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The COVID-19 pandemic and the economy in Southern Africa

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WIDER Working Paper 2021/113

The COVID-19 pandemic and the economy in Southern Africa

Neva Makgetla*

July 2021

Abstract: The COVID-19 pandemic has had severe economic consequences in Southern Africa, resulting in an unprecedented decline in production and employment. Similar policy responses have emerged across the region, centred on temporary and inadequate relief for workers and businesses; very limited fiscal and monetary stimulus efforts; and vague and under-resourced commitments to accelerate industrialization and infrastructure investment. Responses to the pandemic recession have underscored the region's limited power on global financial markets, which has constrained both relief programmes and fiscal policy. Moreover, limited manufacturing capacity in most countries has meant that increased infrastructure and industry investment could just fuel imports. Limited policy responses have also reflected the depth of inequality in Southern Africa. Both businesses and policy-makers could largely protect themselves from the pandemic's economic and health impacts. That made them less likely to act urgently or decisively to address the consequences for less-privileged groups.

Key words: Southern Africa, case studies, COVID-19, economic policy, development policy

JEL classification: N17, N57, O23, Q34

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1 Aims and approach

As in the rest of the world, the COVID-19 pandemic had severe economic fallout in Southern Africa. As of April 2021, the policy response had three phases. First, public health measures to limit infection, mostly starting in March 2020 and likely to persist throughout 2021, in themselves had significant economic impacts. Second, many Southern African countries provided a degree of support for economic activities affected by the pandemic itself as well as engaging in efforts to control it. In this context, third, most countries initiated or promised stimulus packages to accelerate their economic recovery while pursuing long-standing developmental aims. In practice, however, falling revenues during the pandemic led to a decline in government spending in 2020/21.

This analysis first looks at the impact of the pandemic in Southern Africa and then analyses the policy responses. To that end, it first reviews the evolution of the pandemic in the region and the visible economic impacts in terms of growth, employment, trade, and capital flows. It then summarizes global economic developments that affect both regional economic trends and the scope for policy responses. The fourth section analyses the policies that countries in the region have adopted in an effort to address the economic fallout of the pandemic. This section comprises case studies of five countries—Botswana, Namibia, South Africa, Zambia, and Zimbabwe. For each, it reviews the public health measures adopted to address the pandemic that would affect business activities; the fiscal and monetary response; initiatives to strengthen social protection and industrialization; and the extent of consultation around these policies. A final section indicates learning from the process so far.

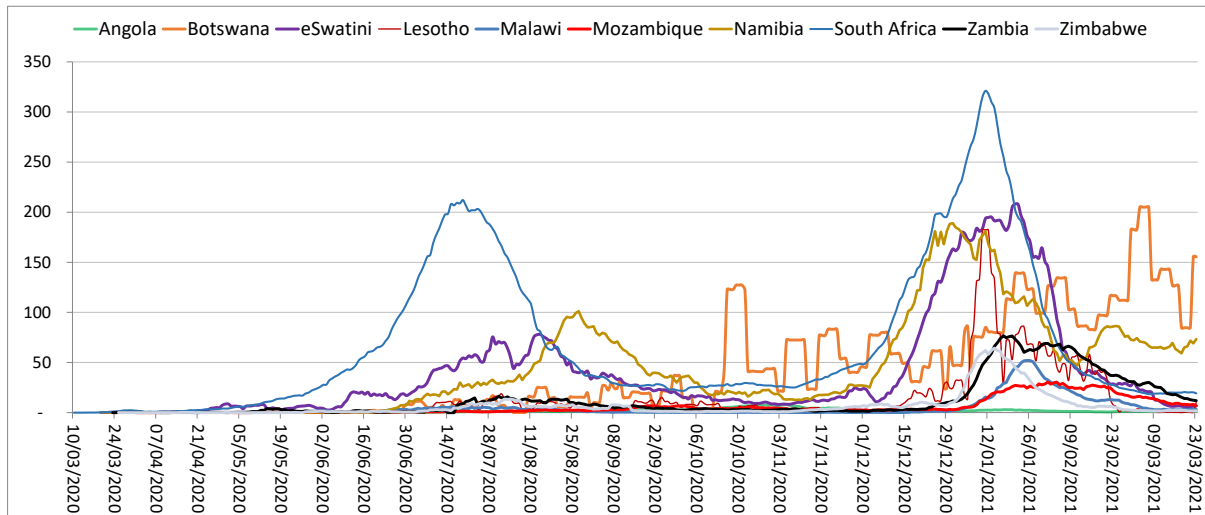
2 COVID-19 in Southern Africa

Outside of South Africa, the region generally experienced surging COVID-19 only substantially later than the Global North, with an initial wave in mid-2020 followed by a larger surge in December 2020 and January 2021. The delay in surges appears to be linked primarily to relatively low regional mobility and international travel, with the exclusion of the main South African metros. In this context, the increase in diagnoses over the December holiday season across the region is likely to have resulted in large part from migrant workers' travel and from tourism over this period. New variants may also have contributed. It seemed likely that the winter months would bring a third surge, given the slow pace of vaccinations across the region.

This section reviews trends in COVID-19 infections in the continental Southern African Development Community (SADC), excluding Tanzania and the Democratic Republic of Congo due to poor data. Low testing and inadequate registration of deaths meant that COVID-19 cases were consistently under-reported across the region, albeit with substantial variations by country.

As Figure 1 shows, South Africa (SA) and its neighbours in the South African Customs Union (SACU)—Namibia, Botswana, Lesotho, and Eswatini—reported the highest rate of diagnoses per million people in the region through March 2021. Generally, Southern Africa did not see many cases in April 2020, when the Global North experienced an initial peak. Instead, most countries experienced a surge in mid-2020 and then a much larger one from late 2020 through February 2021.

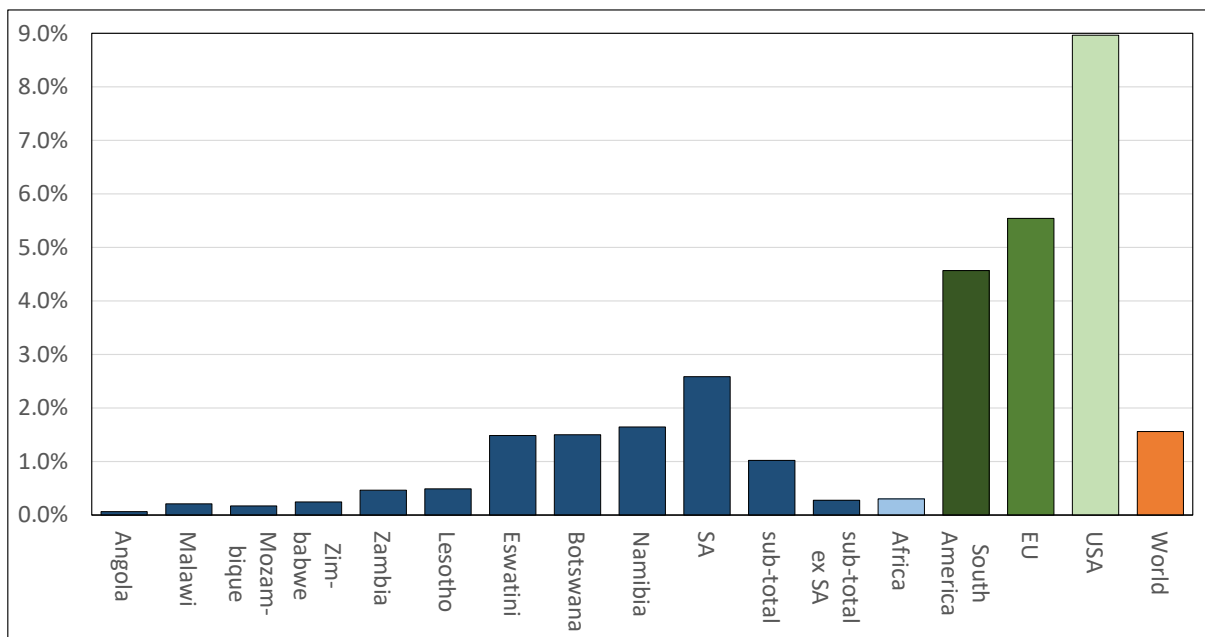
Figure 1: Diagnoses per million over time, seven-day rolling average, 10 March 2020 to 23 March 2021



Source: author's calculations based on Our World in Data (2021).

Relative to population, diagnosed cases remained low in Southern Africa compared with the rest of the world, although especially in SACU they were higher than in the rest of Africa. South American countries had much higher rates than even South Africa, while the percentage of people diagnosed with COVID-19 in the Global North was still higher; see Figure 2.

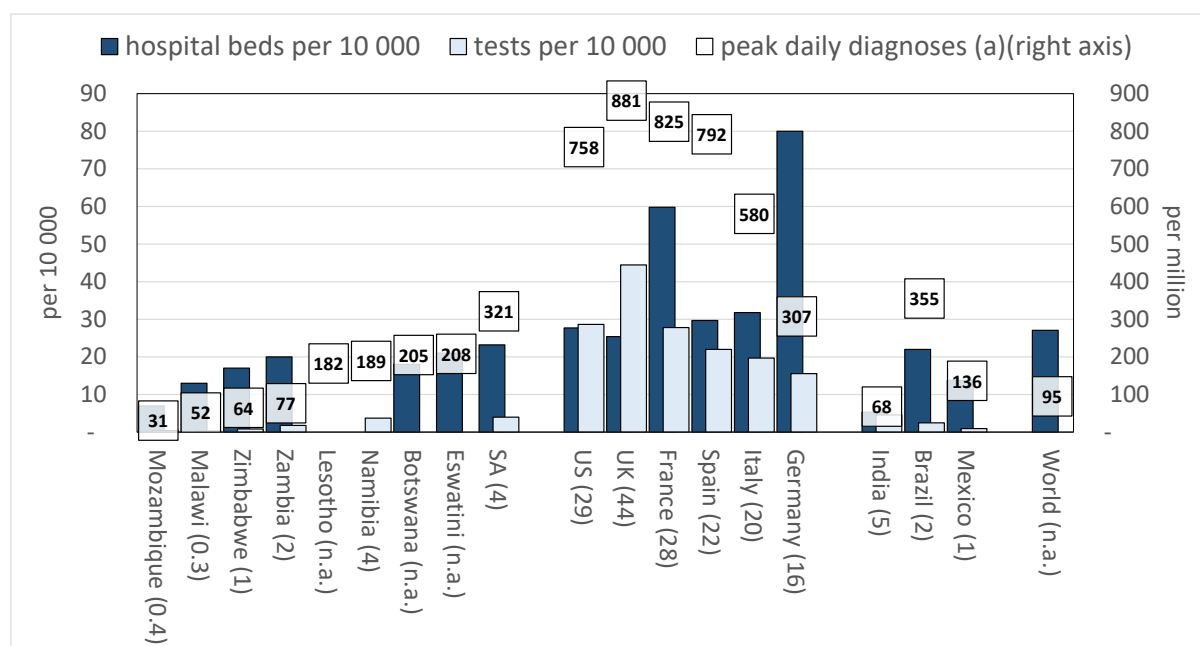
Figure 2: Share of population diagnosed with COVID-19 as of third week of March 2021



Source: author's calculations based on Our World in Data (2021).

Low rates of testing only partially explained the relatively low incidence of COVID-19 diagnoses. Data on testing were not available for some Southern African countries, but rates appeared more or less the same as in other major developing economies. They were much lower than in the Global North, however. Figure 3 provides the available figures for testing and for the peak daily diagnosis numbers. It also gives hospital beds per 10,000 as an additional indicator of the reach of the formal health system.

Figure 3: Hospital beds and tests per 10,000 and peak daily diagnoses (a) in Southern Africa compared with countries in the Global North and major developing economies, as of March 2021



Note: figures in parentheses on the x-axis represent tests per 10,000; (a) is the highest number of diagnoses reported on any single day from 10 March 2020 to 23 March 2021, based on seven-day rolling averages; the date of the peak varied depending on when countries experienced surges.

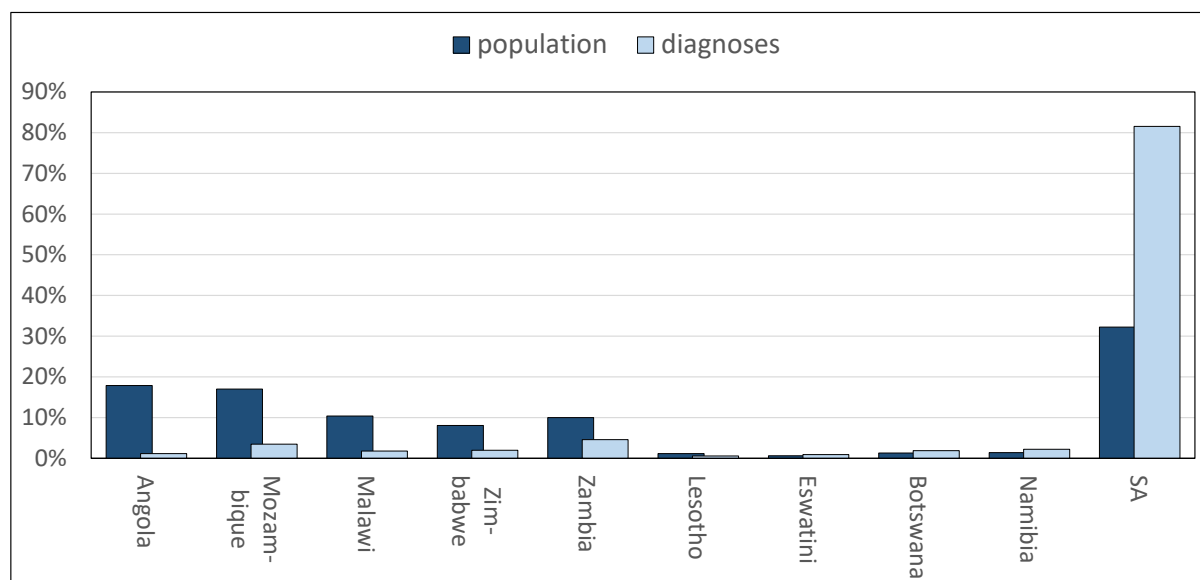
Source: author's calculations based on Our World in Data (2021).

Analyses of antibodies in blood samples suggested that diagnosed cases vastly understated the level of infections in Southern Africa. As of April 2021, these studies were not available for most countries, and they were generally limited to a few districts. In Zambia, a study in six (relatively urbanized) districts in July 2020 found sero-prevalence of over 10 per cent, equivalent to 450,000 people having had COVID-19, yet fewer than 5,000 people had been diagnosed (Mulenga et al. 2021: 1). In South Africa in mid-January 2021, blood tests showed sero-prevalence in four provinces ranging between 32 per cent and 63 per cent, although confirmed diagnoses in all four provinces equalled less than 3 per cent of the population (Sykes et al. 2021: 1). In contrast, figures for rural areas in Mozambique were much lower. In mid-December 2020, sero-prevalence there ranged from 0.7 per cent in Niassa and Tete in the north to 5.3 per cent in Chokwe and 3.7 per cent in Xai-Xai in the south (UN Mozambique 2020: 1).

Estimates of excess deaths during the pandemic—that is, the number of deaths above the norm over the recent past—also point to significant under-diagnosis. In Southern Africa, as of April 2021 these figures were only published for South Africa, because they require both reliable and up-to-date death registrations. In South Africa, the number of excess deaths during the pandemic was three times as high as the number of reported deaths from COVID-19 (Bradshaw et al. 2021: 2). That figure aligns with the norm for Latin American economies, although in the Global North excess deaths have been typically no more than 50 per cent higher than diagnosed COVID-19 cases.

According to reported diagnoses, as of late March 2021 South Africa alone accounted for four out of five COVID-19 cases in continental Southern Africa, although it held only a third of the population. Namibia, Botswana, and Eswatini made up 2 per cent of the population of the remaining countries in the region but 12 per cent of diagnosed cases. Most of the remaining diagnoses were in Mozambique and Zambia (see Figure 4).

Figure 4: Share in Southern African population and COVID-19 diagnoses in third week of March 2021



Source: author's calculations based on Our World in Data (2021).

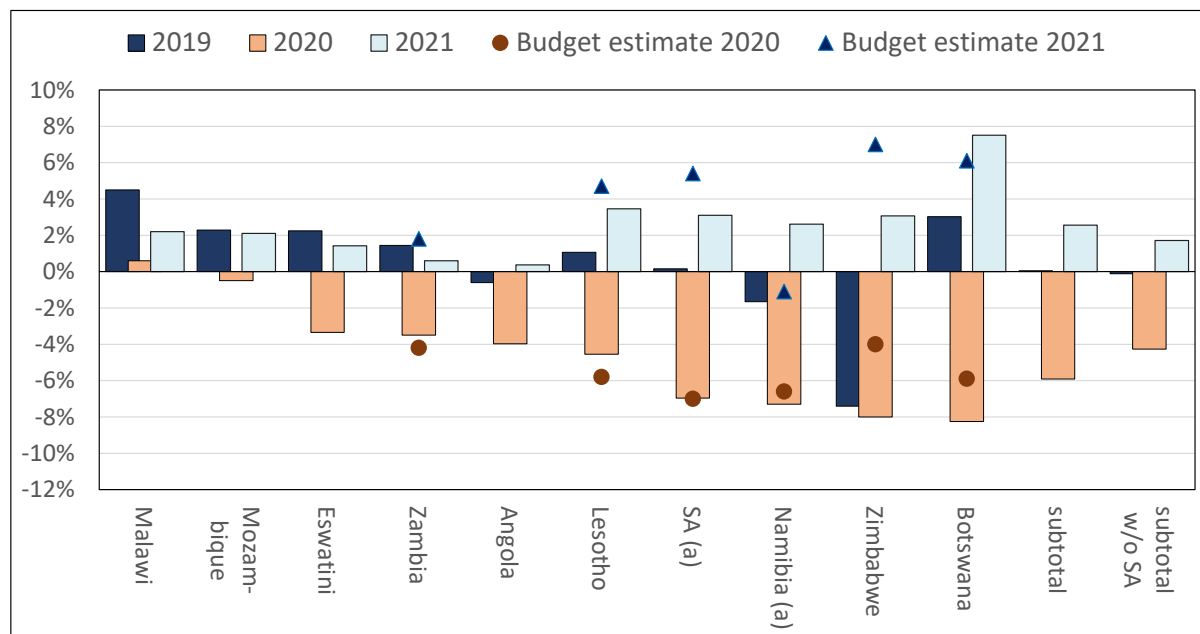
In sum, the number of COVID-19 diagnoses in Southern Africa outside of South Africa was relatively low, but the figures are likely substantially undercounted. In contrast to the rest of the world, the region did not see a surge until the second half of 2020. By the start of 2021, however, it appeared that the contagion had spread widely, although the second surge had subsided in most countries by April 2021.

3 Economic impacts

Like most of the world outside of China, Southern Africa endured an economic depression in 2020. The economic outcomes varied significantly over the course of the year, however. A sharp downturn linked to regional and international lockdowns in the second quarter was followed by a rebound in the remainder of the year. The recovery was boosted by high prices for metals exports, which were a mainstay for most of the economies in the region. Still, for 2020 as a whole, regional GDP was around 6 per cent below that of 2019; excluding South Africa, the decline was 5 per cent. For comparison, in the 2008/09 financial crisis regional GDP shrank by less than 2 per cent. As of April 2021, the International Monetary Fund (IMF) expected the region as a whole to return to 2019 GDP levels by 2022, but it forecast that South Africa and Zimbabwe would lag behind.

As Figure 5 shows, the IMF expected upper-middle-income but mining-dependent economies generally to perform worse than lower-income countries, with the exception of Zimbabwe. Growth in the region as a whole was already slow in 2019, which aggravated the impact of the pandemic downturn on businesses and households. Several countries published forecasts that diverged substantially from the IMF projections, however. The Zimbabwe government forecast in its 2021 budget, published in November 2020, that the economy would shrink by only 4 per cent in 2020, with a 7 per cent rebound in 2021. By this estimate, the economy would contract less in 2020 than it had in 2019, when it declined by 6 per cent (Ncube 2020: 27). Budget estimates from other countries for 2021/22 also diverged substantially from the IMF projections. The data for Angola and Zimbabwe were unreliable and sometimes inconsistent.

Figure 5: IMF projections and, where available, national budget estimates for GDP growth, 2019–21

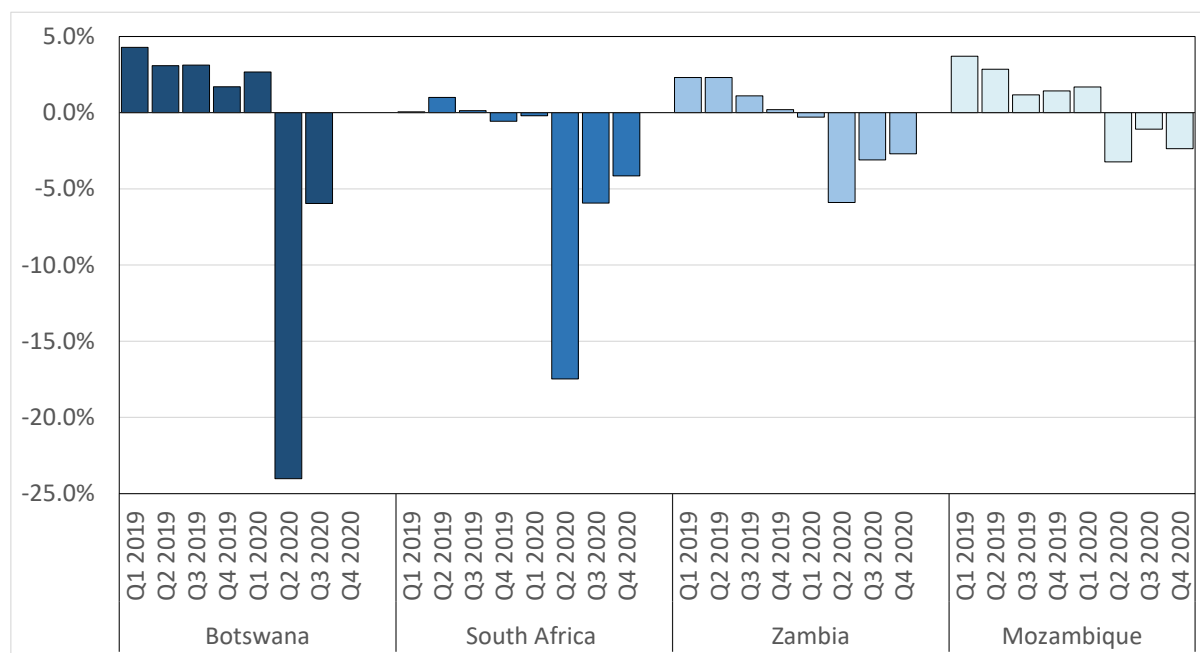


Note: (a) actual GDP data for 2020.

Source: author's calculations based on IMF (2021d); budget data from Mangudya (2021), Namibia MOF (2021a, b), National Treasury (2021c), Ncube (2020), and Shiimi (2021).

The GDP decline was sharpest by far in the second quarter, when most countries in the region and internationally locked down more or less stringently. Figure 6 provides data for Botswana, Mozambique, South Africa, and Zambia; the other countries in the region had not yet published quarterly GDP data as of March 2021.

Figure 6: Quarterly GDP growth in Botswana, South Africa, Zambia, and Mozambique, 2019 and 2020

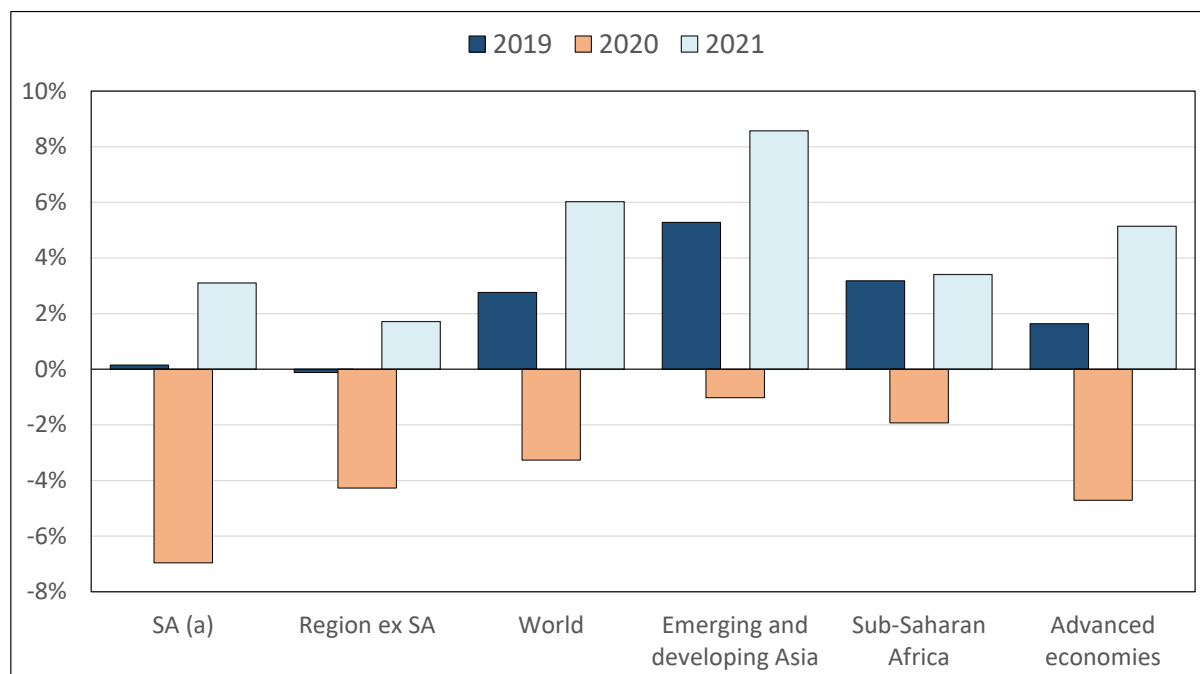


Note: Botswana had not published figures for the fourth quarter 2020 as of March 2021.

Source: author's calculations based on Instituto Nacional de Estática (2021), SARB (2021c), Statistics Botswana (2021: 4), and Zambia Statistics Agency (2021: 3).

The pandemic depression in Southern Africa as a whole was slightly worse than the average for the rest of the world, which was moderated by expansion in the Chinese economy. Still, except for China, most countries saw their GDP shrink. By far the worst outcomes were forecast for Latin America. The IMF anticipated a slower recovery in Southern Africa than in the rest of the world; the region was lagging behind global growth before the pandemic (Figure 7).

Figure 7: IMF projections for GDP growth in Southern Africa compared with other regions, 2019–21



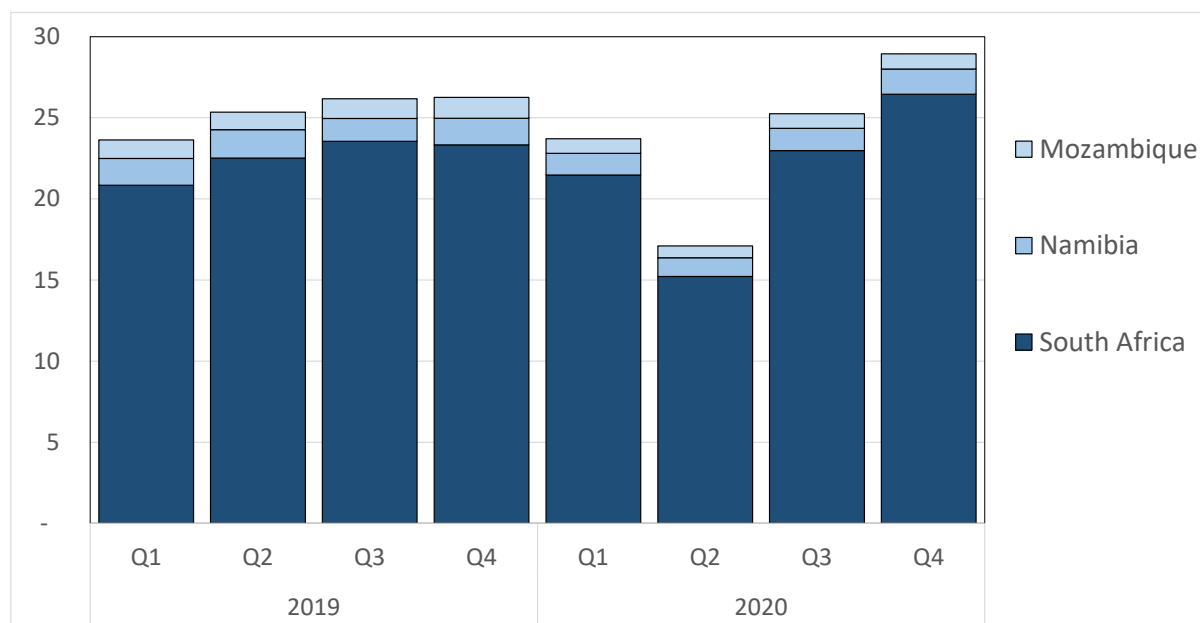
Note: (a) actual GDP data for 2020.

Source: author's calculations based on IMF (2021d); budget data from Mangudya (2021), Namibia MOF (2021a, b), National Treasury (2021c), Ncube (2020), and Shiimi (2021).

Like GDP, exports showed a sharp fall in the second quarter, with a strong recovery in revenues especially for minerals other than coal and petroleum. As of April 2021, however, trade data for 2020 were available only for Mozambique, Namibia, and South Africa. Taken together, exports by these three countries declined by 28 per cent in US dollar terms in the second quarter, but rebounded by 69 per cent in the fourth quarter. Both the decline and the recovery were substantially more pronounced for South Africa than for Mozambique and Namibia (Figure 8).

South African exports exemplified the extraordinary fluctuations in global trade during the first year of the pandemic. In the second quarter of 2020, they were a third lower than a year earlier. By the fourth quarter, however, platinum, gold, and iron ore revenues were all up by over 30 per cent in US dollars compared with a year earlier, or nearly 90 per cent on the second quarter. For ferro-alloys, the increase on the fourth quarter of 2019 was 20 per cent. These gains mostly reflected higher international metals prices rather than increased output. International price increases were driven by a combination of speculation in precious metals and recovery in manufacturing, especially in China, as discussed in Section 4 below. For South Africa's only major manufactured export, assembled autos and trucks, export revenues in the final quarter of 2020 were up by 13 per cent in US dollars on the previous year, due almost entirely to higher sales volumes. Of South Africa's lead exports, only coal showed a decline, at 13 per cent lower than in the fourth quarter of 2019, as energy prices remained comparatively low. Other exports were 8 per cent higher than a year previously in dollar terms.

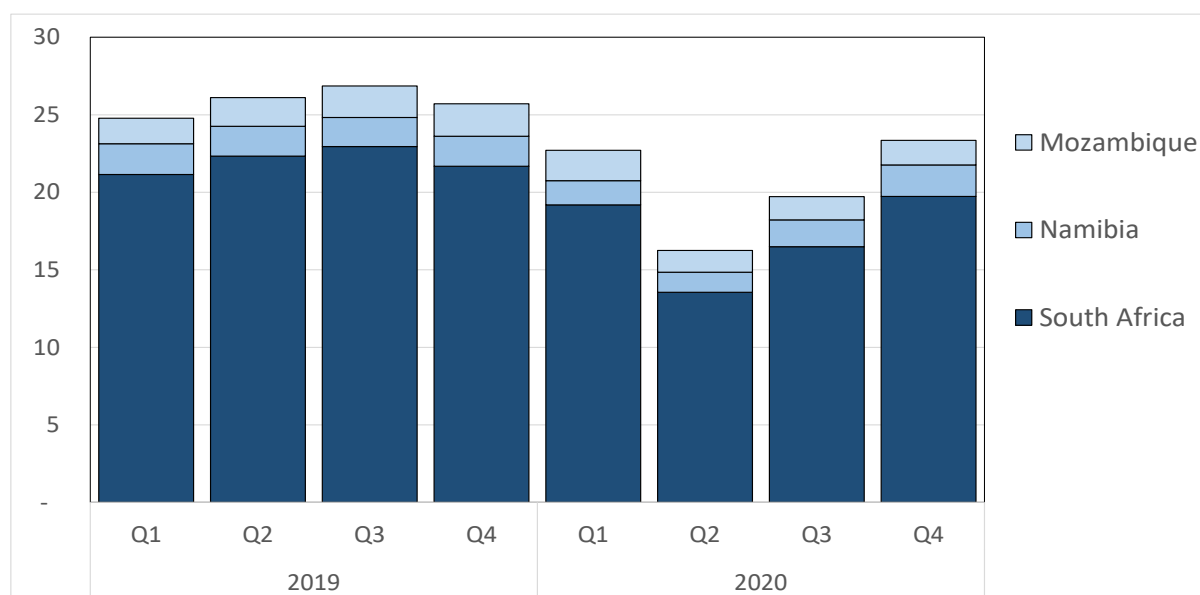
Figure 8: Quarterly exports by Mozambique, Namibia, and South Africa in US dollars, 2019–20



Source: author's calculations based on ITC (2021).

Imports also plummeted in the second quarter of 2020. They recovered more slowly than exports, however, largely because international petroleum prices remained depressed. In both South Africa and Mozambique, in US dollars imports were around a tenth lower at the end of 2020 than a year earlier. In Namibia, imports were higher because of increased processing of (mostly Zambian) copper anodes for export. Other imports were down by 11 per cent (see Figure 9).

Figure 9: Quarterly imports by Mozambique, Namibia, and South Africa in US dollars, 2019–20

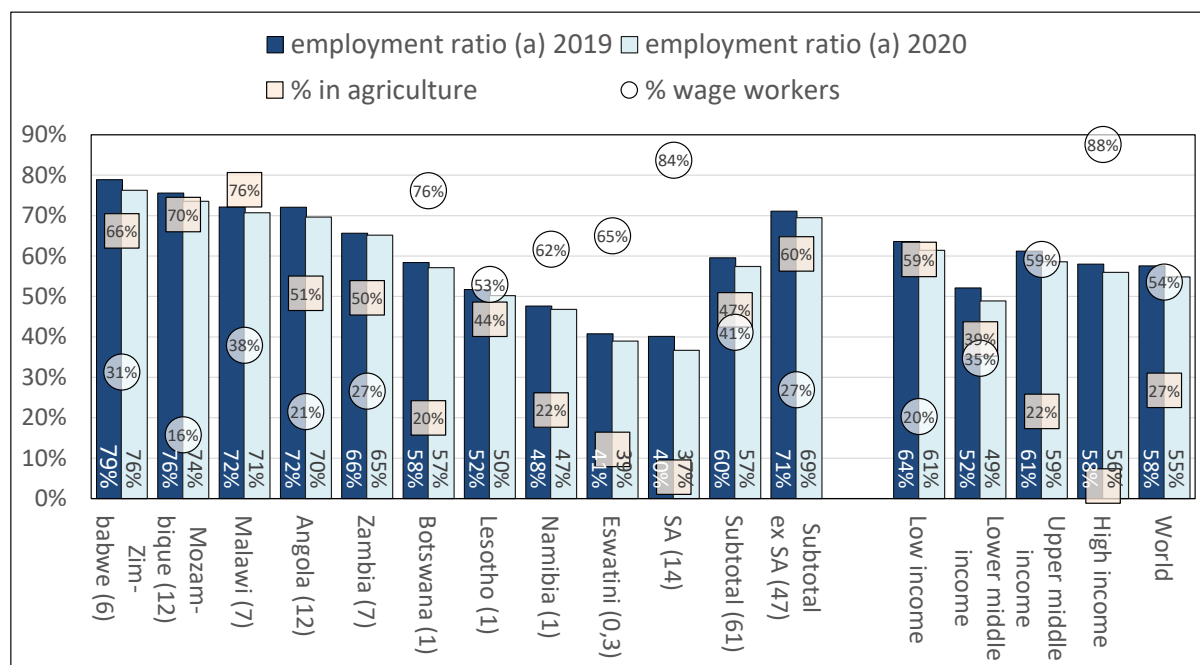


Source: author's calculations based on ITC (2021).

Employment usually recovers more slowly than production after a downturn, and the COVID-19 depression adhered to this pattern. According to International Labour Organization (ILO) estimates, the share of working-age people with any kind of income-generating employment—the ‘employment ratio’—declined for every Southern African country from 2019 to 2020. The fall was

steepest in South Africa. Thanks to apartheid, which effectively destroyed most African farming, almost all households there rely on wage labour rather than small-scale agriculture. As a result, South Africa entered the pandemic with one of the highest rates of joblessness in the world (see Figure 10).

Figure 10: Employment ratio in 2019 and 2020 and share of agriculture and of wage workers in total employment; figures in bracket is total formal employment in millions

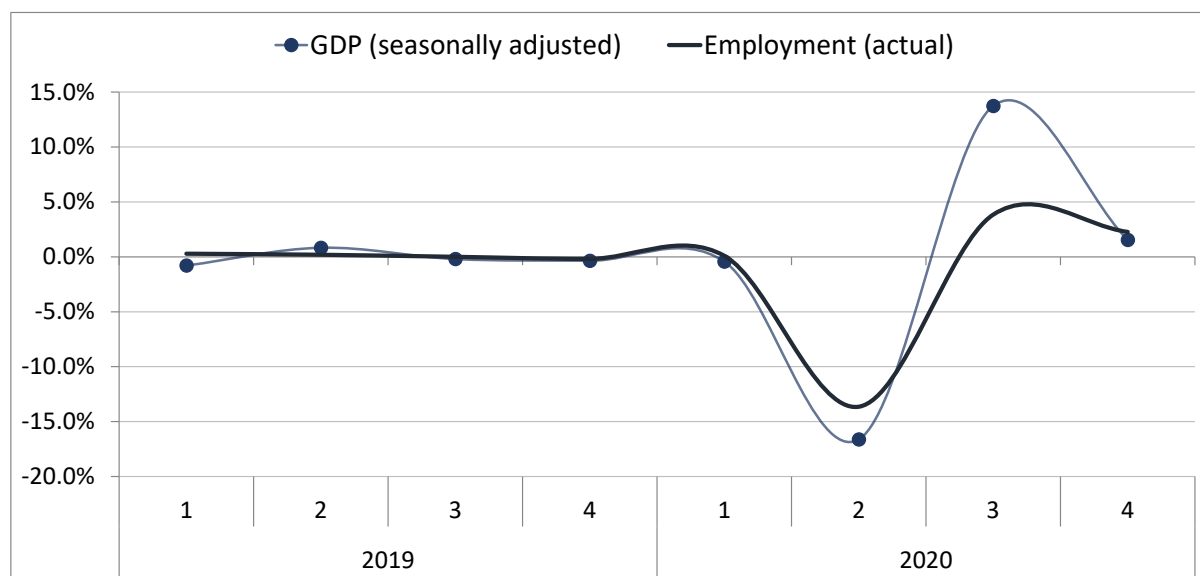


Notes: figures in parentheses are total formal employment in millions; (a) those in employment, including self-employed, as a percentage of all working-age adults; non-wage workers are self-employed or employers.

Source: author's calculations based on World Bank (2021c).

Only South Africa has published data on employment by quarter for all of 2020. The figures underscore the slower recovery in employment than in production. Employment fell by 13.6 per cent from the first to the second quarter, but had recovered by only 6.2 per cent by the end of the year. In contrast, GDP had almost fully recovered by the end of the year (see Figure 11).

Figure 11: Quarter-on-quarter change in employment and GDP in South Africa, 2019 and 2020



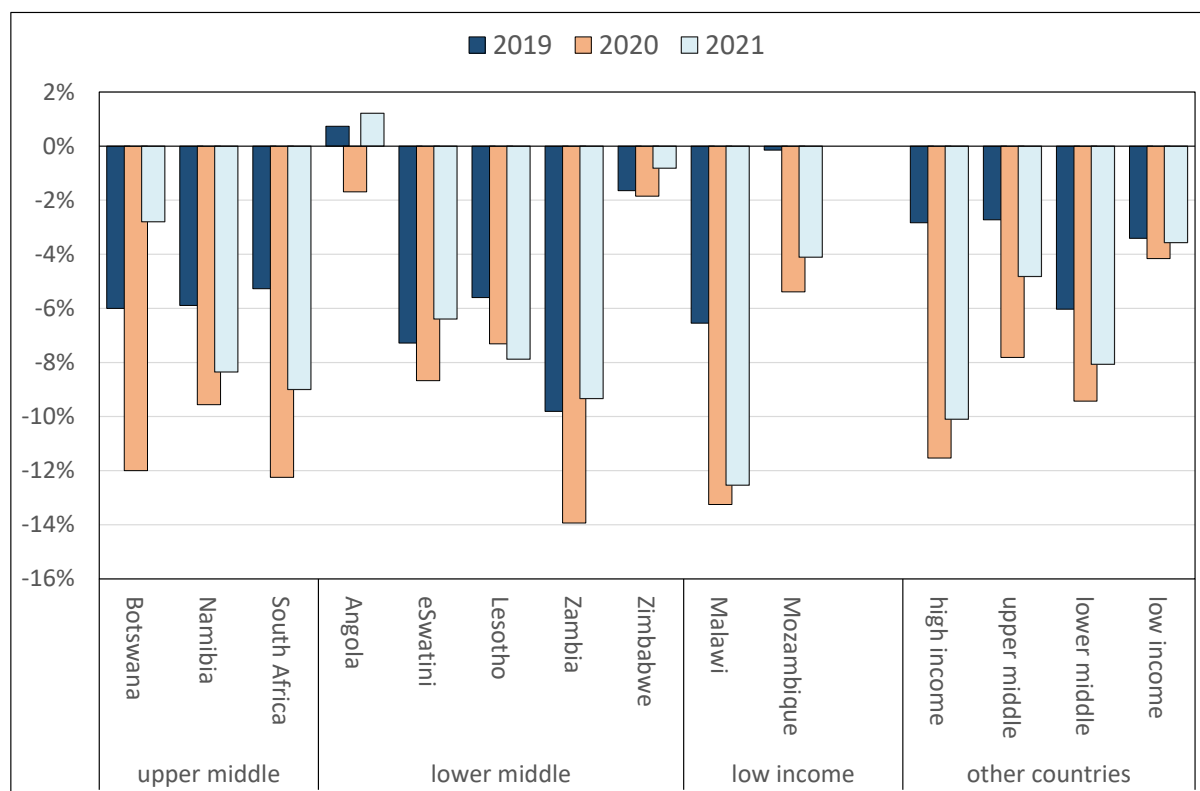
Source: author's calculations based on GDP data from Stats SA (2020a) and employment data from Stats SA (2020b).

The decline in employment was generally steepest for less-skilled and informal workers, many of whom are self-employed. That in itself aggravated the region's already unusually deep inequalities (see Makgetla and Levin 2020). In South Africa, formal management and professional employment was 2 per cent lower in the fourth quarter of 2020 than in the fourth quarter of 2019; for other formal workers it was down by 10 per cent, for informal workers by 14 per cent (Stats SA 2019, 2020b).

The available evidence suggests that the downturn was particularly harsh for smaller businesses, which typically have less liquidity and access to credit and were more likely to be operating in high-risk service industries. In South Africa, the number of employers and self-employed people fell by around 10 per cent from the first quarter to the fourth quarter of 2020 (Stats SA 2019, 2020). In Zimbabwe, a survey found that as of June, 44 per cent of households reported that wage income had dropped from pre-pandemic levels. Some 87 per cent recorded a decline in non-farm business income, with 27 per cent saying these revenues had fallen to zero (Zimstats 2020: 11). Close to nine out of ten households in Zimbabwe depended on small-scale agriculture or informal business rather than wages. In Botswana, around a third of working people were in the informal sector. A survey found that half of informal businesses had no revenue during the April lockdown, and 80 per cent made losses (Mphoeng 2021).

A further impact of the downturn was an increase in budget deficits and public debt across Southern Africa, mostly because of lower revenues combined with modest increases in spending. This reflected a pattern in the rest of the world, with the deficit rising most sharply in higher-income economies both globally (see IMF 2021a: 3) and in Southern Africa. As the case studies below indicate, most Southern African countries aimed to reduce the deficits incurred in 2020 fairly rapidly. Typically, the initial cuts in 2021 budgets affected relief payments initiated to offset the loss of livelihoods during the pandemic; capital investment (although not in South Africa); and public service remuneration. Debt payments absorbed a significant share of government spending—projected at some 40 per cent in Zambia and 13 per cent in South Africa in 2021 (see Figure 12).

Figure 12: Budget deficits in Southern African countries as percentage of GDP, 2019–21



Source: author's calculations based on annual budgets for South Africa, Botswana, Namibia, and Lesotho; IMF (2021a); and World Bank (2021c).

The pandemic had a highly differentiated impact by sector. Most sectors, including agriculture, mining, and manufacturing as well as professional services, were approaching pre-pandemic production levels by the end of 2020. In contrast, entertainment services and both domestic and international tourism suffered because of the high risk of travel and indoor gatherings during the pandemic.

Everywhere, the agricultural value chain was largely exempt from public health restrictions, even at the height of the lockdowns in April 2020. In most of Southern Africa, with the notable exception of South Africa, agriculture was conducted mostly by smallholders with limited cash sales, although large estates typically accounted for a disproportionate share of the urban food supply. Large producers were affected by lower demand, especially for restaurants and fast-food outlets, as well as disruptions to input supply. South Africa banned alcohol sales three times, for about a month each time, mostly to reduce the load on hospitals during COVID-19 surges and to disincentivize socializing. As a result, alcohol sales fell by around a fifth. The national wine industry was already in decline before the restrictions.

In most countries, the mines never fully closed even during lockdowns, both because of their economic and political leverage and because many mines require continuous operations to avoid major damage. In South Africa, mining sales returned to 2019 levels by the end of 2020. In Zimbabwe, the Chamber of Mines found that capacity utilization fell by less than 10 per cent at most mines, and 90 per cent expected to maintain employment at or even above 2020 levels in 2021 (Chigumira 2021: 9).

Manufacturing was often sharply affected by public health restrictions and disruptions in global and regional supply chains in the first half of 2020, although production had largely recovered by

the end the year. The disruptions started with difficulties in obtaining inputs due to the lockdowns in China from January. In April, many Southern African governments halted most manufacturing production outside of food and pharmaceuticals when they locked down. Those restrictions typically ended after a month and were not renewed even when other restrictions were reimposed, such as curfews and limits on entertainment venues. Public health restrictions still disrupted the supply of inputs for many in-land producers, however. Cross-border transactions were affected by limits on non-essential travel, especially during surges in COVID-19, while requirements around testing and quarantine often imposed significant delays. In South Africa, the auto assembly industry—the country’s only major non-commodity-based goods export—stopped production in March, before the lockdown, as a result of the global wave of closures due to shortages of inputs from China. It began to reopen in May, however, and by the end of 2020 its sales were higher than a year earlier.

Despite the substantial improvement in the second half of 2020, manufacturers typically found that demand was weak as a result of the overall downturn and consumer reluctance to go out shopping; input supplies continued to face periodic interruptions; measures to limit infection required changes to work organization and imposed additional costs for materials; and absenteeism increased because workers had to go into quarantine or self-isolation.

Indoor entertainment and tourism were most disastrously affected by the pandemic, because even when governments did not impose any restrictions people were reluctant to risk socializing and travel. The impact was particularly harsh for overseas tourism, which was small but highly lucrative compared with regional and domestic travel. In Namibia, the contribution of hotels and restaurants to GDP plummeted some 70 per cent in 2020 (Namibia MOF 2021a: 23). Both South Africa and Zimbabwe reported that even in late 2020, occupancy rates at hotels were down by around three-quarters. In South Africa in February 2021, restaurant sales were 31 per cent lower than a year earlier and bar sales were down by 38 per cent (Stats SA 2021). Employment levels in bars and restaurants in the fourth quarter of 2020 were 15 per cent lower than a year earlier, compared with a decline of 8 per cent in the rest of the economy. In Botswana, the retail sector, which includes hotels and restaurants, shrank by 40 per cent in the second quarter of 2020 and a further 15 per cent in the third quarter. A survey of small business conducted by the Botswanan Local Enterprise Authority found that the tourism sector suffered a 72 per cent revenue loss in March 2020, close to twice the losses in other sectors and placing over 700 jobs at risk (LEA 2020).

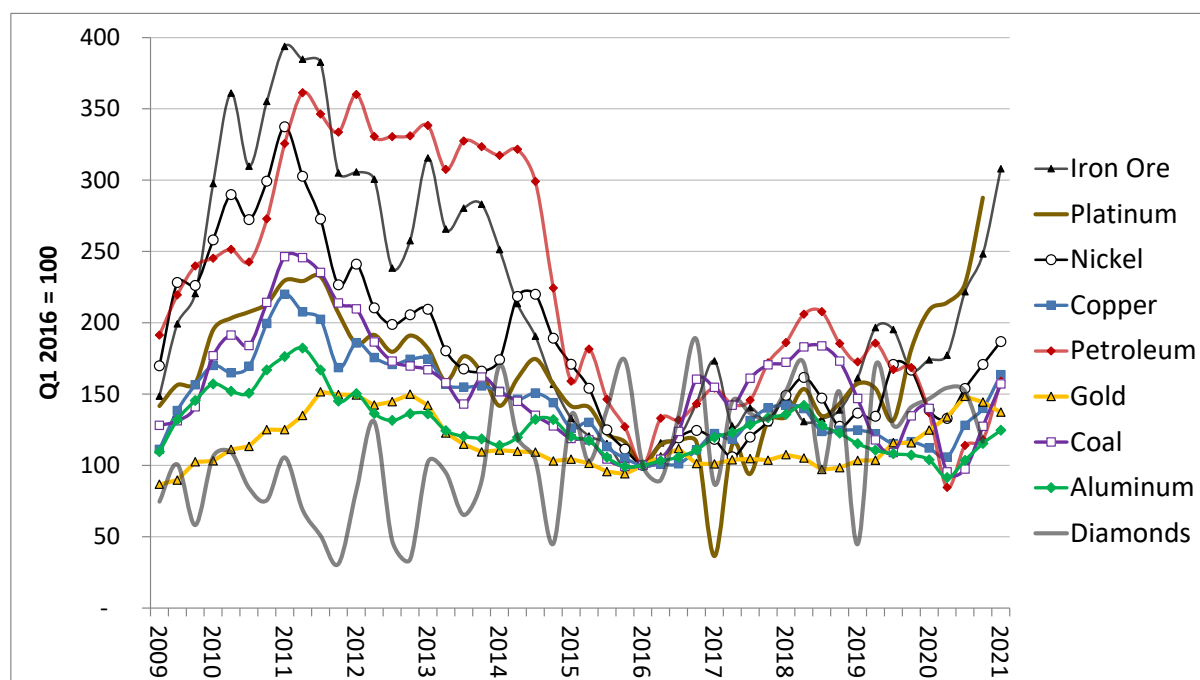
In sum, the data indicate that the COVID-19 pandemic brought an economic crisis to Southern Africa despite the partial rebound in the second half of 2020. The regional downturn seemed likely to widen inequalities, as lower-level and informal employment was hardest hit and slowest to recover. This outcome largely reflected the sectoral impacts of the pandemic itself. Industries that could minimize contagion in the production process, including agriculture, mining, and most of manufacturing, business services, and retail, recovered fairly rapidly from the sharp decline in April 2020. The recovery was assisted by higher metals prices and lower petrol costs. In contrast, absent widespread vaccination, most entertainment services and public transport, outside of some kinds of ecotourism, could not safely reopen on their historic models. As a result, both international and domestic tourism seemed likely to remain deeply depressed until COVID-19 was fully controlled.

4 The global context

Five global trends affected the recovery in Southern Africa: international commodity prices; capital flows; huge stimulus packages in the Global North; tourism; and deeply inequitable access to vaccines. The combination of higher export revenues from most metals and lower petroleum prices strengthened the regional balance of payments except for Angola and Botswana. Capital flows dipped in the first quarter of 2020 but then recovered fairly strongly, although they varied by country and financial mechanism. The massive stimulus packages in the US and much of Europe bolstered demand internationally, partially offsetting the limitations on domestic spending. In contrast, international tourism, especially where it required long-haul flights, remained at a fraction of pre-pandemic levels due mostly to reduced demand, which was further aggravated by limits on cross-border travel. In the longer run, high-income countries' monopsony on vaccines seemed likely also to delay the recovery in Southern Africa.

As Figure 13 shows, the unit US dollar prices of major Southern African exports—coal, petroleum, aluminium, copper, iron ore, and nickel—fell sharply in the second quarter of 2020, by between 3 per cent for nickel and 31 per cent for coal. Diamond and gold prices increased mostly as a result of speculative investments, while iron ore and platinum began to recover as the Chinese economy started to grow again. From the third quarter of 2020, the situation largely reversed. Prices of industrial products began to climb, while diamond prices continued a decline from 2019 and gold dropped from the end of 2020.

Figure 13: Indices of prices of Southern African mining exports in constant US dollars, second quarter 2009 to first quarter 2021 (Q1 2016 = 100)



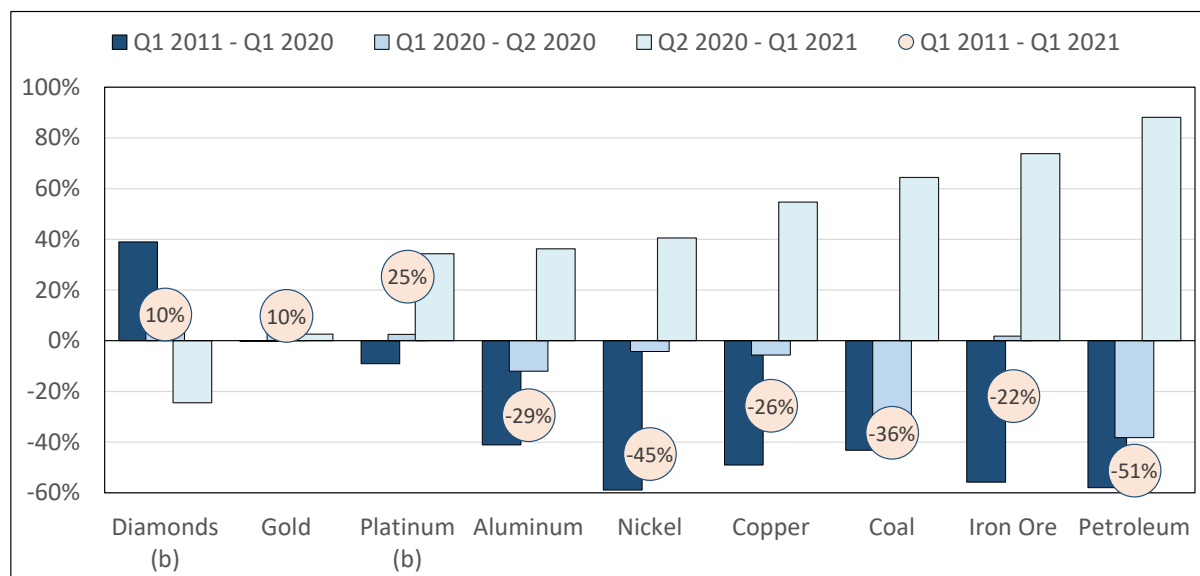
Note: US dollars deflated with US Consumer Price Index (CPI).

Source: author's calculations based on Quantec (2021) for diamond and platinum prices and IMF (2021b) for other metals.

As Figure 14 shows, only gold and platinum exceeded their 2011 peak, but all except gold and diamonds had recovered strongly from the crash in the second quarter of 2020. Low diamond prices were deeply problematic for Botswana, as discussed in the case study below. Similarly, low

petroleum prices posed a challenge for Angola, although they showed a stronger recovery in the second half of 2020.

Figure 14: Change in mining prices in constant US dollars (a)

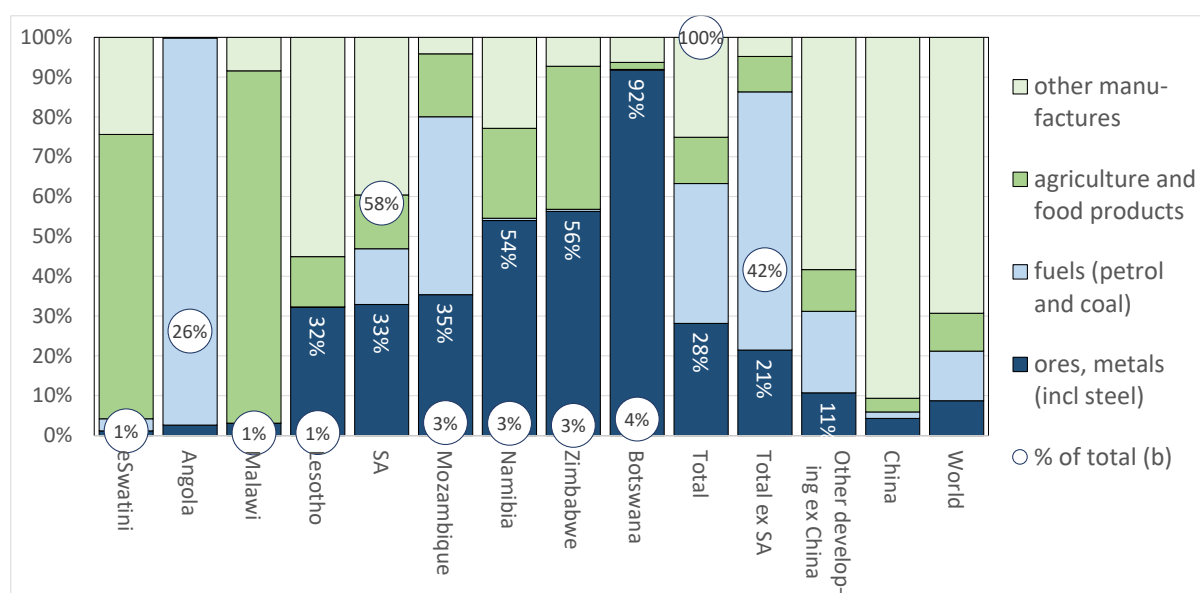


Note: (a) deflated with US CPI; (b) figures to fourth quarter 2020.

Source: author's calculations based on Quantec (2021) for diamond and platinum prices and IMF (2021b) for other metals.

Metals and, for Angola, petroleum exports were particularly important for Southern Africa. The metals value chain plus diamonds accounted for a quarter of regional exports in 2018, compared with a tenth for other developing economies (see Figure 15).

Figure 15: Exports by type for Southern African economies compared with other developing and global exports, 2018 (a)



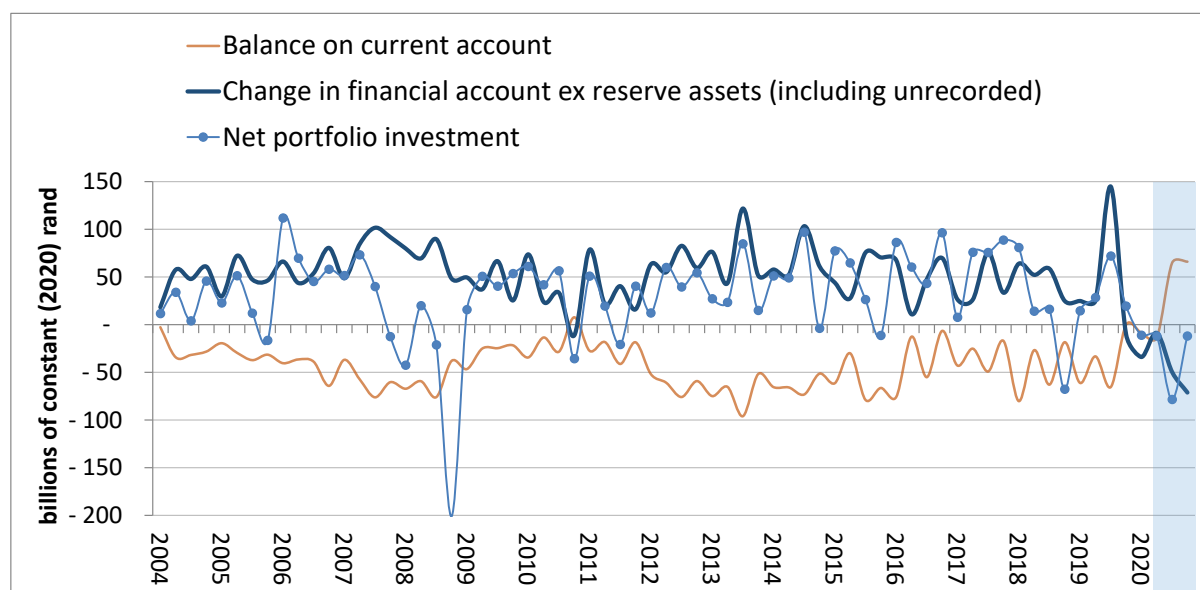
Note: (a) steel is included under ores and metals; fuels include electricity, which is significant for Mozambique and South Africa; (b) percentage of exports by Southern African countries included in the figure.

Source: author's calculations based on UNCTAD (2019).

The sharp increase in metals prices globally reflected the rebound both in China and later in much of the Global North, combined with an asset bubble driven by low interest rates. The precious metals all increased beyond their 2011 peaks. In contrast, prices for the industrial metals—iron ore, copper, and aluminium—mostly surpassed pre-pandemic levels but remained below the 2011 spike. Their prices were driven primarily by the recovery in international manufacturing, which was led by China but also emerged in much of the Global North.

International financial flows to Southern Africa outside of South Africa were fairly stable through the pandemic. In contrast, they fluctuated sharply for South Africa, which was both a far more important investment destination and unusually dependent on portfolio flows compared with upper-middle-income economies. In constant rand terms, in 2020, it saw a total outflow of R163 billion (excluding reserves), after an inflow of R185 billion in 2019 and an average inflow of R194 billion a year from 2011 to 2018. From 2004 to 2020, South Africa experienced a decline in the financial account in six quarters; four of them were in 2020. As Figure 16 shows, the financial crisis in 2008 saw a much larger outflow in portfolio investment, but the overall financial account was less affected. The outflow of capital was accompanied by a jump in the balance on the current account as the loss of foreign financing for imports combined with the rise in metals prices and falling petroleum costs.

Figure 16: Quarterly capital flows to and from South Africa and the balance on current account in constant (2020) rand, 2004–20



Note: constant 2020 rand deflated with CPI.

Source: author's calculations based on SARB (2021a).

Financial flows for much of Southern Africa, and especially for Zimbabwe, were also affected by remittances. Despite the global downturn, in 2020 remittances to Zimbabwe totalled US\$1 billion, up from \$600 million in 2019. That was equal to a sixth of total foreign currency receipts, up from just over a tenth in 2019 (Mangudya 2021: 28).

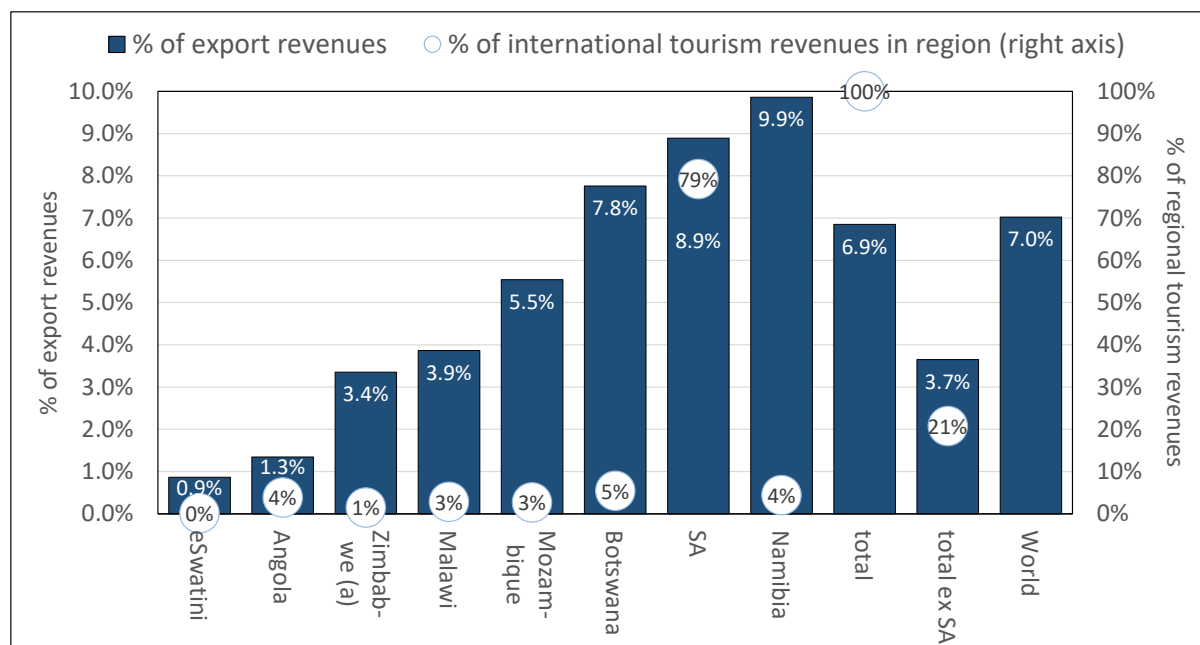
The recovery in Southern Africa was also affected by the large-scale stimulus in the Global North, which the IMF estimated at a total of US\$16 trillion in the year to April 2021 alone. While most emerging economies did not have significant domestic stimulus packages, they benefited from 'massive monetary and fiscal policy responses by advanced economies, which eased global financial conditions, limited capital outflow pressures in emerging markets, and supported global demand (despite supply disruptions)' (IMF 2021c: 11). High-income economies accounted for around

three-quarters of the total global stimulus. The IMF expected these efforts to continue through 2021 in high-income economies, but to end much earlier in most others (including virtually every Southern African country). It estimated that together, the stimulus efforts cut the decline in global GDP by two percentage points.

Internationally, most sectors recovered substantially after April 2020, but tourism and international travel remained depressed. The World Tourism Organization estimated that international tourism fell by 74 per cent in 2020, reversing ten years of growth and reaching levels last seen 30 years earlier. That compared with a 4 per cent decline in the 2008/09 global financial crisis, reflecting the uniquely vulnerable position of tourism during the pandemic (UNWTO 2021: 5–7). For Africa, the World Tourism Organization estimated the decline in international tourism at 75 per cent, with the number of tourist arrivals dropping from 70 million to 18 million for the continent as a whole (UNWTO 2021: 5).

The decline in international tourism seemed likely to affect South Africa, Namibia, and Botswana most severely. International tourism accounted for 7 per cent of exports by Southern Africa according to World Bank estimates, although the figures are likely to have undercounted regional tourism, especially within SACU. (The World Bank did not provide estimates for either Lesotho or Zambia.) Overall, the regional share of tourism in foreign earnings was near the global norm. But it was disproportionately centred on South Africa, which captured 80 per cent of the regional total, contributing an estimated 9 per cent of its export revenues. While much smaller in absolute terms than in South Africa, international tourism was also relatively important in Namibia and Botswana, providing 10 per cent of export earnings for Namibia and 8 per cent for Botswana. Excluding these three countries, tourism generated only around 2.5 per cent of regional exports, according to the World Bank figures (see Figure 17).

Figure 17: Share of international tourism receipts in total exports in Southern Africa, 2018



Note: (a) figure for 2017.

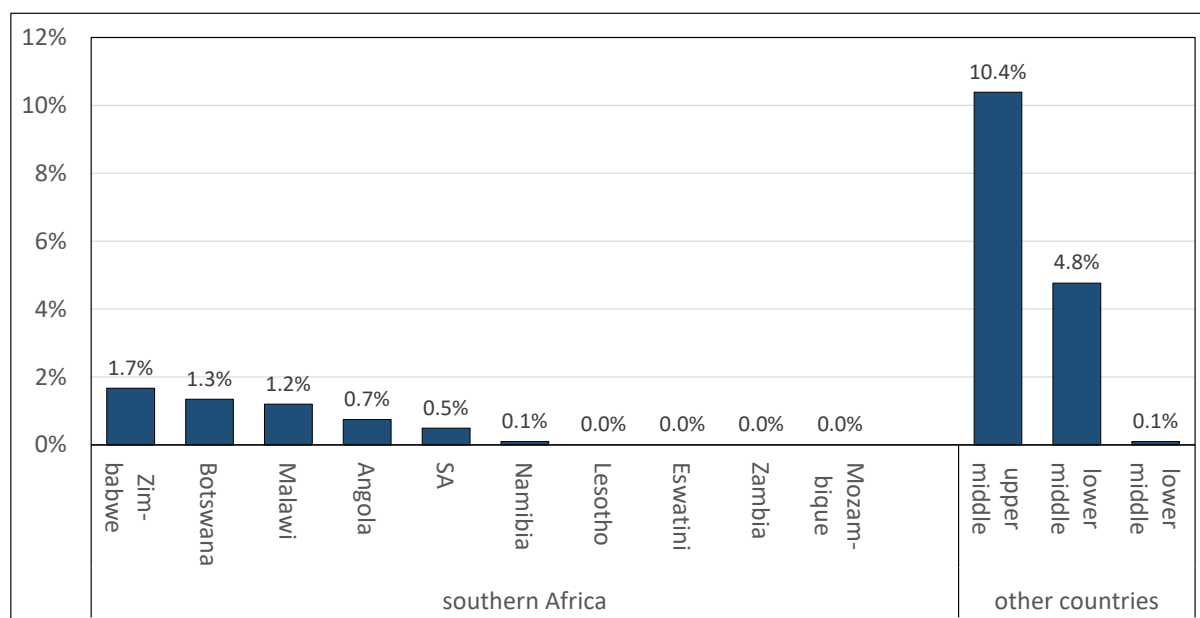
Source: author's calculations based on World Bank (2021c).

More than other industries, international tourism was affected by the level of contagion globally and regionally. Internationally, an initial recovery in tourism following the second-quarter lockdowns was reversed as new COVID-19 surges hit the Global North in the second half of 2020

(UNWTO 2021: 9). Experts expected the industry to recover fully only in 2023 or later, with the main barriers being travel restrictions, failure to contain COVID-19 in many regions, and the overall economic slowdown globally (UNWTO 2021: 13–14). The international attention paid to the so-called South African variant, now officially known as the Beta variant, with widely carried reports indicating that it might not respond well to vaccines, is likely to further slow the recovery of international travel to the region.

Finally, highly unequal access to vaccines threatened to delay recovery in lower-income economies. As of mid-April 2021, a third of people in high-income countries had received at least one dose, compared with 10 per cent in upper-middle-income economies, 5 per cent in lower-middle-income countries, and 0.1 per cent in low-income countries. Almost half of inoculated people lived in high-income countries, which hold just 6 per cent of the world’s population. Southern Africa lagged behind other lower-income economies, especially those that used Chinese or Russian vaccines (see Figure 18).

Figure 18: Share of population vaccinated as of 10 April 2021 in Southern African countries and in other lower-income economies



Source: author's calculations based on Our World in Data (2021).

5 Policy responses

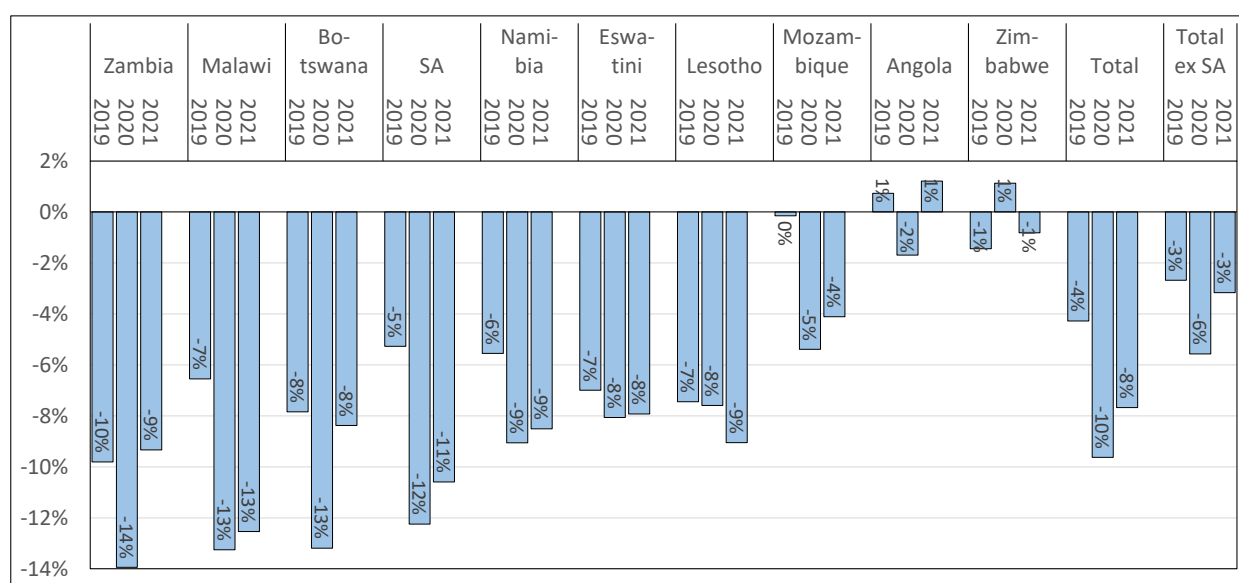
In Southern Africa as internationally, policy responses to the economic fallout of the pandemic covered four areas.

- *Efforts to minimize the economic impact of public health restrictions:* The initial response in April of a full lockdown affecting almost all formal producers evolved by mid-2020 to allow most economic activities to resume outside of high-risk entertainment venues and international travel. Efforts to roll out vaccines were, however, relatively slow across the region, as shown in Figure 18 above.
- *Macroeconomic measures to stimulate the economy:* Across the region, the fiscal stimulus was far smaller than in the Global North. Mostly it took the form of maintaining spending despite a sharp decline in revenues rather than an increase in expenditure. As Figure 19 shows, the

result was a sharp rise in budget deficits relative to GDP, although public spending barely increased. Most countries initiated austerity measures in order to rein in deficits despite continued slow GDP growth. In effect, the limited power of Southern African countries relative to global and domestic creditors constrained their scope for increasing state spending or mobilizing off-budget resources.

- *Relief spending to cushion the impact of the pandemic depression on small businesses and on poor households:* Several countries announced cash transfers to businesses and households, but many did not actually reach the majority of intended recipients. Moreover, most of these programmes dried up long before GDP and employment recovered.
- *Microeconomic policies to boost economic growth and diversification:* Most countries tried to adapt existing policies to the new conditions of the pandemic, rather than initiating significant new strategies. Their strategies generally centred on improving infrastructure, as well as limited efforts to promote diversification, especially through import substitution; to provide loan guarantees for business; and to support tourism, as the hardest-hit industry. The scale of these efforts remained limited, however, and many were not well defined. Moreover, there was little visible effort at regional alignment, including around local procurement initiatives and the development of regional infrastructure and value chains.

Figure 19: Budget deficits in Southern Africa as a percentage of GDP, 2019–20 and IMF projections for 2021



Source: author's calculations based on IMF (2021c).

Table 1 maps the top-line global and domestic public health developments in Southern Africa against the phases of the pandemic through to early 2021. The subsequent case studies illustrate the policy responses in more detail for Botswana, Namibia, South Africa, Zambia, and Zimbabwe.

Table 1: COVID-19 pandemic phases, global impacts, and regional public health responses, March 2020 to March 2021

| Phase of pandemic | Time frame | Global impacts | Public health initiatives | International travel and freight |
|------------------------------------------------|-------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------|
| Pandemic announced | March 2020 | Disrupted supply chains (especially auto assembly, mobile phones); sharp decline in commodity prices; capital outflows | Interruptions in production, especially auto assembly | All countries except Mozambique ban non-essential international travel |
| | April | Commodity prices start to recover | Lockdowns across region (details vary by country), including closure of most non-essential economic activities; production and incomes crash in most countries | |
| | May | Supply chains largely restored; auto assembly restarts in SA | Gradual relaxation begins, with rapid recovery (although not to pre-pandemic levels) outside of indoor entertainment services (e.g. bars, restaurants) and international tourism | Zambia reopens borders; Mozambique bans international travel |
| Initial surge starts in SA | June | | Relatively limited restrictions reintroduced, but do not limit economic activities outside of tourism/indoor entertainment; recovery continues, but rate slows; near full recovery in mining | |
| Initial surges in rest of the region | July – November | | Restrictions generally relaxed across the region | Borders reopen over time (except Angola), with testing, and/or quarantine |
| Second surge starts; discovery of ‘SA variant’ | December | | Increased restrictions, although not on economic activities outside of tourism/recreation; recovery across most of mining and manufacturing, but far less in recreation and tourism; hiring lags behind recovery in production | Malawi recloses border |
| | January 2021 | Many countries close borders to SA citizens due ‘SA variant’ | Increased restrictions continue from late December | South Africa, Zimbabwe, and Lesotho reclose borders |
| | February | Commodity prices peak near or above 2011 US dollar prices for gold, copper, and iron ore; platinum, coal, and oil recovered from April downturn but not as inflated | Countries gradually relax restrictions | Malawi and Zimbabwe reopen borders, with restrictions |
| | March | Commodity prices flatten; prospects unclear | | All countries reopen borders, with restrictions |
| | | | | |

Source: author's analysis.

5.1 South Africa

South Africa, with 58 million citizens, accounted for half of regional GDP and a fifth of the regional population. Like Namibia and Botswana, it ranked as an upper-middle-income economy that was both dependent on the mining value chain and unusually inequitable. In 2019, the mining value chain—that is, gold, platinum, coal and coal-based chemicals, iron ore and ferro-alloys, diamonds, and base metal products—altogether contributed 50 per cent of South African exports.

Agriculture and food processing generated another 13 per cent. South Africa's only non-commodity based export, assembled cars, contributed 16 per cent.

In 2020, South Africa's GDP shrank by 7 per cent, after growing on average by just 0.7 per cent a year from 2015 to 2019. The 2021/22 budget forecast recovery of 5.4 per cent in 2021, largely thanks to booming export prices especially for iron ore, gold, and platinum.

From the late 1980s, South Africa counted among the ten countries with the highest rates of joblessness in the world. Only around 40 per cent of working-age adults were employed, compared with a global norm of 60 per cent. According to ILO data, some 84 per cent of employed people were waged, and under 5 per cent were in agriculture.

The incidence of diagnosed COVID-19 illness and deaths in South Africa was among the highest in the world. Moreover, research found that almost two-thirds of South African deaths from COVID-19 were not officially counted (Bradshaw et al. 2021). As of 10 April 2021, of the 163 countries with over a million people, South Africa ranked 63rd in terms of diagnosed cases per person and 44th for deaths (Our World in Data 2021).

In 2020, the COVID-19 crisis depressed government revenues by 14.5 per cent in real terms, while spending rose by 2.5 per cent. The government introduced a new social grant to support the able-bodied unemployed, as well as a wage subsidy funded by the statutory Unemployment Insurance Fund. Both schemes made payments until early 2021. The 2021 budget, however, reduced government spending, mostly through real cuts to both public servants' pay and social grants. A stimulus package centred on debt guarantees for business and local procurement appeared to have limited scope and impacts.

Public health measures

South Africa imposed an initial lockdown for the month of April 2020. It shuttered almost all businesses except those in the value chains associated with food retail, healthcare, security, utilities, and some continuous-processing refineries. As a consequence, agriculture and food processing, some packaging, coal mining, and the petroleum refineries never had to close down. After a month, most businesses were able to reopen with restrictions to control contagion, such as capacity limitations and curfews. The main exceptions were entertainment venues like bars, clubs, and restaurants (which were allowed to reopen only for takeaway). Restrictions were gradually lifted from May 2020; restaurants and bars could welcome sit-down visitors, on a limited basis, from mid-June. Regulations tightened periodically when case numbers surged, but only entertainment services were ever shut down again even temporarily.

The South African government struggled to maintain measures to contain new infections in the face of lobbying and legal pressure by well-organized and vociferous, although often small, interest groups. For instance, it initially required minibus taxis to leave every other seat empty. That condition would make most taxi routes unsustainable. In response to vigorous protest, the government retreated to requiring masks and open windows, instead of the alternative option of providing a subsidy to cover the cost of operating the minibuses below capacity or allowing steep fare increases. Similarly, government reopened the economy almost fully in time for the main summer holidays in December, in large part because of pressure from the tourism industry. The result was a renewed surge and stricter limits on entertainment venues just before New Year, when the season would normally peak.

A further challenge emerged around the role of the police. Initially, the police and defence force took a leading role in enforcing the lockdowns. A number of reports indicated that they often

behaved quite brutally towards residents in lower-income areas, including beating a few people to death for infractions that were all minor and in some cases non-existent.¹ In effect, the lockdown underscored the failure to transform the police in the democratic era. Over time, the security forces' role diminished as a result of both the shift to more targeted restrictions and public anger at their tactics.

South Africa began to engage with vaccine producers around the third quarter of 2020. As of April 2021, it had purchased sufficient Pfizer and Johnson & Johnson vaccines for almost two-thirds of the population. However, the supplies were likely to reach South Africa only in the second half of 2021. South Africa did not announce any substantive engagements to procure Chinese or Russian vaccines. Tests of the AstraZeneca vaccine suggested it would not provide significant protection against the variant that became dominant in South Africa from late 2020.

Fiscal and monetary responses

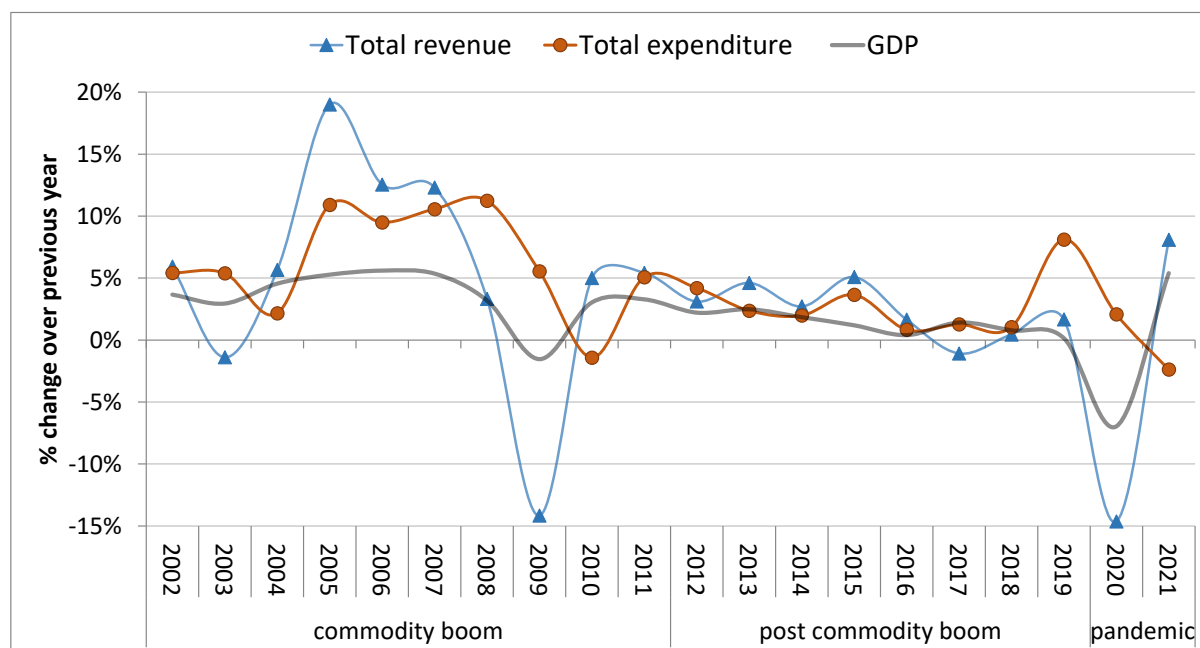
Like Namibia and Botswana, South Africa responded to a sharp fall in revenues in 2020 by limiting growth in expenditure as far as possible despite the pandemic, then followed up with more substantial cuts in 2021/22 despite some recovery in revenue. Its main instruments to reduce spending in 2021/22 were the elimination of pandemic relief for individuals; below-inflation increases in all social grants except the child support grant; a freeze on public servants' annual increment; and sharp cuts in transfers to state-owned companies. Simultaneously, however, the 2021/22 budget reduced personal income taxes in real terms and proposed a cut in company tax in the coming years.

In 2020, in constant rand, South Africa's main budget revenue fell by 15 per cent while spending climbed by 2 per cent. As a result, the deficit increased from 7 per cent of GDP in 2019/20 to 12 per cent in 2020/21. In 2021/22, the government aimed to reduce the deficit to 9 per cent of GDP. To that end, it planned to cut its spending by 2 per cent in real terms, despite an anticipated 4 per cent expansion in revenues.

South Africa's fiscal response to the COVID-19 crisis aligned with a long-term inclination towards pro-cyclical strategies. As Figure 20 shows, the 2008/09 global financial crisis and the end of the global commodity boom in 2011 brought first a sharp dip and then a sustained decline in both GDP growth and government revenues. In response, the government consistently cut spending in real terms. The 2019/20 budget reversed this trend, due in large part to a R23 billion investment in the crisis-ridden national electricity utility.

¹ For instance, a man was detained and beaten to death by soldiers because he was having a beer in his garden, which was legal under the lockdown rules.

Figure 20: Growth in GDP and government revenues and expenditure in South Africa, 2002–21



Note: calendar year for GDP; year from March for revenues and expenditure; revenues and expenditure deflated with March CPI.

Source: author's calculations based on National Treasury (2021a: statistical annex, table 1) and SARB (2021b).

The 2021/22 pullback was even stronger if measured through the consolidated account that combined the budget with the accounts of state-owned companies and social protection funds. By this measure, government expenditure was expected to decline by 5.5 per cent from 2020 to 2021, while revenue climbed by 7.1 per cent. In real terms, that would leave spending, including debt servicing, some 2.2 per cent higher than before the pandemic, in 2019/20, with revenue still down by 8.4 per cent. Excluding debt costs, however, consolidated state spending was expected to drop to 0.2 per cent below 2019/20 levels in real terms.

Half of the fall in public spending from 2020/21 to 2021/22 resulted from lower expenditure on financial assets (almost entirely subsidies to state-owned companies), social grants, and public servants' pay. Compared with the pre-pandemic level in 2019/20, both social grants and remuneration were expected to fall by 4 per cent in 2021/22, with a 33 per cent contraction in outlays on financial investments. The planned elimination of the annual increment for public servants would reduce average pay by over 1 per cent a year from 2019/20 to 2021/22, judging by the budgets for the security services.² At the functional level, defence, housing, and land faced the steepest declines.

Most government debt was funded through domestic bond markets, which accounted for 90 per cent of net debt in 2020 (down from 95 per cent a decade earlier). Foreign investors held 29 per cent of domestic bonds, down from over 37 per cent in the previous three years as a result of the capital outflow during the pandemic combined with higher public borrowing. Before the global financial crisis in 2008/9, the figure had been around 20 per cent.³

² Because most other public servants—predominantly in education and healthcare—are paid at provincial level, national figures were not available in the budget.

³ Figures from National Treasury (2007: 81–2, 2021c: 84).

The Reserve Bank reduced the repurchase ('repo') rate, its main interest rate instrument, from 5.25 per cent in March 2020 (around 3 per cent above inflation) to 3.5 per cent in July. It had not made further changes by April 2021. The prime rate was 3.5 per cent higher than the repo rate throughout this period. The Reserve Bank also introduced a range of measures to increase liquidity in the financial system, including providing additional funds to clearing banks at the repo rate; introducing longer-term liquidity instruments; reducing capital requirements; and purchasing government securities (Shikwane et al. 2020: 90–91).

Social protection

South Africa extended comparatively generous relief to individuals and small businesses throughout 2020. It provided a new social grant for jobless adults and increased grants for people unable to work, while the Unemployment Insurance Fund established a wage subsidy for formal sector workers whose workplaces were shuttered. The government eliminated most of this support by March 2021, however, as part of its effort to reduce state spending, even though employment and GDP were still far from recovery.

Before the pandemic, South Africa's social grant programme was already one of the most extensive among developing economies, providing monthly cash payments to around a third of all individuals. Its size reflected the imperative of redistribution through the state, given unusually unequal economic outcomes in a democracy. Before the pandemic, however, the government paid social grants only to those unable to work—the elderly, children, and disabled people—despite South Africa's extraordinary levels of joblessness and the associated poverty.

For 2020/21, the government increased spending on social grants by R120 billion, or around 37 per cent in constant terms. In the 2021/22 budget, it eliminated the increases introduced in response to the pandemic and increased the average grant by less than inflation. As a result, spending on social grants was budgeted to fall by 20 per cent compared with 2020/21, although it remained 7 per cent higher in constant rand than before the pandemic. Social grants increased from 3.4 per cent of GDP in 2019/20 to 4.5 per cent in 2020/21 (mostly due to the 2020 decline in GDP) but were budgeted to fall back to 3.7 per cent in 2021/22.

From May 2020 to April 2021, the government introduced the COVID-19 Special Grant to support people who had lost their livelihoods. The grant came to R350 a month (or 60 per cent of the official food poverty line for a single person) for people with no other earned or grant income in their families. By March 2021, the grant was reaching almost six million people, or around one in five South African adults, at a cost of around R2 billion a month or about 1.5 per cent of the national budget. It was the first time South Africa had provided a grant to able-bodied adults.

The government also increased existing grants in this period. The child support grant, which in 2020 provided R445 a month for 13 million children (around two-thirds of all children under 18), was increased by R500 monthly per guardian. The old-age and disability pensions were increased by R250 a month from the 2020 level of R1,800. These grants went to around 4.5 million people. The increases were ended at the start of the 2021/22 budget year. In that year, the government planned to increase old-age pensions and disability grants by 1.8 per cent below anticipated inflation, although it increased the (much lower) child support grant in line with inflation.

In addition to the increase in social grants, the government agreed with organized business and labour to provide support through the statutory Unemployment Insurance Fund (UIF), which had built up a surplus of R160 billion over the previous 15 years. The COVID-19 Temporary Employee/Employer Relief Scheme provided up to half of the wage bill, with an average of R3,500 a month, for employers to pay their workers instead of initiating retrenchments. At its peak, the

scheme paid almost seven million workers, or over half of the formal workforce. From late 2020, however, the numbers fell sharply as the economy opened up while payments were limited to people who were vulnerable to COVID-19 or who worked in the few industries that could not fully return to business. As of April 2021, it was due to end altogether on 15 May 2021.

The average payment under the UIF scheme equalled the minimum wage and was just below the median pay for formal workers. Because of South Africa's unusually stretched pay scale, it was trivial for skilled, managerial, and professional employees—but they were far less likely to lose their jobs during the downturn.

From late 2020, the government also established a new public employment scheme, providing R13 billion for it in 2020/21 and R11 billion in 2021/22. As of early 2021, the scheme had funded 360,000 public sector opportunities, almost entirely in the form of support for education. It had also supported 60,000 livelihoods, primarily by funding inputs for smallholder farmers. Projects providing another 260,000 employment opportunities were being finalized (The Presidency 2021: 3).

Other government programmes were less successful. In particular, a plan to fast-track housing to reduce density in informal settlements, specifically to limit the risk of contagion, delivered very little accommodation during the pandemic. An effort to install water tanks in informal settlements had somewhat better success, but the rollout was also slower than originally anticipated.

In sum, South Africa provided relatively generous programmes in 2020. It cut them back very sharply in 2021, however, as the government began to focus more on reducing the deficit. Yet the pandemic was still not under control and employment in the fourth quarter of 2020 remained 1.3 million (8.5 per cent) below 2019 levels.

Industrial policy

In April 2020, the government adopted a stimulus package that included various support for business, although in practice the wage subsidy was by far the largest element. In October, it adopted an 'Economic Reconstruction and Recovery Plan' that centred on (mostly bulk) infrastructure, including restoring the crisis-ridden electricity grid and expanding the digital network on a large scale; eliminating unnecessary regulations on business; and promoting manufacturing based on local procurement.

The initial stimulus package was billed at R500 billion, although government spending (including state-owned companies and social protection) actually climbed just R130 billion from 2019/20 to 2020/21. It included some targeted funds for particularly hard-hit industries, notably agriculture, tourism, and the creative industries. The largest single programme, however, was R200 billion for a loan guarantee scheme.

In practice, the loan guarantee scheme utilized only a fraction of the funds provided. As of April 2021, the Banking Association expected that by the time it closed down in July 2021, it would lend less than R20 billion, or around a tenth of the total available. For comparison, the wage subsidy scheme provided R60 billion from April 2020 to March 2021. The amount extended under the guarantee scheme was less than the banks provided independently in emergency credit and repayment arrangements (BASA 2021). The banks' private efforts were supported by Reserve Bank measures to maintain liquidity, as outlined above.

The banks had received almost 50,000 applications for the loan guarantee scheme by April 2021 (BASA 2021), which meant around 7 per cent of all formal businesses had applied. Just over a

quarter of the applications qualified, so fewer than 2 per cent of formal businesses actually benefited. The average loan provided under the guarantee scheme came to R1.24 million, with most going to formal businesses with turnover of under R20 million.

South Africa's experience with the loan guarantee scheme mirrored that of other countries that established similar programmes in the early stages of the pandemic. They appeared to respond to the experience of the financial crisis in 2008/09, when loans dried up even for sound companies. In the COVID-19 depression, however, businesses faced restricted demand and disrupted supply chains, so most were unwilling to increase their debt. In South Africa, the scheme did not relax any of the requirements for obtaining credit, including in some cases that small-business owners put up personal assets for security. According to the Banking Association, 'qualifying business owners are reluctant to take on more debt in a weak and uncertain business environment; or they have made their own financial relief arrangements directly with their banks' (BASA 2021). In these circumstances, the banks' willingness to reschedule debt payments proved a more important response measure for both businesses and households.

The Economic Reconstruction and Recovery Plan listed virtually every aim the South African government has endorsed over the past 20 years, including accelerating growth, reducing unemployment and inequality, eradicating poverty, and increasing investment (The Presidency 2020: 9). Implementation, however, focused on measures to reduce the cost of doing business, promote investment in bulk infrastructure, and encourage local procurement by both the public sector and large companies.

Efforts to reduce the cost of doing business were driven by a joint project-management team from the Presidency and the Treasury known as Operation Vulindlela, initiated in October 2020. It prioritized a number of programmes, including:

- urgently increasing electricity generation to address supply shortfalls by bringing in more private producers as well as addressing the high level of breakdowns at the national utility;
- expanding broadband through a range of regulatory changes; the 2021/22 budget also proposed long-run investment of R80 billion in rolling out broadband to underserved areas, although it did not actually allocate any funds for this purpose;
- improving bulk water and freight rail provision primarily by ensuring more cost-reflective tariffs and increasing the autonomy of providers and regulators;
- addressing weak management of municipal water and electricity supplies, although how was not specified;
- making it easier for skilled people and tourists to get visas (National Treasury 2021b: 4ff).

Operation Vulindlela promised a break with three tenets of South African economic policy that dated back well before the transition to democracy. First, it would end the commitment to protecting state monopolies in bulk infrastructure. Second, it would loosen the narrow limits on skilled immigrants that aimed explicitly to maintain high remuneration for well-qualified South Africans.⁴ Third, Operation Vulindlela (unlike the Reconstruction and Recovery Plan) did not pay lip service to broadening ownership or promoting more labour-intensive industries but centred explicitly on improving conditions for existing business. It included no resources or dedicated programmes to promote small business, and it relinquished promises of job creation except where this would follow from business growth. It argued that its efforts would reduce barriers to entry

⁴ Under the immigration regulations, companies could generally hire skilled foreigners only at the same rate of pay as locals, as determined mostly by South African professional associations.

and promote competition but did not specify how its priority projects would contribute to that end except by cutting the cost of doing business in the formal sector (National Treasury 2021b).

In addition to Operation Vulindlela, the government saw investment in physical infrastructure as key to recovery. In light of the efforts to minimize state spending, it aimed to fund projects primarily through public–private partnerships and borrowing. In the 2021/22 budget, the Treasury claimed an ‘infrastructure investment project pipeline worth R340 billion’ that focused on bulk energy, water, transport, and telecommunications. It also established (but did not initially fund) an Infrastructure Fund that was expected to mobilize public–private ventures. As of early 2021, it had begun to prepare projects to provide student housing at universities, expand digital communications, and improve water and sanitation (National Treasury 2021c: 162).

The government also agreed with big business to reduce imports by 20 per cent, primarily through local procurement programmes. To that end, the partners ‘identified 42 products—ranging from edible oils to furniture, fruit concentrates, personal protective equipment, steel products and green economy inputs—that can be sourced locally’ (Ramaphosa 2021). The government did not, however, introduce new incentives or procedures to promote local purchasing by either public or private entities. Over the previous five years, the existing public sector systems proved largely dysfunctional, in large part because there was no monitoring mechanism to review how tenders were specified, publicized, or fulfilled. No effective systems existed to encourage or monitor local procurement in the private sector. The Broad-Based Black Economic Empowerment rules introduced some requirements in the mid-2010s but deferred their implementation indefinitely.

Before the pandemic, the government had sought to strengthen its long-standing strategy of developing tailored programmes to support major industries through a shift to ‘Master Plans’ that were negotiated with dominant businesses (see Levin 2021; Levin and Makgetla 2019). Since the 1950s, the largest sector strategy outside of mining supported the auto industry. It continued to receive by far the most coherent support, as well as the greatest resourcing (mostly in the form of various tax rebates and dedicated freight facilities). In 2021/22, the government also finalized much smaller Master Plans for the poultry, clothing, and sugar industries. All of these included at least temporary import tariffs to protect local producers, as well as limited supply-side incentives. Taken together, they seemed unlikely to promote substantial diversification of the economy.

Extent of consultation

South Africa has a long-standing system of consultation for economic policy development, both through the National Economic Development and Labour Council (NEDLAC), which manages engagements between government, organized business, and labour and advocacy groups, and through periodic meetings with stakeholders set up by the Presidency and individual departments. Still, the public health restrictions were not initially consulted on systematically with economic stakeholders, although the National Department of Health set up an advisory committee of medical experts. Subsequent measures were discussed extensively at NEDLAC and in consultative meetings convened by the Presidency. The Economic Reconstruction and Recovery Plan was consulted on at NEDLAC, although it was finalized by the Presidency based on departmental as well as stakeholder inputs.

5.2 Zimbabwe

Zimbabwe had around 15 million residents and accounted for 4 per cent of Southern Africa's GDP and 5 per cent of its population in 2020.⁵ It ranked as a lower-middle-income economy in 2019. More than for most countries, different data sources reported divergent figures for its GDP, in part because its extraordinary inflation rate in 2020 made it difficult to identify trends in real terms. According to the 2021 budget, GDP shrank by 6 per cent in 2019; contracted another by 4 per cent in 2020; and was projected to rebound by 7 per cent in 2021 (Ncube 2020: 27). In contrast, the IMF found that the Zimbabwean economy had declined by 7.4 per cent in 2019, fell by another 8 per cent in 2020, and was expected to recover by just 3 per cent in 2021 (see Figure 5 above).

Through the 2010s, mining products accounted for around 55 per cent of Zimbabwe's exports, with tobacco contributing another 20 per cent to 30 per cent. The composition of Zimbabwe's mining exports changed substantially over the decade, however. Diamond exports shrank from well over 10 per cent of total exports to near zero between 2012 and 2020, and gold climbed from 10 per cent to around 30 per cent. Nickel exports were stable at between 25 per cent and 30 per cent.

Estimates suggest that in the late 2010s, around 90 per cent of employed Zimbabweans worked in the informal sector, mostly as very small-scale farmers. Some 70 per cent of employed people were in agriculture. Two-thirds of the population was rural. The number of formally employed Zimbabweans was estimated at just over 800,000 in 2020, 5 per cent lower than two years earlier. These figures do not include the (roughly) estimated 30 per cent of Zimbabweans who work outside of the country, mostly in South Africa.

Zimbabwe reported low diagnoses of COVID-19. As of 10 April 2021, it ranked 112th out of 168 countries included in the Our World in Data database. Its testing rates in mid-April were, however, only around a quarter as high as South Africa's.

Zimbabwe's inflation rate hit 650 per cent in 2020, up from 10 per cent in 2018, then fell back to 135 per cent in April 2021. Moreover, the Reserve Bank reported inflation from February to March 2021 at 2.26 per cent, or around 36 per cent in annualized terms.

The substantial price changes over the past two years make it difficult to compare budget trends in real terms. Still, in response to the pandemic depression, the government introduced a small cash grant for food-insecure households and a comparatively large credit guarantee scheme that prioritized agriculture, mining, manufacturing, tourism, and energy. It was unclear whether these programmes reached their intended beneficiaries on the anticipated scale, however, and they were not sustained in 2021.

Public health measures

Like most of Southern Africa, the Zimbabwean government announced an initial lockdown late in March 2020. Its measures resembled those in South Africa but in practice entailed more police enforcement. Moreover, they remained in place for longer, and effectively exempted a smaller share of workers and businesses because so many people were employed in informal activities.

⁵ This section draws on a case study by Gibson Chigumira of the Zimbabwe Economic Policy Analysis and Research Unit (ZEPARU).

The initial lockdown permitted only essential services to operate and imposed a curfew from 8 am to 3 pm on movement outside of the home for everyone else. For the first three weeks, essential services were defined to mean almost exclusively getting food, healthcare, and public security, but after that the mines were allowed to open. Informal retail, most small and medium-sized enterprises, and artisanal miners in Zimbabwe—all major sources of livelihoods—were still banned. Moreover, in contrast to South Africa, industries that supplied inputs to essential producers were also closed. The economic impact seemed greatest in urban areas, where most people worked outside of their homes (World Bank 2021b).

The government adopted a statutory order to enforce the lockdown, with extensive police support. The courts found that human rights were violated in the process. There were also widespread allegations that the regulations were used to suppress both political opposition and the media. The police sometimes destroyed the goods of retailers or farmers who had violated the lockdown rules in order to sell their produce (See Chikazhe et al. 2021).

Businesses were permitted to reopen only in the third week of July, initially until 3 pm. Informal businesses were legally required to register for tax in order to open, but this rule was enforced at best sporadically, which opened the door to corruption. Over the following six months, the regulations on opening times and social gatherings were gradually relaxed.

The second wave in January brought tighter restrictions until March, with a longer curfew period and limits on travel between towns. One consequence was that farmers could not get their newly harvested crops to market, leading to substantial losses for some (Scoones 2021). Still, although Zimbabwe ranked near the top of the world for the stringency of its public health restrictions in March 2020, by April 2021 it had dropped to the lowest quartile (calculated from Our World in Data 2021).

Zimbabwe obtained 1.5 million doses of Sinopharm, Sinovax, and Covaxin in the first quarter of 2021. As of 31 March, around 75,000 people had received their first dose, including virtually the entire population in the main tourist town, Victoria Falls. The plan was to reach 60 per cent of the population, but the government did not give a timeline. Still, as of late April it ranked fourth in Africa for the vaccine rollout, following Rwanda, Malawi, and the Seychelles.

Fiscal and monetary responses

In the words of the World Bank, Zimbabwe's fiscal policy in 2020 and 2021 was 'tight' despite demands from the pandemic (World Bank 2021b). As in South Africa, the government announced a substantial 'stimulus package', equal to 9 per cent of GDP, but over half of this represented a loan guarantee fund rather than committed expenditure.

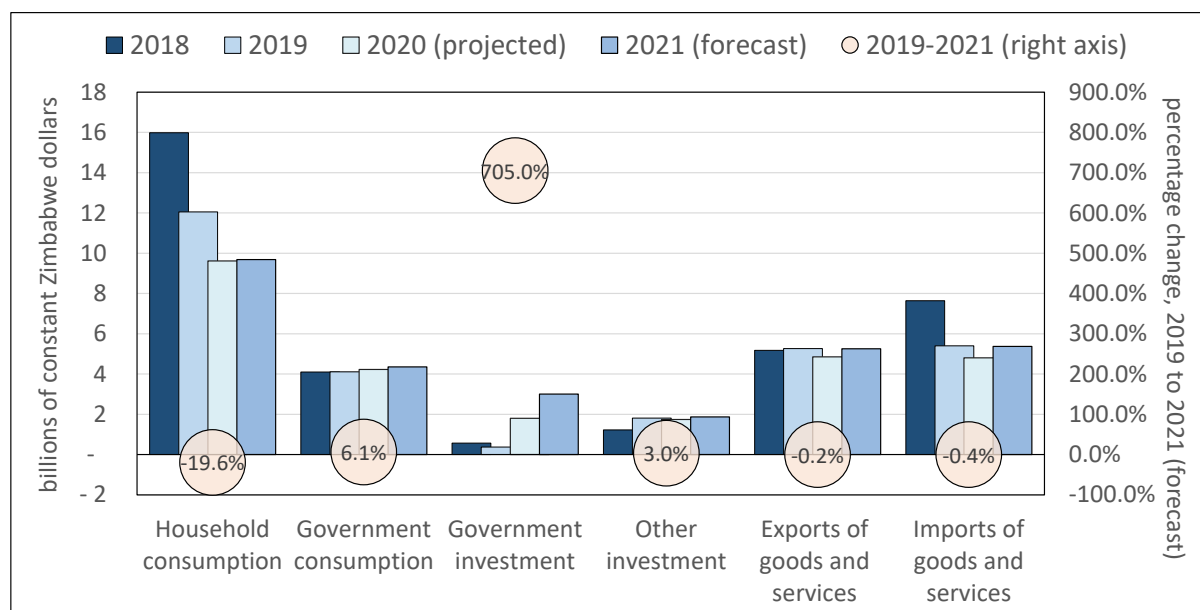
The 2021 budget targeted a deficit equal to 1.3 per cent of GDP, compared with 0.5 per cent projected for 2020 (Ncube 2020: 54). According to IMF estimates, the general government balance showed a surplus equal to 1.1 per cent of GDP in 2020, with a deficit of 0.8 per cent in 2021. That compared with deficits around 5 per cent from 2017 to 2019 (IMF 2021c: table A17). Both the 2021 budget statement and the IMF expected little change in government spending as a percentage of GDP, which would mean a decline in real terms due to the pandemic depression.

According to the Zimbabwe government, public debt was 47 per cent of GDP in 2019, climbed to 88 per cent in 2020, but was expected to fall back to 78 per cent in 2021, according to the 2021 budget (Ncube 2020: 226). The IMF estimated debt at much higher levels in 2019, at 112 per cent, falling to 89 per cent in 2020 and 51 per cent in 2021 (IMF 2021c: table A21). Both sets of estimates were above the norm for middle-income economies. But Zimbabwe could not access multilateral

programmes to defer or restructure debt during the pandemic because of its long-standing arrears with the IMF and the World Bank.

Despite restrained deficits, the government forecast that public sector consumption would climb steadily from 2019 to 2021, and that public investment would quadruple. The forecasts for public investment depended, however, on the optimistic 7 per cent growth forecast that underpinned the budget. In contrast, household consumption was expected to continue a sharp decline that started in 2018, while private investment was forecast to recover only modestly in 2021, after a fall in 2020. Overall, investment was expected to remain at around 10 per cent of the GDP (Figure 21).

Figure 21: Major components of expenditure on the GDP in billions of constant Zimbabwe dollars, 2019–21



Source: author's calculations based on Ncube (2020).

The Zimbabwe government announced a substantial 'stimulus package' in May 2020, equal to 9 per cent of GDP. As of April 2021, there was no complete report on the utilization of these resources, making it virtually impossible to evaluate their impact.

The May 2020 stimulus package was valued at a total of 18.2 billion Zimbabwean dollars (ZWL). As in South Africa, the largest element comprised government guarantees on private bank loans, at a total of ZWL10 billion. In contrast to South Africa, however, the funds were allocated by sector. By far the biggest potential beneficiary was agriculture, which could borrow up to ZWL6 billion under the programme. Mining was allocated ZWL1 billion, tourism ZWL0.5 billion, and other sectors, mostly manufacturing, could access the remaining ZWL2.5 billion. Interest was initially capped at 20 per cent; banks were required to restructure existing qualifying loans; and there was a three-month grace period (Republic of Zimbabwe 2020: 3). However, business spokespeople argued that most businesses were unable to afford additional loans (Zimbabwe Mail 2021). The government did not report on the take-up on the guarantee funds.

The remaining ZWL8.2 billion in the stimulus package was allocated within the budget, mostly for relief to households, as discussed in the following section. Existing lending facilities for small and medium-sized enterprises were bolstered by ZWL0.5 billion; ZWL20 million was designated to support cultural workers through an Art Sector Fund; and ZWL2 billion was utilized to support bank liquidity.

In addition to the stimulus package, in late March 2020 the Reserve Bank increased its Medium-Term Bank Accommodation Facility from ZWL1 billion to ZWL2.5 billion, specifically to support the winter wheat harvest. It subsequently increased the amount to ZWL3 billion. As of December 2020, ZWL2.6 billion had been accessed by industry for working capital. The facility was subsequently turned into a permanent revolving fund.

In late March 2020, the Reserve Bank reduced its policy rate from 35 per cent to 25 per cent, with a further reduction from 20 per cent to 15 per cent on 1 May. Despite the continued downturn in the economy, it returned the rate to 35 per cent from 1 July, in order to ‘curb speculative borrowing’, presumably because the rate was below inflation (RBZ 2020). In February 2021, the bank increased the rate again to 40 per cent (RBZ 2021).

Social protection

As part of the stimulus package announced in May 2020, the government committed to providing a one-off allowance of ZWL300 to a million vulnerable households. As of October 2020, however, it had paid grants to only just over 200,000, of whom half were in Harare (Ncube 2020: 25). In any case, at the time the programme was announced, it equalled less than 5 per cent of a monthly food basket for a family of six, as estimated by the national consumer council. Rapid inflation meant that it covered a shrinking share of household needs over the pandemic year (Chipenda and Tom 2021: 21).

Foreign donors also funded a number of humanitarian programmes directly, often channelling the funds outside of government due to governance concerns. In April 2020, Zimbabwe launched an appeal for US\$300 million in assistance to address the COVID-19 crisis. It received commitments of \$200 million, with over half from the EU and the UK. As of late 2020, however, only \$27 million had been disbursed. Most of the funds were designed to support healthcare, not to provide relief to newly impoverished communities (Ncube 2020: 70). In January 2021, when Zimbabwe faced renewed restrictions due to the second wave of COVID-19, the UK committed \$5.4 million to provide monthly food vouchers to 110,000 food-insecure people in eight cities (UNCT Zimbabwe 2021).

Industrial policy

While the government called for industrialization, both the stimulus package and the 2021 budget underscored an overriding commitment to agriculture and mining. In 2020, the Ministry of Lands, Agriculture and Rural Resettlement received 18 per cent of budget expenditures; the Ministry of Mining, 8 per cent; and Transport, 9 per cent. The ministries of Tourism and of Industry and Commerce got 0.1 per cent each. In 2021, these allocations were expected to shift substantially, with a cut of around a third in agriculture, essentially eliminating the boost from the stimulus package; a reduction in the budget for mining to 0.3 per cent of the total; and a substantial increase in the transport budget, mostly because it would regain petrol taxes. Both tourism and industry were expected to increase more than three-fold off the very low 2020 base.

The budget called for increased local beneficiation of agricultural and mining raw materials, but did not specify plans. It encouraged both export-led and import-substitution industrialization, but did not detail specific proposals to strengthen local procurement (Ncube 2020: 121). In common with other countries in the region, it also outlined efforts to promote the local production of protective equipment to address the pandemic. To that end, it provided fairly modest sums for universities to establish new capacity (Ncube 2020: 63).

The government emphasized long-standing efforts to resuscitate Ziscosteel, under the aegis of an inter-Ministerial task team. It was beginning to seek new investors (Ncube 2020: 127).

The government also sought to leverage the relaxation of the lockdown to formalize urban informal activities, especially retail. Measures included tearing down informal markets while expanding formal spaces; requiring informal retailers and producers to register for tax in order to reopen legally; and enforcing a long-standing ban on imports of second-hand clothing. In the short run, these measures all imposed significant costs on street vendors, although the scale of implementation was not clear (Gukurume and Oosterom 2020).

Extent of consultation

The government set up a range of consultative processes in its recovery initiatives as well as for the budget. The 2021 budget aimed to re-establish the Tripartite Negotiating Forum with organized business and labour. It expected to focus on reform of labour laws and measures to promote macroeconomic stability (Ncube 2020: 121). The broader repression of the political opposition and the media, however, meant that these efforts had limited prospects (see UN Zimbabwe 2020: 17).

5.3 Zambia

Zambia has 18 million people and ranks as a lower-middle-income economy, accounting for 5 per cent of the population and 4 per cent of GDP in Southern Africa. It has long stood out for its extreme dependency on copper, which in the late 2010s accounted for around 75 per cent of its total export revenues (down from 90 per cent in the 1970s). As a result, the economy struggled after the commodity boom ended in 2011, as copper prices dropped close to 50 per cent in US dollar terms through 2015.

In the second quarter of 2020, as Figure 14 shows, copper prices dropped to US\$5,300 a tonne, but they climbed to US\$8,500 in the first quarter of 2021. In constant dollar terms, they were more than 50 per cent higher at the start of 2021 than a year earlier. Nonetheless, Zambia continued to grapple with high debts accumulated during the 2010s, largely to finance infrastructure.

In 2020, preliminary estimates indicated a 3 per cent contraction in GDP, after growth of 1.9 per cent in 2019. The IMF forecast a 0.6 per cent recovery in 2021, the second-slowest in the region. The actual outcome would depend largely on the international copper price, but Zambia's long-standing electricity shortage and high debt burden would be problematic in any scenario.

While mining dominated Zambia's international economic ties, it generated only limited employment. Only around a quarter of all employed Zambians had waged jobs in the late 2010s. Half worked in agriculture, mostly as self-employed smallholders.

Zambia reported substantially lower levels of COVID-19 diagnoses than South Africa and other SACU members, but also much lower testing rates. The number of diagnoses peaked at 77 per million in the second wave in January 2021, less than a quarter as high as the second peak in South Africa and a third as high as the other SACU members. In mid-March, however, Zambia tested only 2 per 10,000 residents a week, compared with 4 per 10,000 in Namibia and South Africa, and over 20 per 10,000 in the Global North. In mid-April, it ranked 99th out of 168 countries in terms of COVID-19 cases per million (Our World in Data 2021).

The Zambian 2021 budget, published in September 2020, projected that revenues and grants for 2020 would be 12 per cent below the budgeted target, while expenditure would end up 5.6 per

cent higher than originally foreseen. The additional spending was expected mostly to expand support for food security and agriculture, but debt payments absorbed 40 per cent of public spending. In late 2020, Zambia declared it could no longer pay interest on its US\$3 billion in Eurobonds, sought IMF support, and initiated discussions on restructuring its debt with official creditors.

Public health measures

The Zambian government's public health response was substantially less stringent than in most of the rest of the region. On 26 March, the country closed schools and most entertainment venues, suspended many international flights and partially closed the border with Tanzania, restricted social gatherings to 50, and encouraged non-essential employees to work from home. Most businesses were allowed to reopen early in May, followed by examination classes in high school at the beginning of June, and bars and nightclubs and the remaining schools in mid-September.

The second wave early in 2021 led Lusaka to suspend large gatherings and order bars and restaurants to work on takeout basis for two weeks from 6 January. By April 2021, the number of cases was down substantially and almost no public health measures were being enforced.

Zambia received its first 230,000 vaccine doses under the COVAX (COVID-19 Vaccines Global Access) facility in mid-April. As of 21 April, 9,000 people, or 0.05 per cent of the population, had received at least one dose.

By the end of 2020, Zambia had become a poster child for the economic implications of the pandemic for highly indebted lower-income countries. It slashed spending, most visibly on capital investment, as it sought to manage very high levels of foreign debt accumulated after copper prices crashed with the end of the global commodity boom in 2011. By the end of the year, it had defaulted on interest payments on US\$3 billion in Eurobonds, obtained a deferral in its payments on official loans, and begun discussions on restructuring its debt with both private and public creditors.

Macroeconomic responses and the debt crisis

As with Zimbabwe, high inflation rates make it difficult to analyse fiscal trends in Zambia in 2020, but they appear to have turned strongly pro-cyclical in 2021. Declining revenues and the shrinking economy during the pandemic meant the budget deficit increased from 10 per cent of GDP in 2019 to 14 per cent in 2021, but it was expected to fall back to 9 per cent in 2022. In the 2020 and 2021 budgets, the government did not increase any of the main taxes, although it adjusted brackets for personal income tax to take inflation into account.

In nominal kwacha (K), budgeted expenditure climbed from K87 billion in 2019 to K106 billion in 2020 and K120 billion in 2021. These increases lagged far behind the inflation rate, and in 2021 they also fell behind the exchange rate. Using CPI, real spending dropped by over 50 per cent from 2019 to 2021. In US dollar terms, it climbed 3 per cent in 2020 but was expected to shrink by a quarter in 2021. In practice, however, the actual decline is difficult to project because the CPI surged to over 20 per cent in the first quarter of 2021, up from around 10 per cent over the preceding decade. That will presumably lead to higher-than-budgeted nominal increases in both revenues and state spending.

In 2021, the state's main commitment to a fiscal stimulus was a commitment to pay some of its accumulated arrears on foreign currency debt, procurement, VAT, and public service pensions. These arrears underpinned the real decline in spending over the past few years, rising to around

40 per cent of the budget in 2020. In mid-June 2020, Zambia's domestic arrears alone came to K25.4 billion (over US\$1 billion), mostly for delayed VAT refunds and suppliers. In addition, public service pensions were frozen in nominal terms from 2019 to 2021. In 2020/21, payments to pensioners were delayed, leading to protest action. Zambia also owed \$485 million in arrears on foreign currency debt, of which \$90 million had been accrued in May and June 2020 alone. The amount was split almost equally between official (although not multilateral) and private creditors.

Higher arrears payments were largely financed by extraordinary cuts to public investment, which had driven Zambia's overseas borrowing. In 2020, the government originally planned to invest US\$1.7 billion, but it cut these plans in half due to the pandemic. Cuts in 2021 were even deeper, with budgeted spending of \$690 million at roughly a third of the level initially planned. Financing was expected to be split almost equally between private and official sources (Zambia MOF 2020: 2–3).

In late 2020, Zambia engaged its creditors to restructure its debt, after it missed interest payments on Eurobonds in November 2020. It missed payments again in January 2021 (Faure and Guerin 2021: 6). It began to negotiate with the IMF for a US\$1.3 billion loan at that time, but it seemed unlikely to finalize the deal before late 2021.

Despite Zambia's efforts to control spending, foreign lenders responded sceptically. After Zambia announced that it would miss payments on some Eurobonds in September 2020, all the credit agencies downgraded it, effectively ruling out new foreign loans until creditors agreed on a new payment plan. Foreign investment advisors argued that Zambia should have done more to stay in line with the originally planned 6 per cent budget deficit. They were particularly critical of a support programme for small farmers, which accounted for around 5 per cent of total spending (see for instance Curran 2020).

Zambia's fiscal space was tightly constrained by its high foreign debt going into the pandemic. In 2019, the World Bank and IMF found that Zambia's debt was already unsustainable (World Bank and IMF 2019: 1). By 2021, its debt stock was well over 100 per cent of GDP.

Zambia's foreign borrowing began to escalate in 2012 amid plummeting world copper prices, when it received an international credit rating (from Fitch), which enabled it to issue foreign bonds. Its turn to international bond markets followed a pattern for lower-income economies in the 2010s, fuelling a rapid increase in indebtedness even before the pandemic (see World Bank and IMF 2021: 5). Compared with bilateral and multilateral debt, the resulting loans were typically expensive and had a shorter maturity. Moreover, private investors typically resisted any significant restructuring, which in 2020 complicated Zambia's efforts to secure debt relief (see Faure and Guerin 2021: 3ff; World Bank and IMF 2021: 9ff).

From 2011 to 2018, Zambia's foreign-denominated debt climbed five-fold and its debt-service payments ten-fold. They rose from 2 per cent of export revenues to 10 per cent. Then from 2018 to 2019, Zambia's private debt almost doubled and its debt-service costs rose to 30 per cent of export revenues (calculated from World Bank 2021c). Much of the debt went to finance major infrastructure projects, including a new electricity plant, transport, broadband, and bulk water. These initiatives should in theory pay for themselves in the long run, but they often faced delays and did not immediately generate the anticipated economic growth. The foreign-denominated debt burden was aggravated by the sharp depreciation in the kwacha in 2020.

Zambia's financial position was worsened by significant illegal transfers of resources out of the country, mostly from mining companies, after 2011. Estimates suggest that these outflows (under the heading of 'other' financial flows) climbed to over 15 per cent of GDP from 2011 to 2015

before falling to 5 per cent in 2019. At the start of the pandemic in 2020, they increased to 20 per cent of GDP again (Fischer 2020).

Like most other lower-income countries, Zambia applied to defer official debt payments under the G20's Debt Service Suspension Initiative. For Zambia, the deferment would delay over US\$300 million due from May 2020 to June 2021 (World Bank 2021a). The deferred payments would have to be met over five years from December 2022.

Zambia was also one of three countries to apply for debt restructuring under the G20's Common Framework for Debt Treatment as of April 2021. The other two were Chad and Ethiopia. The framework only applies to multilateral and bilateral debt, but applicants must seek similar arrangements with private creditors so that the official lenders do not end up simply paying them. Over half of Zambia's debt in 2019 was owed to private creditors (up from 20 per cent in 2012, when it entered bond markets).

In these circumstances, the Bank of Zambia provided the main government stimulus for the economy. It cut interest rates, eased capital requirements for financial institutions, and provided K10 billion (around US\$50 million) for intermediaries to on-lend to businesses and households.

The Bank of Zambia kept the interest rate well below the reported CPI. In May 2020, it reduced the rate from 11.5 per cent to 9.25 per cent, then lowered it further to 8 per cent in December. In February 2021, however, it reversed course, increasing the interest rate to 8.5 per cent, with the CPI at 22 per cent year on year.

As of January 2021, K3,4 billion had been disbursed from the Bank of Zambia's stimulus package, through 19 intermediaries to 35,000 borrowers. Intermediaries paid the bank 1 per cent above the bank rate, and they were expected to add a 5 per cent mark-up for borrowers. The term was between three and five years. The bulk of funds were earmarked for priority sectors under the national development plan—that is, agriculture, manufacturing, tourism, and energy (BOZ 2020, 2021).

Ultimately, Zambia provided an extreme illustration of the dilemmas facing the mining-dependent economies of Southern Africa as the pandemic hit. On the one hand, soaring export prices meant revenues should do better than initially anticipated as long as they lasted—which was highly unpredictable. On the other hand, the years of slow growth during the commodity price downturn of the 2010s meant that most countries entered the pandemic with relatively high deficits, rising debt, and at least five years of sluggish growth. In these circumstances, it proved virtually impossible to sustain a fiscal stimulus, and economic recovery depended more on global metals markets than on domestic fiscal or monetary support.

Social protection

Zambia built on its existing commitment to social protection during the pandemic, and in particular a programme of cash transfers to the elderly, children, and disabled people. Its efforts, however, were almost entirely funded by foreign donors. Estimates valued all relief measures targeted at COVID-19, including healthcare and education as well as financial transfers and food hampers, at US\$40 million. That total was equal to around 1 per cent of state spending, but the Zambian government contributed only \$1 million of it (Pruce 2021: 6).

The central programme was the COVID-19 Emergency Cash Transfer programme, which aimed to support 250,000 vulnerable households, estimated at 1.2 million people or around 7 per cent of Zambia's population. The programme, which was almost entirely funded by donors, provided

K400 a month (US\$22) to beneficiaries for six months from July 2020. Most of the recipients already benefited from the existing cash transfer programme, but donors opened additional sites around the mining towns, where COVID-19 was most prevalent (Pruce 2021: 7).

The emergency transfer programme supplemented Zambia's much larger cash transfer programme, which reached 700,000 people by the late 2010s. The programme had grown ten-fold since it was initiated in 2003 with donor support and encouragement. It was expected to expand to almost a million in 2021, apparently incorporating the COVID-19 programme. In 2021, the budget allocation for social transfers doubled to K2.3 billion, increasing the share from 1 per cent to 2 per cent of total expenditure. In the past three years, however, payments have often been heavily delayed, which has substantially lessened the benefits to households (Save The Children 2021: 4ff; see also Pruce 2021: 7). The programme remains dependent on donor funding.

In addition to the cash transfers, the government released K500 million in pension payments to 1,500 beneficiaries. This only partially reduced outstanding arrears on the pay-as-you-go fund (Pruce 2021: 5).

Industrial policy

Zambia's industrial policy response to the pandemic took three main forms: direct support for vulnerable businesses, notably in tourism and agriculture, including through the Bank of Zambia's financing scheme and targeted tax relief; investment in rural infrastructure and roads despite broader cuts to capital expenditure; and incentives to promote local procurement and processing of domestic raw materials. At the same time, it increased electricity tariffs by over 100 per cent for producers outside of mining and other export industries (PwC 2020: 35), which seemed likely to add to the obstacles to economic diversification.

At K5.7 billion, the main agricultural support programme, the Farmer Input Support Programme, accounted for around 5 per cent of total budgeted spending in 2021, up from 2 per cent in 2020. It aimed to provide funding for inputs to around a million small farmers, mostly to produce maize, the staple crop. While most observers agree that it improved conditions for near-subsistence farmers, it was criticized for failing to promote more productive techniques, to encourage diversification from maize into higher value or more drought-resistant crops, and to ensure payments on time for planting (see for instance PwC 2020: 37; Silimina 2020).

For tourism, the government mostly provided tax relief in 2021. Its support included a reduction in company tax from 35 per cent to 15 per cent in 2021 as well as suspension of various licensing fees. That said, foreign tourism had experienced a calamitous decline, with its contribution to GDP expected to fall to 1.5 per cent in 2020 from 7 per cent in 2019. In these circumstances, tax relief would be likely to have only a modest impact.

As noted above, the Bank of Zambia's financial relief scheme prioritized agriculture, tourism, manufacturing, and electricity. These sectors were allocated 60 per cent of the total K10 billion in the scheme. As of January, they had received 56 per cent of all approvals, but figures on the value of disbursements by sector were not available (BOZ 2021: 1).

In infrastructure, government capital investment in roads and rural electrification was funded by dedicated levies on petrol and electricity. They were therefore largely protected from the cuts to debt-financed capital expenditure. In 2021, the budget foresaw K307 million to extend rural electricity, including some solar projects, as well as K6 billion for roads, both rural and urban.

The government removed tariffs on imports of copper ores and concentrates, effectively reducing the cost to refineries of procuring them from the Democratic Republic of Congo rather than from Zambian producers. This move responded to a long-standing demand from the major mining and refining companies.

Outside of mining, the government introduced a raft of (mostly fairly minor) incentives for the sale and processing of local products. In April 2020, the government set up a task team of manufacturing and agricultural association with the main retail chains in an effort to increase market access for local consumer goods (Ng'andu 2020: 6). According to the 2021 budget speech, it planned to replace public procurement legislation to enable preference for citizen-owned suppliers. It moved to limit imports of some manufactures and agricultural products, especially from outside of the continent. It increased import duties on meat and fish from outside of the SADC or COMESA (the Common Market for Eastern and Southern Africa), and also raised tariffs on cotton and polyester fabric. Finally, it introduced a 2 per cent income tax allowance for producers who utilized local agricultural products (See PwC 2020).

Extent of consultation

The government undertook some consultation with business associations around its COVID-19 response. As noted, it worked with manufacturers and retail chains to increase the stocking of local products. It seems likely, however, that engagements with creditors will constrain the extent to which the state can respond to domestic constituencies going forward.

5.4 Botswana

Botswana, with a population of 2.4 million, ranks as an upper-middle-income country, but it is also one of the most unequal economies in the world.⁶ Diamonds account for 90 per cent of its goods exports, and tourism contributes 8 per cent of total export revenues. Three-quarters of employees are waged, with only a fifth in agriculture—a ratio that, among its neighbours, only South Africa surpasses.

Botswana's heavy dependence on diamond exports and overseas tourism made it particularly vulnerable to weak global demand and travel bans. As a result, its economy saw a 6 per cent decline for 2020 as a whole, with a contraction of 24 per cent in the second quarter. As of March 2021, the government anticipated that the economy would rebound to pre-pandemic levels in 2021, apparently due mostly to the surge in diamond prices.

The incidence of COVID-19 in Botswana was comparatively high for the region, second only to South Africa. As of mid-April, Botswana ranked 73rd out of 168 countries in the incidence of diagnosed COVID-19, and third in the region (calculated from Our World in Data 2021). In late March, it had the highest incidence of new diagnoses in the region. The authorities blamed the initial spread largely on freight drivers and other travellers from South Africa.

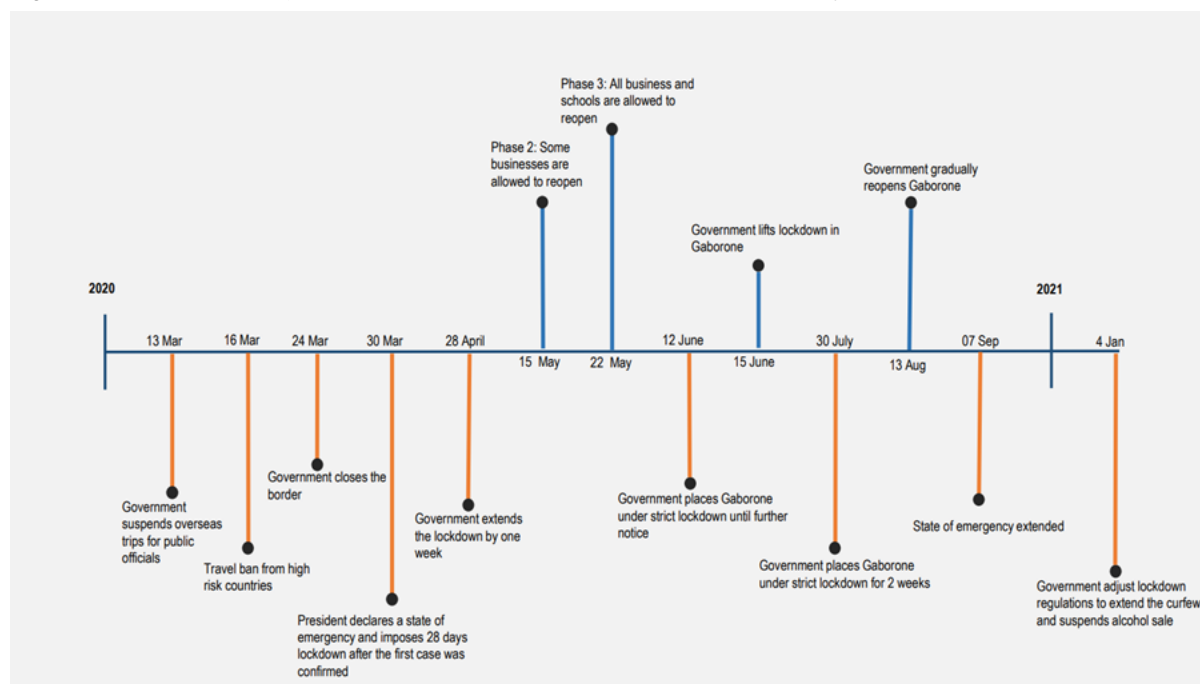
Botswana's macroeconomic response to the pandemic reflected its long-standing conservative approach. As its tax revenues plunged, the government responded by cutting spending by 4 per cent in 2020/21 in real terms, with growth of just over 1 per cent expected in 2021/22. Initially it provided some relief for workers and businesses, especially in the formal sector, but the schemes lasted only three months from April.

⁶ This section draws on an unpublished case study by Itumeleng Mokoena of TIPS.

Public health measures

Botswana acted quickly to slow the spread of COVID-19, in recognition of the limited capacity of its health sector. In March, it closed its borders before it registered any cases, and it imposed a full lockdown after three cases had been reported. Thereafter, as Figure 22 shows, the government lifted most restrictions outside of the capital city, Gaborone, and relied on comparatively narrow regulations such as bans on liquor sales and curfews. Still, as of mid-April 2021, it retained significantly more stringent regulations than the rest of the region (calculated from Our World in Data 2021).

Figure 22: Botswana's major lockdown measures, 13 March 2020 to 4 January 2021



Source: compiled by Itumeleng Mokoena (TIPS) in February 2021, using government communications and national newspapers.

In terms of vaccines, Botswana paid COVAX to acquire 940,800 two-dose vaccines, which would cover a fifth of the population. It has also committed US\$7 million to the African Union's African Vaccine Acquisition Task Team for additional doses (IMF 2021c). It began to roll out vaccinations, starting with people over 75, when it obtained 60,000 doses (half as a donation from India) in late March 2021.

Fiscal and monetary responses

Faced with a unique crisis, the Botswana government essentially maintained its long-standing restrictive fiscal stance.⁷ In 2020/21, its spending fell by 4 per cent in real terms⁸ as its revenues plummeted. It slashed investment by some 30 per cent while expanding current expenditure by 2 per cent. At the same time, the state provided relief to business by deferring company income tax, waiving the training levy, providing loan guarantees, and granting a three-month wage subsidy (discussed in more detail in the following section) (Masisi 2020: 9–10). The 2021/22 budget

⁷ Unless otherwise noted, data on the budget are calculated from Botswana MFED (2021).

⁸ Deflated by CPI for February.

anticipated overall growth of 1.6 per cent in real terms, which effectively reduced spending per person. Current expenditure was expected to fall by 1.2 per cent, while public investment climbed 18 per cent. That would leave investment still at only 80 per cent of the 2019 budget.

Despite the efforts to restrain spending, in 2020/21 the budget deficit more than doubled in constant pula (P). As a result, it reached 12 per cent of GDP, compared with 6 per cent a year earlier (PwC 2021: 2). By early 2021, concerns about the deficit reportedly made the government increasingly unwilling to impose rigorous public health measures because it was not prepared to fund relief measures for workers or businesses (Basimanebotlhe and Mnguni 2021).

In the 2021/22 budget, the government planned to cut the deficit back to just under 3 per cent, substantially lower than before the pandemic. To achieve this, it expected both to increase revenues, mostly by raising the VAT rate from 12 per cent to 14 per cent, and to hold the expansion in departmental spending plus capital expenditure to 1.6 per cent in constant rand.

The fiscal response to the pandemic reflected two long-standing factors: the critical importance of diamond revenues for the budget, and Botswana's historically highly conservative macroeconomic policy. Botswana's fiscal position has long been determined largely by diamond mining, which contributed around a third of national revenues in the 2010s. In the pandemic, diamond revenues fell by half, with no sales at all reported in the second quarter of 2020, although by the end of the year they had recovered almost to pre-pandemic levels. During the commodity boom, the country adopted a conservative approach that enabled it to build up surpluses equal to around a year's worth of imports, mostly invested outside the country through a sovereign wealth fund. When the commodity boom ended in 2011, both the sovereign wealth fund and the budget came under pressure. In 2013/4, Botswana ran a surplus on the budget; by 2019/20, its budget deficit came to 6 per cent of GDP. The Pula Fund fell from over 50 billion in January 2015 to P20 billion in January 2020 and just P7.5 billion a year later (Bank of Botswana 2015, 2021).

In terms of monetary policy, the Bank of Botswana reduced the bank rate from 4.75 per cent before the pandemic to 4.25 per cent in April 2020 and again to 3.75 per cent in August. In real terms, that resulted in a reduction from 2.5 per cent in March 2020 to 1.3 per cent in February 2021. In March, the Bank decided not to cut the bank rate any further.

Social protection

On 30 March 2020, Botswana announced a COVID Relief Fund, with an initial P2 billion in public funds and a further P1 billion added through a supplementary budget towards the end of 2020. The government share in the relief fund equalled around 5 per cent of total expenditure, mobilized mostly through reallocation of other funds. Among others, the petrol levy provided P600 million. The fund raised an additional P134 million from private donors as of November 2020, although the government had originally hoped for another P2 billion.

The fund provided various forms of relief, including a wage subsidy designed to limit retrenchments, as well as support for the public health sector. As of November 2020, it had disbursed P1.8 billion. Of that, P800 million went to wage support (limited to three months and half of workers' wage, to a maximum of P2,500 a month). The wage subsidy was extended to the end of December 2020 for parts of the tourism sector, funded by P200 million—that is, most of the fund's remaining resources (Masisi 2020: 51–52). The country remained in a depression after the subsidy ended for most companies, however, and reportedly many businesses closed when it was terminated (Dube 2020).

Industrial policy

In November, Botswana announced an Economic Recovery and Transformation Plan (ERTP), which was allocated P14.5 billion (US\$1.3 billion) over three years, with the approval of parliament. The ETRP did not significantly modify the country's existing development strategy, which centred on export-led growth with an initial emphasis on diamonds, tourism, finance, and other mining, combined with stronger local procurement by the public sector. It sought, however, to mobilize additional resources, especially from multilateral sources.

As part of the ETRP, the government set up a P1.3 billion Industrial Support Fund. It allocated P300 million to formal small business, P100 million to agriculture, P200 million to tourism, and P300 million to general business. Various institutions were expected to intermediate the resources, providing 30-month loans with a six-month grace period, conditioned on avoiding retrenchment. Agriculture and tourism loans would not require interest, but others could go up to the prime rate (Mnguni 2020).

The Industrial Support Fund also allocated P100 million to the informal sector. As of mid-March 2021, it provided P1,000 grants to almost 13,000 entrepreneurs (out of an estimated over 100,000 informal businesses, mostly in retail, with median revenues under P36,000 a year) (Mphoeng 2021).

Extent of consultation

There is no record of the government consulting with stakeholders on its COVID-19 response. The national development strategy, however, was built on a wide range of consultations with organized business and labour as well as other civil society actors.

5.5 Namibia

Namibia has a population of 2.5 million.⁹ Like Botswana, it counts both as an upper-middle-income country and one of the world's most unequal economies. GDP declined by 7.3 per cent in 2020, following a 1.9 per cent decline in 2019 and essentially zero growth from 2015. It was expected to grow 2.1 per cent in 2021, leaving it well below 2019 levels (Namibia MOF 2021b: 9).

Like Botswana, Namibia's main articulation with the global economy is through the mining value chain, but its output is comparatively diversified. Refined bulk copper comprised around a quarter of its goods exports in 2019. These exports mostly used imported concentrates from Bulgaria (where stricter pollution laws ruled out further processing) and Zambia. As a result, copper ores and concentrates accounted for a fifth of Namibia's total imports in the late 2010s. Namibia contributed around 10 per cent of global exports of refined copper but only 0.03 per cent of all goods exports. Other major goods exports were diamonds (18 per cent of the total in 2019), uranium (12 per cent), and fish (10 per cent). Tourism contributed 8 per cent of Namibia's total export revenues. Two-thirds of Namibian working people were waged, mostly in the services sector, and only a fifth worked in agriculture.

Namibia had fairly high rates of COVID-19, ranking third in the region for diagnosed incidence and 74th internationally as of mid-April 2021 (calculated from Our World in Data 2021). In March, it ranked second in the region for new diagnoses, after Botswana.

⁹ Unless otherwise noted, this section draws on Klaus Schade, 'The Economic Impacts of the COVID-19 Pandemic on Namibia', case study submitted to TIPS on 27 January 2021.

Like Botswana, Namibia provided a relief package for the first three months of the pandemic but then scaled it back substantially. In 2020, its spending rose by 2 per cent while revenues plummeted by 10 per cent. In 2021, it planned to cut overall government spending by some 6 per cent, although both the economy and employment were still far from recovery.

Public health measures

The Namibian government reacted swiftly when the first cases were confirmed in Namibia, initially all among tourists. It cancelled the independence celebrations on 21 March 2020 and banned other large gatherings, as well as suspending all international flights. Three days later, it declared a state of emergency under the Constitution, with parliamentary approval. It started by locking down the urban areas around Walvis Bay and Swakopmund, where infections were centred. Non-essential businesses were closed unless employees could work from home, and residents could leave home only for specified purposes. Alcohol was banned and entertainment venues such as clubs and bars were closed, although restaurants could provide takeaway. In mid-April 2020, these measures were extended to the whole of Namibia. Schools and tertiary institutions were also abruptly closed. While attempts were made to continue with online classes, many people could not afford internet or had no access to it.

From 4 May 2020, the lockdown was eased in phases, although major urban areas tended to lag behind in the relaxation process because they saw comparatively high levels of diagnoses. Efforts to respond to surges mostly centred on the size of allowed social gatherings, the hours for liquor sales, and the duration of the curfew. The requirements were burdensome for indoor entertainment venues of all kinds, but most businesses were able to reopen with measures to prevent COVID-19 infections. Schools were reopened in May. Borders remained closed until September 2020 except for essential travel and freight. International flights resumed in late September, but the number of airlines travelling to Namibia dropped from seven to two.

As of April 2021, case numbers in Namibia had plateaued at the second-highest level in the region. The government did not, however, appear to have an appetite for stricter measures.

Namibia aims to vaccinate 80 per cent of the population, or just over half a million people. It has not set a deadline for achieving that target, apparently because of the difficulty of procuring vaccines. It started inoculations on 23 March 2021, based on donations of 100,000 doses of the Sinopharm vaccine from China and 30,000 of AstraZeneca from India (IMF 2021c). The first phase prioritized healthcare workers and people over 60, who together comprise almost 150,000 residents. Namibia has committed to pay COVAX US\$10 million for enough doses for a fifth of the population.

Fiscal and monetary responses

Namibia initially expanded spending to combat the fallout from the pandemic, but began to cut back sharply in 2021. The government recognized that prioritizing fiscal consolidation could affect the recovery, but argued that it could offset the impact through more targeted expenditure. In the optimistic words of the 2021/22 budget speech,

Thus, the fiscal policy stance ... is to implement a growth friendly fiscal consolidation, with the objective of stabilizing growth in public debt and achieving a positive primary balance over the medium-term. (Shiimi 2021: 15)

In 2020/21, Namibia faced a 10 per cent fall in revenues in real terms¹⁰ while spending increased by 2 per cent. The expansion in spending included a relief package valued at N\$8.3 billion, or 17 per cent of the budget, funded mostly through reallocations. It included N\$3.8 billion—almost half of the total—in accelerated payments of invoices and VAT refunds owed to businesses. The result was a budget deficit equal to 10 per cent of GDP, up from 6 per cent in 2019/20. The outcome was better than anticipated because revenues paid by SACU, reflecting its share in regional trade, recovered faster than initially hoped (Shiimi 2021: 13). Still, the ratio of public debt to GDP climbed to 68 per cent, almost twice Namibia’s fiscal target of 35 per cent and above the average for upper-middle-income economies. In response, Fitch and Moody’s downgraded Namibia to two notches below investment grade.

In 2021/22, Namibia aimed for ‘fiscal neutrality’ (Shiimi 2021: 5). It expected revenues to drop by 6 per cent as a result of falling SACU income. In response, it aimed to cut spending by the same proportion, reducing the budget deficit to 8.6 per cent of GDP for the year. Unlike Botswana, Namibia did not introduce significant tax increases in 2021/22, and indeed it planned to reduce non-mining company tax in the next few years. Instead of increasing tax rates, it hoped to improve collection within the existing rates (Shiimi 2021: 13ff).

As with Botswana, fiscal austerity in 2021/22 built on a conservative stance from at least 2015, when the Namibian economy began to slow and revenues, especially from SACU, stagnated. In 2019/20, even before the pandemic hit, expenditure was 8 per cent lower than in 2016/17 and revenue was down 7 per cent.

From February to April 2020, the monetary policy rate was cut from 6.5 per cent to 4.5 per cent, then gradually to 3.75 per cent in August—the lowest nominal rate in Namibian history. It then stabilized up to March 2021. In real terms, the rate fell from 4 per cent in February to 1.5 per cent in August. The government sought to stabilize the value of the Namibian dollar equal to the rand, which constrained its ability to use monetary policy.

Social protection

The 2020 Stimulus and Relief Package of N\$8.3 billion provided around N\$2 billion in direct relief to jobless people, workers, and businesses. The programmes included a one-off payment of N\$750 to people aged 18–59 who had lost their incomes or were already unemployed, ultimately benefiting 770,000 individuals, 30 per cent of the population, at a cost of N\$576 million. They also covered a three-month wage subsidy that reached 21,000 workers and 230 businesses, for a total of N\$105 million. A condition of the grant was that employers avoid retrenchments and limit salary cuts to 50 per cent. In addition to these relief schemes, the package funded investments in schools and the water supply; medical supplies and protective equipment worth N\$750 million; a special loan scheme for farmers; and loan guarantees for small and medium-sized business (Namibia MOF 2021b: 5–6).

The grant to jobless people largely matched the number of beneficiaries anticipated in April 2020. In contrast, the wage subsidy programme appeared to fall far short. It was a collaboration between the Social Security Commission, which contributed N\$253 million, and the Ministry of Finance, which provided N\$400 million. The scheme targeted tourism, construction, and aviation and was initially expected to provide around a quarter of salaries for three months to over 100,000

¹⁰ Deflated with CPI.

employees and almost 8,000 employers (Shiimi 2020). In fact, only around a fifth as many workers and a 25th as many businesses ultimately benefited.

Industrial policy

Namibia's Stimulus and Relief package supported business principally through cross-cutting measures rather than targeted support for diversification. The main elements were N\$500 million in credit guarantees and the promise to speed up billions in payments already owed to the private sector. The government also provided N\$174 million in credit to 194 farmers, through the Agricultural Bank, as well as extending a capital-payment moratorium on loans from the Development Bank of Namibia and the Agricultural Bank.

As of April 2021, the government had not reported on the take-up on the credit guarantee scheme, which targeted companies that were creditworthy except for a lack of collateral. As noted above, experience in other countries found that lending fell short of expectations as companies were unwilling to take on additional debt during the pandemic. The programme was managed by the Development Bank of Namibia to encourage lending by private banks.

The government provided direct support to small businesses in the garment industry to produce face masks in line with international standards. It remained unclear how these companies would fare as the pandemic subsided, especially since production of personal protective equipment (PPE) ramped up in almost every country in 2020.

In March 2021, the government launched a new development plan, the Harambee Prosperity Plan II, which it billed as the economic recovery plan for the medium term. As in the rest of the region, the scheme mostly appeared to recommit to initiatives established before the pandemic. It aimed to crowd in private investment as the basis for driving growth while maintaining fiscal neutrality. To that end, it encompassed 'revamped' investment and business rescue laws, some new investment incentives, and a renewed commitment to support public-private partnerships so as to secure 'more private sector-led growth' (Shiimi 2021: 6). Overall, the Harambee plan appeared designed primarily to reduce the cost of doing business for mining and agricultural companies, with only limited effort to diversify the economy. It did include a requirement that public procurement prioritize locally produced goods, including uniforms and building materials (Republic of Namibia 2021: 28ff).

As of early 2021, the government also intended to dispose of a range of state-owned companies, fulfilling commitments made in some cases several years earlier. It expected to list 49 per cent of its shares in the (currently wholly state-owned) Mobile Telephone Company, the country's main telephone provider, in September, and to liquidate Air Namibia.

Extent of consultation

The government consulted with representatives from the private sector on the proposed interventions. Owing to the dire situation of the hospitality industry, follow-up meetings with the industry were held which ultimately resulted in an International Tourism Revival Initiative and the gradual opening of Namibia's international borders.

6 Learning

The review of Southern African countries policy responses to the COVID-19 depression points to several cross-cutting learning points.

First, the pandemic has underscored both the long-term costs of continued mining dependency and the difficulty of disrupting it. The pandemic hit a decade after the last commodity boom, with growth slowing substantially across the region in the 2010s and especially from 2015. Most governments had responded to the downturn by trying to facilitate increased investment in mining rather than promoting diversification. Stronger metals prices in the second half of 2020 were critical for the region's recovery but also entrenched mining dependency even further. As usual, the visible and often very substantial economic benefits of mining dependency during upswings often made it harder to justify disrupting it even when the global commodity cycle was in a downturn.

Second, the countries in the region all had very limited space for conventional counter-cyclical fiscal and monetary stimulus measures. On the one hand, in contrast to countries in the Global North, they were in a weak position relative to creditors, making it harder (and much more expensive) to increase debt when their revenues declined. The resourcing position was aggravated by transfer pricing by mines across the region, which reduced revenues overall. The unusually deep inequalities between households in most of the region also necessarily mean the tax base is limited, and often comprising well-resourced businesses and individuals who can mobilize effectively to oppose or avoid tax increases.

Fiscal and monetary stimulus measures also faced supply-side constraints in much of the region. These measures assume that if government can increase demand, local business will satisfy it. Many of the countries in the region did not, however, have a manufacturing base that could easily retool to meet new needs. Unless supported by industrial policy measures to improve capacity, standard stimulus measures risked increasing inflation or imports rather than promoting domestic production and employment.

Third, the pandemic highlighted both the commitment of most governments in Southern Africa to promoting industrialization and the weakness of actual industrial policy initiatives. Efforts to promote recovery were generally too modest to bring about substantial change, and often centred on promoting existing agriculture and mining. These challenges arose in part from the lack of regional coordination as the basis for specialization, integrated value chains, and a coherent infrastructure system, especially for logistics and electricity. The region also did not have a common approach to the impacts of climate change, and especially the escalation in droughts and floods across the interior.

Fourth, the limited response to the pandemic across all policy dimensions, from economic policy to public health measures to relief programmes and industrial policy, underscored the impact of inequality on policy-making. The combination of mining dependency and the inequalities entrenched under colonialism and apartheid mean that much of the region ranks among the most unequal parts of the world. In these circumstances, both businesses and policy-makers were able largely to protect themselves from the impacts of the pandemic, which made them less likely to act urgently or decisively to address the fallout on less privileged groups. The result was that it proved difficult to sustain either public health restrictions on business or relief programmes for low-income households at the requisite scale. Moreover, in several countries public health measures were enforced in a highly repressive manner rather than through public communication and community mobilization.

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