COVID-19: Upending Investments in Human Capital Across Eastern and Southern Africa

UNICEF
Eastern and Southern Africa Regional Office

Social Policy Working Paper

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Acronyms

AU	Africa Union
AUC	African Union Commission
CCRT	Catastrophe Containment and Relief Trust
CO	Country office
CRC	Convention on the Rights of the Child
CSO	Civil society organisation
DSSI	Debt Service Suspension Initiative
ESA	Eastern and Southern Africa
EU	European Union
ECD	Early childhood development
ECF	Extended Credit Facility
EFF	Extended Financing Facility
GDP	Gross domestic product
GNI	Gross national income
HIPC	Heavily Indebted Poor Countries
IBP	International Budget Partnership
IDA	International Development Association
IMF	International Monetary Fund
LIC	Low-income country
LMIC	Lower-middle-income country
OBS	Open Budget Survey
OBI	Open Budget Index
ODA	Official development assistance
ODI	Overseas Development Institute
OECD	Organisation for Economic Cooperation and Development
PEFA	Public Expenditure and Financial Assessment
PEFF	Pandemic Emergency Financing Facility
PER	Public Expenditure Review
PPP	purchasing power parity
RCF	Rapid Credit Facility
RFI	Rapid Financing Instrument
SDR	Special Drawing Right
SSA	Sub-Saharan Africa
UMIC	Upper-middle-income country
UNECA	United Nations Economic Commission for Africa
WASH	Water, sanitation and hygiene
WEO	World Economic Outlook
WHO	World Health Organization

Contents

Executive summary

This working paper discusses the impacts of COVID-19 on public investments in human capital in the Eastern and Southern Africa (ESA) region. It is based on a review of economic outlook reports and forecasts as well as new projections of social sector spending trends in 2020 and 2021. The main objective is to stimulate discussion among UNICEF country offices (COs), governments and development partners on appropriate fiscal policy and budgetary responses to safeguard the situation of children.

Key findings

- COVID-19 has added extreme pressure on an already precarious public finance situation in ESA, with the potential to derail human capital gains achieved in recent years. Prior to the pandemic, most governments invested insufficiently in core human capital sectors.
- The economic contraction is likely to result in at least US$35 billion in lost tax revenue in 2020 in ESA, which amounts to US$66 per person, on average. The situation in natural resource-intensive economies (e.g. Angola, South Sudan) is much more dire, as they are anticipated to lose over a third of their projected revenue due to the crash in global oil prices.
- The pandemic should lead to greater government spending on health, WASH and social protection in most countries. Projections indicate that domestic health expenditure in ESA countries will increase by an average of 10 percent in 2020, while spending on social protection and WASH will increase by 63 and 49 percent, respectively.
- In contrast, spending on areas like child protection, education and nutrition is anticipated to be lower than in 2019. For example, education spending in the region is expected to fall by seven percent in 2020, on average, or about US$10 billion (in 2011 constant prices).
- External resource flows to the region fall far short of the immense financing needs. By mid-October, the International Monetary Fund (IMF) had approved about US$7.4 billion to 13 ESA countries along with US$105 million of debt relief under the Catastrophe Containment and Relief Trust (CCRT). At the same time, the World Bank had approved US$640 million to 9 countries under the COVID-19 Fast-Track Facility.
- The average fiscal deficit for ESA countries is expected to widen from -4 percent of gross domestic product (GDP) in 2019 to -6 percent in 2020. Due to massive budget reallocations and irregular resource flows, most governments will also experience the largest public spending deviations in their history during 2020.
- Deficit financing will exacerbate debt burdens across the region. The average external debt stock alone is projected to increase from 50 to 65 percent of GDP between 2018 and 2021.
- There is also a very high risk that governments will reverse recent progress on budget transparency. This reflects the reality that governments are operating in emergency mode and receiving multiple resource inflows, which has led to budgeting, spending and reporting taking place outside of normal processes.

Recommendations to governments

- Immediately take advantage of **concessional financing** opportunities offered by the international financial institutions and others to **create fiscal space** to increase spending on human capital sectors to safeguard child well-being and support a swift economic recovery.

- Proactively open discussions with public and private creditors about the growing debt burden, including policy options for **restructuring existing debt and extension of moratoriums** beyond the initial 12months provided by the IMF, World Bank and the G20.
- Review **medium-term revenue and expenditure** forecasts to reflect the impacts of COVID-19 on public finances and **safeguard human capital investment** from forthcoming austerity measures.
- Ensure fiscal adjustments, budget reallocations and new fiscal policy measures are assessed for any **possible negative impacts** on children and vulnerable households.
- Strengthen **budget execution** during the emergency and recovery period by enhancing coordination, prioritisation processes and procurement efficiencies.
- Strengthen **budget transparency and fiscal accountability** mechanisms through regular tracking, monitoring and reporting on COVID-19 inflows and expenditures at national and sub-national levels.

Recommendations to UNICEF and other development partners

- Support finance ministries to access **external concessional loans and grants** from bilateral, multilateral and private donors, including through the development of compelling funding proposals and investment cases.
- Provide technical assistance to finance and social sector ministries to review, implement and monitor **COVID-19 financing plans and budgets** across human capital sectors.
- Regularly monitor **fiscal policy measures and budgetary adjustments** to ensure that they are in the best interest of children, and to inform advocacy and programme strategies.
- Advocate with governments and donors to ensure that **social protection** packages are recognised as central components of COVID-19 response and recovery plans.
- Assist governments to procure **essential supplies** and materials required to effectively respond to COVID-19, including personal protective equipment, testing kits, sanitation and hygiene products, and learning materials.
- Advocate for **transparency, accountability and public participation** in all COVID-19-related public finance processes, including the timely publication of budget documents online.
- Strengthen **partnerships and coordination** among development partners in financing of COVID-19 response and recovery plans to increase efficiency and effectiveness of spending of on and off-budget COVID-19 resources.

Chapter 1. Introduction

This working paper discusses the current and potential impacts of COVID-19 on human capital investments in Eastern and Southern Africa (ESA). In particular, it assesses the implications of the pandemic on government revenues, social sector spending, budget transparency, and fiscal accountability from a children's perspective. The main aim of the paper is to stimulate discussion among UNICEF country offices (COs), governments and development partners on how fiscal policy and budgetary responses can be effectively formulated and implemented to safeguard the situation of children in the face of an unprecedented socioeconomic crisis in the region. There is a deliberate focus on public finance; it does not delve into private finance or matters of monetary policy or other macroeconomic issues related to COVID-19.

The paper is based on a desk review of economic outlook reports and forecasts as well as new projections of social sector spending trends in 2020 and 2021. Historical data is drawn from the IMF (World Economic Outlook), World Bank (World Development Indicators), Government Spending Watch, World Health Organisation (Global Health Expenditure Database), and the Organisation of Economic Cooperation and Development (OECD). Additional information was collected from the latest budget statements and expenditure estimates by ministries of finance in select ESA countries.

1.1 COVID-19 hitting the region hard

Cases of COVID-19 have exponentially increased across ESA countries in recent months. By 20 October 2020, the region had recorded slightly over 955,000 cases up from about 17,000 in mid-May. Nearly three quarters of the reported cases (73 percent) were in South Africa – which had the twelfth highest number of reported cases globally. However, for most countries in the region, chances are high that the actual cases are considerably higher due to low testing capacity. Most importantly, the devastating health and socioeconomic impacts of the pandemic are being felt by households, enterprises and governments across the region.

Governments in ESA are still facing the twin challenges of containing the pandemic and mitigating the unfolding socioeconomic crisis. Most of the initial responses of governments focused on health dimensions, including ratcheting up testing capacity, implementing contact tracing and social distancing, and marshalling severe containment measures. Encouragingly, many governments also realized the need to address the socioeconomic impacts caused by the pandemic, including through the expansion of social protection programs.

COVID-19 is having a massive impact on public finances, which requires swift and strategic policy responses. On the one hand, considerable resources are urgently required to finance continued testing and treatment of cases, social protection, and to sustain the delivery of essential public services such as education, water, and routine health services. On the other, ailing businesses and enterprises need to be supported to survive and recover from the severe economic shock, while millions of families in ESA require support to cope with extreme weather events, conflicts and other shocks. ESA governments must perform a balancing act between short-term financing needs and long-term recovery plans in a manner that advances rather than undermines the 2030 Agenda for Sustainable Development. In all this, it is imperative that governments sustain investments in sectors and programs which improve the well-being of children, especially during the looming austerity era in 2021 and beyond.

1.2 Exacerbating pre-existing risks and vulnerabilities

Prior to COVID-19, much of the region was already grappling with a variety of shocks. To begin with, COVID-19 struck at a time when four countries (Comoros, Malawi, Mozambique, and Zimbabwe) had not recovered from Cyclones Idai and Kenneth, which wreaked havoc in the first half of 2019 (UN OCHA 2019). Moreover, an estimated 50 million people in the ESA region are currently struggling to meet minimum dietary requirements, with many on the brink of starvation, due to compounding impacts of droughts, floods and locust invasions (IPC 2020; UN OCHA 2020). South Sudan is the hardest hit, with 58 percent of the population facing a serious food security crisis, followed by Zimbabwe at 29 percent (IPC 2020; UN OCHA 2020).

COVID-19 arrived when poverty was already widespread in ESA, with children bearing the greatest brunt. On average, three out of four children in the region were deprived in at least two dimensions such as health, education, housing, nutrition and child protection before COVID-19 (Cummins 2019). In 2019, approximately 42 percent of the regional population lived on less than US$1.90 per day. If the cut-off is increased to US$3.20, the share of the poor population increases to 65 percent (Cummins 2019; World Bank 2020a). COVID-19 is exacerbating this precarious situation, with preliminary estimates by the African Development Bank (AFDB 2020) indicating that about 28.2 to 49.2 million people in Africa will slide back into poverty due to loss of jobs, livelihoods, remittances, and depletion of assets caused by COVID-19. Multidimensional child poverty has also increased. Latest analysis by UNICEF and Save the Children (2020) reveals that the number of children living in multidimensional poverty – without access to education, health, housing, nutrition, sanitation, or water – has increased by 15 percent since the start of the pandemic.

Last, but not least, except for a few, economic growth has been lackluster for most ESA countries. In 2019, the average per capita real GDP growth rate was estimated by the IMF (2020, June update) to be 0.8 percent for all ESA countries, down from about 1.7 percent in 2018. Such economic growth was not fast enough to create jobs, expand the tax base, and accelerate poverty eradication efforts.

The above is only the tip of the iceberg: a multitude of other shocks and structural issues were exacerbating vulnerabilities of people and challenging public finances in the region before COVID-19. These include political instability and insurgencies in Ethiopia, Mozambique, Somalia, and South Sudan, the crash in global energy prices, corruption, and human rights abuses. In various ways, all the above are undermining the fiscal prospects of many ESA countries and making it hard for governments to finance COVID-19 response and recovery plans in both the short and long term.

1.3 Structure of the paper

The rest of this paper examines the implications of COVID-19 on public finances. Chapter 2 discusses how COVID-19 has led to reductions in domestic revenue. Chapter 3 examines the outlook for official development assistance (ODA). Chapter 4 investigates the implications of the pandemic on the debt situation. Chapter 5 discusses the spending outlook with a focus on social sectors. In Chapter 6, the paper delves into matters of fiscal accountability, transparency, and public participation. Chapter 7 analyzes the likelihood of austerity and what this could mean for social sector budgets and children. In the final chapter, a set of recommendations are provided for both policymakers, UNICEF and development partners in ESA.

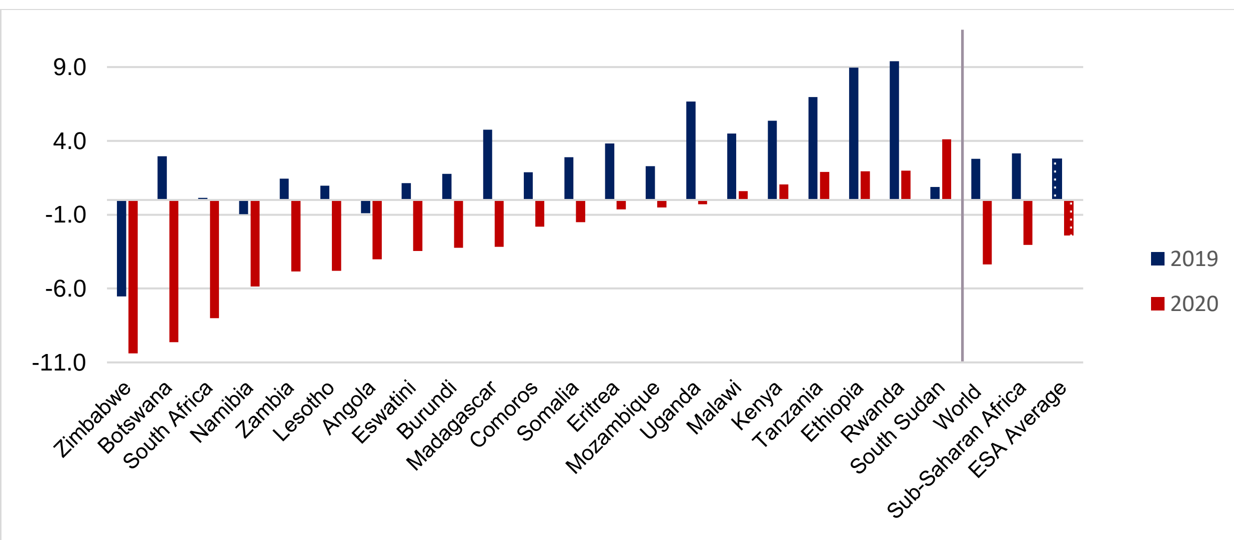
Chapter 2. Domestic Revenue: Collapsing and no end in sight

This chapter examines how domestic revenue has been impacted by COVID-19. As outlined in the Addis Ababa Action Agenda on Financing for Development (2015), domestic revenue is the most sustainable way of financing investments in human capital sectors. At present, and on average, governments of ESA countries finance about three-quarters of their expenses from domestic revenue (World Bank 2020a). The chapter is divided into three sections. It starts by estimating lost tax revenue caused by the reduction in economic output. This is followed by a discussion on lost tax and non-tax revenue due to fiscal stimulus measures. The last part assesses impacts of COVID-19 on revenues from the extractive sector.

2.1 Fewer taxable economic activities

The coronavirus pandemic has triggered an economic recession across ESA with severe knock-on effects on tax revenue. While global economic activity is expected to contract by 4.4 percent, growth in ESA is projected at -2.4 percent, on average (Figure 1). If population growth is factored in, projected economic growth falls to -4.7 percent. South Africa's economy, which is the largest in ESA, is predicted to shrink by 8 percent. However, of all ESA countries, Zimbabwe, whose economy was on its knees before COVID-19, will be hardest hit, with growth projected to contract by more than 10.4 percent in 2020. The 2020 economic outlook for ESA is a stark contrast to 2019 when all countries except two (Angola, Namibia and Zimbabwe) experienced positive growth.

Figure 1: Projected real economic growth in ESA countries, 2019 and 2020 (as a %)

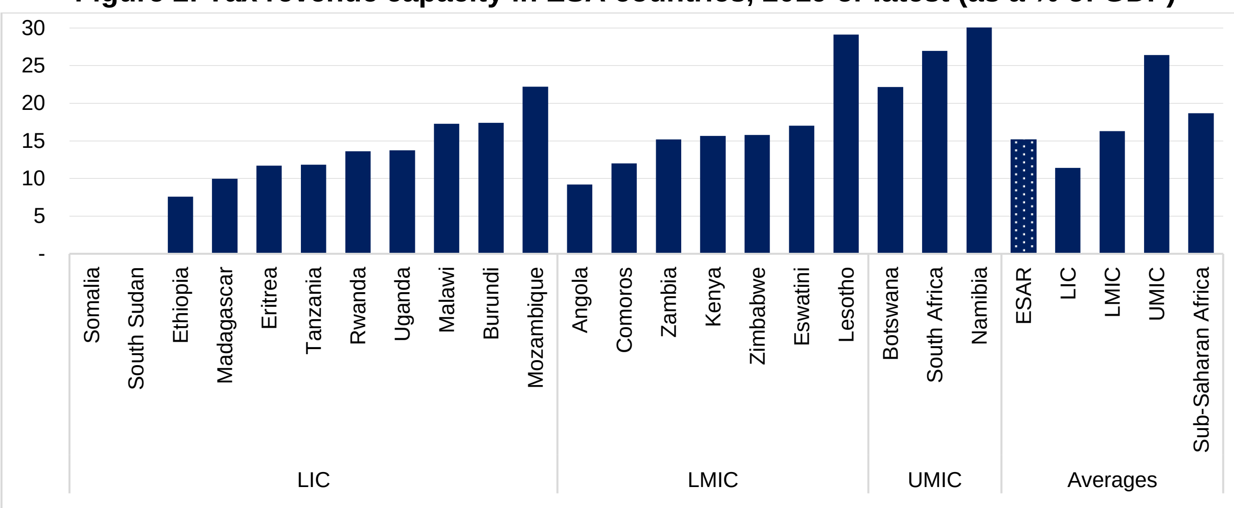


Source: IMF World Economic Outlook October 2020 Database

Disruptions in global supply chains and trade, combined with containment measures, have taken a toll on economic activity in ESA. This, in turn, has negatively affected both tax and non-tax revenues. Restrictions to travel, for instance, have led to sharp declines in tourism-related receipts. Many of the ESA countries which depend on agricultural exports, such as flowers, vanilla, tobacco, and cocoa, have witnessed the demand for their produce tumble (Deloitte 2020; Price Waterhouse Coopers 2020). The informal sector has also been badly hit, with many reports of severe and prolonged loss of income which are also reducing consumption taxes. Although not necessarily a tax issue, anticipated reductions in remittances will similarly reduce household consumption and the related taxes (UNECA 2020a).

Before COVID-19, taxes amounted to just over 15 percent of gross domestic product (GDP) in ESA countries, on average (Figure 2). The average tax-to-GDP ratio for ESA countries is, however, lower than the sub-Saharan African average (18.7 percent). There are also significant variations within the region. Based on the latest figures, governments of low-income countries in ESA collected tax equal to 11.4 percent of GDP compared to 16.3 percent among lower-middle-income countries (LMICs) and 26.4 percent in upper-middle-income countries (UMICs). Somalia and South Sudan collect the least tax revenue from their GDP, with less than 1 percent in both. Countries in the Southern African Customs Union (SACU): Botswana, Eswatini, Lesotho, Namibia, and South Africa have the strongest tax capacity, collecting more than 25 percent of GDP, on average (World Bank 2020a).

Figure 2: Tax revenue capacity in ESA countries, 2019 or latest (as a % of GDP)



Source: World Bank, WDI Database (April 2020)

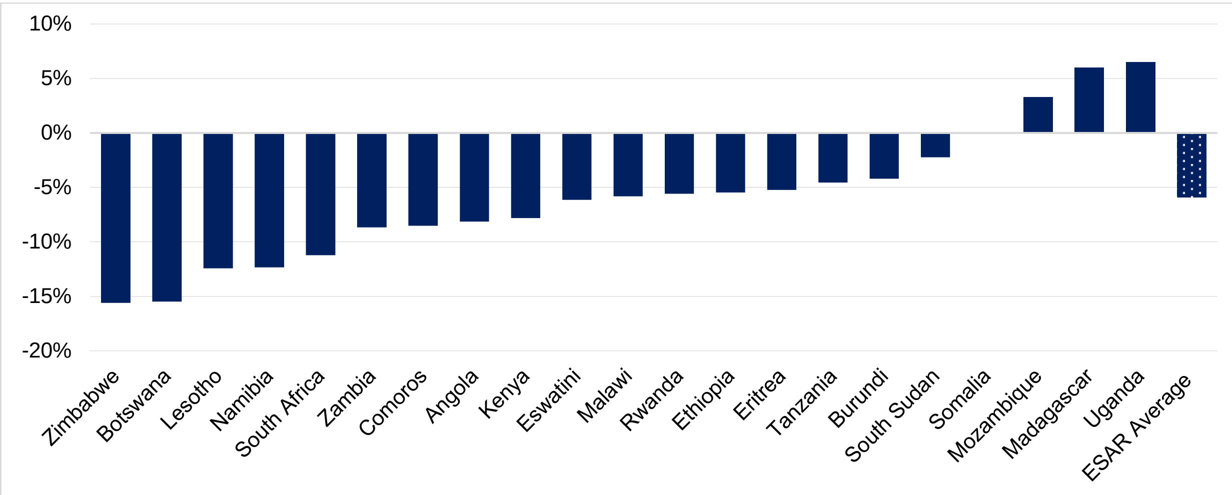
From a global perspective, tax collection capacity in ESA remains quite low, driven by many challenges. The low tax revenue is partly attributed to the informality of economies, limited capacity to enforce tax laws, political interference in tax collection due to vested interests, as well as tax evasion and avoidance leading to illicit financial flows (Save the Children 2020; ODI 2013). With COVID-19 in the picture, these challenges will only worsen, most likely making 2020 one of the worst tax years in recent years.

Based on the projected decline in GDP by the IMF (2020 June update), it is estimated that tax revenue in the ESA region will fall by 5.8 percent in 2020 (Figure 3). In constant international dollars, this is estimated to be US$35.8 billion.[1] Given that the analysis is based on a constant tax-to-GDP ratio, actual losses in current prices will be significantly higher. About three-

[1] This figure is arrived at by applying average tax-to-GDP ratio before the pandemic to projected GDP before COVID-19 (IMF WEO, October 2019) and after (IMF June update) in US$, constant prices.

quarters of this expected loss will be incurred by South Africa, mainly because it is the largest economy in ESA. However, in percentage terms, the biggest declines are projected to be in Lesotho, Zimbabwe, and Botswana (12.5, 12.2, and 11 percent, respectively) (Figure 3).

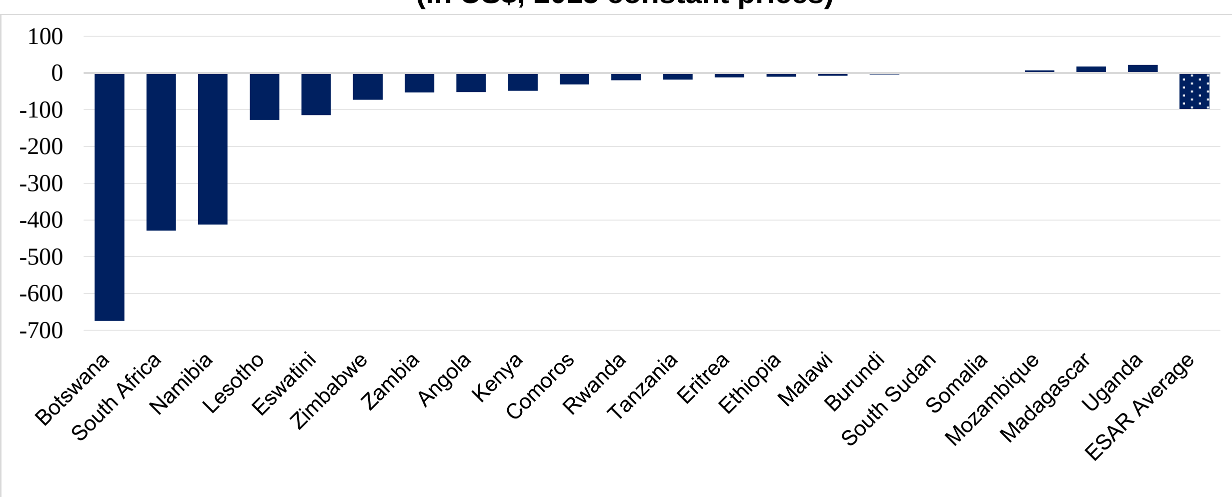
Figure 3: Projected change in tax revenue due to economic contractions, 2020 (as a %)



Source: Author, based on IMF's World Economic Outlook October 2019 database and June 2020 Update

In per capita terms, upper middle-income countries are expected to lose considerably higher tax revenues than other income groups. For instance, Botswana will lose approximately $674 per person, South Africa $428 and Namibia $412 (Figure 4). On average, the region will lose about $100 per person,[2] which is more than the US$86 estimated minimum amount of resources required to provide life-saving interventions in the health sector to a population (Cummins 2019).

Figure 4: Projected loss in tax revenue in per capita terms, 2020 (in US$, 2015 constant prices)



Source: Author, based on IMF World Economic Outlook June 2020 Update

[2] Per capita losses are arrived at by dividing projected tax revenue with projected population in 2020.

Preliminary reports testify that revenues are indeed falling fast. For example, in April alone, tax revenue collected by the eSwatini Revenue Authority was 19 percent below target. This was largely attributable to underperformance in value-added tax (Economic Intelligence Unit 2020d). In neighboring South Africa, the Treasury estimates that revenue collection for 2020/21 fiscal year is forecasted to be US$17.6 billion lower than the 2019/2020 budget estimate, which amounts to revenue loss of about US$300 per person (National Treasury RSA 2020a). In Zambia, revenue collections were four percent below the target during the month of February alone while collections from mining company tax and VAT were below target by 32 and 13 percent, respectively (Ministry of Finance Zambia 2020). In Rwanda, the Ministry of Finance and Economic Planning estimates that domestic taxes and non-tax revenues will decline by 11 percent from FRW 1825.2 billion in fiscal year 2019/20 to FRW 1632.2 billion in 2020/21 (State Finance Law 2020/21).

The sectors and tax heads that are most affected will vary by country. Preliminary reports suggest that declines in tax receipts will be largest in corporate tax, especially from tourism and hospitality and other service industries, value-added tax, and personal income tax (Economic Intelligence Unit 2020a, b, c, d; Deloitte 2020). In Mozambique for instance, the tourism sector lost approximately US$30 million a month between March and June 2020 in revenue due to company closures and restrictions in movement. Additionally, an estimated 64 percent of job losses in Mozambique have been recorded in the tourism sector (Economic Intelligence Unit, 2020a). Revenues from exports of tobacco, cocoa, flowers, and vanilla, which are key export items for Malawi, Tanzania, Kenya, and Madagascar, respectively, have also gone down. In Kenya, the flower sector was losing approximately US$25 million per day due to travel restrictions. By the end of May, Kenya's flower exports were half the amount before COVID-19, with approximately 30,000 temporary workers laid off and another 40,000 permanent staff sent on unpaid leave (Deloitte 2020:08).

2.2 Loss of revenue due to tax relief and fiscal stimuli packages

Many governments introduced fiscal stimulus programs to support households and businesses from the economic shock, which commonly included comprehensive tax relief measures. By the end of July 2020, most ESA countries had introduced various tax relief measures in response to COVID-19 such as reduction in value added tax (VAT), deferment of payments, tax exemptions for COVID-19 supplies, and fast tracking of VAT refunds (Table 1). In Kenya, for example, the government introduced a 100 percent tax relief for persons earning up to Ksh24,000 (~US$240) per month (from the base of approximately $130), while it also reduced the corporate income tax rate from 30 to 25 percent, the turnover tax rate for SMEs from three to one percent, the top rate on personal income from 30 to 25 percent, and VAT from 16 to 14 percent (Kenya Revenue Authority 2020). In total, tax relief measures will cost Kenya approximately Ksh122.2 billion in lost tax revenue (~US$1.2 billion) over 12 months. Tax relief to persons earning up ~$240 alone is expected to contribute an estimated US$194 million in lost revenue over 12 months (Parliamentary Budget Office of Kenya, 2020). In its Supplementary Budget approved in June 2020, the Government of South Africa estimates around ZAR R26 billion (~US$1.5 billion) in lost revenue due to tax relief measures implemented as part of the COVID-19 relief package (National Treasury RSA 2020a).

Table 1: Type of tax relief measures introduced by ESA governments, 2020

	Reduction in VAT, corporate and turnover tax	Removal or reduction of import and excise duties	Review of income tax-free brackets	Deferment or extension of tax payments	Removal of interest or penalties for delayed payment	Accelerated VAT reimburse-ments	Tax credits to support imports	Tax deduction for COVID-19-related donations
Angola		■					■	
Burundi								
Botswana		■	■	■	■	■		
Comoros								
Eritrea								
Ethiopia		■		■				
Kenya	■	■	■	■		■		
Lesotho								
Madagascar		■		■	■			■
Mozambique		■		■	■			
Malawi		■		■				
Namibia			■	■		■		
Rwanda		■		■	■	■		
Somalia		■						
South Sudan								
Eswatini				■		■		
Tanzania								
Uganda				■	■	■		
South Africa			■	■	■	■		■
Zambia		■		■	■			
Zimbabwe		■		■				
Total	**1**	**11**	**2**	**12**	**5**	**6**	**1**	**2**

Source: Author, based on budget statements, Deloitte, IMF Policy Tracker, Economic Intelligence Unit
Note: Information not available for Burundi, Comoros, Eritrea, Lesotho and South Sudan

Revenue losses will also arise from subsidies introduced to cushion households and businesses from the effects of the pandemic. The Government of Namibia, for example, allocated N$359 million (~US$24 million, current prices[3]) to a one-off wage subsidy of N$700 (~US$47) per employee who lost their job in the tourism/hospitality sector for up to six months, and N$23 million (US$1.5 million) to the construction industry for a wage subsidy of N$500 (US$34) per unemployed worker. An additional N$562 million (~US$37 million) was also allocated for emergency income grants of N$750 (~US$50 in one-off payments to people who lost their jobs as a result of the pandemic (IMF 2020f; Perche 2020). The Government of South Africa also provided a tax subsidy of up to R500 (~US$27) per month from April for those private sector employees earning below R6,500 (~US$350) under the Employment Tax Incentive (National Treasury RSA 2020b; IMF 2020f). Similarly, the Government of Botswana offered a wage subsidy amounting to 50 percent of salaries of affected businesses for a period of 3 months. In Ethiopia, the Federal Housing Corporation announced a 50 percent reduction of housing rent effective from April 1, 2020 (IMF 2020f) while the Government of Zimbabwe introduced a bill for the deferment of payment of rent for all people with limited capacity to pay during the lockdown (Ministry of Finance Zimbabwe 2020)

Some governments are also providing strategic fiscal stimuli in the form of concessional loans and grants to companies in critical economic sectors to facilitate recovery. This basically implies taking resources away from critical public investments in education, water, social protection and other sections. In several ESA countries, the tourism, travel and agricultural sectors have been targeted for stimuli support from the governments. The government of

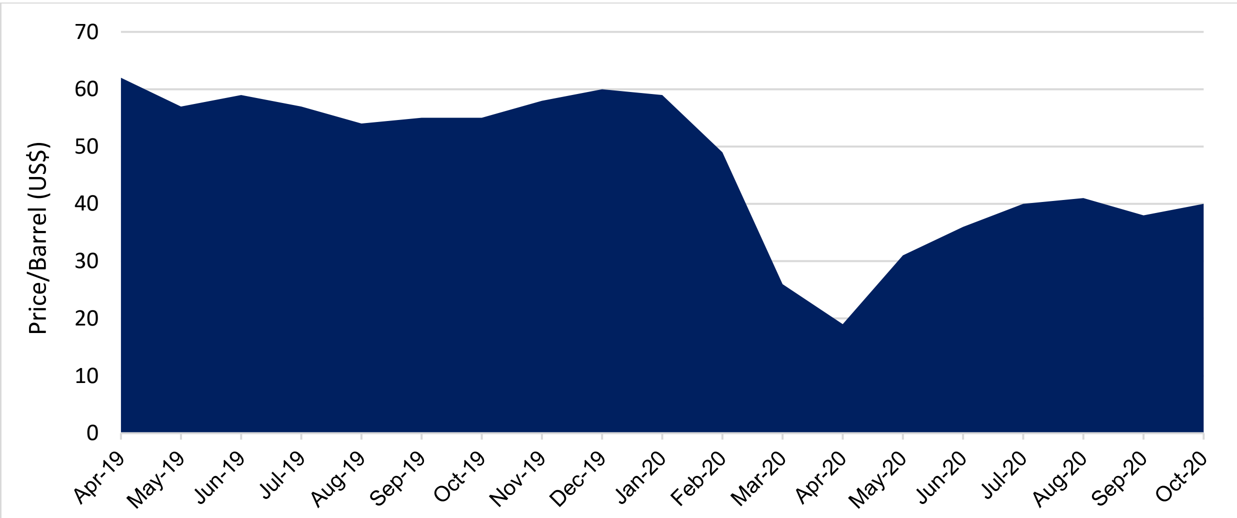
[3] All the ~US$ equivalents are based on dividing local currency value by the exchange rate of that day using https://www1.oanda.com/currency/converter/

Namibia, for example, committed a N$200 million (~US$13.4 million) guarantee for an agricultural loan scheme. Altogether, the fiscal stimulus package presented by the Government of Namibia is estimated at 4.5 percent of GDP (IMF 2020f; Perche 2020).

2.3 The collapse of global commodity prices

COVID-19 has worsened the oil price situation, which fell from an average of US$60 per barrel in December 2019 to about US$40 by mid October 2020 (Figure 5). However, it is important to note that the fall in oil prices was triggered by the rift between Russia and Saudi Arabia well before the demand-side shock of COVID-19. Within ESA, the tumble in oil prices has affected Angola and South Sudan the most. In Angola, the oil sector accounted for about 64 percent of domestic revenues and over 95 percent of exports in 2019 (UNICEF Angola 2019), while in South Sudan, oil revenue accounted for 93 percent of domestic revenue in 2019 (UNICEF South Sudan 2019). Before the pandemic, the two countries had budgeted revenue at the rate of US$55 per barrel of crude oil.

Figure 5: Global crude oil prices, September 2019 to October 2020 (in current US$/barrel)



Source: https://oilprice.com/oil-price-charts (Accessed on 20 October 2020)

Based on an estimated average oil price of $35 per barrel, Angola will lose approximately US$3.9 billion in oil revenue, which amounts to nearly a third of lost government revenue in the current fiscal year. Using the same oil price, it is estimated that South Sudan will lose an estimated US$230 million in government revenue between January and December 2020. The above figures are based on the optimistic assumption that production would not significantly go down. At the beginning of the fiscal year 2020 (January), Angola had budgeted for approximately US$10 billion oil revenue at the price of US$55 per barrel. South Sudan too had budgeted with the same price (UNICEF Angola 2019; UNICEF South Sudan 2019).

Other resource-intensive countries will also suffer declines in government revenue. In Botswana, for example, the diamond output is estimated to decline by approximately 20 percent mainly because of depressed global trade as well as the temporary closure of the Debswana Diamond Company in April 2020 (Econsult 2020). Similarly, in South Africa, where mineral products account for around 20 percent of exports, falling demand and prices will reduce export revenue, although commodities such as platinum may be more resilient than others. The Government of Zambia has already forecasted a substantial decline in copper export earnings by more than US$1 billion in 2020 due to a reduction in prices on the London Metal Exchange (LME). Copper prices opened the year at US$6,165 per metric ton but closed at US$4,754 on Wednesday 25th March 2020 (Ministry of Finance Zambia 2020). The situation has not improved since then.

COVID-19 has also disrupted other productive processes in the extractive sector. For instance, operations in Mozambique's emerging gas sector, currently under development, have been stalled, and some companies have deferred investment decisions due to COVID-19 (Economic Intelligence Unit, 2020a). The insurgency in the province of Cabo Delgado has further compounded investment challenges. Besides Mozambique, the pandemic has interfered with the development of prospective oil and gas industries in Kenya, Somalia, Tanzania, and Uganda.

With numerous unknowns about the pandemic, it is not clear when trade and prices of commodities will return to normal. It is likely that prices of most commodities will remain depressed through the end of the year, with a modest rebound during 2021. The sale of agricultural commodities, which is the mainstay of most ESA countries, has also been affected. Agriculture is a leading export sector in the region. Altogether disruptions in commodity trade will limit domestic revenues of most countries in the region.

2.4 Non-tax revenue losses

Non-tax revenue is also projected to decrease across the region. Non-tax revenue accounts for an average of 2 percent of GDP in ESA (World Bank 2020a). The latest statistics from the OECD show that non-tax revenue for Kenya is approximately 1.1 percent of its GDP, Madagascar 0.3 percent, Rwanda 2.6 percent, South Africa 0.4 percent, and Uganda 0.6 percent. In Malawi, Zanzibar, and Zimbabwe, non-tax revenue has contributed an average of four, seven, and eight percent, respectively, of total domestic revenue in recent years (UNICEF Malawi 2019; UNICEF Zimbabwe 2019; OECD 2020a).

Various streams of non-tax revenue will dry up due to the impacts of the pandemic. As demand for public services, such as business licenses, passports, trade tests, certification of products, marriages, and driver's licenses, has gone down, related government income will follow suit. Tourism-related receipts, including hotel levies, entrance fees to tourist attractions, and visas, have plummeted in most countries during the year (Deloitte 2020; Ministry of Finance Zambia; Economic Intelligence Unit 2020a, c, f). Revenues from the sale of services by ministries, departments, and agencies are equally under-performing. Already, in the past few months, several countries have reported notable decreases in non-tax revenue. Declines in road access fees, tourism receipts, service charges, and even fines have been reported in Angola, Kenya, Namibia, South Africa, Uganda, and Zimbabwe (PWC 2020; Deloitte 2020; Treasury RSA 2020). In Ethiopia, Deloitte (2020) estimates that non-tax revenue will decline by 7.7% in the fiscal year 2019/20.

Lastly, sector-specific revenue flows from ministries and departments will be dented. In the health sector, for instance, contributions to national health insurance is impacted by reduced wages and unemployment. The closure of educational institutions has also led to reduced income in the form of fees and levies paid by learners. The water sector is another example. A telephone survey conducted by the Kenya National Bureau of Statistics (KNBS) in May 2020 revealed that 33 percent of respondents failed to pay their water bills due to reduced income (KNBS 2020). Unfortunately, this decline in revenue negatively impacts on fiscal capacities of water management bodies to supply water to all residents.

2.5 Key takeaways

- Through reduced taxable activities, tax relief measures and non-tax revenue losses, COVID-19 has dramatically reduced domestic government revenue, with natural-resource intensive economies suffering more due to the collapse of global commodity prices.
- The current context means that there is very limited scope for governments in ESA to increase domestic revenue to finance COVID-19 recovery plans or investments in human capital.
- Considering falling domestic revenue, attracting external resources, especially grants and concessional loans, is probably the only viable way for most governments to meaningfully support their spending priorities.
- To avoid long term impacts on public finances, tax relief measures should only remain for a limited period.

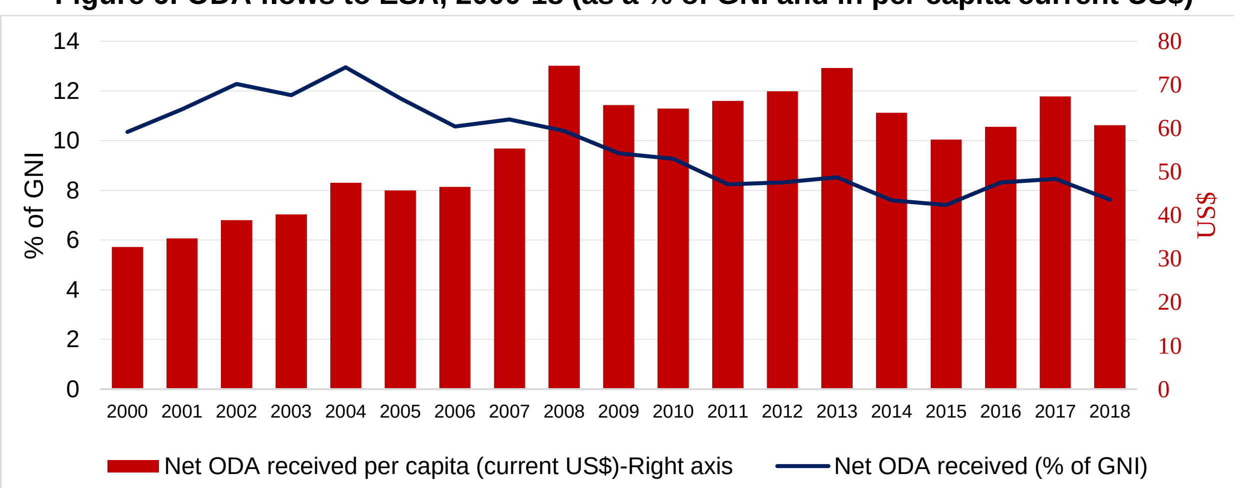
Chapter 3. Official Development Assistance: Flatlining

This chapter discusses how international financial institutions and donors are supporting ESA governments to respond to COVID-19. ODA is a critical part of the public financing equation in most countries and an indispensable source of investment in human capital. As argued in the Addis Ababa Action Agenda on Financing for Development, ODA is one of the ways through which rich countries support the development of poorer countries. Article IV of the Convention on the Rights of the Child (CRC) also encourages international cooperation in the financing of services to children when a country is facing domestic revenue constraints. This chapter is divided into three sections. The first presents the ODA picture in ESA before COVID-19, with the second focusing on ODA flows to ESA since the start of the pandemic. The last section briefly looks at the ODA outlook in 2020 and beyond.

3.1 ODA before there was a crisis

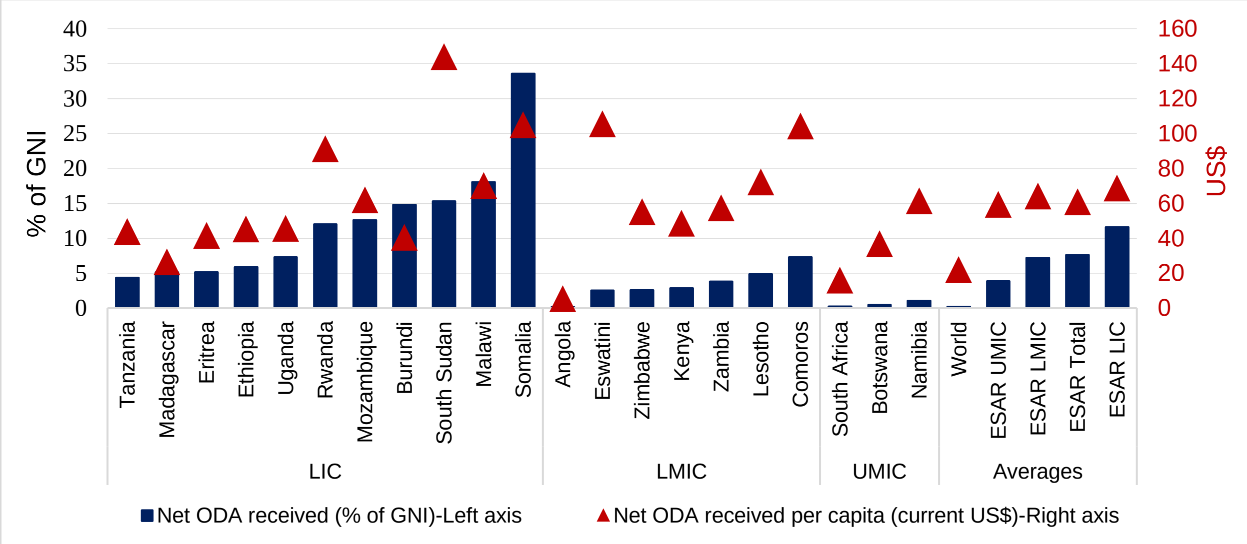
ESA is one of the most donor dependent regions of the world. Based on the latest available data from OECD (2020b), net ODA flows to the region amounted to 7.6 percent of gross national income (GNI), on average, or just over US$60 on a per person basis (Figure 6). The poorest countries benefit the most, with low-income countries (LICs) receiving ODA equivalent to 12.2 percent of GNI, on average, compared to 3.4 percent in lower middle-income countries (LMICs) and 0.6 percent in upper middle-income countries (UMICs) (Figure 7). In per capita terms, South Sudan, Eswatini, Somalia and Comoros are the top recipients, all of which received at least US$100 per person as of 2018. Despite the large inflows into the region, it is important to note that ODA remains concentrated in a subset of countries or "donor darlings." These include Ethiopia, which receives more than 20 percent of all regional aid, followed by Kenya (11 percent), Uganda (9 percent), Mozambique (eight percent), and South Sudan and Somalia (seven percent each) (OECD 2020b).

Figure 6: ODA flows to ESA, 2000-18 (as a % of GNI and in per capita current US$)



Source: Author, based World Bank, Word Development Indicators (2020)

Figure 7: Net ODA received by ESA countries, 2018, (as a % of GNI and in per capita current US$)



Source: Author, based on World Development Indicators (2020)

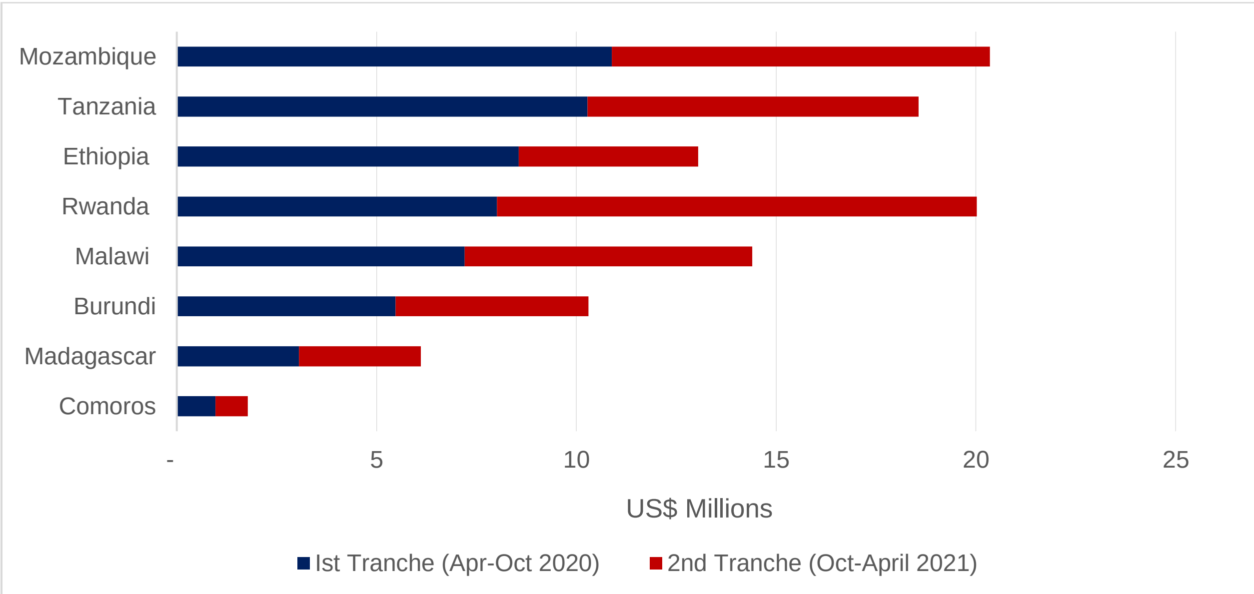
Donor assistance to the region has been volatile and declining in recent years. In total, ESA countries received approximately US$21.5 billion in ODA in 2018, compared to US$22.9 billion in the previous year (OECD 2020b). Data from the World Bank (2020a) shows that in per capita terms, ODA to ESA was approximately US$61 per person in 2018, which is 18 percent lower compared to US$74 in 2008. Since 2013, ODA on a per capita basis has been declining in the region (Figure 6). Support to the United Nations has also flatlined over the past few years, and the United States recently indicated that it would stop funding to the World Health Organisation (Lannoye 2020). ODA support to ESA countries during and after COVID-19 should therefore be understood in the context of a downward trend.

3.2 ODA in the context of COVID-19

Most traditional donors (bilateral, multilateral and private foundations) have continued to support ESA countries to respond to the pandemic although inflows are lower than expected. The support offered to ESA countries has mainly been through debt relief, approvals to reallocate resources from existing grants, and, in some cases in the form of COVID-19-specific grants and concessional finance channeled mostly towards health, social protection and water, sanitation and hygiene (WASH) responses.

As of October 2020, about a third of ESA countries had benefitted from debt relief grants offered by the IMF and the World Bank. In April 2020, the Executive Board of the IMF approved immediate debt service relief to 25 of its member countries under the Catastrophe Containment and Relief Trust (CCRT) (IMF 2020d). Through this initiative, beneficiary countries were provided with grants to cover their debt obligations for an initial period of six months, which was intended to allow revenue that was earmarked for debt service to be used to respond to the impacts of the pandemic. For the eight countries in ESA that benefited, total support originally amounted to US$54 million, which was then extended in October to approximately US$136 million (Figure 8).

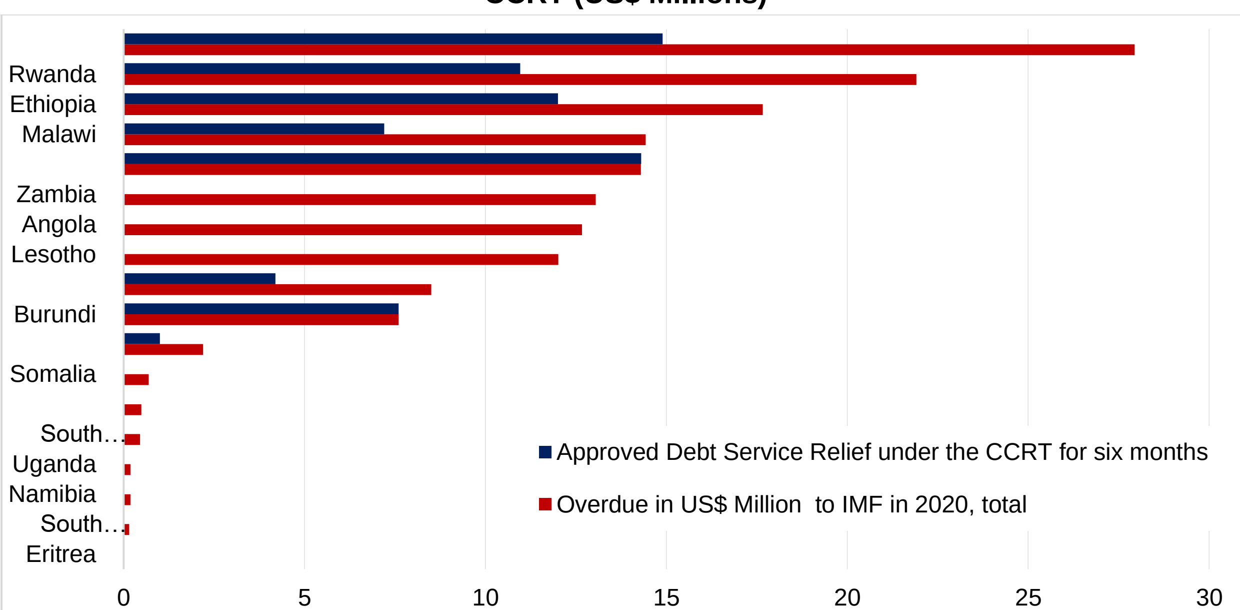
Figure 8: IMF debt service relief under the CCRT to select ESA countries, April 2020 – April 2021, (in US$ millions)



Source: IMF Emergency Funding (Updated 20 October 2020)

Debt service relief offered by the IMF and the World Bank is, however, only a small fraction of what is owed by ESA governments in 2020. Country information from the members' financial data shows that about US$273 million is due to the IMF from ESA countries (Figure 9). Out of this amount, 43 percent (US$118 million) is expected from Kenya alone.

Figure 9: Debt service due to the IMF in 2020 in ESA countries and debt relief under the CCRT (US$ Millions)



Source: Author, based on IMF Members' Financial Data (May 2020)
Note: Kenya not included but owing US$118.8 million in 2020

Eleven countries in ESA are also participating in the Debt Service Suspension Initiative (DSSI) coordinated by the World Bank in collaboration with the IMF. The DSSI was approved in April 2020 by the World Bank's Development Committee and the G20 ministers of finance to help countries focus on the pandemic by easing their debt service burden. By signing up for the DSSI, governments commit to use freed-up resources to finance COVID-19 responses, including health and social protection expenditures (World Bank 2020c). As of August 2020, 11 governments had subscribed to this initiative, including Angola, Burundi, Comoros, Ethiopia, Lesotho, Madagascar, Malawi, Mozambique, Tanzania, Uganda, and Zambia. Altogether, the countries are expected to benefit from US$3.8 billion savings through the DSSI, although almost 70 percent will go to Angola (Table 2). In contrast to the CCRT benefits, which are not repayable, support under DSSA simply postpones debt payments to a future point.

Table 2: Summary of DSSI benefits for participating ESA countries, as of October 2020

Country	Risk of external debt distress	Potential DSSI savings (in US$ millions)	Potential DSSI savings (% of 2019 GDP)
Angola	High	2,645.6	3.1%
Burundi	High	3.9	0.1%
Comoros	Moderate	2.3	0.2%
Ethiopia	High	511.3	0.5%
Lesotho	Moderate	9.5	0.3%
Madagascar	Moderate	24.0	0.2%
Malawi	Moderate	17.1	0.2%
Mozambique	In distress	294.2	2.0%
Tanzania	Low	148.9	0.2%
Uganda	Low	95.4	0.3%
Zambia	High	139.2	0.6%

Source: World Bank, DSSI (20 October 2020)

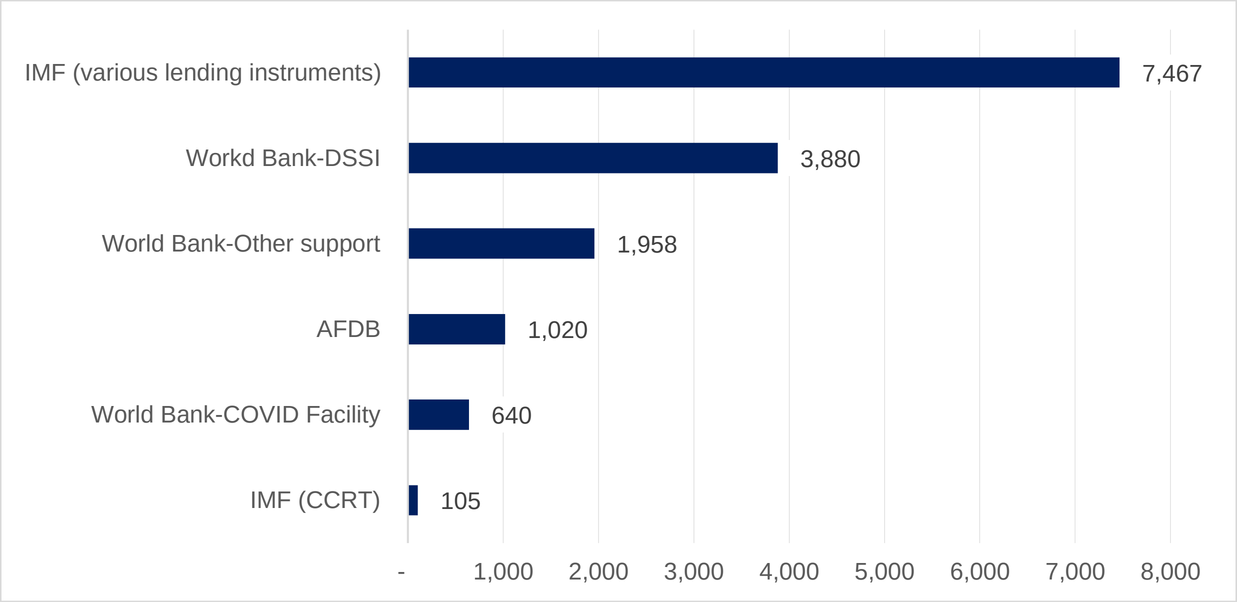
Besides debt relief, many bilateral and multilateral donors approved reallocations of existing financial commitments towards COVID-19. This move enabled governments, civil society organizations, and UNICEF to roll out key activities at the onset of the pandemic. Moreover, some donors agreed to frontload resources, which had been committed for several years. With the pandemic still ongoing, further reallocations are inevitable in cases where donors had multi-year financial commitments. Some donors have provided new funding to strengthen national responses to the pandemic. In Zambia, for example, the United Kingdom pledged GBP30 million towards scaling up social cash transfers while the United States approved a grant of US$14.5 million in May 2020 (Ministry of Finance Zambia 2020). However, new grant funding to ESA countries has been lower than expected as of October 2020.

Most of the external support to ESA countries has come from international financial institutions, especially the IMF. In March, the IMF announced that it has $1 trillion in lending capacity available to its membership. Despite this huge commitment, by mid-October, the IMF had approved only $7.4 billion to 12 ESA countries, over half (US$4.3 billion) of which benefitted South Africa. This excludes funding approved as debt relief under the CCRT. Annex 2 provides details of funding provided by the IMF to ESA countries by the mid-October.

The World Bank also announced various financing packages. In addition to the US$160 billion commitment made at the beginning of the year, the World Bank also indicated that it would avail US$196 million to 64 of the world's poorest countries with reported cases of COVID-19 under the Pandemic Emergency Financing Facility (PEFF) (World Bank 2020e). Allocations within the PEFF will be determined by population size and reported cases. By the end of August, the World Bank had approved close to US$650 million under the dedicated COVID-19 Fast-Track Facility to ESA countries in addition to funding provided through other instruments. For instance, in May, the World Bank approved a US$1 billion financing package to Kenya in the form of a loan to help advance the government's inclusive growth agenda, including in affordable housing and support to farmers (World Bank 2020g).

In total, by mid-October 2020, international finance institutions (IFIs) had committed about US$15.8 billion to ESA countries. As indicated earlier, about half of this amount (US$7.4 billion) was committed by the IMF through its various lending facilities[4] and grant packages (Figure 10). Excluding support under the DSSI, the World Bank provided ESA countries with US$2.5 billion of support by mid-October, with the African Development Bank availing slightly over US$1 billion. A large share of support from the World Bank is through redeployment of existing commitments (World Bank-Other support in Figure 10). Although significant, funding inflows are lower than growing financial needs. In March 2020, long before the severity of the economic shock was known, African Ministers of Finance asked the Group of Twenty (G20) for $100 billion in assistance through a mix of financing, grants and debt relief (UNECA 2020a). The IMF also just estimated that governments in Africa require $1.2 trillion in additional funding just to recover from the economic damage through 2023 (IMF 2020k).

Figure 10: External support from IFIs to ESA countries, as of mid-October 2020 (in US$ millions)

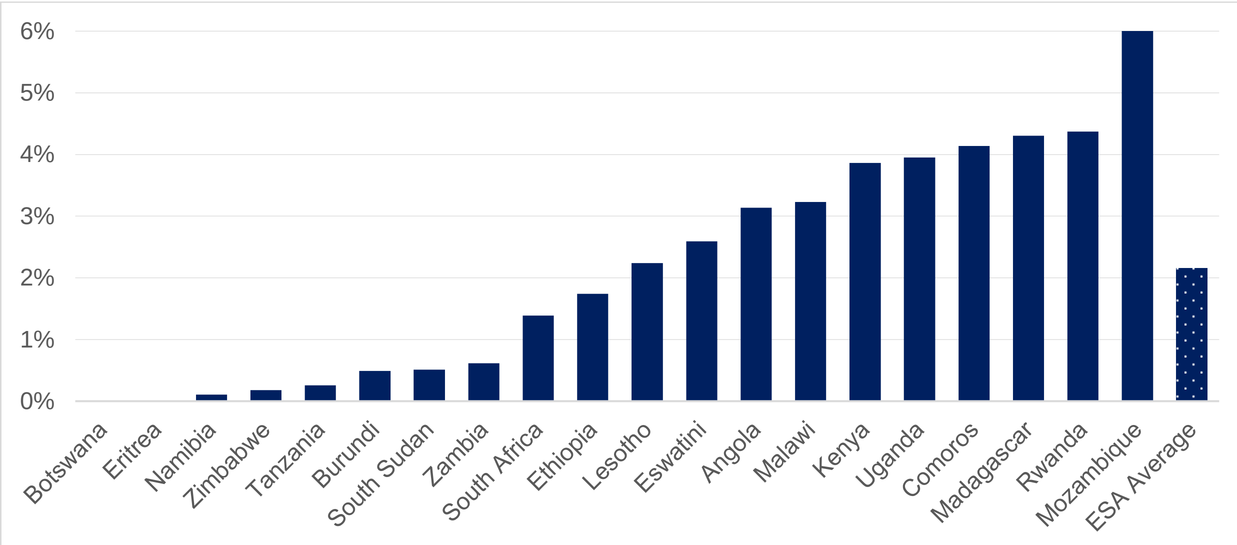


Source: Author, based on data from AFDB, IMF, and World Bank (Accessed on the 15th of October 2020)

[4] These are: Extended Credit Facility, Rapid Financing Instrument, and Rapid Credit Facility.

Total external support to ESA countries in the form of grants and concessional loans averaged 2.2 percent of GDP by mid-October 2020. Mozambique is expected to receive the highest support at 6 percent of GDP, followed by Rwanda (4.4 percent), Madagascar (4.3 percent), Comoros (4.1 percent) and Uganda (4.0 percent) as shown in Figure 11.

Figure 11: Total external support to ESA countries, as of mid-October 2020, (as a % of GDP)



Source: Author, based on date from IMF, World Bank, AFDB and DEVEX (Accessed on 15 October 2020)

Not all ESA countries have so far accessed external support from IFIs. As of mid-October, about a third of ESA countries had not received any support from the IMF and World Bank on average. Some countries (Botswana, Eritrea, and Namibia) did not receive any support at all (Table 3). Countries such as Eritrea and Zimbabwe, are failing to access concessional finance due to outstanding arrears to other multilateral institutions as well as diplomatic factors. For others, it could be due to sovereign reasons like preferring domestic to foreign loans. Information about other external loans procured from lenders beyond the IMF and the World Bank during this time of COVID-19 is not publicly available, which raises questions on debt transparency.

Table 3: ESA countries that received support from the World Bank, IMF and AFDB, as of mid-October 2020

	IMF	World Bank	AfDB
Angola			
Botswana			
Burundi			
Comoros			
Eritrea			
Eswatini			
Ethiopia			
Kenya			
Lesotho			
Madagascar			
Malawi			
Mozambique			
Namibia			
Rwanda			
Somalia			
South Africa			
South Sudan			
Tanzania			
Uganda			
Zambia			
Zimbabwe			

Source: IMF, World Bank and AFDB (Accessed on 15 October 2020)

3.3 The outlook for ODA

COVID-19 will certainly affect the size of ODA flows to the region. When combining recent ODA trends and the ongoing impacts of the pandemic on high-income countries, external support to ESA is likely to continue a downward trajectory. One of the clear constraints has been the inability of most donors to fulfill their commitment to allocate at least 0.7 percent of their GNI to ODA (Lannoye 2020). Lessons can be drawn from the global financial crisis on how some rich countries cut back their ODA budgets after 2008 (Ortiz & Cummins 2020). If the pandemic is not fully contained by 2021, then ODA is expected to decline even further.

With limited fiscal space to maneuver, donors are more likely to revisit their funding priorities and introduce stricter eligibility criteria for funding across and within nations. Chances are high that after COVID-19 donors will focus on areas that they consider 'essential' depending on their foreign policy, development priorities, and other interests (Lannoye 2020). The merger of the Foreign Office and the Department of International Development (DFID) of the United Kingdom supports this view. Further, it is anticipated that the emphasis on aid for private sector development will heighten. Accordingly, blended financing, public-private partnerships, and business for development initiatives will gain momentum in the medium to long term (Ortiz & Cummins 2020). With the increasing focus on recovery, spending on sectors such as communication and technology, energy, tourism, and services will outmatch human capital sectors. In the short-term, priority will continue to be given to containment of the pandemic, as well as development and distribution of a vaccine. Luckily, it is anticipated that Sub-Saharan Africa will continue to be one of the favorite destinations of ODA, on account of the high concentration of LICs as well as the recurrence of conflict and other shocks.

Unfortunately, considering plummeting domestic revenue, the only hope for most ESA countries is greater external support. IFIs, especially the IMF and the World Bank, offer the greatest hope in the short term. This is particularly the case if considering the meagre inflows of bilateral grants. If support from IFIs is to be impactful, the process of approving and disbursing funds should be expedited. At the same time, exceptional waivers should be provided to countries such as Zimbabwe who, for various reasons, have not been able to access funding from the World Bank and the IMF despite being battered economically by the pandemic.

3.4 Key takeaways

- Although ODA inflows are currently lower than expected, donor assistance will remain critical for many ESA countries.
- IFIs need to play a much stronger role if governments are going to have any chance to safeguard child well-being.
- On their part, ESA governments have the responsibility to ensure value for money and to be transparent and accountable for all resources received from donors.
- For debt relief to achieve intended objectives, ESA governments should ensure that resources freed-up through various initiatives are strategically used to save lives, invest in human capital and support a rapid recovery.
- In the long term, ODA prospects are grim, making a strong case for ESA governments to strengthen domestic resource mobilisation.

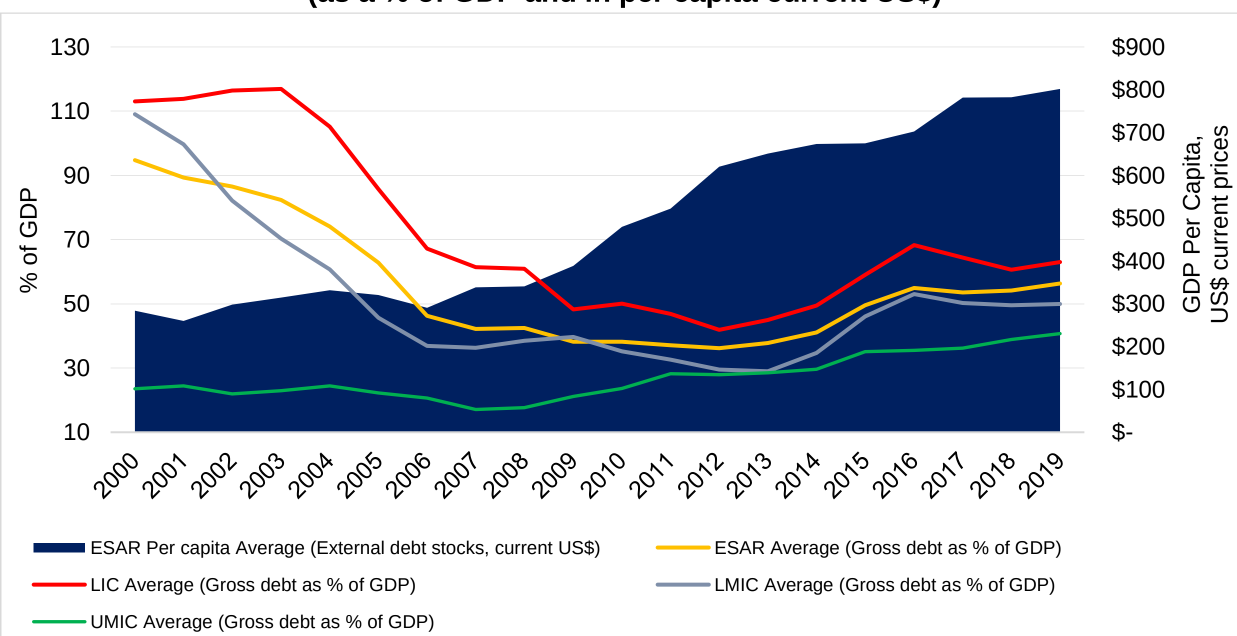
Chapter 4. Debt: Spiraling out of control

This chapter discusses the debt situation in ESA countries and warns of a looming debt crisis. With almost no space left to mobilize additional domestic revenue and flatlining ODA, many governments are exploring borrowing opportunities to finance their fiscal deficits. It is a normal public finance practice to borrow from domestic and international sources if government revenues are insufficient to meet expenditure needs. Debt financing is especially justified under the current circumstances where the size of government budgets can be the difference between life and death for vulnerable populations. However, this must be done in line with good principles of responsible lending and borrowing. The chapter is divided into three main sections, with the first examining the debt situation before the crisis, the second focusing on debt in the context of COVID-19, and the last shedding light on the debt outlook.

4.1 Debt before there was a crisis

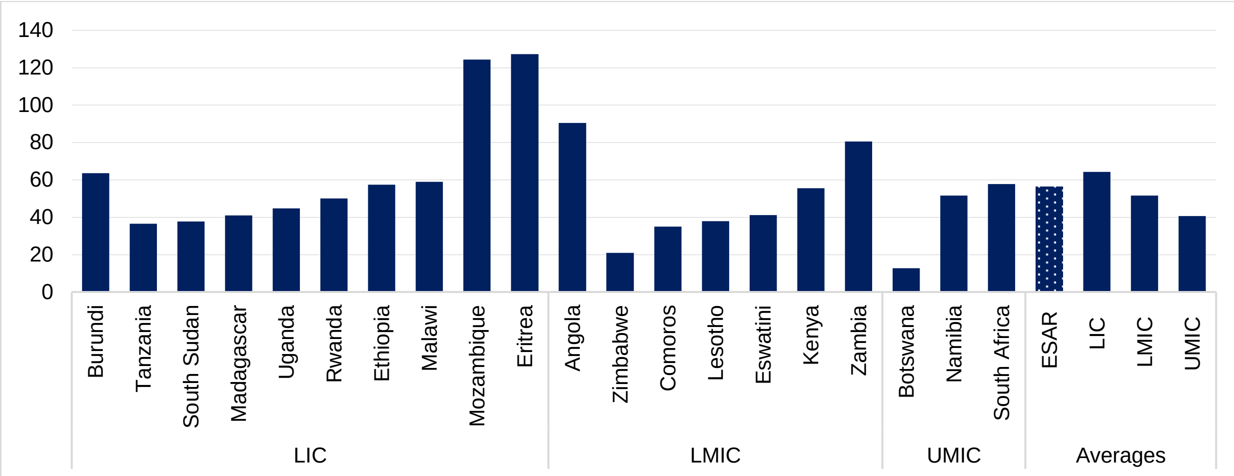
Prior to COVID-19, debt burdens were rising across the region, with nearly one third of countries facing a debt crisis. At the end of 2019, the regional debt burden was estimated at 56 percent of GDP, up from 36 percent in 2012 (Figure 12). In per capita terms, total debt increased significantly over the past decade. Total external debt alone for ESA countries more than doubled between 2009 and 2019 on a per capita basis, jumping from US$388 to US$801 (current prices) (World Bank 2020f). The debt burden is highest among the poorest countries in the region. As of 2019, the average debt for LICs was 64 percent of GDP compared to just over 50 percent of GDP in LMICs and about 40 percent in UMICs (Figure 13).

Figure 12: Average total debt trends in ESA, 2000-19 (as a % of GDP and in per capita current US$)



Source: Author, based on World Bank, International Debt Statistics (2020)

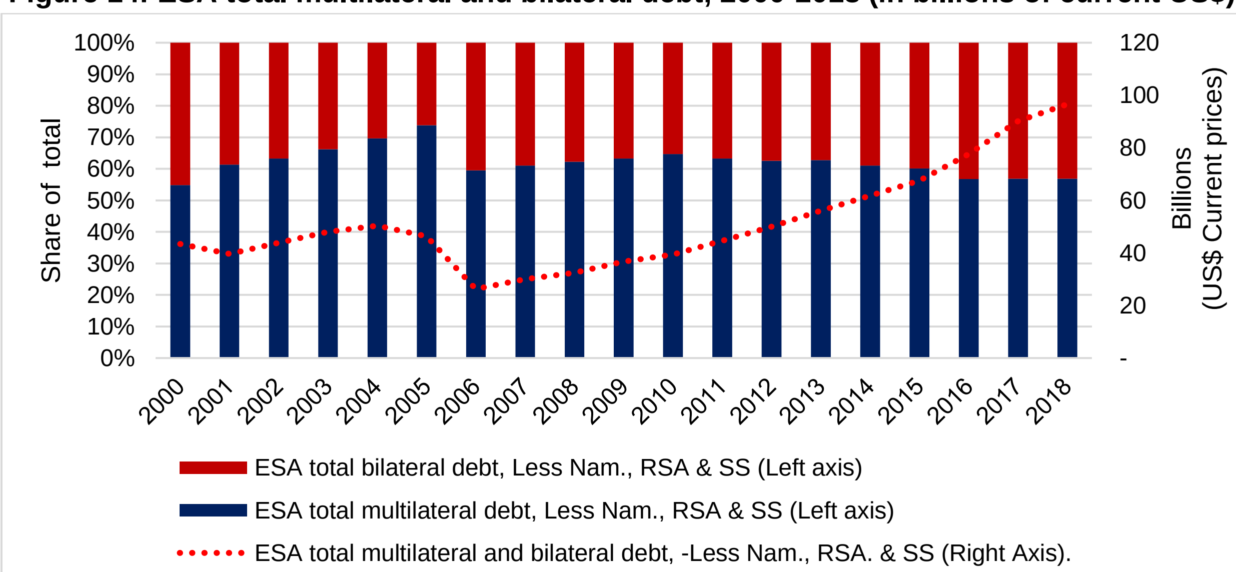
Figure 13: General government gross debt in ESA countries, 2019 (as a % of GDP)



Source: Author, based on World Bank, International Debt Statistics (2020)

As total debt across the region has grown, the composition of external debt has unfavourably changed and increased borrowing costs. The latest available data shows that costlier bilateral debt is increasing at a faster rate than multilateral debt (World Bank 2020f). In total, between 2010 and 2018 multilateral loans increased by 116 percent (in current prices) while bilateral loans[5] went up by nearly 200 percent; this amounts to average annual growth rates of 10 and 15 percent, respectively (Figure 14). At the same time, the proportion of cheaper concessional loans declined from a peak of 59 percent, on average, in 2005 to 41 percent in 2018. This means that ESA countries, especially LICs, are increasingly resorting to costlier loans including from private lenders and some bilateral lenders.

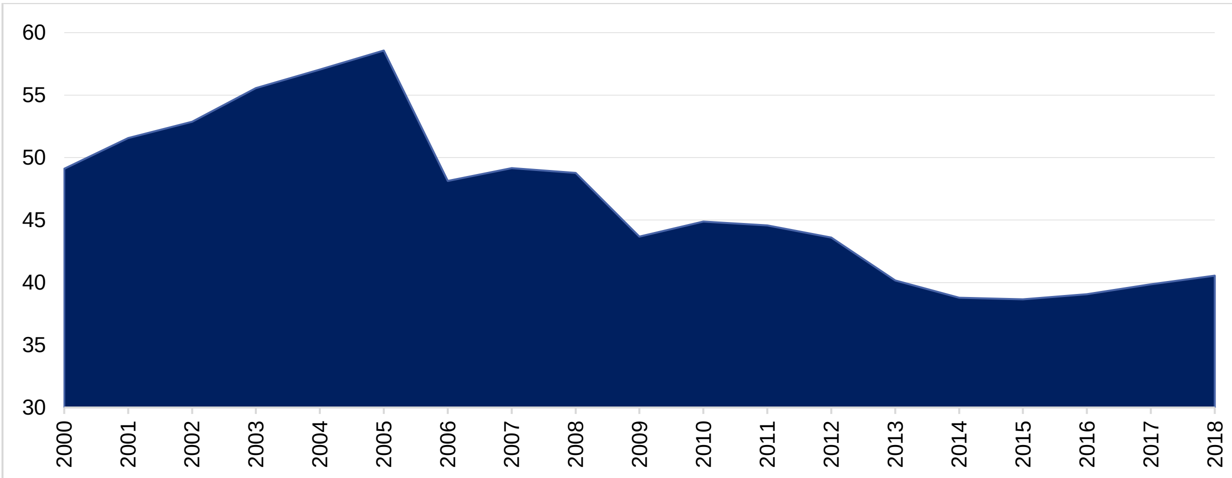
Figure 14: ESA total multilateral and bilateral debt, 2000-2018 (in billions of current US$)



Source: Author, based on World Bank, International Debt Statistics (2020)
Note: Data unavailable for Namibia (Nam), South Africa (RSA), and South Sudan (SS)

[5] Bilateral lenders not only include governments but also affiliated institutions such as central banks, official export credit agencies and other autonomous bodies. This data is for 19 ESA countries excluding Namibia and South Sudan where data is not available, as well as South Africa where only data for loans from multi-lateral institutions is available.

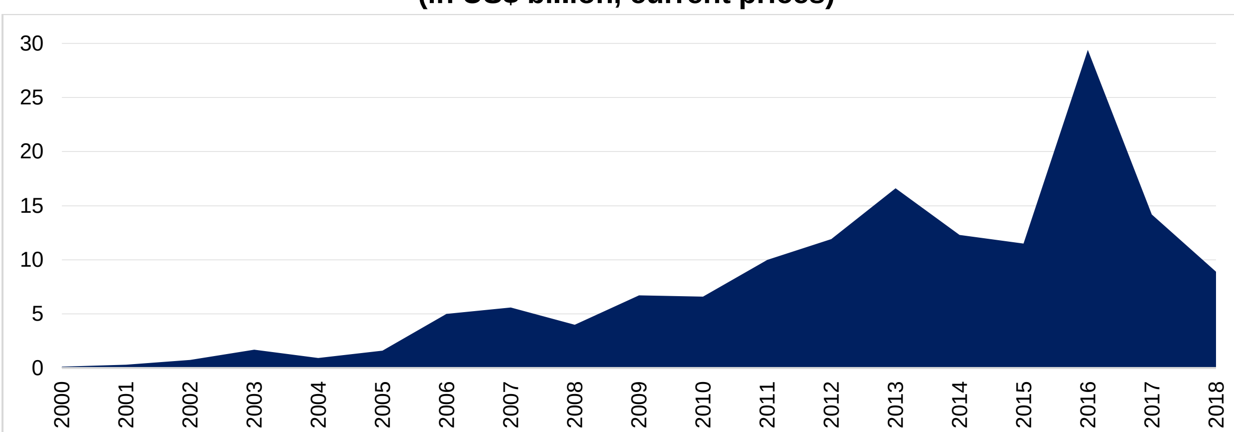
Figure 15: Concessional debt trends in ESA, 2000-18 (% of total external debt)



Source: Author, based on World Bank, International Debt Statistics (2020)
Note: Data unavailable for Namibia, South Africa, and South Sudan

In recent years, China has become one of the most significant bilateral lenders to the region. The total amount of loans provided by China per year to ESA countries exponentially grew from around US$100 million in 2000 to nearly US$30 billion in 2016 (Figure 16). The latest estimate for 2018 indicates total lending at around US$8.5 billion to the region, which amounted to about one-fifth of all bilateral and multilateral loans. Two-thirds of Chinese loans are for infrastructure projects in transport, mining, power, and communications (Brautigam et. al 2020). As part of the G20 initiative, China has agreed to temporary debt relief to its debtors, including ESA countries. There remain, however, many questions as to if or how this will play out.

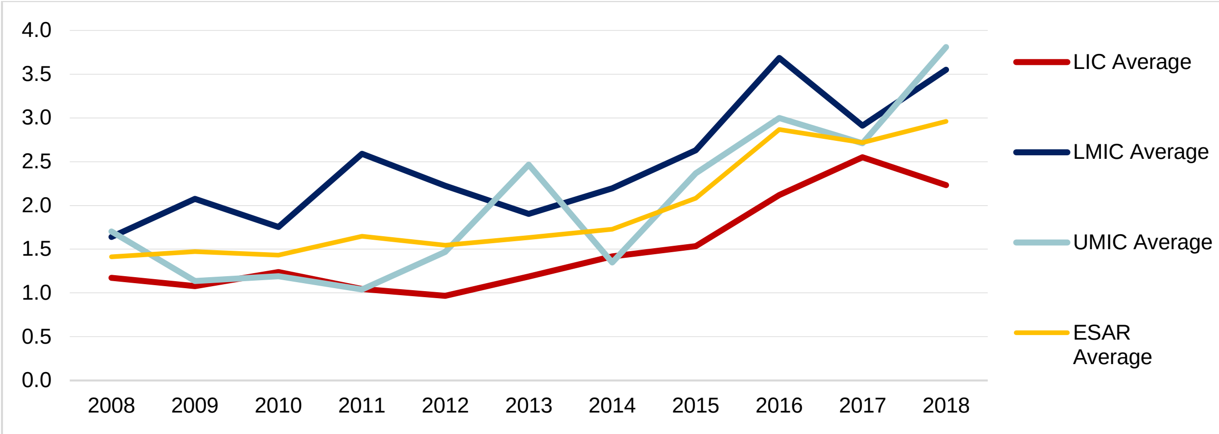
Figure 16: Total annual Chinese lending to governments in ESA, 2000-18 (in US$ billion, current prices)



Source: Brautigam et al (2020)

As debt accumulation has continued unabatedly in recent years, repayment costs have also steadily increased. On average, total debt service for ESA doubled from about 1.2 percent of GNI in 2010 to 2.2 percent in 2018 (Figure 17). Based on the latest estimates in 2018, UMICs had a higher debt service burden (3.8 percent) than LICs and LMICs, at 2.2 percent and 3.5 percent, respectively. This is partly because LICs access more concessional finance than UMICs.

Figure 17: Average cost of debt service, 2008-18 (as a % of GNI)

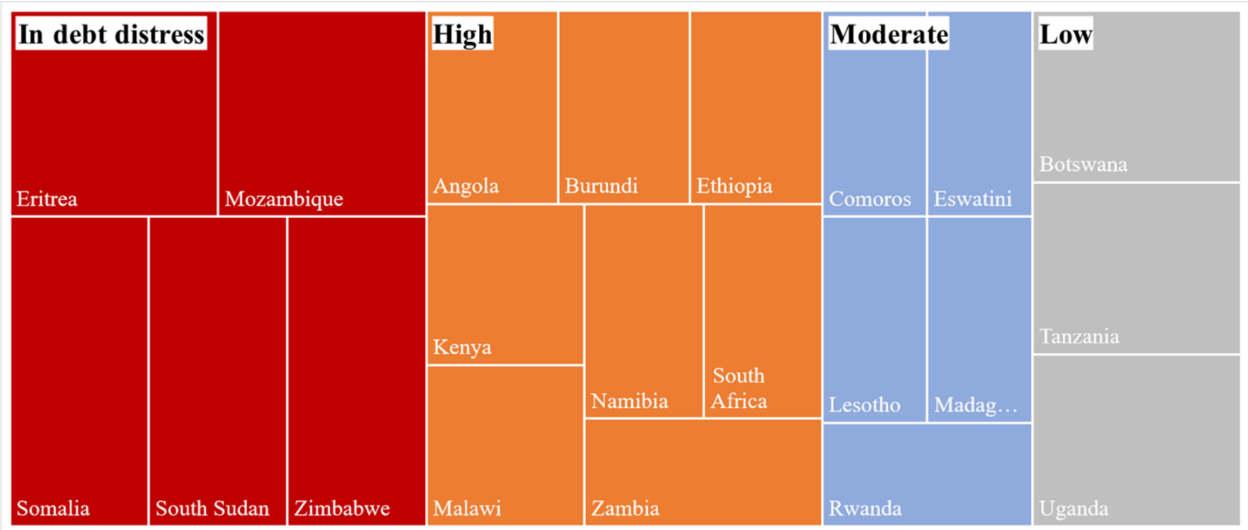


Source: Author, based on World Bank, International Debt Statistics (2020)
Note: Averages exclude Namibia, Somalia and South Africa

As a share of total annual government budgets, the debt burden for most ESA countries was on a sharp, upward trajectory prior to COVID-19. In Malawi, for instance, debt service costs shot up from approximately 12 percent of the total government budget in fiscal year 2014-15 to nearly 20 percent in fiscal year 2018-19 (UNICEF Malawi 2019). This has been worsened by domestic borrowing, which is very expensive, with interest rates in the 15-20 percent range. In Angola, planned debt repayment costs were expected to consume close to 60 percent of the 2020 budget before COVID-19 (UNICEF Angola 2019). Unfortunately, debt repayment has been met at the expense of critical investments in human capital sectors. In Angola, for example, the rising debt burden contributed to a 17 percent cut in the social protection budget in 2019 (UNICEF Angola 2019). And in Zambia, increased public spending on debt service led to reductions in social welfare spending (ZIPAR 2018). Then there is Ethiopia. Despite having one of the highest under-five mortality rates in the world, the government currently spends twice as much on debt service as it does on public health services (Ahmed 2020).

The rise in debt has also increased the risk of debt distress. Based on the latest IMF debt sustainability assessments, half of ESA countries are at least under high risk of debt distress, with five countries currently considered to be in debt distress, which includes Eritrea, Mozambique, Somalia, South Sudan, and Zimbabwe (Figure 18). Only four countries were recently assessed as having a low risk of debt distress (Botswana, Rwanda, Tanzania, and Uganda). With new debt being procured and risks of defaulting increasing, the chances are high that debt distress levels will worsen for some countries.

Figure 18: Debt distress levels of ESA countries, latest available



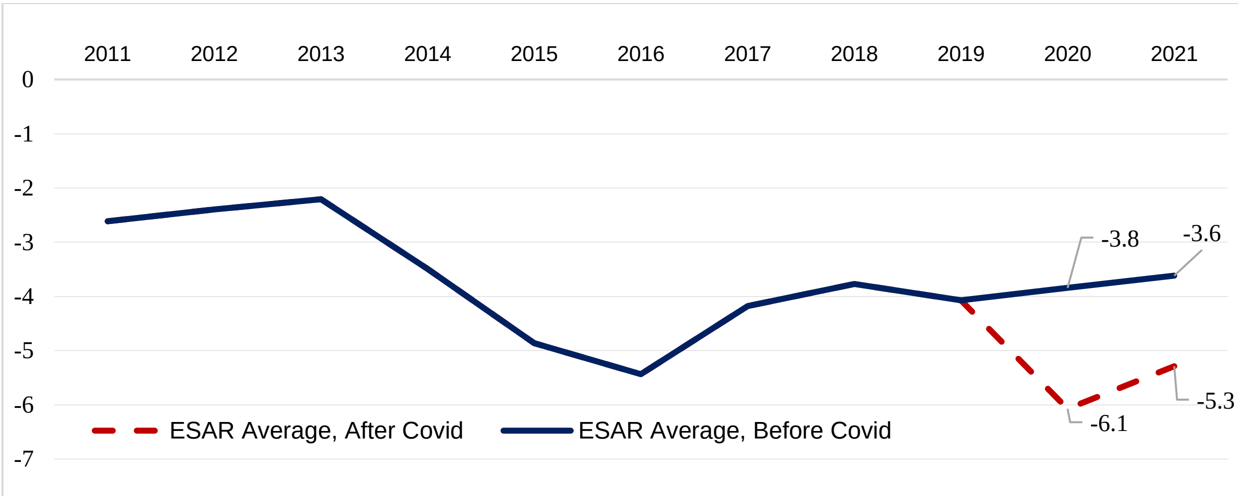
Sources: Angola, Botswana, Eritrea, Eswatini, Namibia and South Africa based on latest IMF Article IV country reports; all others are based on Latest Publicly Available Debt Sustainability Analyses Under the Joint World Bank-IMF Debt Sustainability Framework for Low Income Countries (LIC-DSF), as of September 2020.

Somalia offers one hopeful case for reducing debt in the region. In March 2020, the government was approved for debt relief under the enhanced Heavily Indebted Poor Countries (HIPC) Initiative, which means that its external debt will be reduced from US$5.2 billion to less than US$600 million if it is able to successfully implement various reform initiatives and reach the HIPC Completion Point in around three years (IMF 2020h). Immediately after, the IMF approved nearly US$400 million under the Extended Credit Facility (ECF) and the Extended Financing Facility (EFF) to support the implementation of the National Development Plan and the required reforms under HIPC (IMF 2020j).

4.2 Debt in the context of COVID-19

With domestic revenue falling across the region and ODA flatlining, governments have no option but to borrow to meet priority spending needs. According to projections from the IMF (April 2020), the immediate impact of COVID-19 on the fiscal balance of ESA countries (the difference between all government income and total government spending) was about 2.3 percent of GDP (Figure 19). Prior to the pandemic, the deficit in 2020 was expected to be around -3.8 percent of GDP, on average, but this was revised to -6.1 percent. The IMF's June 2020 Update showed that economic contractions are expected to be much larger than initially thought, raising the risk of worsening fiscal balances. It is thus widely expected that the difference between government revenue and spending needs will continue to widen, especially if the pandemic is not quickly contained.

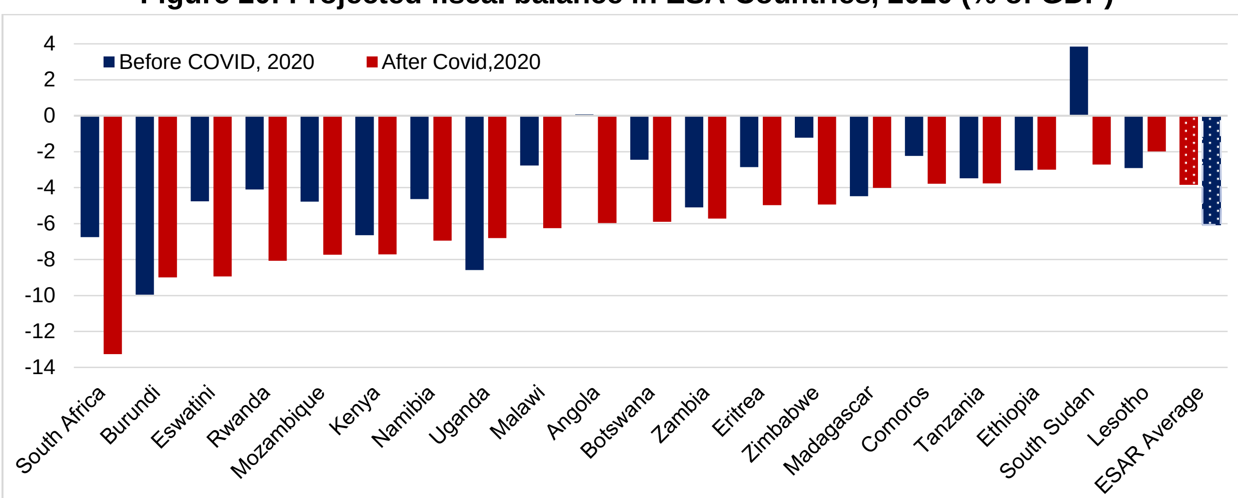
Figure 19: Average fiscal balance in ESA, 2011-21 (% of GDP)



Source: IMF, World Economic Outlook, April 2020

The evolution of the fiscal deficit in each country will depend on several factors. These include the economic structure and growth patterns prior to COVID-19, current revenue collection capacity, the number and type of fiscal stimulus programs, and expenditure ambitions going forward. Based on the initial estimates from the IMF released in April 2020, Angola, South Africa and South Sudan were expected to be the most severely affected by COVID-19, with fiscal deficits expanding by at least 6 percent of GDP due to the shock (Figure 20). Lesotho was projected to have the smallest deficit (2% of GDP) and South Africa the biggest (13% of GDP).

Figure 20: Projected fiscal balance in ESA Countries, 2020 (% of GDP)



Source: IMF, World Economic Outlook database, April 2020
Note: Data unavailable for Somalia

Fiscal deficits will be financed in various ways, including by concessional loans and grants offered by the IMF, World Bank and the African Development Bank. Domestic and external borrowing from other sources are also options from many countries. Concessional finance should however be attractive to LICs because of the high costs of domestic and external loans from bilateral and private lenders. At the same time, very few governments of LICs and LMICs in the region have good sovereign credit ratings that enable them to borrow from external capital markets.

Besides external finance, some ESA countries are also eyeing domestic markets for additional financing. In their 2020/21 budget statements, ministries of finance in Kenya, Rwanda, Tanzania, and South Africa have indicated that they will also borrow from domestic markets to finance their deficits for fiscal year 2020-21. The domestic share of total debt is significant in most ESA countries. Unfortunately, domestic debt is often costlier. This effectively increases the repayment burden. In South Africa, for example, domestic debt over the past few years accounted for more than three-quarters of the total debt stock (National Treasury RSA 2020b). Kenya's domestic share of the total debt stock has averaged 50 percent over the past five years (CBK 2020). In the fiscal year 2018-19, total domestic debt for Malawi surpassed foreign loans to stand at slightly over 50 percent just before the pandemic (UNICEF Malawi 2019). In Madagascar, domestic debt accounted for 30 percent of the total debt stock before COVID-19 (IMF 2018). Dependency on domestic markets is largely a function of the level of development of domestic financial markets. Besides domestic and foreign borrowing, there is still a risk that some countries may resort to printing money to finance the deficit. Unfortunately, this option will make inflation worse and often lead to currency devaluation in most contexts.

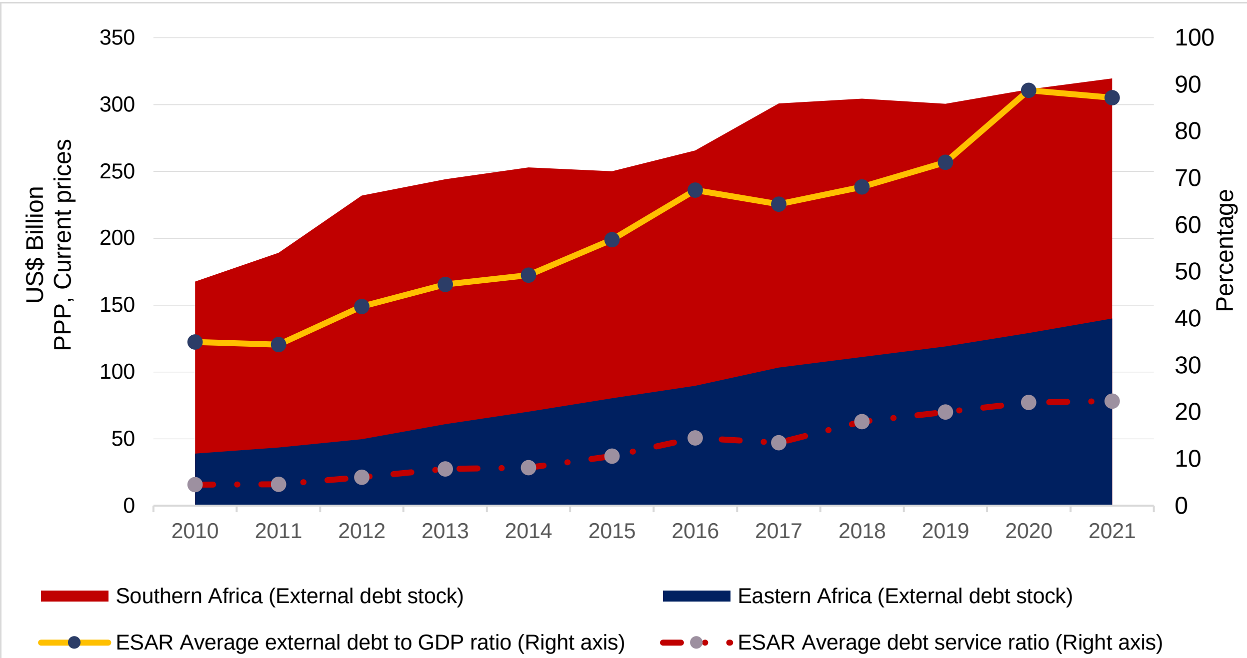
Regardless of the source of loans, the reality is that debt is piling up for most ESA countries. The pandemic has now made it almost impossible for many ESA countries to meet their debt-service obligations. Zambia has already defaulted on its debt repayments to China and other creditors (Harvey 2020). The heavy debt burden amidst underperforming domestic revenues has prompted calls by many countries in ESA for a much longer period of debt relief and for creditors to start considering partial forgiveness. Recognizing repayment constraints, Ministers of Finance for African States, under the auspices of the United Nations Economic Commission for Africa (UNECA), requested debt service relief to the tune of US$44 billion from the IMF, World Bank, and European Central Bank at the start of the pandemic (UNECA 2020a). In Ethiopia, debt service relief in 2020 by all its lenders could save the country US$1.7 billion in payments, which would amount to US$3.5 billion if extended through 2022 (Ahmed 2020).

The looming debt crisis is an issue that many lenders have acknowledged. As described in Chapter 3, several lenders, including the IMF and World Bank, have approved various forms of debt relief for the poorest countries. This, however, is only deferment of debt service, which is a kind of debt restructuring. The G2O has argued that such a debt standstill removes the immediate debt service pressure on countries so that they can focus on responding to the pandemic. It should be also kept in mind that, whilst debt relief discussions may be relatively easy with multilateral institutions, negotiating with private creditors is a much more complicated process.

4.3 The outlook for debt

Total debt stocks and servicing costs are expected to continue rising in the region. Based on projections by the Economic Intelligence Unit (2020g), total external debt stock for ESA countries will increase from US$419 billion (purchasing power parity or PPP in current prices) in 2019 to US$459 billion in 2021. Over the same period, external debt as a percentage of GDP is expected to increase from 56 percent in 2019 to 64 percent in 2021 (Figure 21). Domestic debt is also anticipated to increase in most countries. At the same time, the average costs of debt service as a percentage of total government expenses will increase significantly in the medium to long term as loans mature. In the short-term, the debt service ratio for ESA countries is projected to move from 20 percent in 2019 to 22 percent in 2021, on average. Higher debt service costs will eat into available fiscal space and make it difficult to increase – or even maintain – investments in human capital sectors.

Figure 21: External debt stock in ESA, 2010-2021
(in US$ billion and debt service ratio)



Source: Author, based on data from the Economic Intelligence Unit (2020)
Note: Southern African countries comprise of Angola, Botswana, Lesotho, Malawi, Mauritius, Mozambique, Namibia, South Africa, Swaziland, Zambia, and Zimbabwe while Eastern African countries comprise of Burundi, Comoros, Djibouti, Eritrea, Ethiopia, Kenya, Madagascar, Rwanda, Seychelles, Somalia and Uganda

The prospects for a regional debt crisis are very real. Given the recent history of lackluster economic performance alongside climate, conflict and other shocks, the economies of most ESA countries are unlikely to recover fast enough to cover the growing debt burden. Recognizing this, many governments have already started holding discussions with creditors to prevent the current debt situation from becoming unsustainable and leading to more cases of debt distress. Reports on Zambia's default is likely the first of many more (Harvey 2020). The one certainty is that managing fiscal deficits and sustainable debt levels will feature prominently in fiscal policy discussions for year to come.

4.4 Key takeaways

- Most governments faced unsustainable debt situations prior to COVID-19. And the current collapse in revenue and rising fiscal deficits means that a regional debt crisis is a very real possibility. This would be a catastrophe for children, as cash-desperate governments would be locked out of capital markets and unable to sustain investment in human capital sectors.

- To minimize repayment costs, governments are strongly encouraged to seek as much concessional loans and grants as they can in order to support immediate investments in economic recovery and human capital.
- If not already started, governments should engage in serious dialogue with creditors to agree on feasible and sustainable repayment strategies, including debt forgiveness in certain cases.
- If debt restructuring and/or forgiveness agreements are not reached with bilateral and private sector lenders in the near future, there are only two possible ways forward: default or debt repayments at the expense of investment in economic recovery and human capital.
- The increased rate of domestic and external borrowing makes a strong case for close adherence to debt transparency standards.

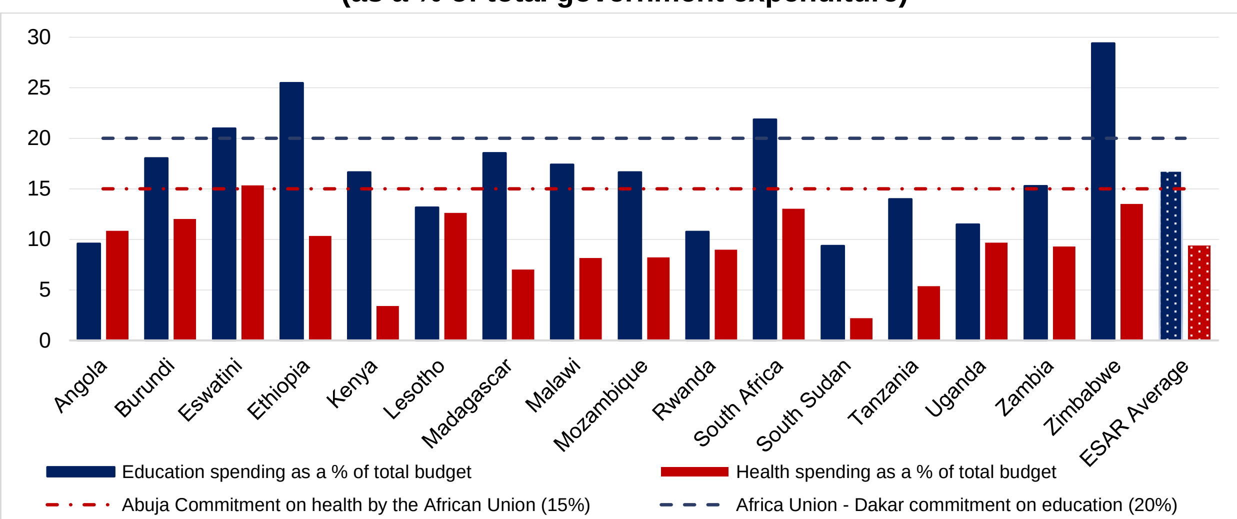
Chapter 5. Investing in Human Capital: The near-term outlook

This chapter examines the outlook for public spending on sectors and programs aimed at improving the well-being of children in 2020 and 2021. The chapter is divided into three sections, with the first focusing on public spending on human capital sectors before there was a crisis. The second section examines social sector spending during the pandemic, while the last carries out a series of projections to understand possible health, education, WASH and social protection spending trends in the context of the pandemic.

5.1 Human capital spending before there was a crisis

Prior to COVID-19, most countries in ESA were not investing sufficiently in building human capital. As a percentage of total government budgets, investments in sectors such as education, health, WASH, nutrition, child and social protection fell below international benchmarks for most countries (Cummins 2019). In 2019, according to the latest comparable data from the Government Spending Watch (2020), only Eswatini had planned to spend more than 15 percent of the national budget on health as required under the Abuja Declaration (2001). At the same time, only 4 countries (Eswatini, Ethiopia, South Africa, and Zimbabwe) committed at least 20 percent of their budgets to education as required under the Dakar Framework of Action (Figure 22).

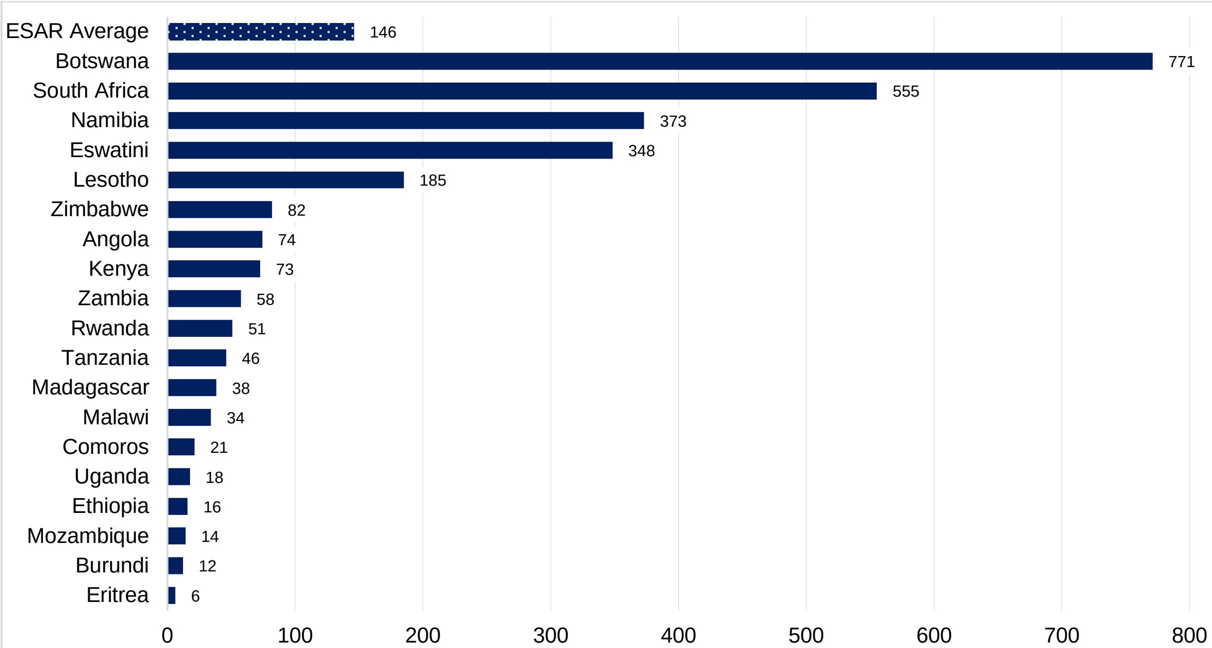
Figure 22: Public spending on education and health in select ESA countries, 2019 (as a % of total government expenditure)



Source: Government Spending Watch (2020)
Note: Data unavailable for other ESA countries

Spending on human capital sectors has been far too low to finance the delivery of quality services. Before the pandemic, three quarters of governments in ESA spent less than US$86 per person equivalent in the health sector, which is the minimum estimated requirement to deliver basic, life-saving interventions in LICs (Cummins 2019). Education spending too has been lower than expected, averaging US$252 on a per capita basis in 2019 (Figure 24). Long-term underinvestment has made it difficult for many governments to roll out critical health and WASH interventions during the emergency response.

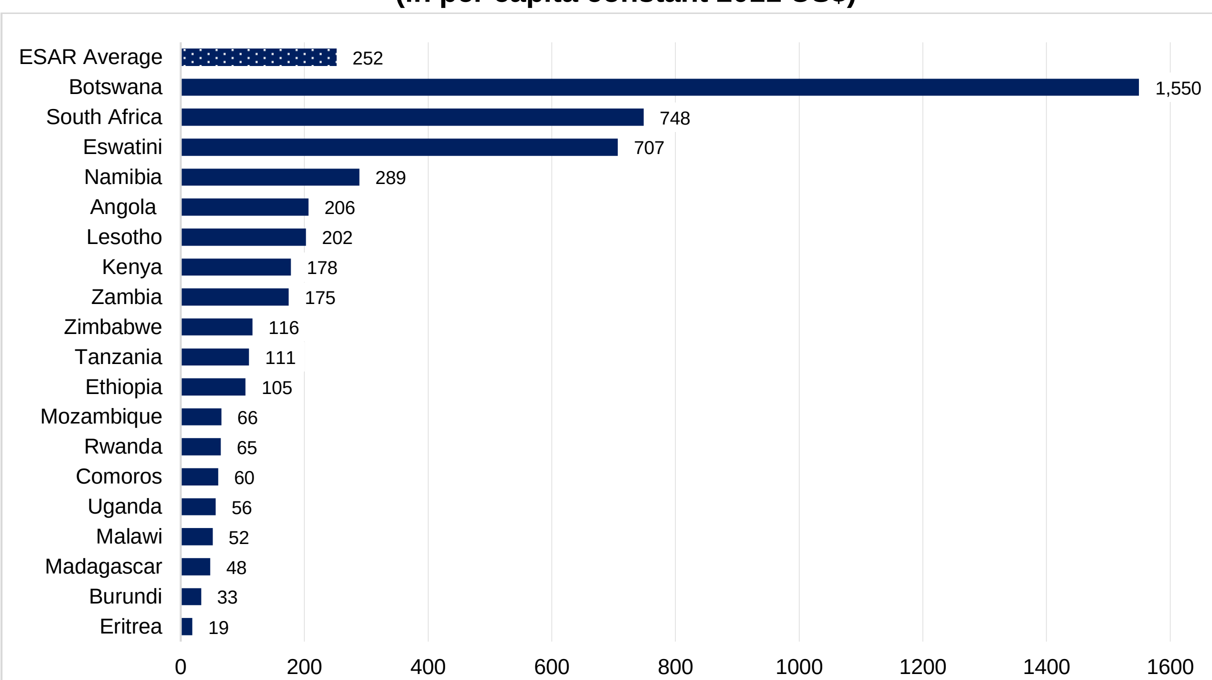
Figure 23: Domestic government expenditure on health in ESA countries, 2019 (in per capita constant 2011 US$)



Source: Author, based on data from WHO Health Expenditure Database (April 2020) and the IMF World Economic Outlook database (April 2020)

Note: Data unavailable for Somalia and South Sudan

Figure 24: Government expenditure on education in ESA countries, 2019 (in per capita constant 2011 US$)



Source: Author, based on data from World Development Indicators Database (April 2020) and the IMF World Economic Outlook database (April 2020)

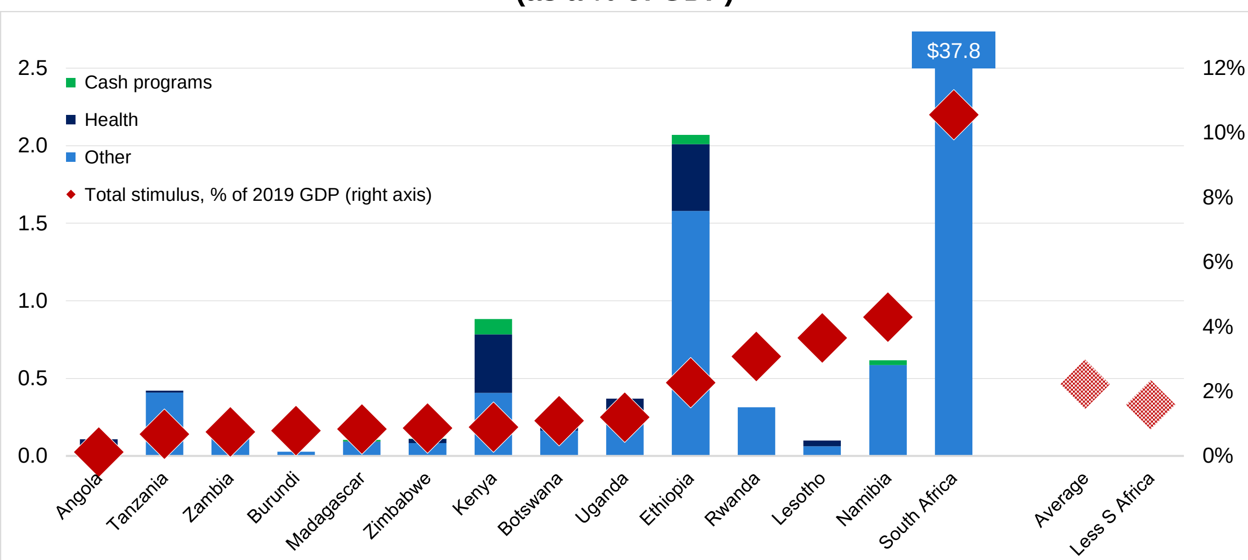
Note: Data unavailable for Somalia and South Sudan

Per capita WASH and social protection spending have been far lower than spending on health and education. The latest available data from Government Spending Watch (2020) shows that ESA governments planned to spend only US$16 and US$6 per person in 2019 on social protection and WASH, respectively. With this very low level of funding, it is not surprising that only around 14 percent of the populations in ESA countries have been supported by at least one social assistance programme in recent years, on average (Cummins 2019). The insufficiency of spending is a common theme across several areas, including child protection, early childhood development (ECD) and nutrition.

5.2 Human capital spending in the context of COVID-19

Many governments in the region announced fiscal stimulus packages to respond to the pandemic challenges. The fiscal packages are a cocktail of interventions including bail outs to companies, subsidies, in-kind and cash transfers to vulnerable populations. On average, the announced fiscal packages are estimated at 2 percent of the GDP of ESA countries. South Africa's fiscal package is the most ambitious, estimated at slightly above 10 percent of GDP (Figure 25). Field reports from UNICEF COs, however, show that some of the social protection responses that governments announced as early as March / April this year are yet to take off or have been only partially implemented. This is suggestive of financial challenges, but also exposes the ill-preparedness of existing systems to adapt to external shocks.

Figure 25: Announced fiscal packages in select ESA countries, as of July 2020 (as a % of GDP)

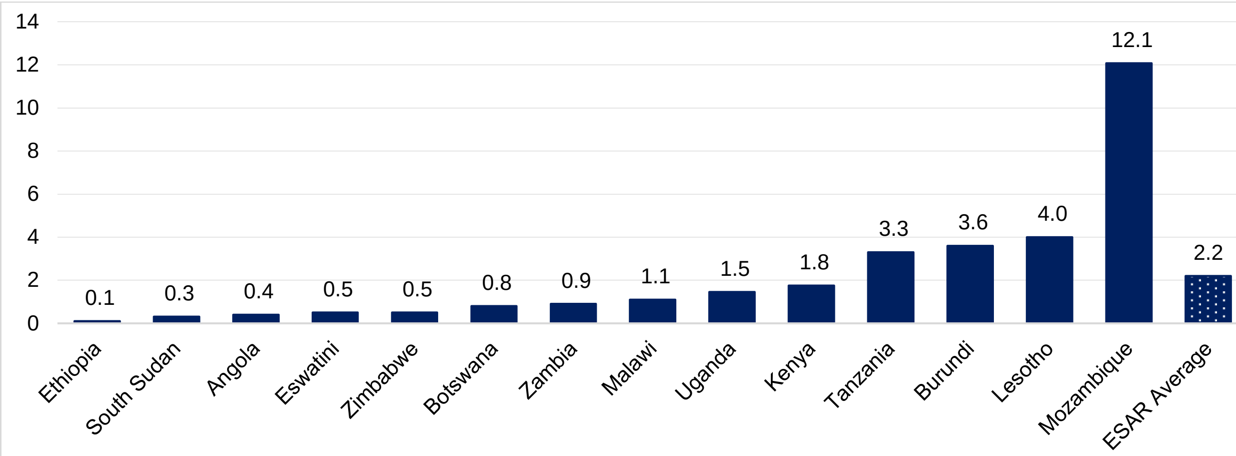


Source: Gentilini et al. Global Database on Social Protection and Jobs Responses to COVID-19 (Sep 18), IFPRI COVID-19 Policy Response Portal (Sept 4), ILO Social Protection Responses to COVID-19 Crisis Around the World Database (Sep 1), Milken Institute COVID-19 Africa Watch: Fiscal Policy Responses Database (Sep 20) and IMF World Economic Outlook Database (Oct 2019)
Note: Data unavailable for other countries

COVID-19 triggered the need for massive funding increases on health, social protection and WASH services. Based on announced plans, ESA governments expect to boost spending on health by 2.2 percent of total government budgets, on average in the current year (Figure 26). Planned health financing packages ranged from 0.1 percent of total government budget in

Ethiopia to 12.1 percent in Mozambique. Unfortunately, it is not possible to get a regional picture for projected spending on other areas.

Figure 26: Announced COVID-19 health spending in select ESA countries, as of 15 July 2020, (as a % of total government budget)



Source: Milken Institute, https://covid19africawatch.org/africa-policy-monitor/
Note: Data unavailable for other countries

At the beginning of the pandemic, some ESA governments used emergency funds and existing budgets to jump start their health responses. In Uganda, for instance, the government used part of its Contingency Fund in the fiscal year 2019/20 to finance approximately one-fifth of the health preparedness and response plan estimated at US$1.3 million. Most countries, however, reallocated budgets from other sectors, such as transport, communication and energy. Sadly, in some countries, Zimbabwe for example, resources were allocated from life-saving HIV/AIDS programs towards COVID-19 preparedness (Ministry of Finance Zimbabwe 2020).

Besides health, the human suffering caused by COVID-19 has led to increased spending on social protection. COVID-19 and other shocks have pushed millions of persons in the region into extreme poverty, now in need of social assistance. By the end of July 2020, nearly all countries in ESA had planned, introduced, and/or adapted existing social protection programs in response to the pandemic. Announced interventions included cash transfers, food assistance, wage subsidies, and waivers of user fees for essential services such as electricity and water (Gentilini 2020).

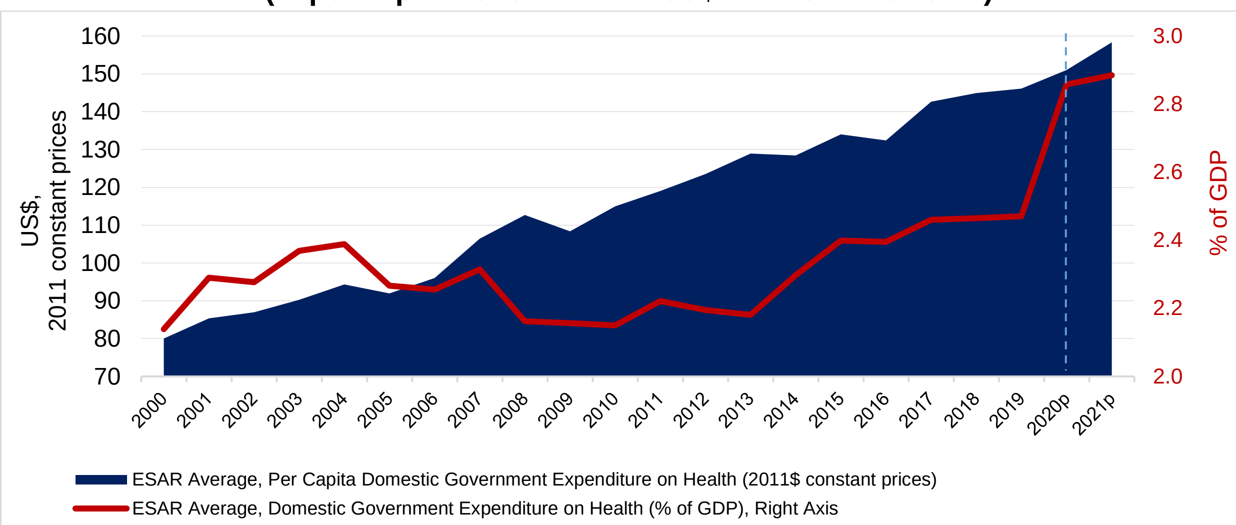
5.3 The outlook for human capital spending

The spending outlook for human capital sectors in ESA is bleak outside of areas that are currently benefitting from emergency funding. As discussed in earlier chapters, this is due falling government revenue, stagnating ODA flows and almost no flexibility for additional borrowing. This section carries out projections to understand the possible trajectory of government spending on human capital sectors in 2020 and 2021, which builds on the historical relationship between expenditure and GDP growth (i.e. the elasticity) in countries that have available data.[6]

Health spending in 2020-21

Aggregate health spending is expected to increase in 2020[7] compared to 2019. It is estimated that total domestic health expenditure in ESA countries (excluding Eritrea, Somalia and South Sudan) will increase by an average of 10 percent this year. The increase in much more modest on a per capita basis, going from US$146 in 2019 to US$151 in 2020 or a 3 percent annual increase, on average. As a percentage of GDP, domestic government expenditure on health for ESA is projected to rise from 2.5 percent to 2.9 percent during this period (Figure 27). Spending is expected to remain on an upward trajectory in 2021, although the projected increase is smaller than in 2020. All these estimates may change depending on how the pandemic situation evolves and how fast economies recover.

Figure 27: Average domestic government expenditure on health in ESA, 2000-21 (in per capita constant 2011 US$ and as a % of GDP)



Source: Author, based on elasticity analysis of health spending to changes in real GDP using data from the IMF (WEO) and World Bank (WDI), adjusted for new COVID-19-related expenditures
Note: Somalia and South Sudan not included due to unavailability of data

[6] The elasticity analysis entailed several steps. Firstly, data on real GDP per capita in constant prices was collected from the IMF World Economic Outlook (October 2019 and June 2020 update) for all ESA countries except Somalia and South Sudan (due to unavailability of data) for 19 years (2000 to 2019). Second, data on education and health spending as a percentage of GDP was collected from the UNESCO database on education statistics and Word Health Organization's health expenditure database for the same period. Various interpolation methods were used to gap fill. Third, the share of health/ education spending as a percentage of GDP per country was applied to real per capita GDP figures above in order to get per capita spending values per sector for each country. Fourth, natural logs of per capita real GDP and health and education expenditures were calculated. Fifth, logged per capita spending for each country was regressed against real GDP per capita using the random effects regression model to get the elasticity coefficients per country. Since data was logged, the regression coefficients were taken as the elasticity coefficients. Sixth, data on projected real per capita spending for 2020 and 2021 was added to the time series data. Seventh, the expected percentage change in real GDP for 2020 and 2021 obtained from IMF's 2020 June update was calculated using logged GDP figures. Eighth, using the elasticity coefficients per country and projected percentage change in real GDP per capita, spending for 2020 and 2021 was calculated in per capita terms. The last step was to multiply per capita values by population to get projected expenditures in 2020 and 2021. A similar process was followed for WASH and social protection but using spending data from government spending watch between 2016 and 2019.

[7] 2020 is being loosely used to refer to the current fiscal year, recognizing that there are three unique fiscal calendars in the region starting in January, April and July.

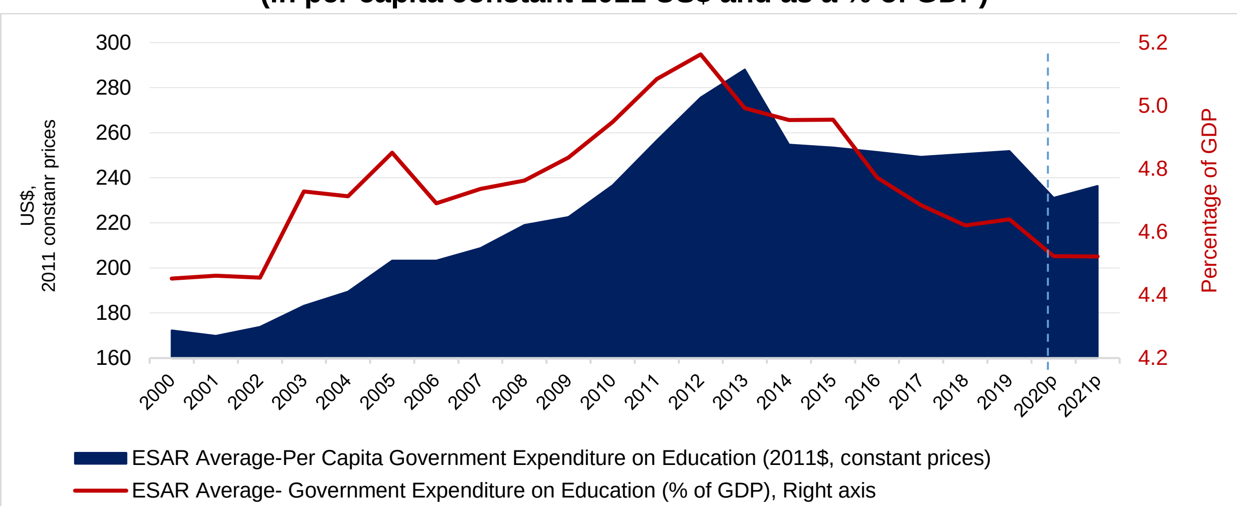
The projected increase in health spending in ESA is accounted for by continued demand of preventive measures, testing and treatment of COVID-19 cases. This largely includes procurement of additional personal protective equipment, ventilators, testing kits, hygiene products, and hospital beds, among others. Additionally, personnel-related costs, such as allowances, insurance, and quarantine and isolation costs for health staff, have also risen. Governments in Kenya, Malawi, South Africa, and Zambia, for example, recruited additional staff to bolster the response capacity of the health system.

Unfortunately, funding for other health programmes is being adversely impacted. Information from the field and real-time COVID-19 phone surveys by UNICEF and the World Bank have shown that routine health services, such as immunization, malaria control and management of chronic conditions, have scaled down. Some governments have gone as far as reallocating resources for other critical health services, like HIV-AIDS, to support the COVID-19 response, as was mentioned earlier in the case of Zimbabwe.

Education spending in 2020-21

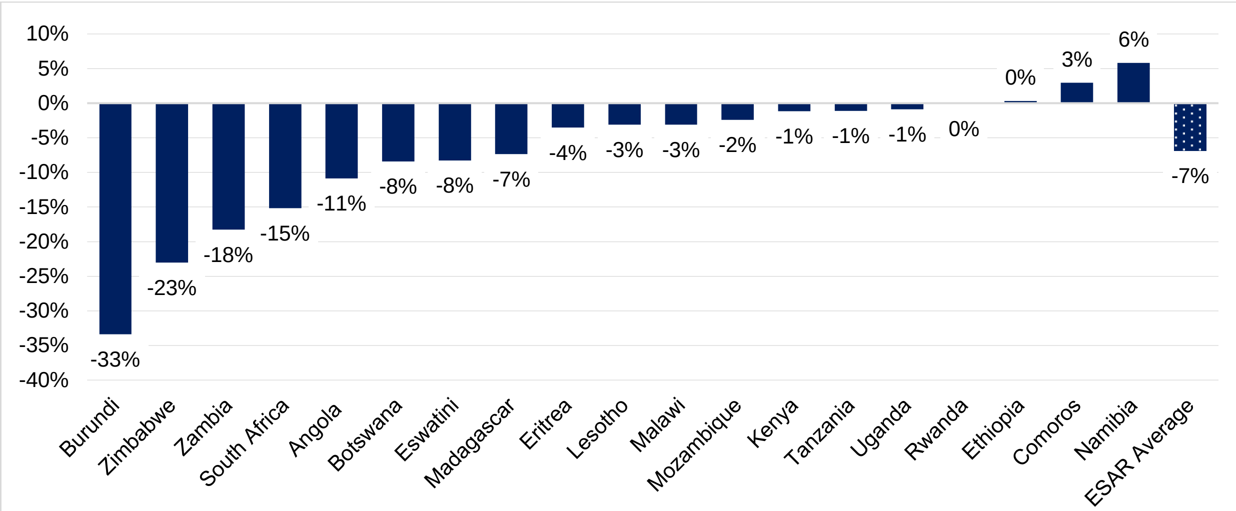
Education spending in the region is expected to fall in 2020 before experiencing a modest rebound in 2021. Compared to 2019, total education spending is projected to decline by US$10 billion (in 2011 constant prices in 2020. In per capita terms, this amounts to a 8 percent drop, on average, from US$252 (in 2011 constant prices) in 2019 to US$231 in 2020 before slightly increasing to US$236 in 2021 (Figure 26). The decline in spending is mainly accounted for by curtailment of capital projects and reduction in operational costs due to school closures. Since payment of salaries is a statutory obligation, planned recurrent expenditures are projected to remain relatively stable. Burundi and Zimbabwe are likely undergoing the largest decreases in per person spending on education (33 and 23 percent, respectively), followed by Zambia (18 percent) and South Africa (15 percent) (Figure 29). In Zimbabwe, this is partly driven by hyperinflation.

Figure 28: **Average government expenditure on education in ESA, 2000-21 (in per capita constant 2011 US$ and as a % of GDP)**



Source: Author, based on elasticity analysis of education spending to projected GDP using data from the IMF (WEO) and World Bank (WDI)
Note: Somalia and South Sudan not included due to unavailability of data. Here and elsewhere: p = projection

Figure 29: Projected change in education spending in select ESA countries, 2020 (as a %)



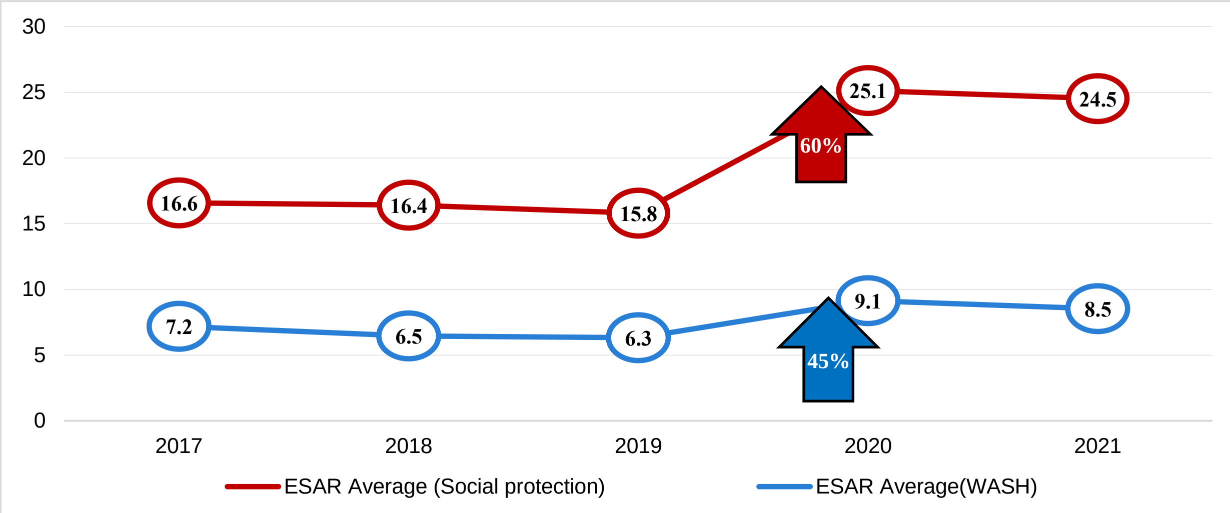
Source: Author, based on elasticity analysis of education spending to projected GDP using data from the IMF (WEO) and World Bank (WDI)
Note: Somalia and South Sudan not included due to unavailability of data

Other human capital spending in 2020-21

Spending on social protection and WASH spending is expected to increase over the near term. For the 12 ESA countries[8] where data is available from the Government Spending Watch (GSW), total social protection spending[9] is expected to increase by 63 percent in 2020 compared to the previous year. On a per person basis, average social protection spending is projected to rise by 60 percent from an estimated US$15.8 in 2019 to US$25.1 in 2020 before declining to $24.5 in 2021 (Figure 30). During the same period, spending on WASH services (excluding big capital projects such as dam construction, borehole drilling and major piping) is expected to increase by 45 percent from an estimated US$6 per person, on average, in 2019 to about US$9 in 2020. In total, WASH spending for ESA will increase by 49 percent.

[8] These are: Angola, Eswatini, Ethiopia, Kenya, Lesotho, Madagascar, Malawi, Mozambique, Rwanda, Tanzania, Uganda, and Zambia.
[9] Note that this captures spending on all aspects of social protection, including social assistance, social insurance and labour market programs.

Figure 30: Government spending on social protection and WASH in select ESA countries, 2017-21 (in per capita constant 2011 US$)



Source: Author, based on elasticity analysis of WASH and social protection spending using data from Government Spending Watch and projected GDP by the IMF (June 2020 update)
Note: Analysis based on data from Angola, Eswatini, Ethiopia, Kenya, Lesotho, Madagascar, Malawi, Mozambique, Rwanda, Tanzania, South Africa, Zambia and Zimbabwe

The increase in social protection spending is driven by relief packages to help households cope with the socioeconomic impacts of the pandemic. By the end of July 2020, most ESA countries had committed to expand pre-existing cash transfer programs to reach out to more people and to expand the scope of services. In Madagascar, for example, with support from development partners, the government launched an unconditional cash transfer allowance providing 100,000 Ariary (US$26) for households identified as vulnerable and economically impacted by COVID-19 (UNICEF 2020a). The support included helping households to access basic sanitation and hygiene services. The government also provided top-ups to recipients of the old age pension and disability grants. Namibia also provided a once-off Emergency Income Grant to over 780,000 informal workers to help cushion them from the economic effects of COVID-19 (Ministry of Finance Namibia 2020).

The expected increase in WASH spending is similarly unsurprising given how critical it is to continue emphasizing handwashing and other hygiene practices to contain the spread of the coronavirus. Most ESA countries have been installing or improving sanitation facilities in public places, like markets, bus terminuses, police camps, government offices, health facilities, and schools. This also means that most government departments have included essential products, such as sanitizers and soap, in their operational budgets, and many probably for the first time. Some countries, Namibia included, have subsidized essential services, including water (Perche 2020).

However, other human capital sectors, most notably ECD, child protection and nutrition are likely getting fewer resources due to the pandemic. For instance, a UNICEF COVID-19 global survey conducted in July 2020 revealed that nearly 70 percent of the 77 surveyed countries reported at least some disruption in health checks for children and immunization services (UNICEF 2020b). The pandemic has literally put the lives of millions of children at risk of suboptimal development in the most critical period of physical and cognitive development. That same survey points that other essential ECD services, such as child protection, nutrition and newborn care, are also being disrupted.

Lastly, COVID-19 is also impacting spending on infrastructure projects. Due to containment measures and reallocations to support emergency responses, many governments stalled largescale capital investments. To cite just a few examples, housing, gas exploration, tourism upgrading in coastal areas, and road and railway expansions in Kenya were paused because of lockdown measures (Muzaale 2020; Kenya Treasury 2020). Some of these will invariably impact social infrastructure, with potential consequences for human capital development.

5.4 Key takeaways

- Many governments bolstered spending on key human capital sectors as part of fiscal stimulus packages to respond to the impacts of COVID-19, including health, social protection and WASH.
- However, COVID-19-related expenditures have crowded out spending on other key areas, including education, ECD and nutrition, which raises serious risks to child well-being.
- Also concerning is the gap between policy announcements and implementation of social protection responses, especially given the severity of the income shock on many households as well as growing food insecurity.
- Most governments will find it very difficult to maintain or increase spending on human capital sectors in the absence of largescale external support.

Chapter 6. Fiscal transparency and accountability: Keeping the receipts… or forgetting to print?

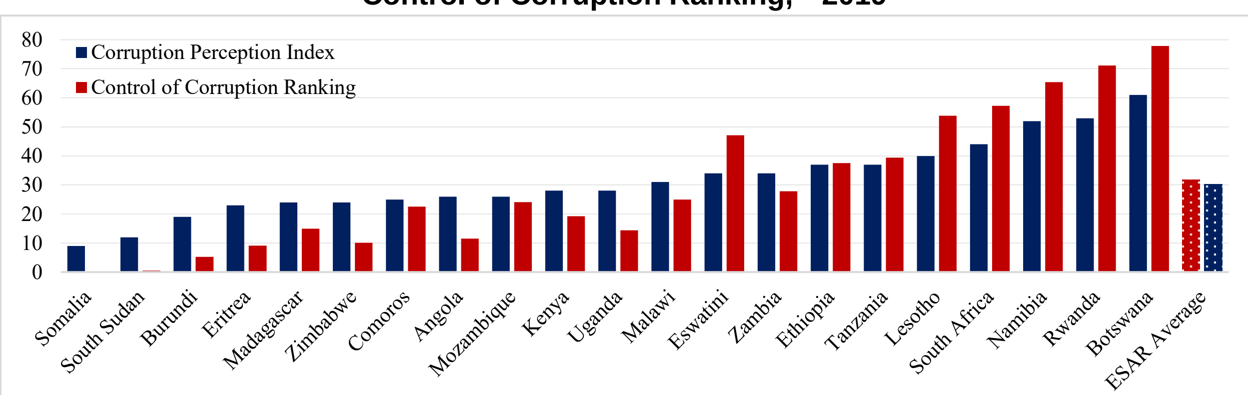
In addition to spending patterns, the pandemic has disrupted many other public financial management (PFM) practices. Good PFM demands that public revenue be spent in a transparent and accountable manner, with the involvement of citizens and other key stakeholders. All of this contributes to the ultimate objective, which is to continuously improve value for money. Unfortunately, fiscal accountability, budget transparency, and public participation in COVID-19-related decision-making and budgeting have been compromised in many places in the region. This chapter examines how the pandemic has impacted each of these aspects.

6.1 Fiscal accountability

Emergency situations can be fertile ground for abusing public resources, which makes accountability key to effective COVID-19 responses. As witnessed during the Ebola crisis, financial and other material resources may be diverted for personal gain in the rush of alleviating human suffering (Torbet 2020). The multiplication of resource streams alongside the demands for fast procurement and disbursement of resources are among factors that may lead to the misuse of public resources during emergencies. Weak oversight by accountability and governance institutions as they concentrate on the emergency also provides an enabling environment, as does the low remuneration of frontline staff.

Partly owing to weak accountability mechanisms, corruption is rife in most ESA countries. Based on the latest available data, the average score for ESA countries on the corruption control ranking is 30 out of 100, which is more or less the same as the score on the corruption perception index (32 out of 100, where 0 is highly corrupt and 100 is very clean) (Figure 31). In 2019, all ESA countries except three scored below 50 percent on the corruption perception index.

Figure 31: Performance of ESA countries on the Corruption Perception Index[10] and Control of Corruption Ranking,[11] 2019

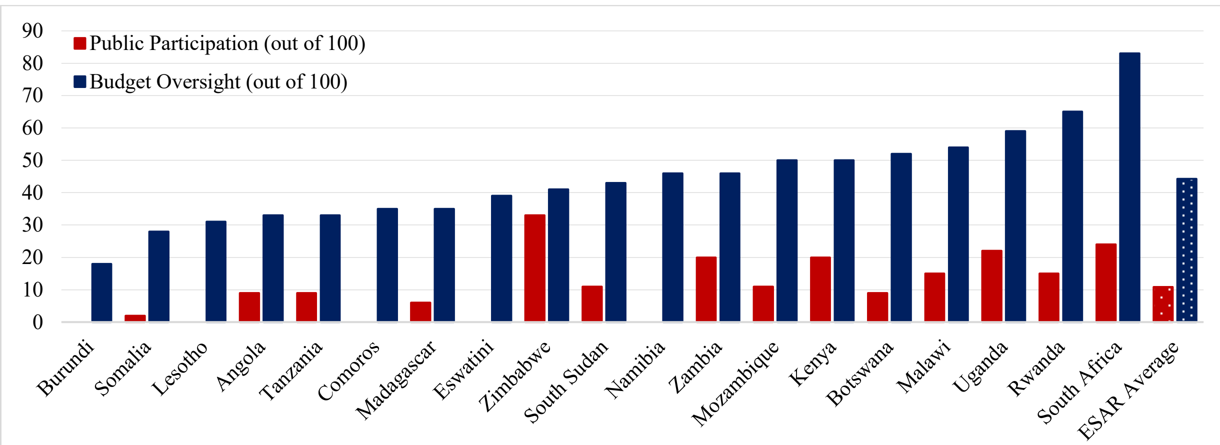


Source: Transparency International (2020) and World Bank (2020)

[10] The Corruption Perceptions Index, produced by Transparency International, ranks 180 countries by their perceived levels of public sector corruption, according to experts and businesspeople. Although a bit subjective, it sheds light on level of corruption in a country.
[11] The control of corruption index captures perceptions of the extent to which public power is exercised for private gain, including both petty and grand forms of corruption, as well as "capture" of the state by elites and private interests.

Although improving, the financial oversight role of legislatures has also been modest. Averaging 44 out of a maximum score of 100 in 2019 according to the Open Budget Survey (OBS), ESA countries still have a long way to enhance the financial oversight role of their legislatures (Figure 32). The majority (17/19) countries that participated in the 2019 OBS have legislatures that provide "inadequate" oversight, which means they had a score of less than 61 out of 100. Only Rwanda and South Africa have legislatures that provide "adequate" oversight. 58 percent of ESA countries (11/19) have legislatures that provide "weak" oversight, while 32 percent (6/19) have legislatures that provide "limited" oversight (IBP 2020a). This means that parliaments in these countries are not effectively performing their roles of monitoring, scrutinizing and holding the executive to account for their fiscal decisions. COVID-19 will further constrain capacity to perform these roles because of challenges of operating virtually and other incentive issues, like allowances.

Figure 32: Level of legislative oversight and public participation in budgeting in ESA countries, 2020



Source: International Budget Partnership (2020)
Note: No data for Eritrea and Ethiopia

The oversight role of legislatures, including supportive institutions such as Parliamentary Budget Offices (PBOs), is critical in all contexts, more so in times of crisis. In Kenya, for example, the PBO has been undertaking several analyses to estimate the impacts of COVID-19 on revenues and expenditures (Kenya Parliamentary Budget Office 2020). In Mozambique, UNICEF trained parliamentarians on how to conduct virtual meetings and to assess the socioeconomic impacts of the pandemic on children. According to the field report from UNICEF Mozambique, the training was followed by a parliamentary session involving social sector committees, during which members of parliament discussed implications of COVID-19 on children.

COVID-19 poses significant fiscal accountability challenges on several fronts. Firstly, COVID-19 has caused rapid – and in some cases poorly documented – changes to approved budgets as well as creation of special funds and accounts. In most countries, budget and revenue adjustments have exceeded normal public finance management thresholds prior to COVID-19 (Rivero and Guerrero 2020). In some countries, decisions to reallocate resources and to utilise emergency funds were made by senior officials in ministries of finance with limited consultation of all concerned parties (Tobert 2020). Secondly, there is fast-tracking and relaxation of procurement or purchasing rules in some countries. Third, there is an increase in cash and in-kind transfers to individuals, households, and institutions without a robust tracking system of the flow of resources financial and material resources (Wendling et al 2020). Fourth, lockdowns and other containment measures have disrupted supply and distribution systems thereby creating loopholes for wastage and even theft of resources. Lastly, with restrictions in movement, there is limited scope for civil society organisations to track and monitor the distribution of COVID-19 resources.

Accountability for resources during COVID-19 requires a holistic approach that combines measures beyond legislative oversight. The measures should be sufficiently responsive and flexible but robust enough to prevent fraud and corruption (Gurazada et al. 2020). An analysis of government websites, especially for ministries of finance, shows that not all governments are making publicly available information about COVID-19-related inflows from public and private donations, loans, as well as from domestic resources. Similarly, information about COVID-19-related expenditures is mostly not published online (IBP 2020b). International budget transparency standards demand that governments should create a mechanism to isolate, monitor, and transparently report COVID-19 expenditures. In addition, governments ought to reinforce inclusivity of processes for deciding on utilization of available resources (Tobert 2020). Here, emergency coordination committees and sectoral task forces can be very useful entry points. Adaptation of approval processes and controls to ensure timely responses should be done in a way that does not create loopholes. The risk of abuse of public resources usually increases when standard public finance management controls are modified and if government fail to pay attention to the procurement function as normal procedures may be waived in favor of single source or on the 'best available' supplier (Gurazada et al 2020).

By failing to account for available resources, governments risk their future credibility as well as funding from donors. Transparency, accountability, and public participation are integral elements of COVID-19 response and recovery plans (IBP 2020b; Wendling et al. 2020). The release of the 2019 OBS results during the global pandemic is a timely opportunity to strengthen the transparency agenda. The country-specific recommendations that accompany the results constitute a solid foundation upon which ESA countries can improve budget transparency and accountability.

6.2 Budget transparency

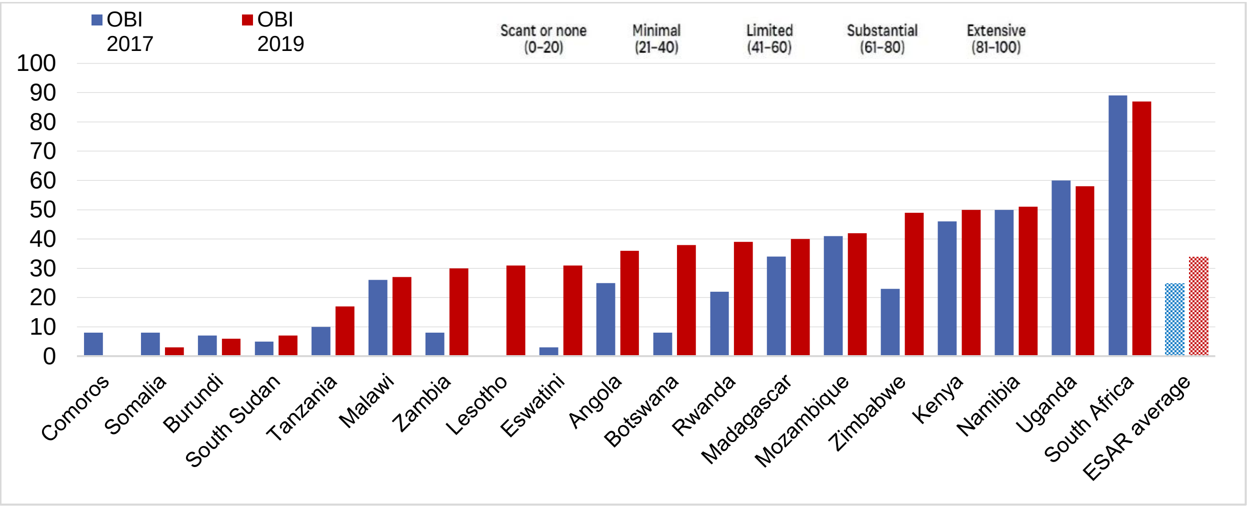
Being open about revenues and expenditures and other policy decisions made by authorities is core to budget transparency. Without access to comprehensive and timely information, it is difficult to know how much and how well COVID-19-related resources are being used. Yet, as countries continue to operate in emergency mode, there is a risk that governments may not prioritize transparency practices (Wendling et al. 2020).

Before COVID-19, most ESA countries did not provide the public with enough budget information. The 19 ESA countries that participated in the 2019 OBS[12] scored 34 out of 100, on average, on the 2019 Open Budget Index (OBI), a measure of budget transparency.

[12] The OBS, undertaken by the International Budget Partnership every two years, measures the level of public budget transparency and accountability around the world.

Encouragingly, 14 of them registered improvements in their OBI scores compared to the previous round (2017). Lesotho and Eswatini recorded the highest improvements from as low as 0 and 3, respectively, in 2017 to 31 for both countries in 2019. Botswana had the third-highest increase from 8 in 2017 to 38 in 2019. Unfortunately, five countries regressed: Burundi (-1), Uganda (-2), South Africa (-2), Somalia (-5), Comoros (-8). Together with New Zealand, South Africa is the world's best performer, with an OBI score of 87 (Figure 31). In short, all ESA countries, except South Africa, provide insufficient budget information to the public.

Figure 33: Open Budget Index scores for ESA countries, 2017 and 2019



Source: International Budget Partnership (April 2020)

Debt transparency is also key. Globally, only 13 percent of 117 countries surveyed in the 2019 OBS disclose full information about the size and composition of their total debt obligations and other contingent liabilities (IBP 2020a). In Mozambique, opaquely procured debt continued to pile until the country reached debt distress levels. Information about the levels, composition, risks and sustainability of debt has largely been missing in most of the budget documents posted online by ESA countries.

6.3 Public participation

The pandemic has effectively weakened public participation mechanisms, which were already very feeble before the crisis. In 2019, on average, ESA countries scored 11 out of 100 in public participation on the OBS score (IBP 2020a). This means that ESA governments do not create enough opportunities for citizens to be meaningfully involved in decision-making processes throughout the budget cycle. With COVID-19, in-person public participation became much more difficult, making involvement of the public less likely.

In the guise of enforcing containment measures, some ESA governments are clamping down on civic activities. Effectively, this has made it difficult for some civil society organisations (CSOs) to hold government officials to account for their COVID-19 spending decisions. Social accountability initiatives, such as social audits, public hearings and public expenditure tracking surveys, have been considerably scaled down in most ESA countries. Despite these restrictions, some CSOs have continued to demand transparency and accountability from their governments.

It is likely that citizens will resort to street protest to demand accountability for COVID-19 funds at the backdrop of allegations of corruption

Despite constraints caused by COVID-19 containment measures, governments should do everything possible to adhere to principles of fiscal transparency, accountability, and public participation. As recommended by IBP (2020b) at the very least, governments should keep proper records of inflows and expenditures and periodically make this information publicly available online. Unless ESA countries undertake measures to be transparent and accountable, the risk of abuse of public resources which should be channeled to save lives and to facilitate recovery from this shock is real.

6.4 Key takeaways

- If governments fail to be transparent and to fully account for available resources, they risk their future credibility as well as funding from donors and creditors.
- ESA governments should exploit online portals to publish information about financial inflows including approved loans, grants from donors, in-kind donations, subsidies, tenders, tax relief and deferral measures, revenue adjustments, beneficiaries of stimuli and relief packages, and potential impacts of fiscal decisions.
- Supreme audit institutions and other fiscal accountability institutions also have a role of reminding governments about the need to account for all expenditures as well as rules that must be followed in all contexts including during emergencies.
- Given restrictions in gatherings, it is a good opportunity for governments to exploit the potential of virtual meetings, telephone surveys, platforms such as U-Report ways and other innovative of involving citizens in in decision-making.
- Lack of transparency and accountability is a breeding ground for wastage, corruption and other abuses of public resources.

Chapter 7. The Looming Fiscal Shock: Austerity measures

The aim of this chapter is to discuss the potential risks of government budget cuts, which are more commonly known as fiscal austerity. In a nutshell, the next big shock after COVID-19 is likely to be austerity, which can inflict severe damage on vulnerable households and children. Experience from the past has taught us that deep economic shocks are usually followed by prolonged periods of shrinking budgets that heavily impact human capital investment (Tirivayi et al 2020; Ortiz & Cummins 2019). The chapter is divided into five sections, each focusing on a potential austerity measure. The depth, severity, and impact of austerity measures will vary significantly across countries depending on unique macroeconomic circumstances and political choices.

7.1 Fiscal consolidation

When countries begin to transition out of emergency mode, most will be grappling with huge fiscal deficits. This will likely force them to pursue contractionary fiscal policies. Before COVID-19 emerged, IMF fiscal projections were indicating that 93 developing countries and 37 high-income countries would be cutting expenditures in 2021 (Ortiz and Cummins 2019). This new global shock means that this trend will likely be universal and much more intense. The Government of South Africa has already indicated that it will implement a major fiscal consolidation program to rapidly stabilize debt by 2023/24. This will entail spending reductions and revenue adjustments amounting to approximately US$14.6 billion over the next two years (Nation Treasury RSA 2020).

Governments are already being encouraged by international financial institutions to start thinking of fiscal consolidation measures. In several recent press releases announcing COVID-19 emergency support, the IMF has emphasized fiscal consolidation. For instance, in its statement following the approval of emergency funding to Eswatini, the IMF (29 July 2020) stated that "once the impact of the pandemic subsides, it is critical to implement the authorities' fiscal consolidation plan and structural and governance reforms." This will most likely be in the form of cuts in budgets, freezing of new development projects, and rationalization of recurrent government spending such as pensions, maintenance, and operations. New development projects will likely be postponed until current ones are completed. Governments may also introduce more stringent criteria for selecting public investment programs.

In line with budget cuts, investments in social sector infrastructure can be expected to slow down. New classrooms, clinics, water systems, etc. will most likely be affected. This would be regrettable given the massive infrastructure gaps in human capital sectors that most countries in the region are facing. Classroom-pupil ratios, for instance, in primary and secondary schools remain very high in many places and had resulted in a learning crisis long before the pandemic.

Chances are also high that many governments will cut back on social protection measures introduced during the pandemic. This will entail tightening the criteria for identifying beneficiaries for cash and in-kind transfers, removing subsidies on essential utilities, lifting rental moratoriums and other employment-related benefits. There is no question that such measures will deliver savings, but they will also leave millions of households without vital support and likely during a period when their needs and vulnerabilities remain high. With the aim of increasing available finance, some governments may increase contributions by workers to social protection schemes while keeping the government's contribution constant (Ortiz & Cummins 2019). Other policy options could include increasing eligibility periods for benefiting from insurance or other contributory social protection programs. All the above will reduce disposable income, leading to increased poverty and deprivations experienced by children.

Another common way to implement fiscal austerity is by reducing or capping the public sector wage bill, which is another likely trend in the region. With limited fiscal space, the propensity to rationalize spending on personnel emoluments by putting off promotions of employees and freezing the hiring of new staff in public administration will increase. Governments are also inclined to keep salaries constant in nominal terms despite inflation, and even lay off staff especially those recruited to support COVID-19 responses. These practices were already becoming commonplace in many parts of the region before the pandemic, with governments in Angola, Kenya, Madagascar, Malawi, Namibia, and South Africa, among others, conducting rationalization exercises or hiring freezes.

Regrettably, the social workforce is usually the starting point for wage bill cuts. A freeze on recruitment or a reduction in the number of teachers, healthcare staff, child protection workers, etc. depletes the public administration capacities of governments and sets countries on a path of vicious cycles of underperformance (Ortiz & Stubbs 2020). Besides, a reduction in the social workforce will inevitably compromise the quality of service delivery. In the education sector, for example, high teacher-pupil ratios caused by recruitment freezes have led to poor education outcomes. Moreover, history shows that wage freezes trigger strikes by nurses, teachers, doctors, and other civil servants (Ortiz & Cummins 2019). All of this impacts the availability and quality of basic social services that vulnerable families and children rely on.

7.2 Reversal of tax relief measures and introduction of new taxes

Most tax relief measures introduced during the pandemic are likely to be reversed in the recovery period. As discussed in chapter two, a variety of measures, including tax cuts, tax exemptions, import duty waivers, and fee waivers, were swiftly approved to support disposable income among households and businesses. Most of these will be revisited, likely starting in early 2021, which will be most intense in countries that adopted the most comprehensive packages. In South Africa, for example, the Minister of Finance indicated during the budget statement that taxation policies are already being reviewed with the intention of increasing revenue to ZAR5 billion in fiscal year 2021/22 and to ZAR15 billion by 2024/25 (National Treasury RSA 2020b).

In addition to reversing tax relief measures, many governments will also introduce new taxes to compensate for lost revenue. When governments run out of money and as fiscal deficits deepen, they look for new avenues to raise tax and non-tax revenue. One common response is to introduce or increase consumption taxes, such as sales and value-added taxes, or remove exemptions on basic items, like food staples (VAT) (Ortiz & Cummins 2019). The problem is that these approaches are regressive since poorer households pay a disproportionate amount of their income. Emerging evidence indicates that this could be a widespread strategy in the current context. In Kenya, for example, the government has already tabled a raft of new tax measures in its 2020/21 national budget, which includes a minimum gross sales tax of one percent and a 2.5 percent tax on goods manufactured in export-processing zones that are sold domestically (Herbling 2020a).

7.3 Further privatization and increased focus on public-private partnerships

Last, but not least, the privatization of public utilities is expected to continue at an accelerated pace. On the one hand, as argued by Ortiz & Cummins (2020), some governments are likely to feel pressure to sell off or privatize major public services, like electricity, sewage, transportation and water, in order to avoid subsidizing losses and to generate revenue. On the other hand, cost-recovery mechanisms are also likely to become increasingly popular, which could include applying or increasing user fees in hospitals and schools, as are blended financing instruments and public-private partnerships, which can allow projects to move forward while minimizing the fiscal burden (Ortiz & Stubbs 2020). The reality is that these approaches often result in more expensive and lower quality goods and services, ultimately limiting the access of vulnerable families and worsening child outcomes.

7.4 Key takeaways

- Austerity measures are likely to pose tremendous dangers to children and their families in the recovery phase of the crisis and need to be evaluated, first and foremost, with a child and equity lens.
- Under no circumstance should a budgetary decision be taken that has the potential to harm children.
- Alternatives to austerity need to be vigorously pursued, especially via external funding sources.
- Tax policies also have direct consequences on equity and children's outcomes, and reforms should focus on progressive approaches as possible (e.g. introducing or increasing taxes on high earners, corporate profits, property, natural resource extraction, luxury goods).

Chapter 8: Conclusions and Recommendations

COVID-19 has generated unprecedented pressure on an already precarious public finance situation in ESA. The pandemic is an addition to a long list of economic, climate, and political shocks that are challenging public finances across the region. The pandemic has brought to the surface the dangers of not investing adequately in strong health, social protection and other essential public service delivery systems.

With domestic revenues projected to plummet, fiscal deficits of nearly all ESA countries will worsen in 2020 before a modest rebound in 2021. To save lives and to facilitate recovery, governments must make tough decisions to borrow from within and outside their territories; but they must do so in line with international principles on responsible borrowing. Unfortunately, additional borrowing will worsen debt burdens, which were already unsustainable in many countries prior to the pandemic.

Except for COVID-19-related interventions, spending on social sectors is expected to remain subdued likely until mid-2021. Informed decisions will have to be made on how available resources can be efficiently and equitably allocated to sustain spending on critical areas. Decisions on which budgets to cut or increase and which fiscal policy measures to implement will need to be carefully considered so that they do no harm to children.

As countries eventually transition to the recovery phase of the crisis, a new fiscal shock is looming in the form of austerity measures. The main aim will be to reduce fiscal deficits and stabilize public finances. Hard policy choices will be made. Budget cuts, recruitment freezes, the introduction of new taxes, and privatization measures could be catastrophic if children are not placed at the center of decision-making processes. Reducing fiscal deficits, sustaining investments in human capital sectors, spurring economic recovery, and ensuring debt sustainability will be a difficult balancing act.

Budget transparency and accountability are core to all COVID-19 responses. With all countries operating in an emergency mode, receiving multiple inflows of revenue, and having their normal budgeting systems disrupted by the pandemic, there is a high risk that governments will not adhere to international standards on budget transparency, fiscal accountability, and public participation. This will ultimately undermine public trust, future fiscal space opportunities, and value for money in human capital sectors and beyond.

Recommendations to governments

- Immediately take advantage of **concessional financing** opportunities offered by the international financial institutions and others to **create fiscal space** to increase spending on human capital sectors to safeguard child well-being and support a swift economic recovery.
- Proactively open discussions with public and private creditors about the growing debt burden, including policy options for **restructuring existing debt and extension of moratoriums** beyond the initial 12months provided by the IMF, World Bank and the G20.

- Review **medium-term revenue and expenditure** forecasts to reflect the impacts of COVID-19 on public finances and **safeguard human capital investment** from forthcoming austerity measures.
- Ensure fiscal adjustments, budget reallocations and new fiscal policy measures are assessed for any **possible negative impacts** on children and vulnerable households.
- Strengthen **budget execution** during the emergency and recovery period by enhancing coordination, prioritisation processes and procurement efficiencies.
- Strengthen **budget transparency and fiscal accountability** mechanisms through regular tracking, monitoring and reporting on COVID-19 inflows and expenditures at national and sub-national levels.

Recommendations to UNICEF and other development partners

- Support finance ministries to access **external concessional loans and grants** from bilateral, multilateral and private donors, including through the development of compelling funding proposals and investment cases.
- Provide technical assistance to finance and social sector ministries to review, implement and monitor **COVID-19 financing plans and budgets** across human capital sectors.
- Regularly monitor **fiscal policy measures and budgetary adjustments** to ensure that they are in the best interest of children, and to inform advocacy and programme strategies.
- Advocate with governments and donors to ensure that **social protection** packages are recognised as central components of COVID-19 response and recovery plans.
- Assist governments to procure **essential supplies** and materials required to effectively respond to COVID-19, including personal protective equipment, testing kits, sanitation and hygiene products, and learning materials.
- Advocate for **transparency, accountability and public participation** in all COVID-19-related public finance processes, including the timely publication of budget documents online.
- Strengthen **partnerships and coordination** among development partners in financing of COVID-19 response and recovery plans to increase efficiency and effectiveness of spending of on and off-budget COVID-19 resources.

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Annex 1. Key Macroeconomic Indicators for ESA Countries

Country	Real per capita GDP growth estimates, 2020 (%)		General government net lending/ borrowing, 2019 (% of GDP)	Tax-to-GDP ratio, 2015-19 average	General government gross debt, 2019 (% of GDP)	Debt distress (latest available DSA)
	IMF (June Update)	*World Bank*				
Angola	-6.8	-7.2	-6.0	10.0	90.5	High
Botswana	-11.2	-11.1	-5.9	21.8	12.8	Low
Burundi	-8.3	-2.0	-9.0	14.7	63.5	High
Comoros	-8.5	-3.6	-3.8	12.1	35.1	Moderate
Eritrea	-2.0	-2.2	-5.0	11.7	127.3	Distress
Eswatini	-4.5	-3.8	-8.9	17.0	41.1	Moderate
Ethiopia	0.3	0.7	-3.0	7.9	57.4	High
Kenya	-2.5	-0.7	-7.7	16.0	55.5	High
Lesotho	-5.2	-5.9	-2.0	29.2	37.9	Moderate
Madagascar	-3.5	-3.8	-4.0	16.3	41.0	Moderate
Malawi	-1.8	-0.7	-6.3	9.6	59.0	Moderate
Mozambique	-1.3	-1.6	-7.7	15.7	124.5	Distress
Namibia	-7.8	-6.6	-7.0	29.6	51.6	High
Rwanda	-0.1	-0.5	-8.1	14.0	50.0	Low
Somalia	n.d	n.d	n.d	2.0	n.d	Distress
South Africa	-9.4	-8.4	-13.3	27.1	65.6	High
South Sudan	1.6	-5.7	-2.7	0.0	37.8	Distress
Tanzania	-1.0	-0.4	-3.8	11.3	36.6	Low
Uganda	-1.6	0.2	-6.8	13.5	44.8	Low
Zambia	-7.9	-3.7	-5.7	14.3	80.5	High
Zimbabwe	-12.1	-11.5	-4.9	16.5	21.0	Distress
ESA Average	-4.7	-3.9	-6.1	14.8	56.2	

Source: IMF World Economic Outlook (April and June Update); World Bank (World Development Indicators (April 2020 Update)

Key: n.d - no data available

Annex 2: IMF Support to ESA Countries

Country	Type of Instrument	Amount in US$ (Million)	Date Approved
Angola	…	…	…
Botswana	…	…	…
Burundi	…	…	…
Comoros	Rapid Credit Facility + Rapid Financing Instrument	12.2	22-Apr
Eritrea	…	…	…
Eswatini	Rapid Financing Instrument	110.4	29-Jul
Ethiopia	Rapid Financing Instrument	411	30-Apr
Kenya	Rapid Credit Facility	739	6-May
Lesotho	Rapid Credit Facility and the Rapid Financing Instrument	49.1	29-Jul
Madagascar	Rapid Credit Facility - 2 disbursements	337.9	4/3/2020 and 7/30/2020
Malawi	Rapid Credit Facility	91	1-May
Mozambique	Rapid Credit Facility	309	24-Apr
Namibia	…	…	…
Rwanda	Rapid Credit Facility + another RCF	220.5	Jun 11 and Apr 2
Somalia	ECF and EFF	395.5	25-Mar
South Africa	Rapid Financing Instrument	4286.5	27-Jul
South Sudan	…	…	…
Tanzania	…	…	…
Uganda	Rapid Credit Facility	491.5	6-May
Zambia	…	…	…
Zimbabwe	…	…	…
Total		**7,453.60**	

Source: IMF Lending Tracker (2020), as at 15 October 2020

Annex 3: World Bank support to ESA Countries*

Country	Project	Amount (in US$ millions)	Date approved
Angola	…	…	…
Botswana	…	…	…
Burundi	Strengthening National Health System and Preparedness in the face of COVID- 19	5	14-Apr-20
Comoros	…	…	…
Eritrea	…	…	…
Eswatini	The COVID-19 Strategic Preparedness and Response Project	6	20-Apr-20
Ethiopia	The COVID-19 Emergency Response and Health Systems Preparedness Project	82.6	2-Apr-20
Kenya	Kenya COVID -19 Emergency Response Project	50	April 2, 2020
Lesotho	COVID-19 Emergency Preparedness and Response Project	7.5	9-May-20
Madagascar	…	…	…
Malawi	Malawi COVID-19 Emergency Response and Health Systems Preparedness project	37	15-Apr-20
Mozambique	…	…	…
Namibia	…	…	…
Rwanda	Rwanda COVID-19 Emergency Response project	14.25	7-Apr-20
Somalia	Somalia Crisis Recovery Project	137.5	15-May-20
South Africa	…	…	…
South Sudan	…	…	…
Tanzania	…	…	…
Uganda	Uganda COVID-19 Economic Crisis and Recovery Development Policy Financing	300	29-Jun-20
Zambia	…	…	…
Zimbabwe	…	…	…
Total		**639.9**	

Source: World Bank (2020), as at 15 October 2020

* through the Dedicated COVID-19 Fast-Track Facility