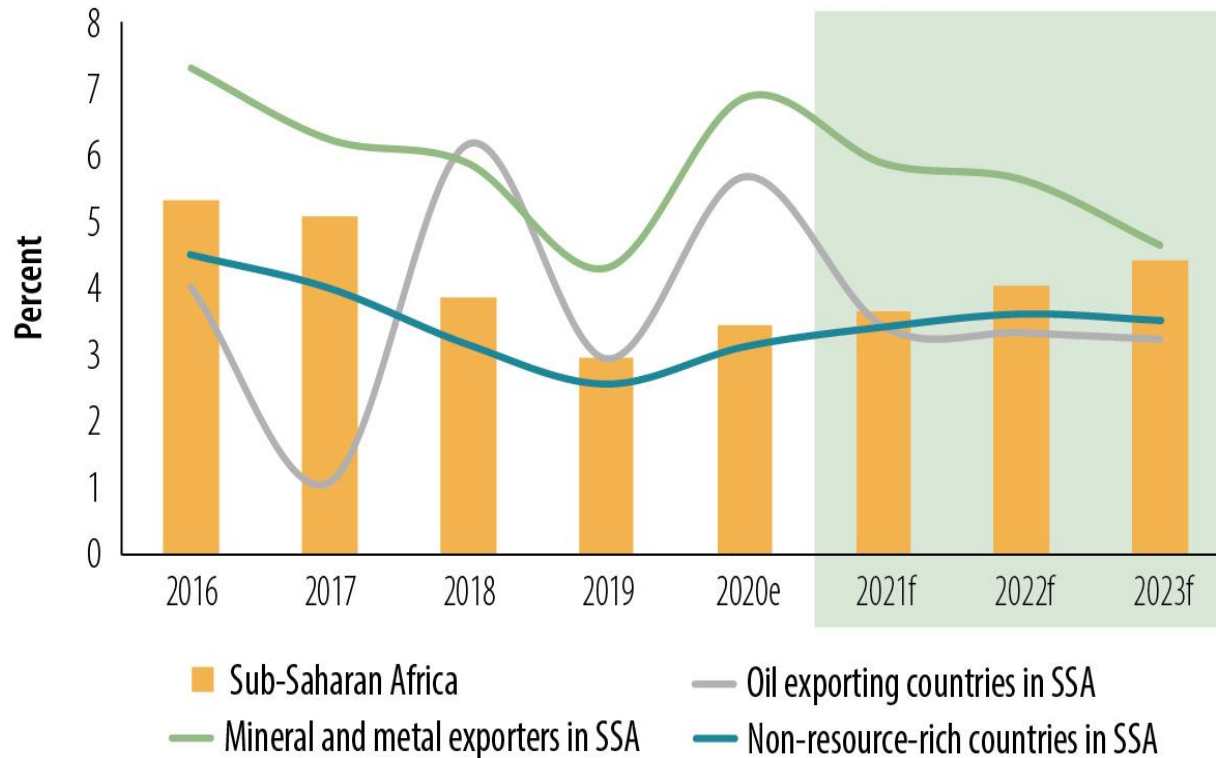
Source: Bloomberg

Sovereign Bond Spreads (bps)

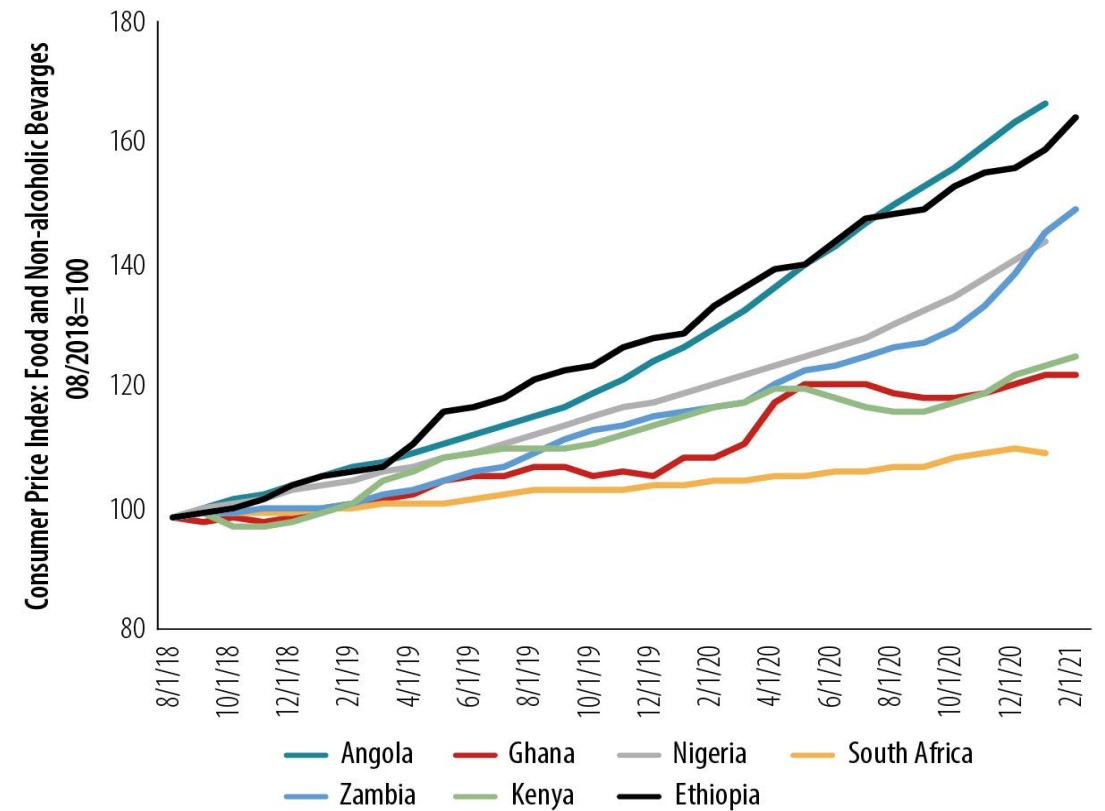


INFLATION RELATIVELY LOW BUT EDGING HIGHER DUE TO FOOD PRICES AND DEPRECIATION

SSA CPI Inflation Rate (%)



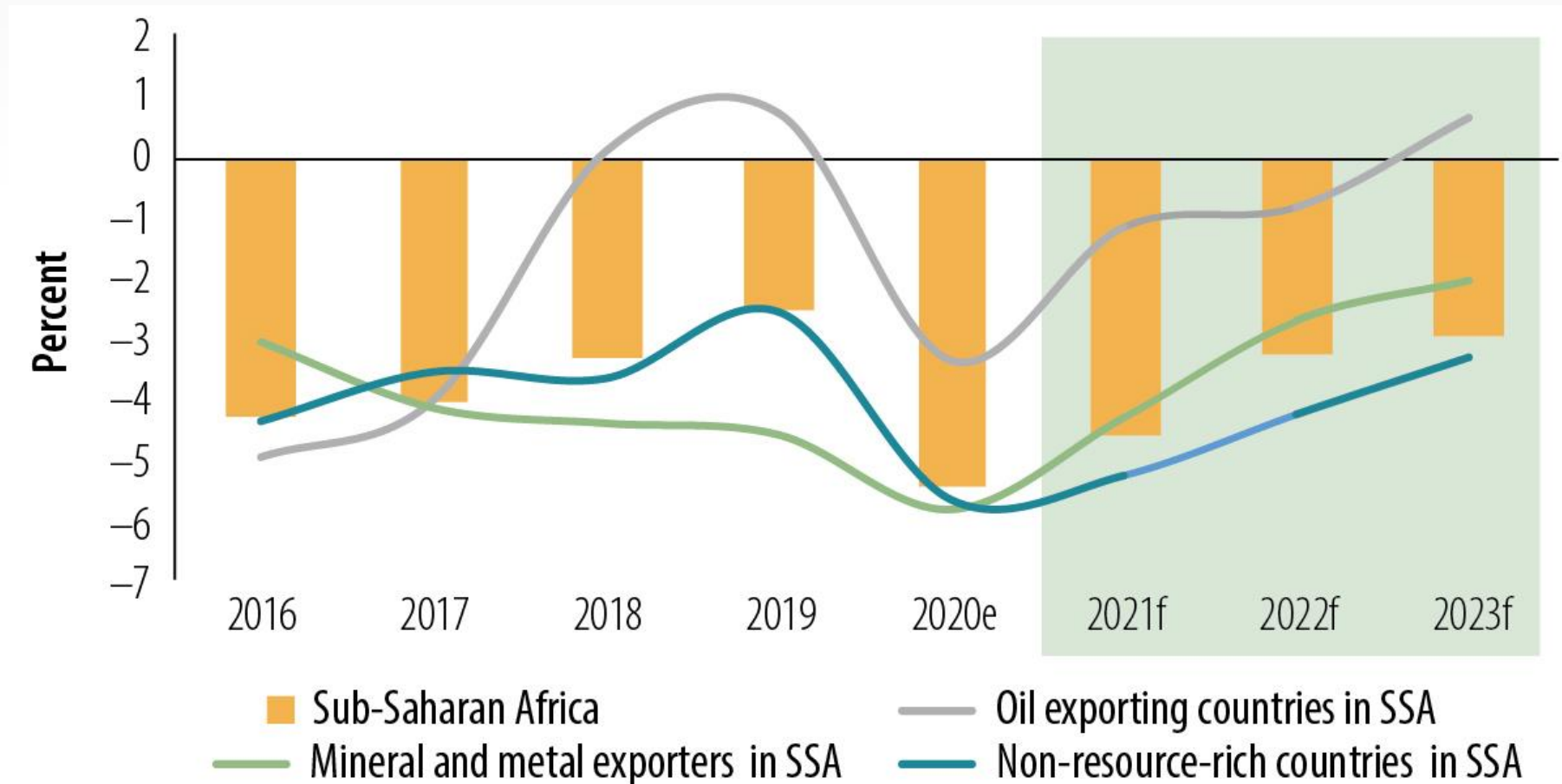
Food Prices (Index)



Source: [1] World Bank Staff estimates. [2] Haver Analytics

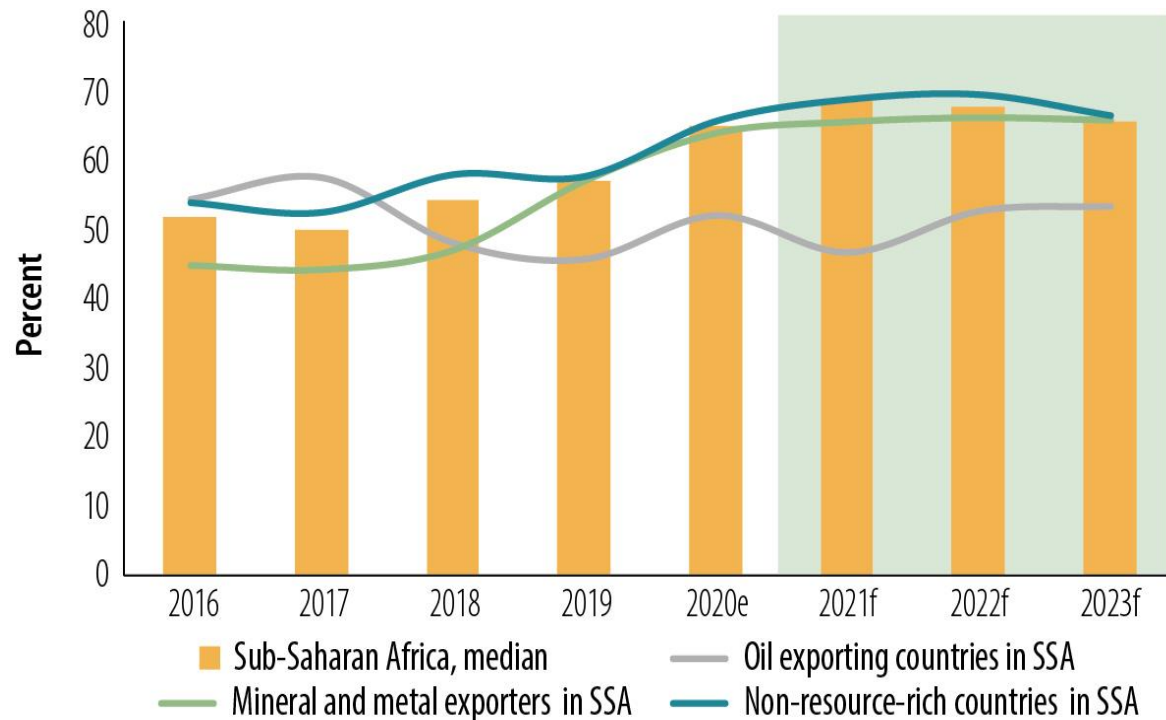
FISCAL DEFICIT PROJECTED TO NARROW IN 2021-23

Sub-Saharan Africa: Fiscal Balance (% of GDP)

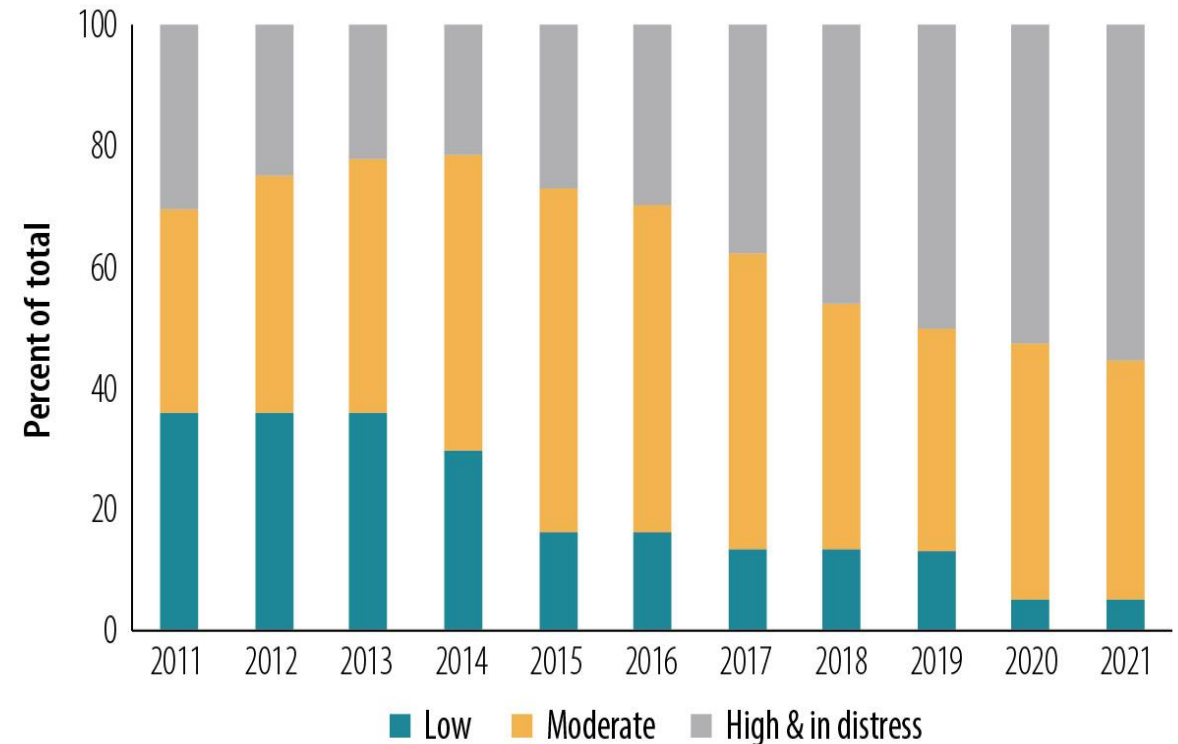


PUBLIC DEBT VULNERABILITIES ARE HIGH AND RISING IN MANY SUB-SAHARAN AFRICAN COUNTRIES

Public Debt (% GDP)



External Debt Distress (% SSA Countries)



Source: [1] World Bank Staff estimates. [2] World Bank/International Monetary Fund low-income countries database. Note: Debt distress ratings covers board-approved disclosed and un-disclosed risk rating of Sub-Saharan African countries. At February-2021, 38 Sub-Saharan African countries included.



AFRICA'S ROAD TO SUSTAINED RECOVERY MUST BE PAVED WITH SOUND ECONOMIC POLICIES

***POLICIES TO RESTORE THE FISCAL SPACE AND FOCUS ON INCLUSIVE
PRODUCTIVITY GROWTH FOR JOBS!***

FOCUS: DIGITAL TECHNOLOGY UPTAKE AND EMPLOYMENT GROWTH

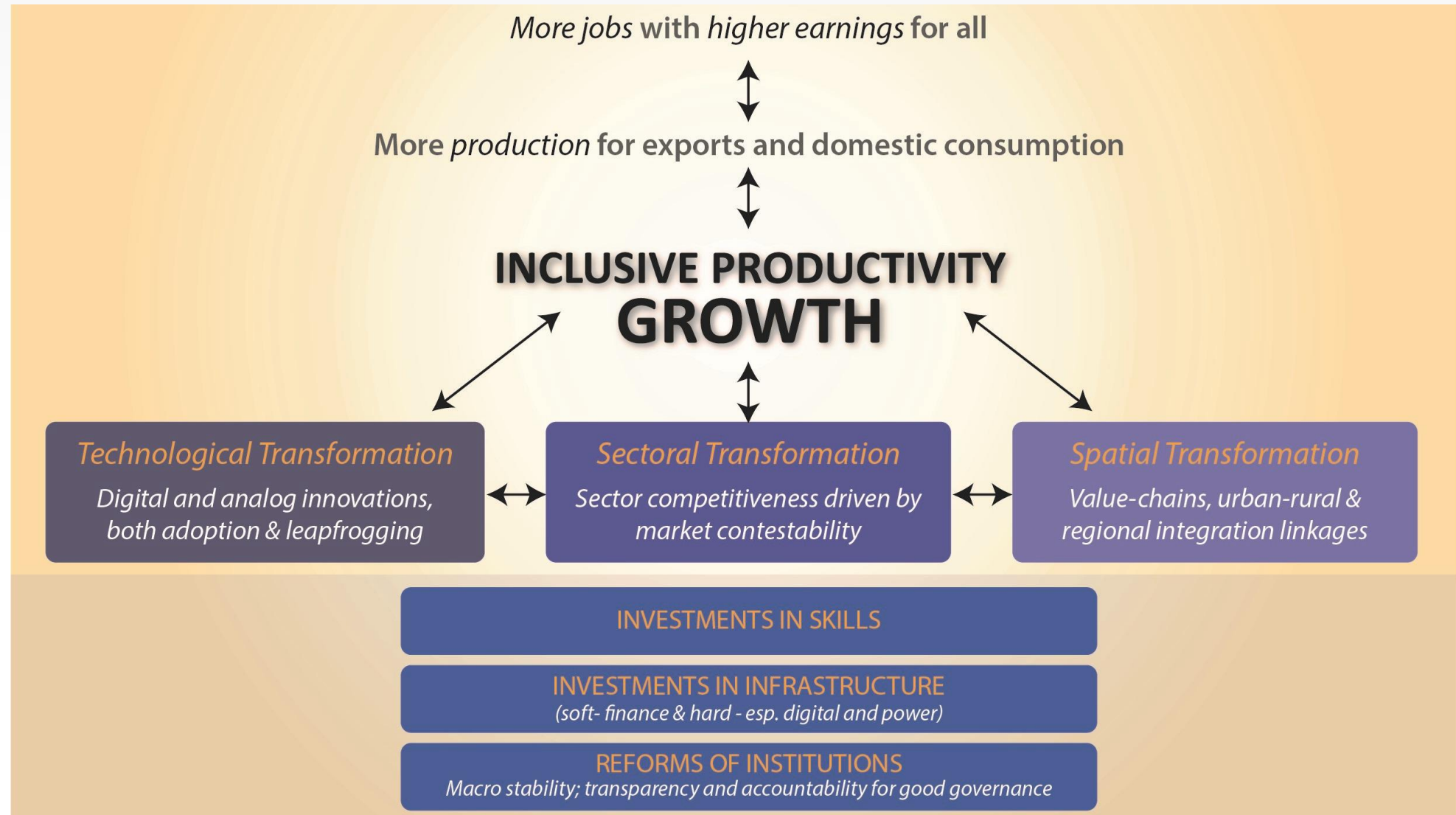
CREATING FISCAL SPACE TO PAVE THE WAY TO RECOVERY

Revenues	Expenditures
<ol style="list-style-type: none"> 1. Broadening the tax base 2. Strengthening tax administration 3. Transparent management of commodity revenues 4. Improve transparency (stem IFFs, tax evasion/avoidance) 	<ol style="list-style-type: none"> 1. Streamlining/reprioritizing expenditure 2. Boosting efficiency of public investment 3. Improving State-Owned Enterprise performance 4. Strengthening contingent liability management
Improve Debt Transparency	
<ol style="list-style-type: none"> 1. Substantial returns from investments in data transparency (Kubota & Zeufack 2020). 2. Challenges: Emergences of new creditors, new risks. 3. WBG Debt reporting heatmap: (a) Public debt reporting, (b) Public debt management, (c) Fiscal risk management. 4. SSA: Countries need to improve their reporting of annual borrowing plans and contingent liabilities. 5. Weak legal frameworks, lack of audits, poor data administration and internal control, and low staffing capacity. 	

ROLE OF THE INTERNATIONAL COMMUNITY

- SSA needs financing for investments in human capital, energy, digital and physical infrastructure.
- Meeting these needs requires policies to boost domestic resource mobilization and greater access to concessional financing.
- Assistance of **international community** to address liquidity and solvency issues
 - Grants / Concessional financing
 - Debt Service Suspension Initiative (DSSI) –30 out of 37 IDA-eligible SSA countries
 - Common Framework (Chad, Ethiopia, Zambia)
 - Sustainable Development Finance Policy (SDFP)
 - Issuance of SDR (US\$ 650 billion under discussion)
- No options should be taken off the table.

NEEDED: POLICIES TO FOSTER ECONOMIC TRANSFORMATION FOR JOBS



DIGITAL TECHNOLOGY ADOPTION AND JOB CREATION

- Job creation needs to meet demands from growing youth population in the region.
- Jobs at the center of policy action and private sector response
- A way forward: The Digital Economy
 - Closing digital infrastructure gaps
 - Fostering digital skills
 - Ensuring affordable, fast and reliable connectivity
- Digital technology adoption (DTA) and jobs in Sub-Saharan Africa
 - Creating new jobs/tasks
 - Boosting productivity of existing jobs
 - Generation/Adoption Low-skill-biased technologies for low-skilled workers to learn/upgrade skills on the job

HARNESSING THE FULL POTENTIAL OF DIGITAL TECHNOLOGIES

1. Close the digital infrastructure gap, provide high-quality, affordable and reliable digital services
 - Regulatory framework that promotes innovation and competition
 - Complementary infrastructure investments (electricity)
2. Investments in Tertiary Education
 - STEM Skills
 - Digital technologies for low-skilled workers
3. Increase the productivity of the informal sector
 - Upgrade skills of workers –especially women and the youth
 - Facilitate transition to formal sector in the future

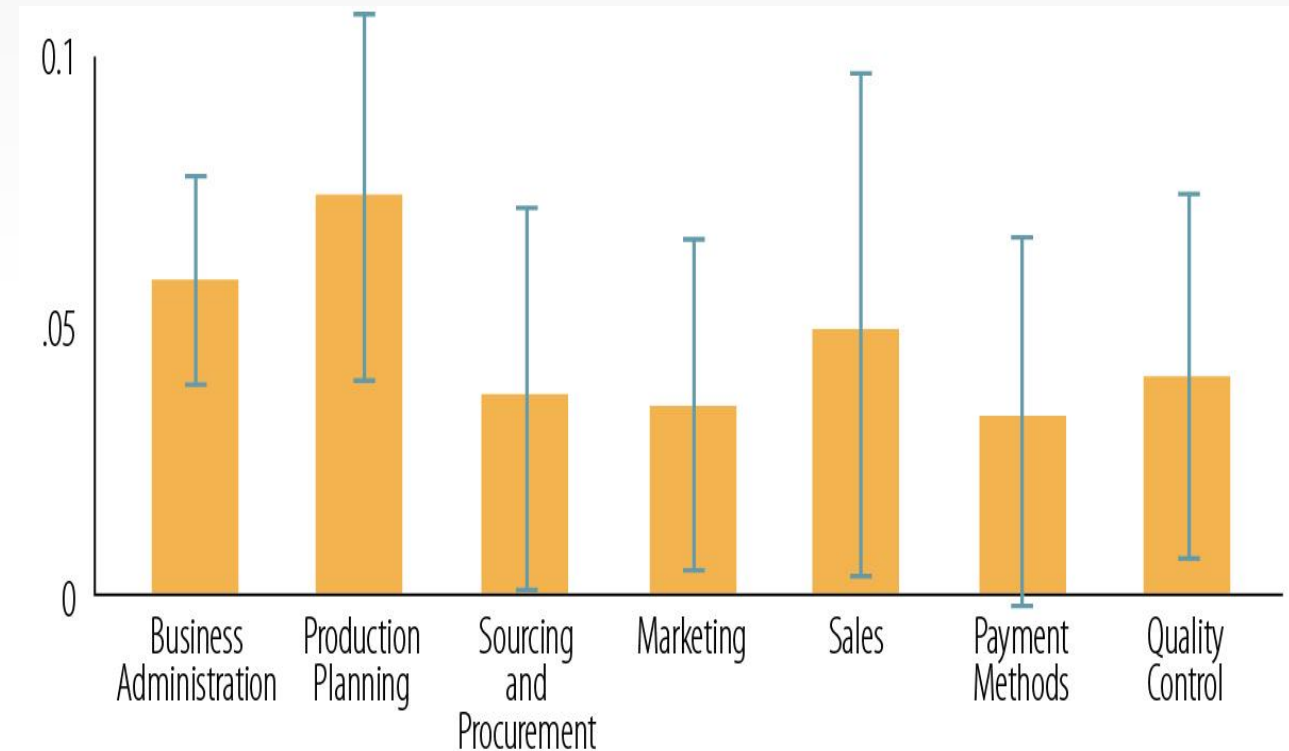
DIGITAL TECHNOLOGY ADOPTION AND EMPLOYMENT

1. Higher employment among SSA firms using digital technologies (DTs) compared with non-users (Atiyas and Dutz 2021)
 - Specially DTs for transactions and management practices
 - Employment is 1.6 times higher among firms using digital management solutions
 - Average wages: 1.5–2.4 times higher among firms using digital transaction technologies
2. Yet uptake of DTs remains low across African firms
 - 7% of informal business surveyed used the internet for business purposes prior to pandemic
 - Among those with access, nearly 25% looked for suppliers online, while 10% used e-commerce solutions
 - **Barriers to DTA: Affordability and Skills**
 - Lack of internet-enabled devices (notably, computers)
 - High prices of internet services, smartphones, and mobile data;
 - Lack of awareness and skills to use DTs

EMPLOYMENT GROWTH HIGHER AMONG FIRMS WITH BETTER TECHNOLOGIES

Evidence for Senegal (Cirera, Comin, Cruz & Lee 2021)

- When adopting new technologies (e.g. new machinery and equipment or software):
- Most firms do not change the number of workers (78%) and more than ¼ offer training to current workers.
- 2% of surveyed firms reported job reduction and 3.8% increased the number of workers (with similar skills)
- 6.1% reported hiring more qualified workers.
- Employment growth among Senegalese firms is higher among firms with better technologies
- Firms with better technologies tend to be more productive and benefit from opportunities to expand—thus leading to increased employment.



Source: Cirera, Comin, Cruz, and Lee 2021. Note: The figure provides the coefficient estimates of the GBF technologies and 95 percent confidence intervals from the employment growth regressions. That is, employment growth is regressed for each specific GBF at the intensive margin while controlling for firm size, sector, and region. GBF = general business functions.

COVID-19, DIGITAL UPTAKE AND EMPLOYMENT

1. Novel dataset: Business Pulse Surveys (BPS)

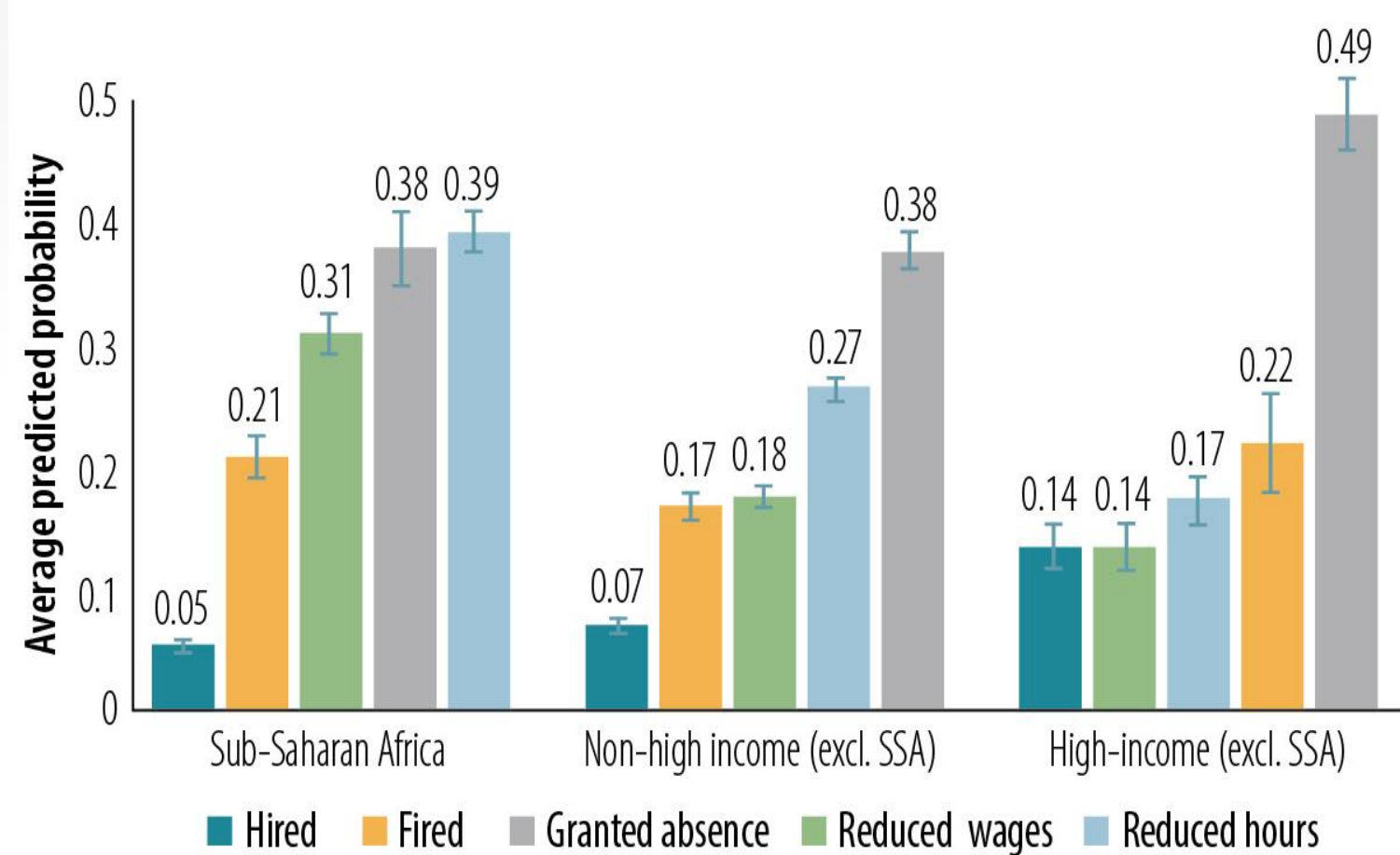
- 51 countries, 100k + business (Apedo-Amah et al. 2020, Cirera, Cruz et al. 2021)
- **Sub-Saharan Africa:** 15,819 firms across 18 countries, (Davies et al. 2021)

2. Harmonized questionnaire evaluating the impact of COVID-19 on firm performance

- Operating status and sales
- Financial situation of the firms (*falling into arrears?*)
- Changes in employment (intensive and extensive margin)
- Use of digital technologies in response to the pandemic
- Access to public support (subsidized loans, rent & utilities deferral, fiscal exemptions, tax deferrals, among others)

AFRICAN FIRMS REDUCE HOURS AND WAGES RATHER THAN LAY OFF WORKERS AMID THE COVID-19 PANDEMIC

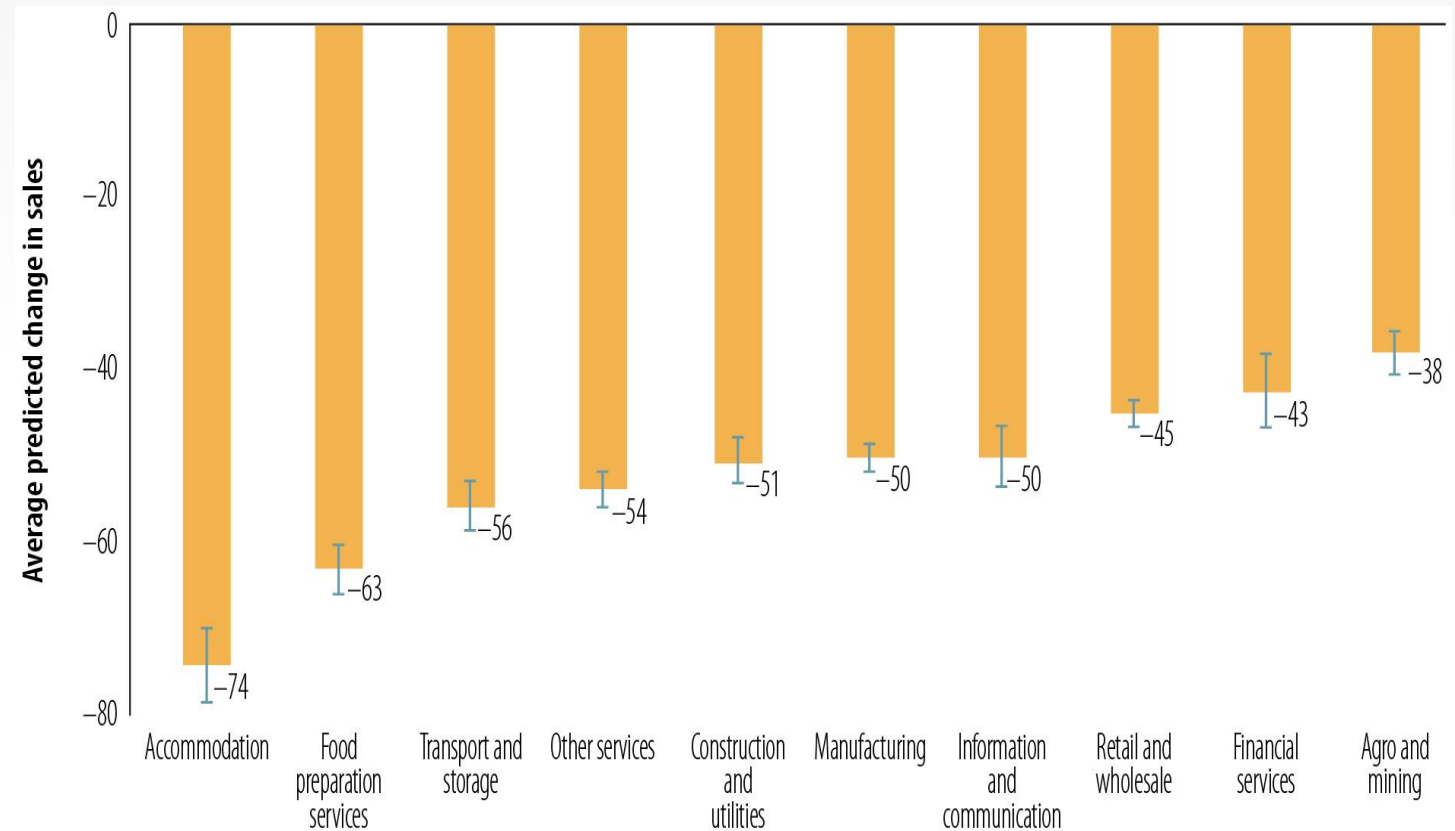
- Employment levels affected by changes in the number of workers or changes in the number of hours worked.
- Firms in the region predominantly reduced hours and wages (intensive margin adjustment) rather than laid off workers (extensive margin).
- African entrepreneurs were most likely to reduce work hours (39%), grant leave of absence (38%), and cut wages (31%).
- They were less likely to fire workers in the face of the COVID-19 shock (21%)—although their firing rates were higher than other developing countries (17%).
- Firms were more likely to reduce the work hours of employees than other developing countries (27%) and high-income countries (17%).



Source: Davies et al. 2021. Note: The values are average adjusted probabilities from Probit regressions that controlled for region, size, sector, and the timing of the survey. The regions in the regression are Sub-Saharan Africa (SSA), non-high-income countries excluding SSA, and high-income countries. The bars represent 95% confidence intervals.

COVID-19 SEVERELY AFFECTED FIRM SALES IN SUB-SAHARAN AFRICA

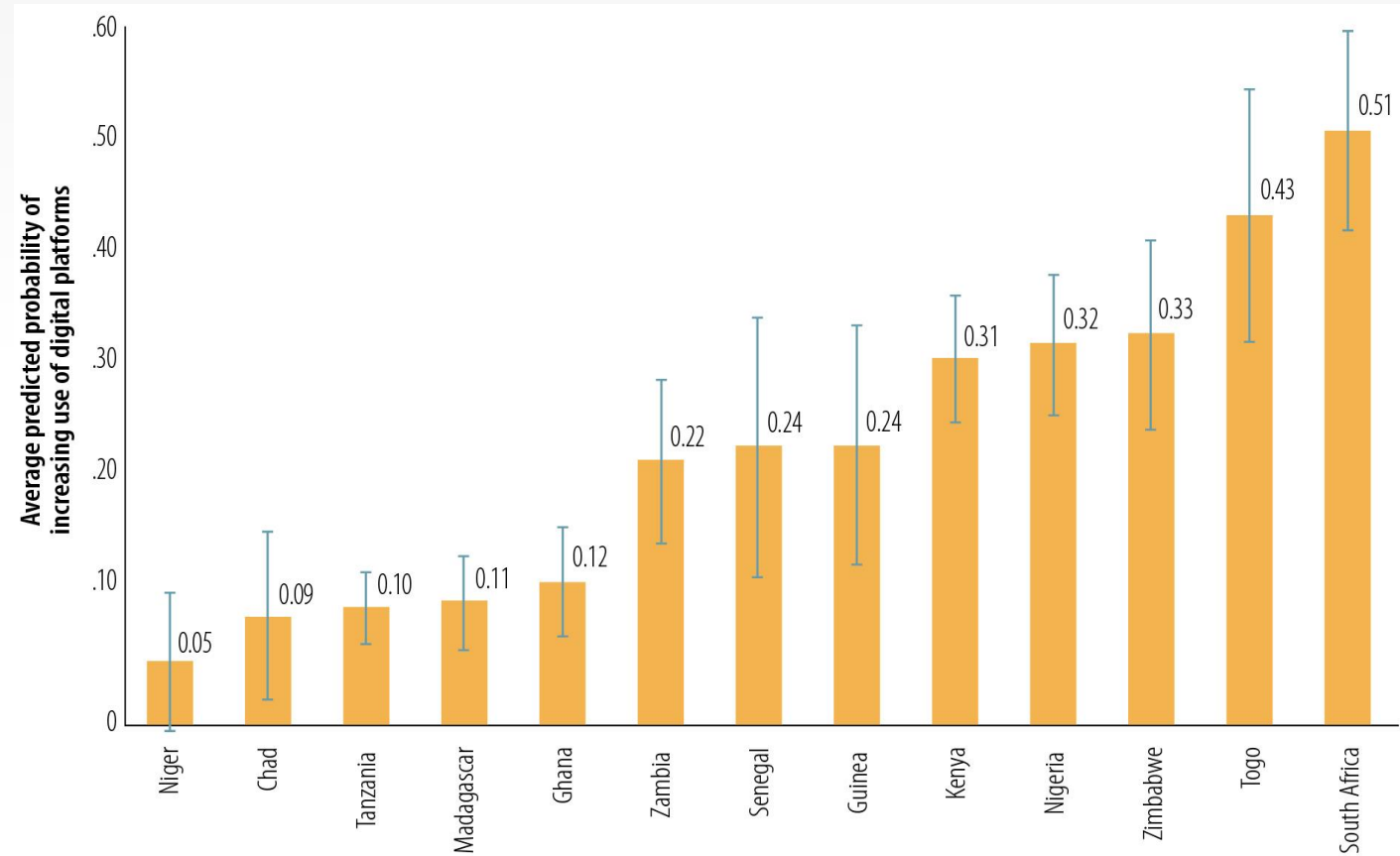
- Sales dropped by 49% across SSA firms—a decline comparable to LICs and MICs (48%) but greater than HICs (32%).
- Across sectors of economic activity, the largest sales decline reported by businesses intensive in face-to-face interactions and involved tasks that could not be performed from home.
- Firms in accommodation and food services experienced a 74% decline in sales, followed by those in food preparation (63%) and transportation and storage services (56%).
- Agricultural and mining firms were the least affected, their sales still dropped by 38%



Source: Davies et al. 2021. Note: The conditional average change in sales was computed after controlling for firm size, sector, and the timing of the survey. The regressions were computed for Sub-Saharan African firms only. The bars represent 95 percent confidence intervals. For temporarily closed firms, the change in sales equals -100 %; closed firms were excluded.

USE OF DIGITAL TECHNOLOGIES: THE MOST COMMON RESPONSE TO COVID-19, ESPECIALLY IN SOUTH AFRICA AND TOGO.

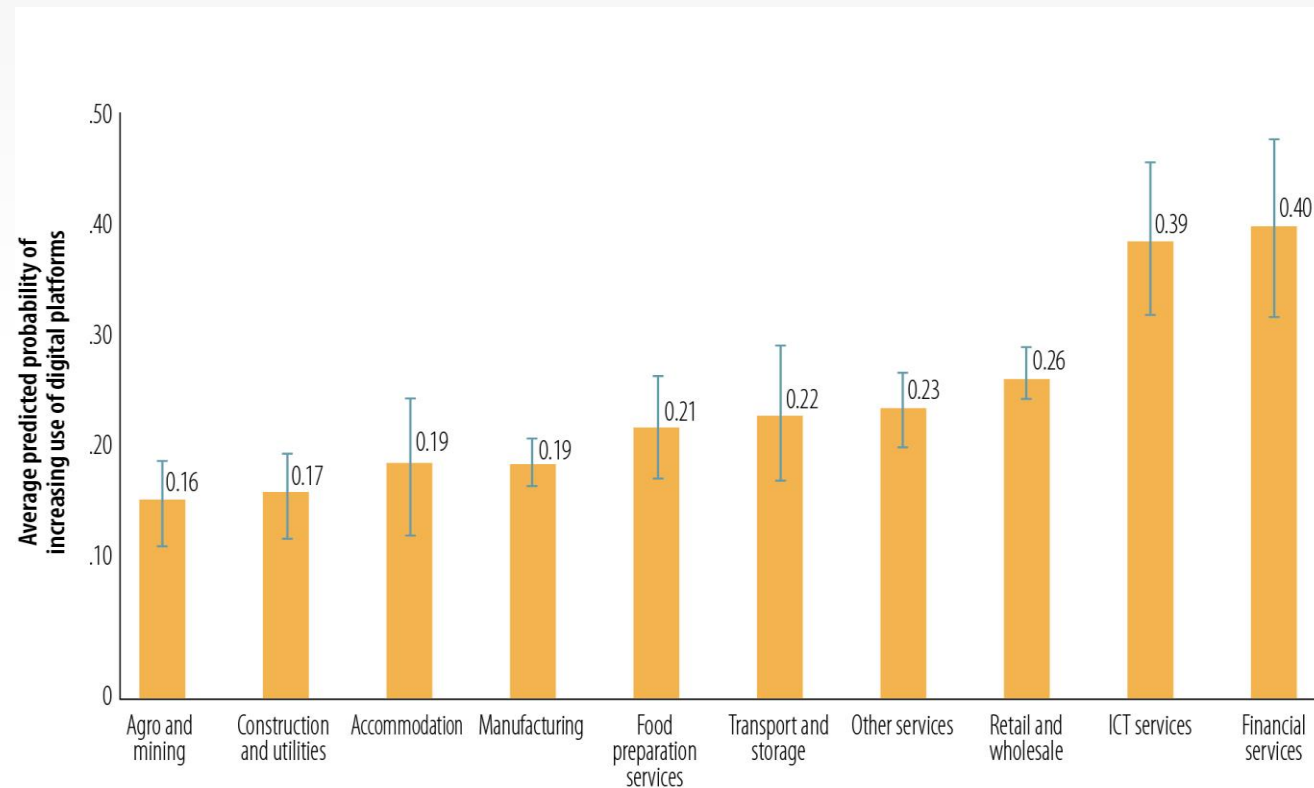
- In SSA region, more than 1 in 5 firms started or expanded their use of digital technology in response to the COVID-19 shock.
- On average, firms in East and Southern Africa were more likely than those in West and Central Africa to have started or expanded their use of digital platforms (27 and 20 percent, respectively).
- Still, the propensity to use digital platforms in the region is smaller than that of firms in other developing countries (32 percent).
- Across countries in the region, there was a great deal of variation in firms' digital response to the pandemic. It ranges from below 10% (Niger, Chad, and Tanzania) to more than 40% (Togo and South Africa).



Source: Davies et al. 2021. Note: The values are average adjusted probabilities of starting or increasing the use of digital technologies (increased use of the internet, online social media, specialized apps, or digital platforms), calculated from a Probit regression that controlled for country, firm size, sector, and the timing of the survey. The computations used weights equal to the inverse of the number of observations per country and excluded countries where the fraction of missing values in the dependent variable exceeded 60 percent. The bars represent 95 percent confidence intervals.

FIRMS IN SECTORS WITH GREATER SHARE OF TASKS THAT CAN BE PERFORMED FROM HOME WERE MORE LIKELY TO INCREASE USE OF DIGITAL PLATFORMS

- Firms in sectors with a greater share of tasks/jobs that can be performed from home were more likely to have increased their use of digital platforms in their businesses.
- Sub-Saharan African firms in financial and ICT services were the most likely to use digital platforms in response to the pandemic shock (40 and 39%, respectively).
- More than one-quarter of the firms in retail and wholesale trade started or increased their use of digital platforms.
- Firms in agriculture, construction, accommodation services, and manufacturing were less prone to have expanded their use of digital platforms (less than 20%).



Source: Davies et al. 2021. Note: The values are average adjusted probabilities of starting or increasing the use of digital technologies (increased use of the internet, online social media, specialized apps, or digital platforms), calculated from Probit regressions that controlled for country, firm size, sector, and the timing of the survey. The computations used weights equal to the inverse of the number of observations per country and excluded countries where the fraction of missing values in the dependent variable exceeded 60%. The bars represent 95% confidence intervals.

DIGITAL TECHNOLOGY ADOPTION AND JOB CREATION AMID THE COVID-19 PANDEMIC

- Recent research combines BPS and Firm-level Adoption of Technology (FAT) surveys (Cirera, Comin, Cruz, Lee, and Torres 2021)
- Evidence for developing countries: Bangladesh, Brazil, Senegal, and Vietnam.
- Firms with better technology prior to COVID-19 were more likely to have higher sales and employment.
- In response to the pandemic:
 - Firms with higher levels of technology prior to COVID-19 were more likely to increase their use of digital technologies, investments in digital solutions, and home-based work.
 - Firms with better technology prior to COVID-19 were more likely to have higher sales and employment.
 - Greater uptake of technology was driven by general business functions (GBFs) rather than sector-specific business functions (SSBFs)
 - Within GBFs, firms that adjusted their business models by increasing the uptake of DTs had greater use of digital tools in marketing and sales prior to the pandemic shock.
 - Firms with better technologies prior to COVID-19 were more likely to remain (fully or partially) open and performed better in sales volumes

THANK YOU!

