

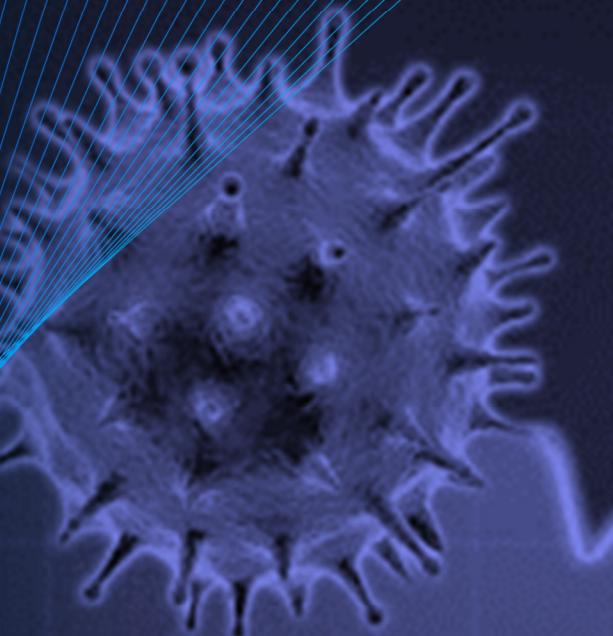
COVID-19: Africa Economic Impact

Overall perspective – Brief #2

Last update 17 April 2020

**DOCUMENT INTENDED TO PROVIDE INSIGHT AND BEST
PRACTICES RATHER THAN SPECIFIC RECOMMENDATIONS**

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COVID-19 is, first and foremost, a global humanitarian challenge.

Thousands of health professionals are heroically battling the virus, putting their own lives at risk. Governments and industry are working together to understand and address the challenge, support victims and their families and communities, and search for treatments and a vaccine

Government and businesses around the world are acting. This document is meant to help senior leaders understand the COVID-19 situation and how it may unfold, and take steps to protect their citizens, employees, customers, supply chains and overall economic performance

Read more on [McKinsey.com](https://www.mckinsey.com)



The global spread is accelerating with more reports of local transmission

Latest as of April 29, 2020

Impact to date

>210

Countries or territories with reported cases¹

>180

Countries or territories with evidence of local transmission²

>2.9M

Reported confirmed cases

>200,000

Deaths

>800,000

Recoveries

~.1%

China's share of new reported cases

~55%

America's share of new reported cases

~30%

Europe's share of new reported cases

87

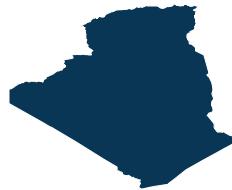
Countries or territories with more than 1000 reported cases¹

1. Previously counted only countries; now aligned with WHO reports to include territories and dependencies; excluding cruise ship

2. Previously noted as community transmission in McKinsey documents; now aligned with WHO definition

~34,900 confirmed COVID-19 cases in Africa...

At April 29, 9.00am GMT, 34,913 confirmed COVID-19 cases, 1,521 deaths and 11,309 recoveries across 52 African countries



Country, area, or territory with cases

>1000

501-1000

10-500

1-10

No reported cases

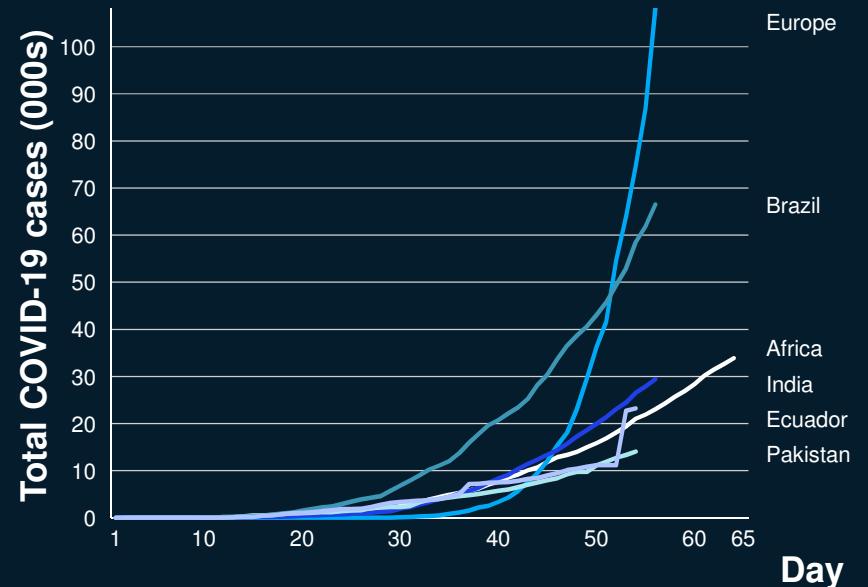
Source: Africa Centre for Disease Control and European Centre for Disease Control

Current as of April 29, 2020

...but the pandemic is progressing at a slower rate than other countries

COVID-19: first 65 days

Comparison of the total number of COVID-19 cases reported over the first 65 days since first^{1,2} case reported in each region



1. Africa counting from the second case for more accurate comparison as there was 1 case in Egypt during 10 days before more cases appeared

2. The numbers in Africa may be lower due to limited testing / different testing strategies

3. Europe at day 65 had >350'000 cases (cut for graphic reasons)

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Four step approach to size economic impact of COVID-19 for Africa

I

Identified **four economic scenarios** for Africa, based on potential trajectories of the global and domestic (i.e. community transmission) epidemiological scenarios

Scenario 1: Global virus contained, and economic slowdown; Africa contained outbreak

Scenario 2: Global resurgent virus, and prolonged downturn; Africa contained outbreak

Scenario 3: Global virus contained, and economic slowdown; Africa outbreak widespread

Scenario 4: Global resurgent virus, and prolonged downturn; Africa outbreak widespread

II

Selected 7 “anchor” countries that comprise ~60% of GDP as foundation of the model (i.e. Angola, Egypt, Ghana, Kenya, Morocco, Nigeria, South Africa)



● Detail follows

III

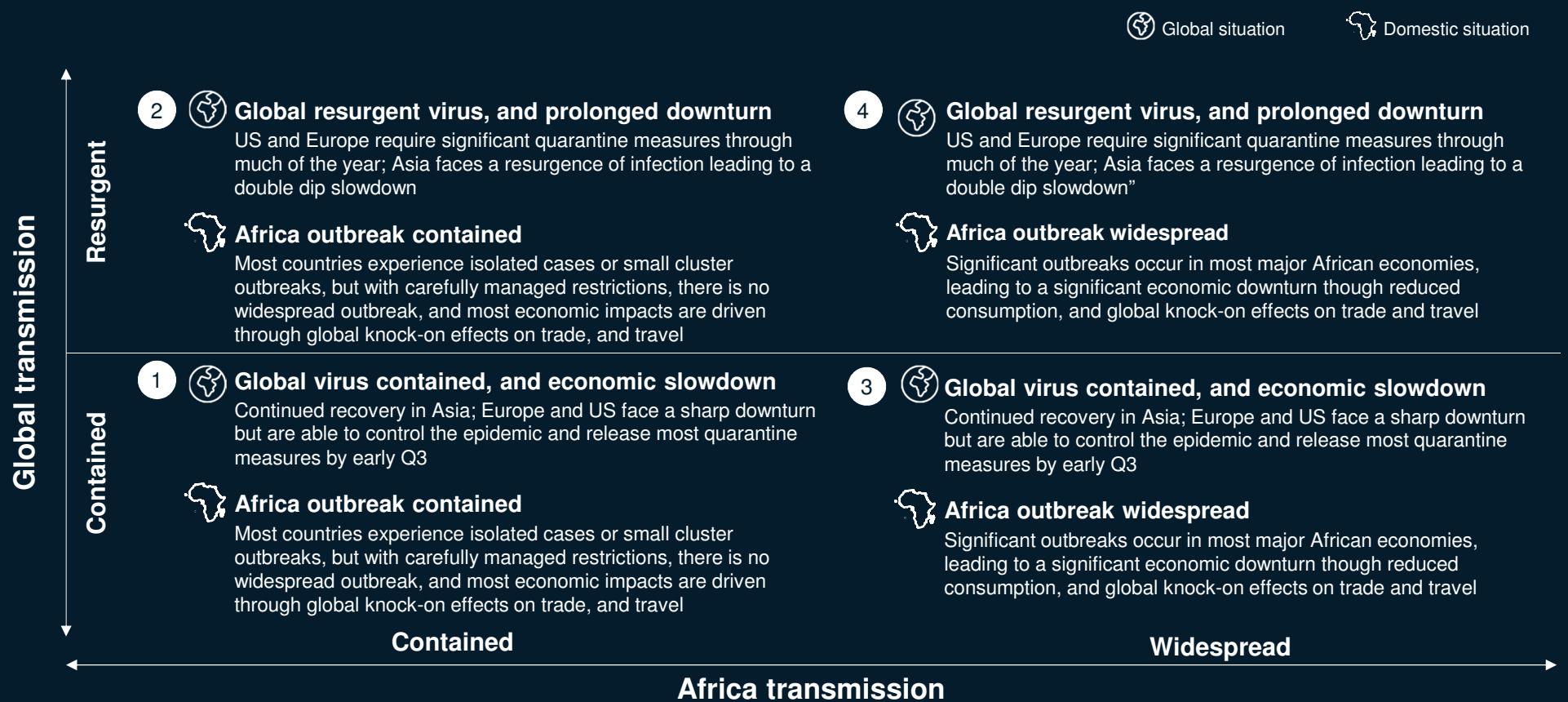
Determined the financial impact of six levers categories on our anchor countries. Then used GDP and jobs multipliers to estimate economic impact (GDP growth) by sector

- A Disruption of **global supply chains**
- B Lower **export demand**
- C Delay / **reduction in Foreign Direct Investment (FDI)**
- D **Limited movement of people** (tourism, domestic)
- E **Disruption to ways of working** for individuals, businesses and governments
- F **Oil impact:** changing demand and supply (e.g. OPEC, Russia) on prices of oil & exports

IV

Continue to **size and add new countries to the model** to scale-up economic impact by sector

Four scenarios defined for Africa, considering both the health and economic situations



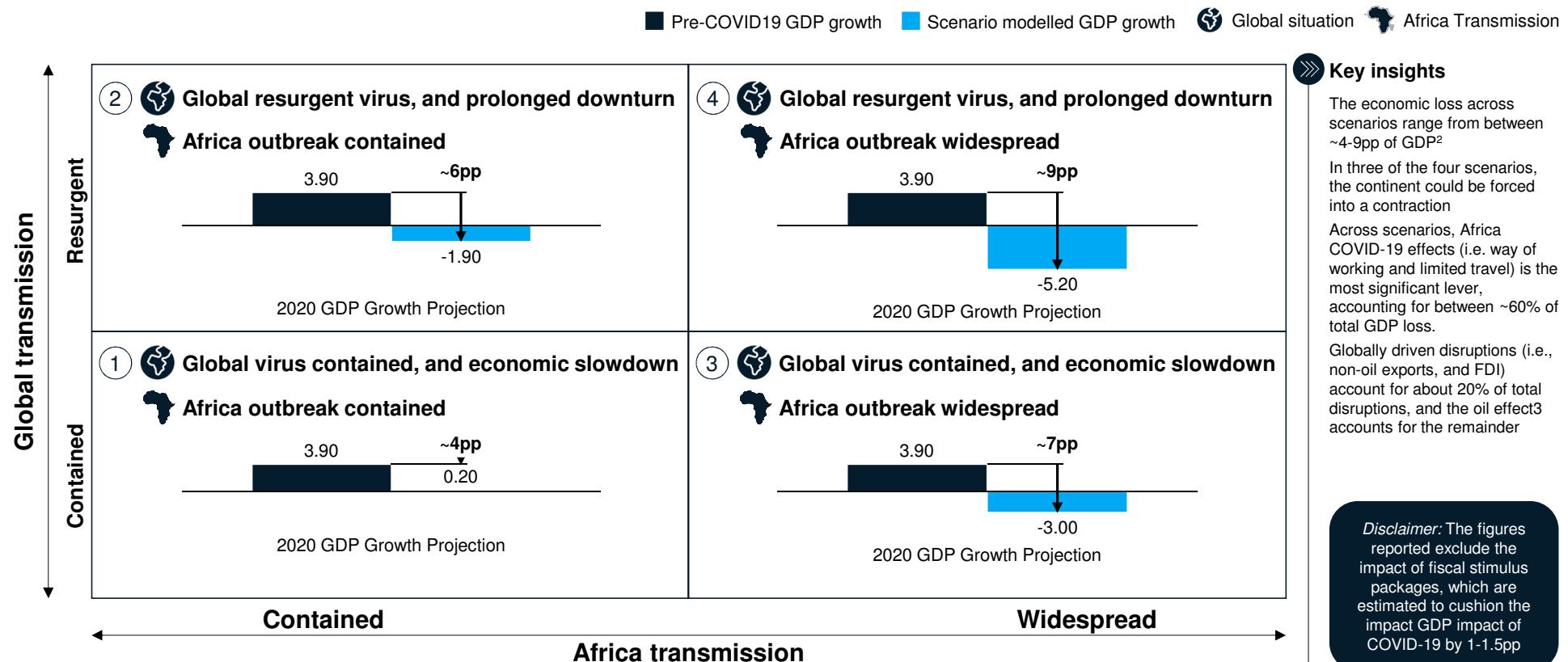
Three major challenges face African countries around the COVID-19 crisis in the coming months

Challenge	Impact	Implication
Global COVID-19 pandemic ¹	<ul style="list-style-type: none"> A Disruption in global supply chains exposed to inputs from Asia, Europe and the Middle East B Lower demand in global markets for non-oil goods exports C Delayed / reduced FDI as partners redirect capital locally 	<p></p> <p>Economic</p> <ul style="list-style-type: none"> Slow down in overall economic growth, acute in hard-hit sectors (e.g., tourism), potential for recession Reduced household expenditure and consumption Businesses – many of them SMEs -- under significant cost pressure, potential of closure and bankruptcies Lower productivity, job losses particularly for non-essential sectors. Long term human capital issues (e.g., delayed schooling or dropouts)
Africa COVID-19 pandemic	<ul style="list-style-type: none"> D Limited movement of people due to travel bans (domestic, international, diaspora) E Disruption to ways of working for individuals, businesses and governments 	<p></p> <p>Fiscal</p> <ul style="list-style-type: none"> Reduced tax revenues Fiscal stimulus packages announced by governments Limited access to hard currency
Oil impact	<ul style="list-style-type: none"> F Reduction in government and business revenues for oil exporters, but lower costs for oil importers and consumers 	<p></p> <p>Monetary</p> <ul style="list-style-type: none"> Rising deficits and increase pressure on debt markets Pressure on interest rates and currency devaluation

1. Previous model iteration included a supply chain disruptions impact, which has since been refined to be fully captured under the disruption to way of working impact

Africa's GDP growth could decline by between 4pp and 9pp depending on the scenario

Recall: Baseline GDP growth for 2020: 3.9% growth¹



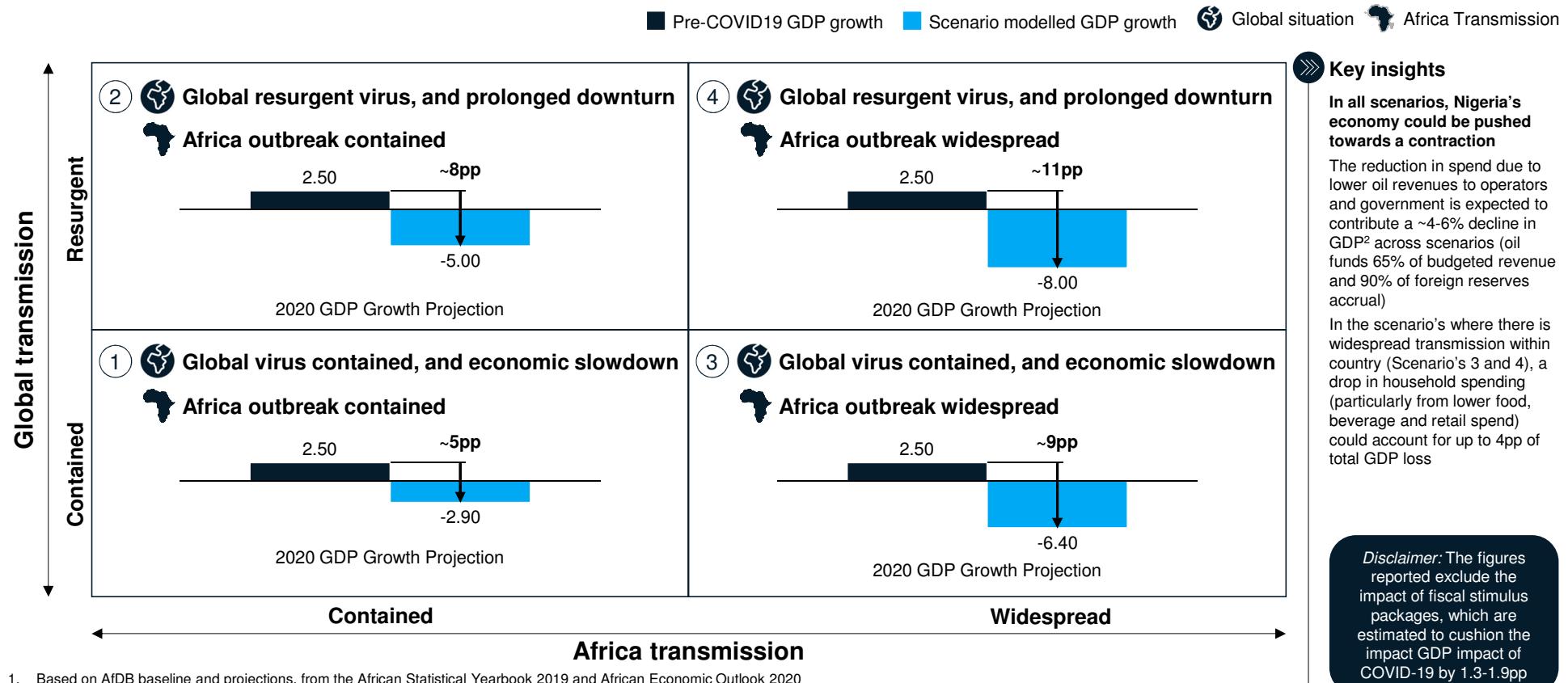
1. AfDB estimate, other analyst estimates range between 3.2% (e.g., UNECA) to 3.8% (e.g., Oxford Economics Research)

2. Revised from 3pp-8pp previously to account for an expanded country base (modelled off Angola, Egypt, Ghana, Kenya, Nigeria, and South Africa), and continuous refinement of levers and assumptions

3. Oil effect modelled as a 1-to-1 shock to operator and government spending, based on reduced oil revenues. It excludes announcements of spending cuts that may vary from the expected revenue reductions.

Nigeria's GDP growth could decline by between 5pp and 11pp in 2020, depending on the scenario

Baseline GDP for 2020: USD 370bn, 2.5% growth¹

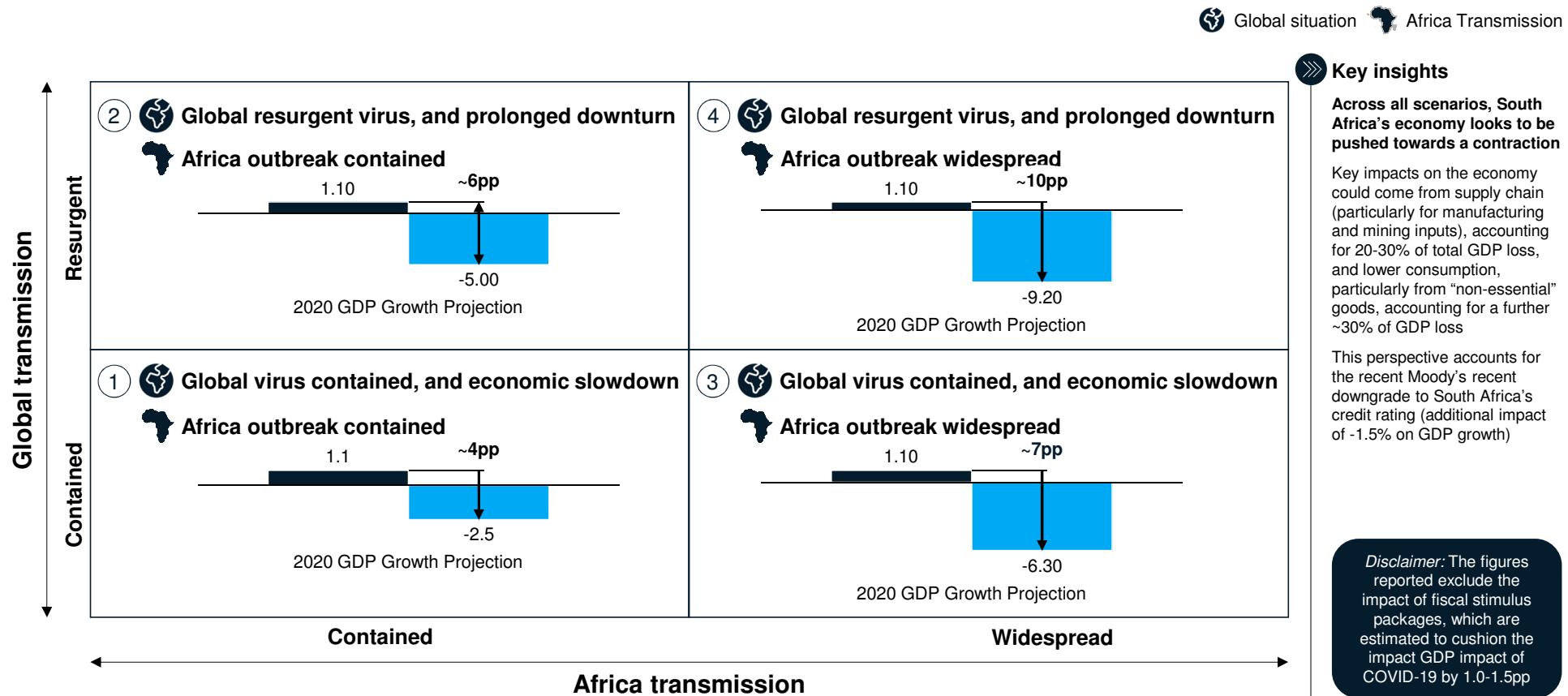


1. Based on AfDB baseline and projections, from the African Statistical Yearbook 2019 and African Economic Outlook 2020

2. Modelled as a 1-to-1 shock to operator and government spending, based on reduced oil revenues. It excludes announcements of spending cuts that may vary from the expected revenue reductions.

South Africa GDP growth could decline by between 4pp and 10pp depending on the scenario

Recall: Baseline GDP growth for 2020: 1.1% growth¹



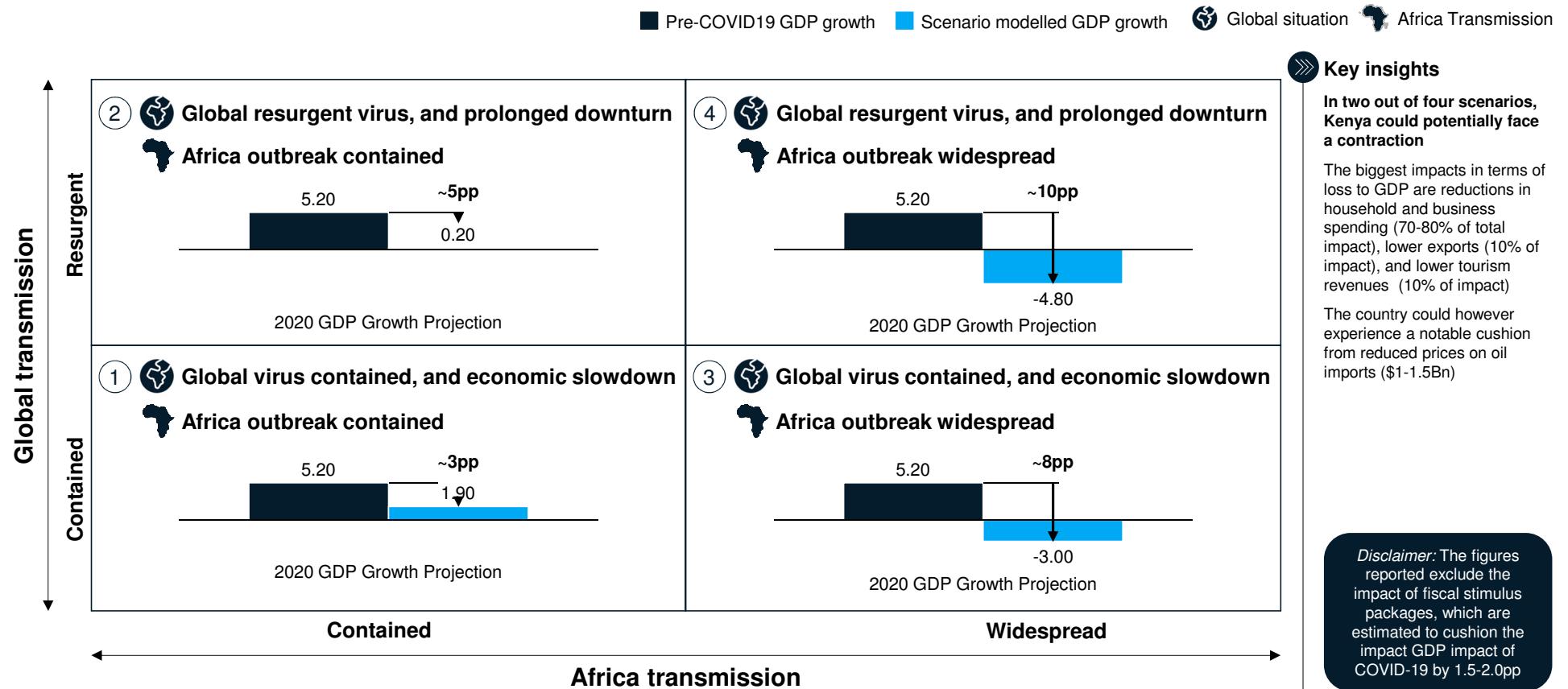
1. Based on a pre- COVID-19 growth assumption of 1.1% real GDP

Sources: McKinsey analysis, AfDB African Statistical Yearbook

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Kenya GDP growth could decline by between 3pp and 10pp depending on the scenario

Recall: Baseline GDP growth for 2020: 5.2% growth¹



1. Based on a pre- COVID-19 growth assumption of 6.0% real GDP growth adjusted downwards by 0.8% to 5.2% due to invasion of desert Locusts

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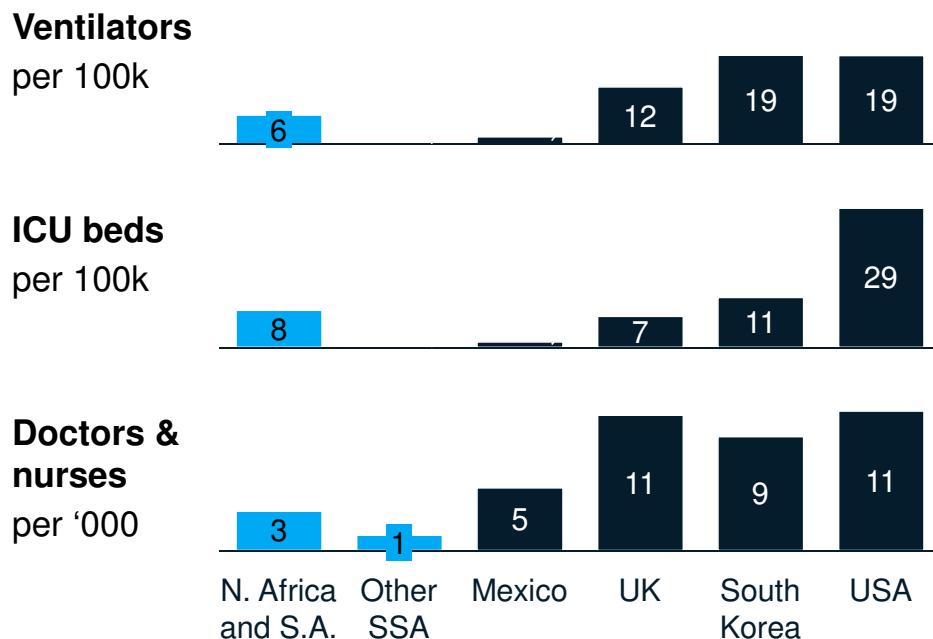
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03

Bringing it all
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Africa's health system capacity lies significantly behind other regions

Africa's estimated critical-care health system capacity versus other countries



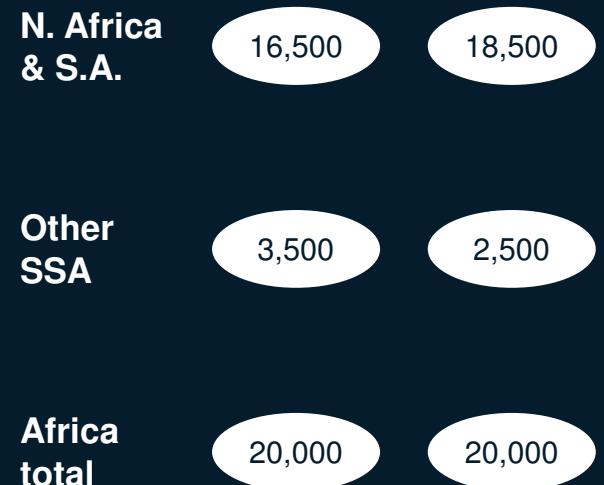
Total Africa gap to UK per capita level
~140,000 ventilators

~65,000 ICU beds

12 million doctors and nurses

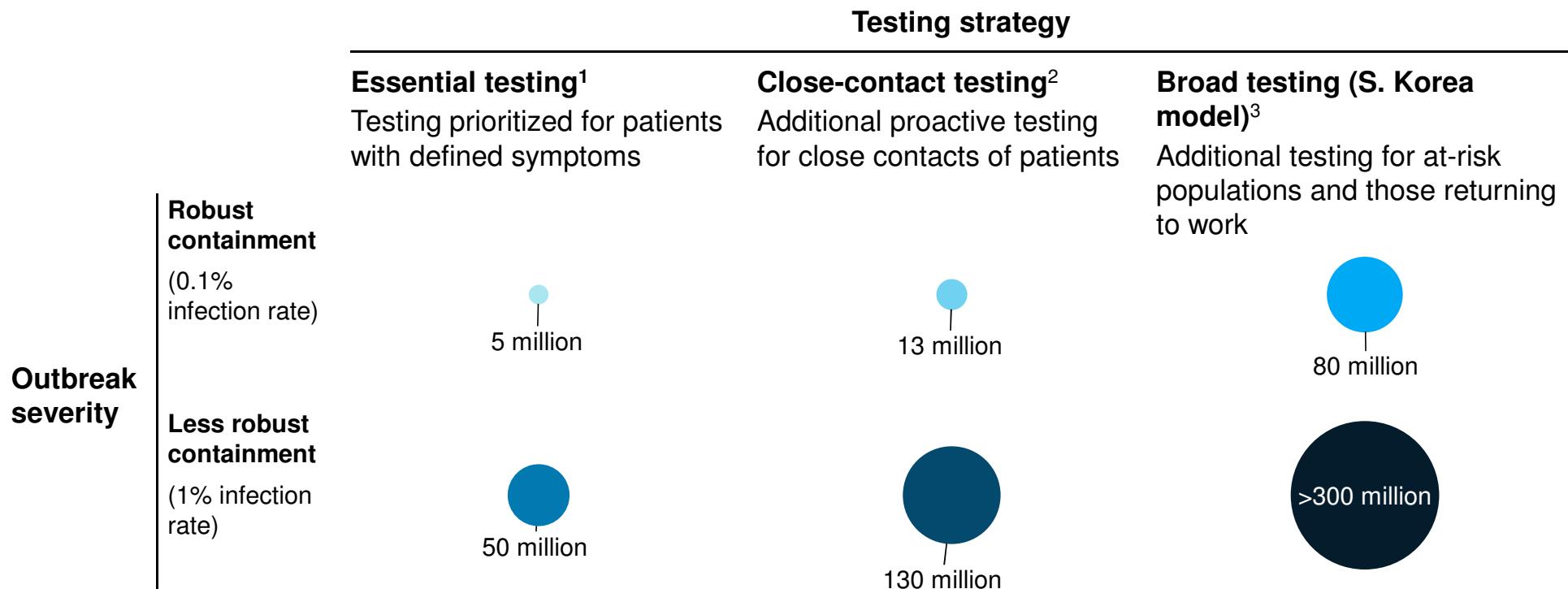
Estimated total capacity of continent

Ventilators ICU beds



The number of test kits required depends on both the outbreak severity and the testing strategy

Test kits required across Africa, based on testing strategy and outbreak severity

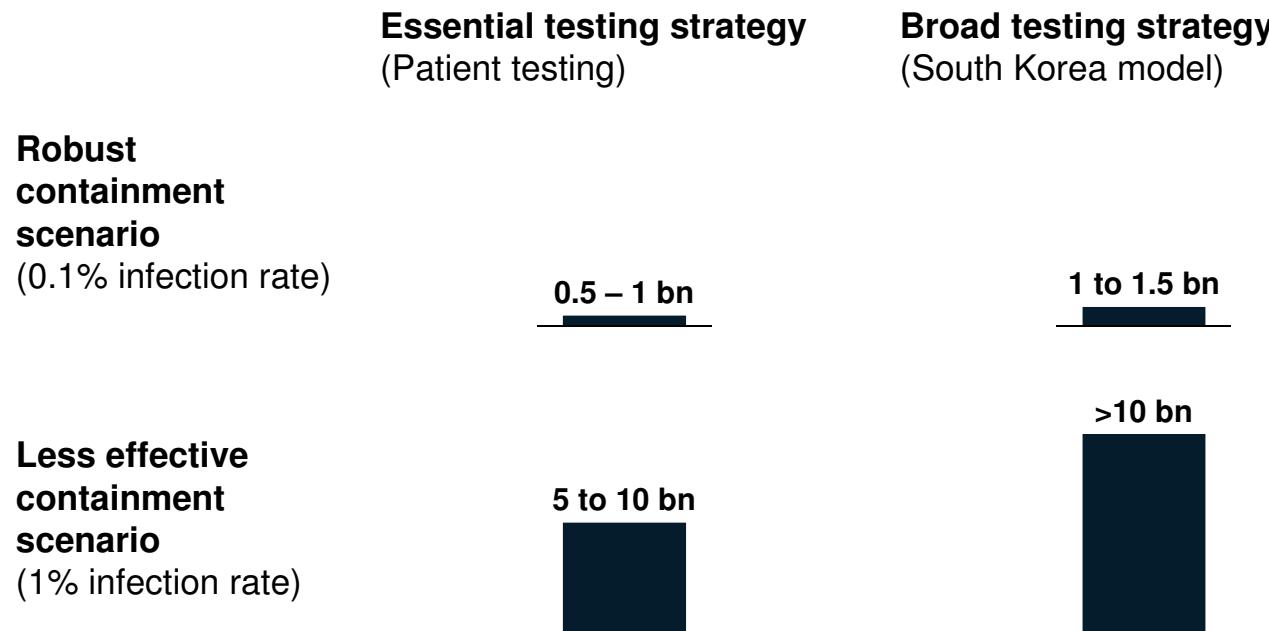


1. Assumes roughly 1 positive result for every 4 tests
2. Assumes roughly 1 positive result for every 10 tests
3. Assumes roughly 1 positive result for up to 60 tests

The cost of procuring select critical supplies could be over \$5bn if containment is not effective

Estimated cost of procuring critical supplies, USD¹

test kits, N95 masks, surgical masks, face shields, gloves, ventilators



1. Based on WHO cost estimates and independent estimation of ventilator costs informed by recent prices reported for procurement in Africa and world

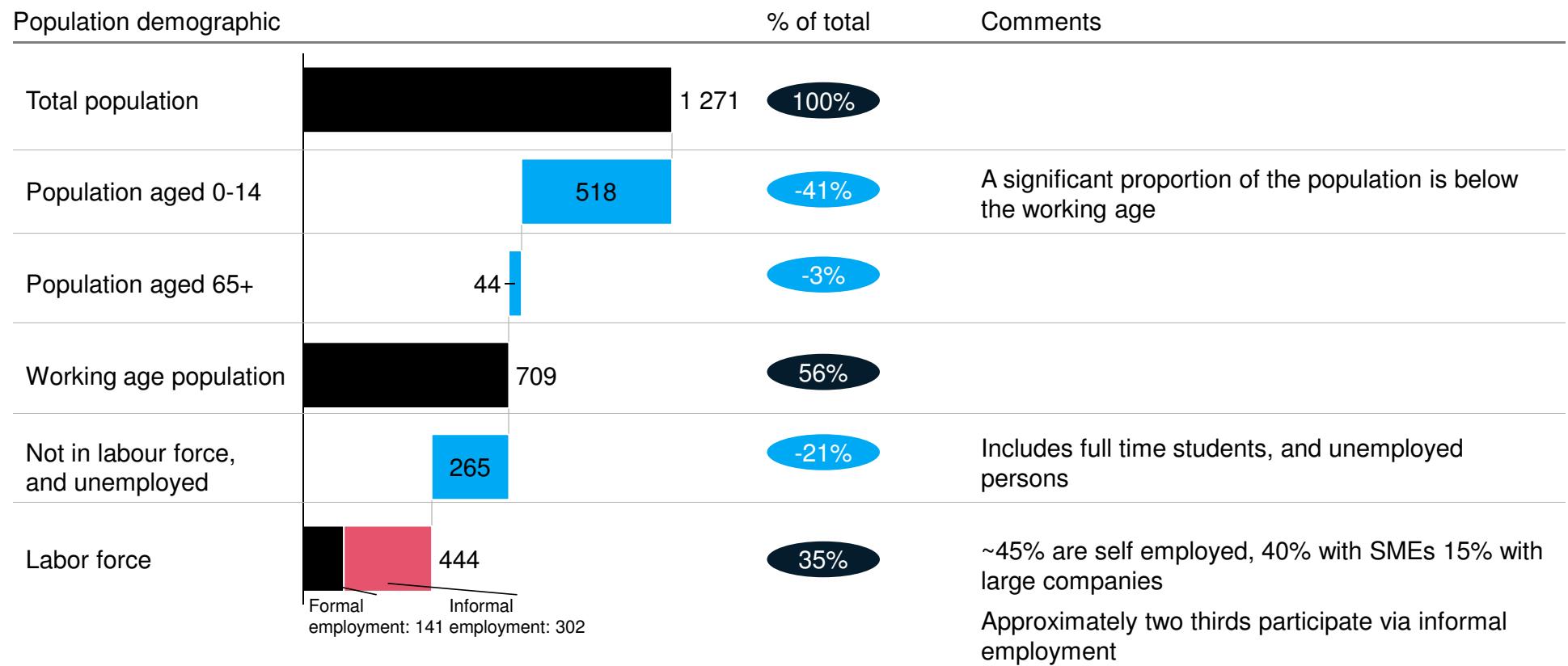
Source: WHO, press searches, McKinsey analysis

Estimated procurement costs are for key hospital and testing supplies only. Other costs could include:

- Supplies for general population (e.g. masks)
- Peripheral equipment (ventilator consumables)
- Capital costs (e.g. PCR machines)
- Increased hospital capacity (e.g. new hospitals, beds, HCWs)
- General emergency health response outside hospital systems (e.g. quarantines)

Africa's employed labor force is estimated at ~450 million people

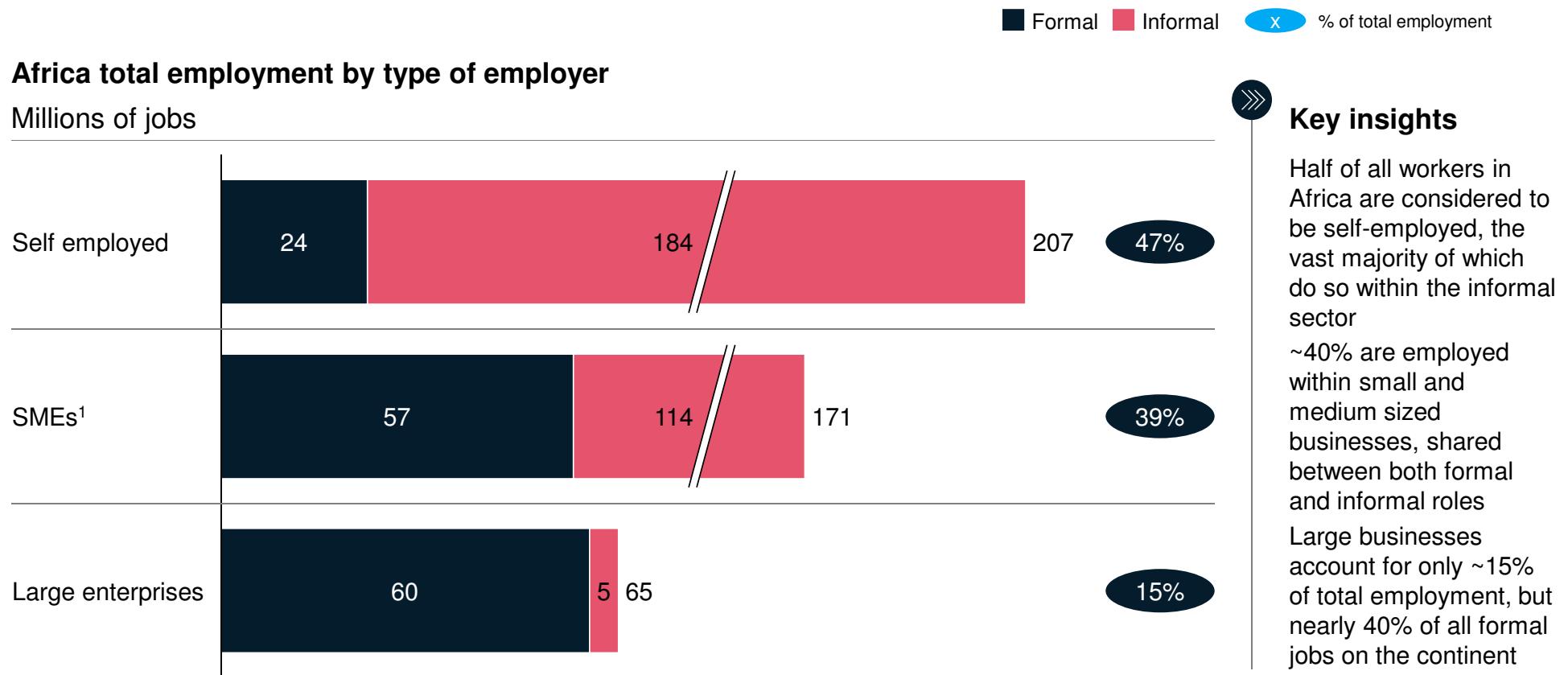
Africa labor force demographics, Millions of people, 2018



Source: World Bank, ILO

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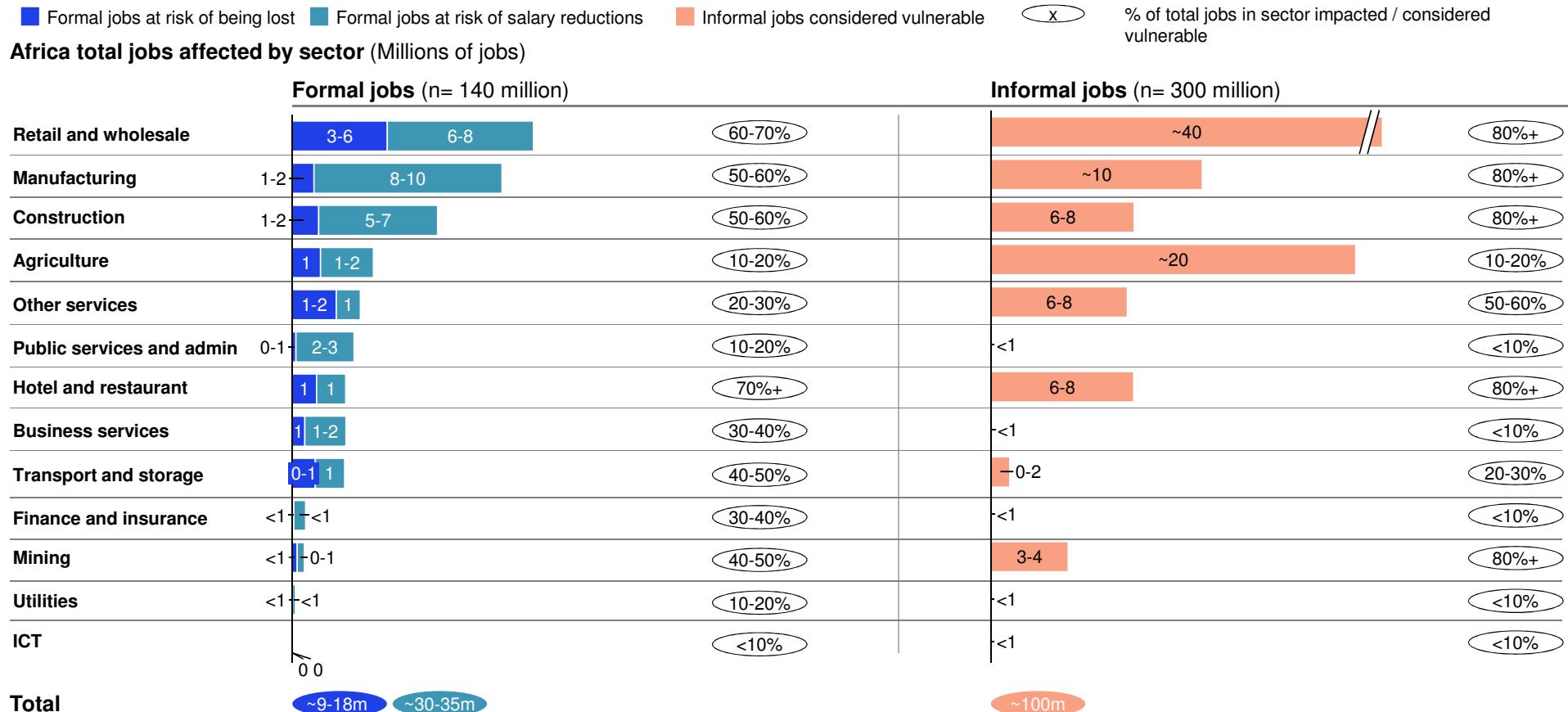
From a employer perspective, ~50% of all workers are estimated to be self employed, and a further ~40% employed by SMEs



1. Made up of micro enterprises (2-9 employees) and small to medium enterprises (10-49 employees)

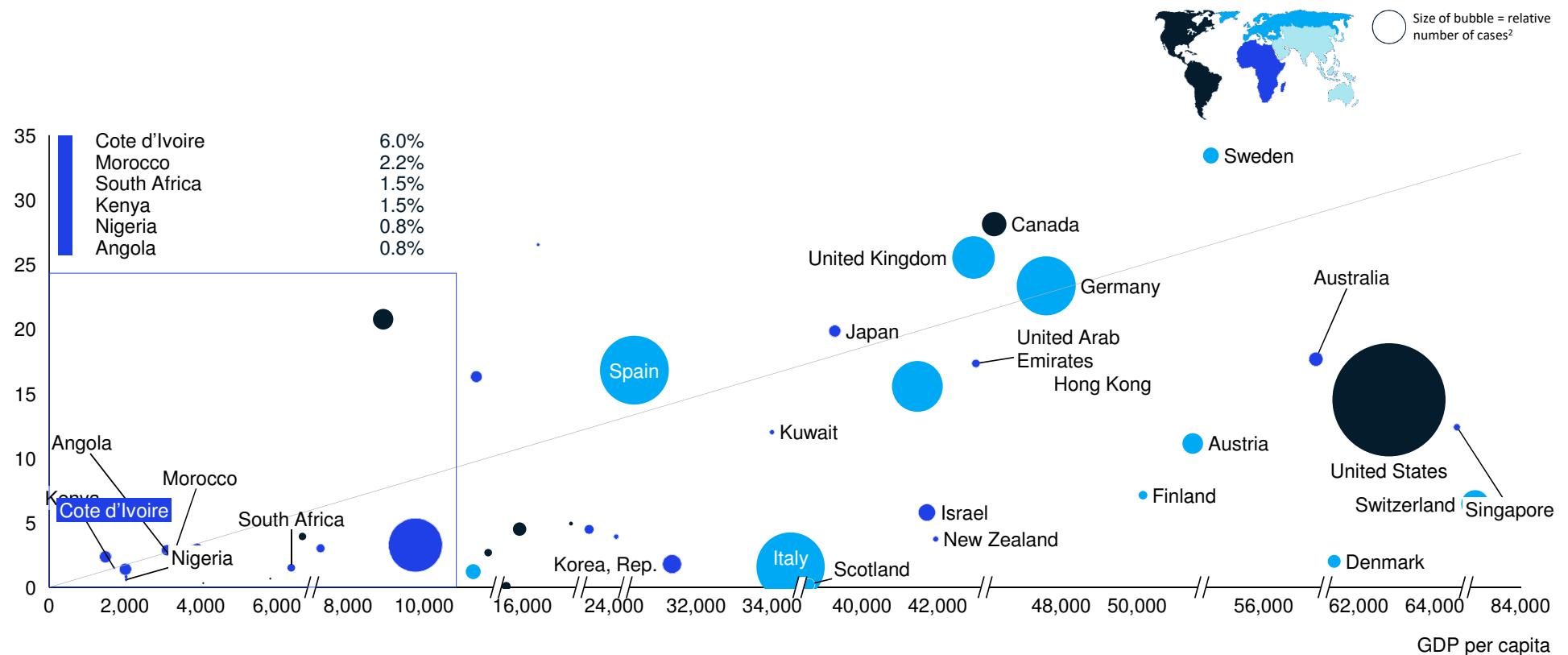
One third of all jobs in Africa – formal and informal – could be affected by COVID-19

Up to 150 million jobs could be affected through losses, salary reductions, or considered highly vulnerable



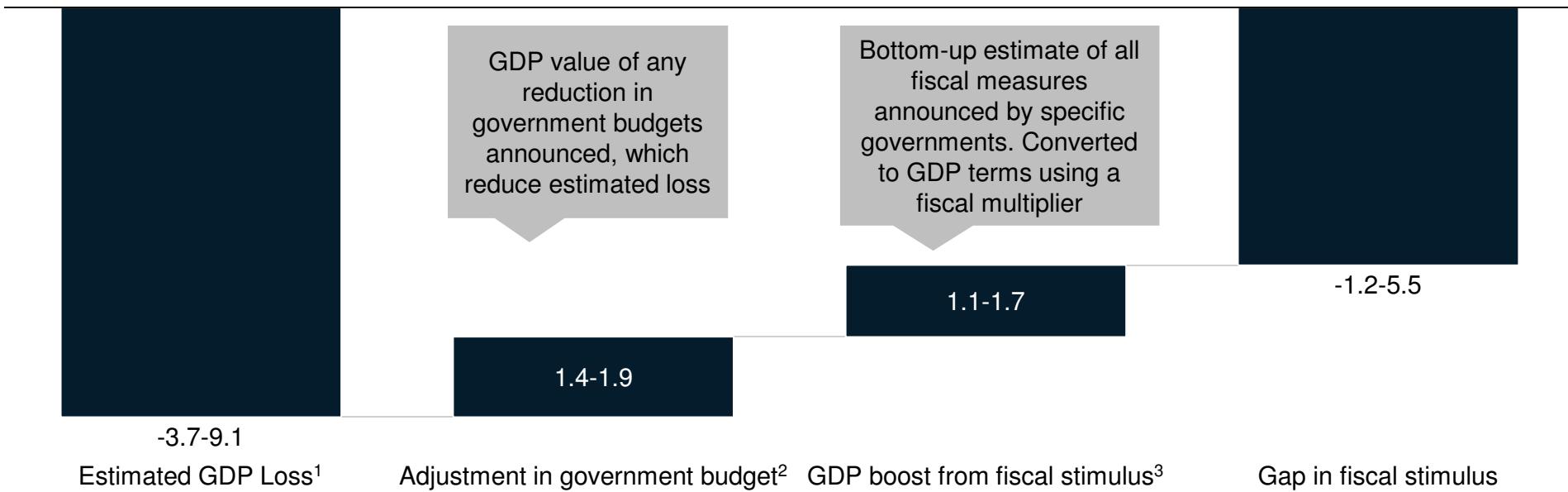
African countries have announced fiscal stimulus packages of 1–1.5% of GDP

Size of stimulus¹, % of GDP



We estimate a stimulus gap of up to 5.5% of GDP to return to pre-crisis levels

Estimated impact of fiscal stimulus packages, as % of GDP



1. This is equivalent to 4-9pp decline in GDP real growth, which is equivalent to a \$90-\$220bn loss in 2018 fixed prices. However all calculations on fiscal stimulus converted in 2020 nominal terms

2. All fiscal stimulus analysis based on detailed view on Angola, Kenya, Nigeria and South Africa, and assumed rest of Africa would follow similar trajectory on average. As more countries announce their budget adjustments and the source of their stimulus, this number could change significantly.

3. The size of the stimulus may change depending on where countries will source the money to finance the measures - new externally sourced consumption money can increase the multiplier significantly

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Africa faces a set of unique challenges in this crisis

Non-exhaustive

Challenges

Description

Implications



Limited fiscal capacity

Low ratio of public revenues to GDP across Africa (19% vs 30% in Brazil and 37% in the UK)

Debt servicing absorbing 22% of revenues in Africa vs 8% in India, 11% in Brazil, 17% in Mexico

Varying levels of transparency in management of funds, particularly large inflows during emergencies

Difficulty to replicate stimulus packages as other regions have implemented

Countries may need **support from development partners and foundations**

Radical transparency needed in how funds are managed



Highly informal economies with many small and micro businesses

SMEs and self employed create >80% of the region's employment (50% in the EU, 60% in the US), with limited ability for staff to work from home (e.g., primary industry, power outages, cost of data)

The **informal sector makes up to 55% of the economy in SSA** compared to 40% in Latin America and India and 15% in OECD

May need to support in particular the small and medium enterprises in addition to large businesses

Economy revitalization may need **extend to informal parts of the economy**



Young and poor demographic

50-70% of urban dwellers live in slums (vs 23% in Latin America, 17% in India) in the fastest urbanizing region in the world

Younger population with **median age of 19** (vs 27 in India and 43 in Europe) with ~80m youth in vulnerable employment, and ~110m not contributing to the economy

School closure impact is high and has long-term consequences (e.g. increasing drop out, currently 42% vs 19% OECD average)

Consider effectiveness and implication of quarantine methods in light of poor living and sanitary conditions

May need to address **long-term implications of some measures** (e.g. closure of educational institutions)



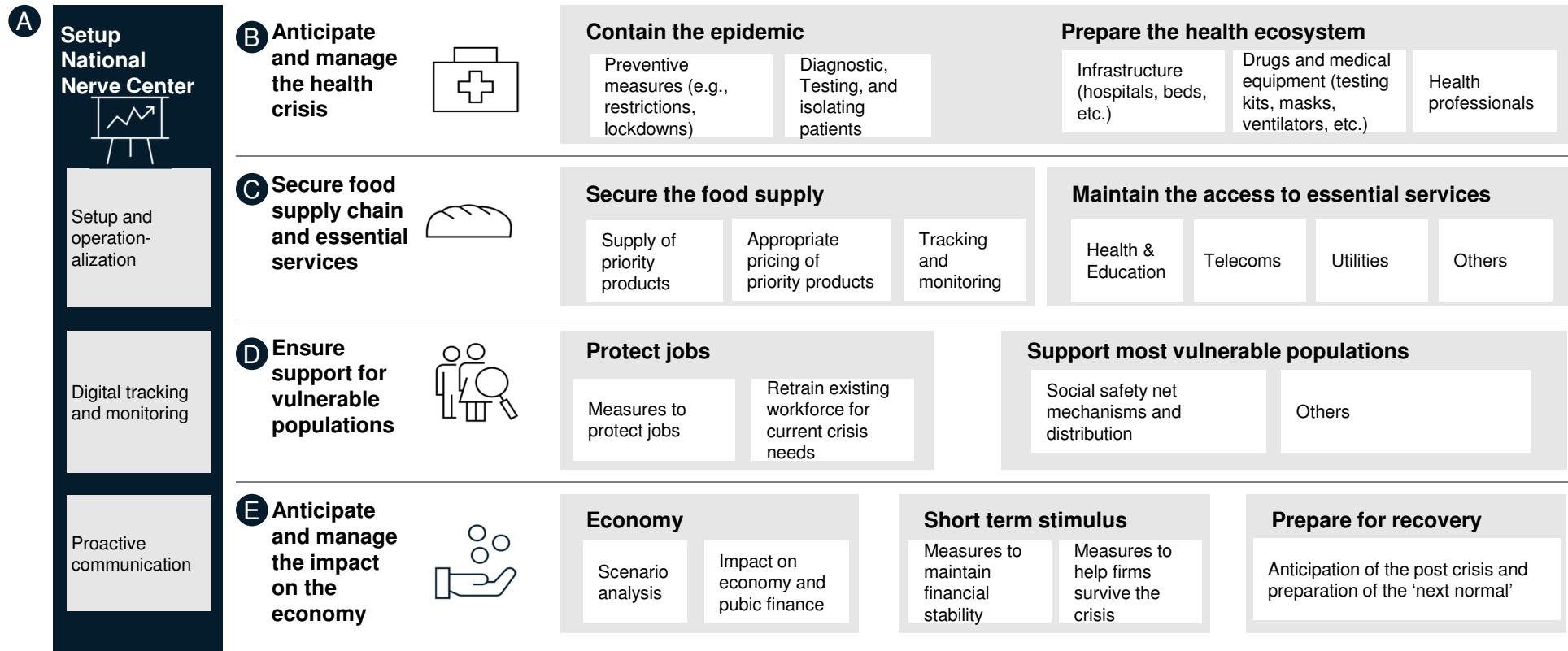
Fragile healthcare system

Low number of healthcare professionals – 0.25 doctors for 1000 people in Africa vs. 1.6 in Latin American and 3 in OECD on average

Low number of hospital beds – average of ~1.4 beds / 1000 people vs 2 in Latin America and 4 in China; limited testing and treating capability

May need to expand healthcare capacity and accessible healthcare solutions (e.g. mobile health points for testing and medicine distribution)

Governments may need to focus urgently on five key areas



Private sector companies may need to consider shifting their operating model/ governance structure to a crisis response mode ...

Experience from other markets suggests that businesses across key markets outside of South Africa may have 2-4 weeks to make shifts in how they serve clients, support staff members and manage stakeholders

A shift from business as usual ...

- ✖ Long decision making process
- ✖ Multiple steps and hand-offs in decision implementation
- ✖ Fragmented teams working in silos
- ✖ Decentralised decision making

↔ 2-3 months →



Goes to business



Goes to legal



Goes to operations

... to remote agile model

- ✓ Quick decision making
- ✓ Streamlining decision making and relaxing onerous governance requirements
- ✓ Single team reporting directly to CEO
- ✓ Semi-autonomous team with decision making authority

↔ A few days to 2 weeks →



... and focus on 6 key areas

Based on discussions with risk and health professionals and more than 200 companies across sectors

Private Sector focus areas

A	Operate nerve center	1 Issue map & management 2 Portfolio of actions 3 Leadership alignment	Single source of truth for issue resolution & tapping surge resources where needed Trigger-based portfolio of actions (across all workstreams above) Align leaders on scenarios Roundtable exercises
B	Workforce protection	1 Policy & Management 2 Two Way Communication 3 Personnel & contractors 4 Facility & On-site norms 5 Health & Govt engagement	Portfolio of policies and actions incl. prevention and incident response Multi-channel communications Confidential reporting mechanisms Source of truth Tiering (all/some/no WFH) Infra setup (VPN, laptops, desktops) Broadband availability Staggering work shifts/times Prevention (e.g., Social distancing) Closures Local & federal regulators and public health officials Support to Government
C	Supply Chain Stabilization	1 Supplier engagement 2 Inventory management 3 Production & Operations 4 Demand management 5 Logistics	Cross-tier risk transparency Supplier restart Order mgmt. New supplier qualifications Critical part identification Parts rationing Location optimization Operational impact assessment Production capacity optimization S&OP SKU-level demand signal estimates by macro scenario Production and sourcing plan Ports Logistics capacity pre-booking Route optimization
D	Customer engagement	1 B2B transparency 2 Customer protection 3 Customer outreach	Comms to B2B customers (e.g., microsite) Scenario-based risk comms Prevention interventions across customer journey Cust. team training Execution monitoring Customer comms re: COVID-practices Fact-based reports on issues Situation comms
E	Stress-test financials	1 Scenario definition 2 Financial stress tests	Relevant scenarios based on latest epidemiological & economic outlook Financials in different scenarios, especially working capital requirements
F	Government support	1 Sharing expertise 2 Providing support 3 Donations	Offer expertise support to Governments (e.g., via the National nerve center) Implement supportive measures (e.g., reduced data costs, delayed interest payments, etc.) Monetary and product donations to funds for support of vulnerable population

Development partners can consider even bolder actions to support the continent through the crisis

These ideas are in addition to supporting governments on some of their key interventions detailed on the prior pages

Examples -- not exhaustive

Ideas

Economy



- 1 **Africa recovery plan.** An extensive stimulus package or economic development plan, modelled on the Marshall Plan that provided aid to Europe after World War II.
- 2 **Africa Green Program.** A get-to-work program that plants millions of trees across the continent, using a currently out-of-work labor force at reduced salary, could provide employment and help solve global and local climate change issues.

Business environment



- 3 **Private-sector liquidity fund.** Offer grants, interest free loans or debt for equity swaps to support businesses and limit job losses.
- 4 **African procurement platform.** A common platform to procure medical supplies and equipment to combat the pandemic could provide an Africa-wide solution to challenges that each individual country is trying to address.

Household welfare



- 5 **Africa “Solidarity fund”** where businesses and individuals could contribute to a fund earmarked for immediate relief for the most vulnerable households and micro-businesses (“hustlers”).

Half of the countries in Africa have implemented partial or nationwide lockdowns

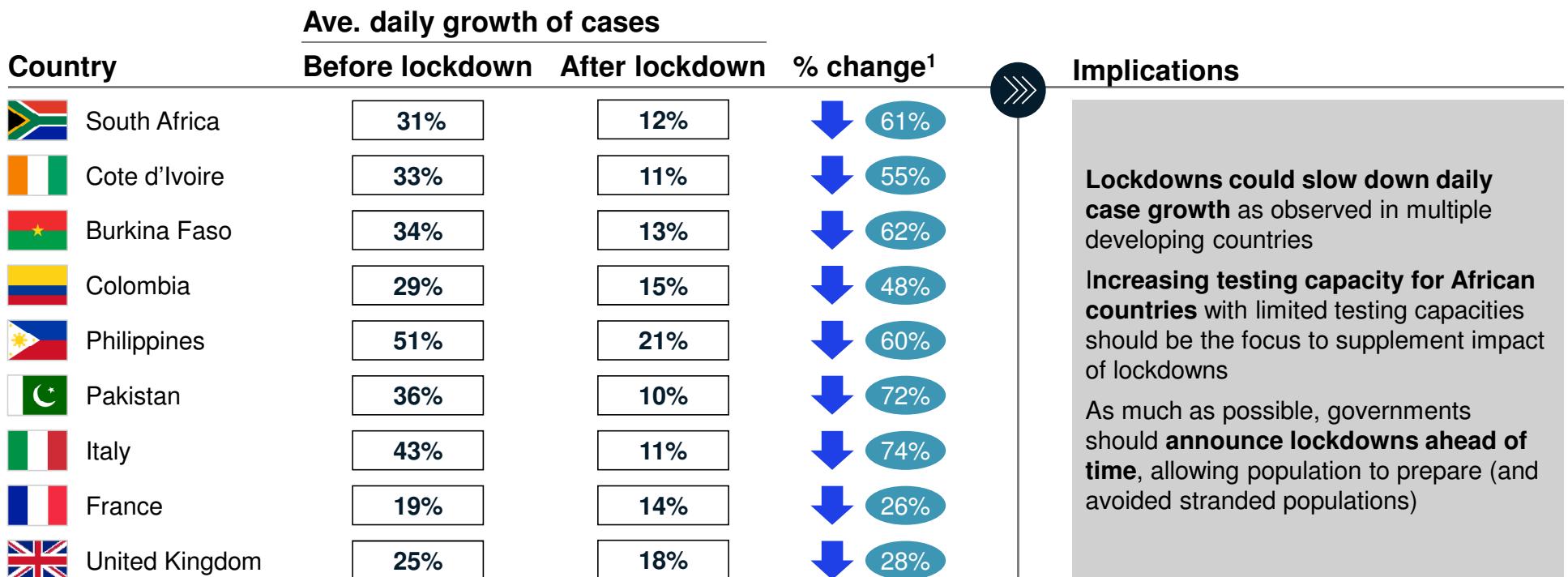
Tally of countries by most restrictive policy deployed¹

	% of population affected	# countries	Country examples
Nationwide lockdown: Stay-at home restrictions nationwide	14%	~14	 S. Africa
Partial lockdown: Stay-at-home restrictions in certain cities	39%	~15	 Nigeria
Restricted intra-regional travel Restricted movement across city zones	0%	0	Strategy not yet deployed
Restricted inter-regional travel: Restricted movement into and out of quarantined cities	11%	~3	 Cote d'Ivoire
Curfew¹: Restrictions on movement at certain times	15%	~7	 Egypt
Shutdown: Closure of schools, churches, non-essential businesses	20%	~14	 Mozambique
Border restrictions only	1%	1	 Burundi

1. Restrictive policies are not mutually exclusive (e.g. countries have partial lockdowns and curfews), but we categorize countries only by the most restrictive policy implemented (i.e. one policy per country)

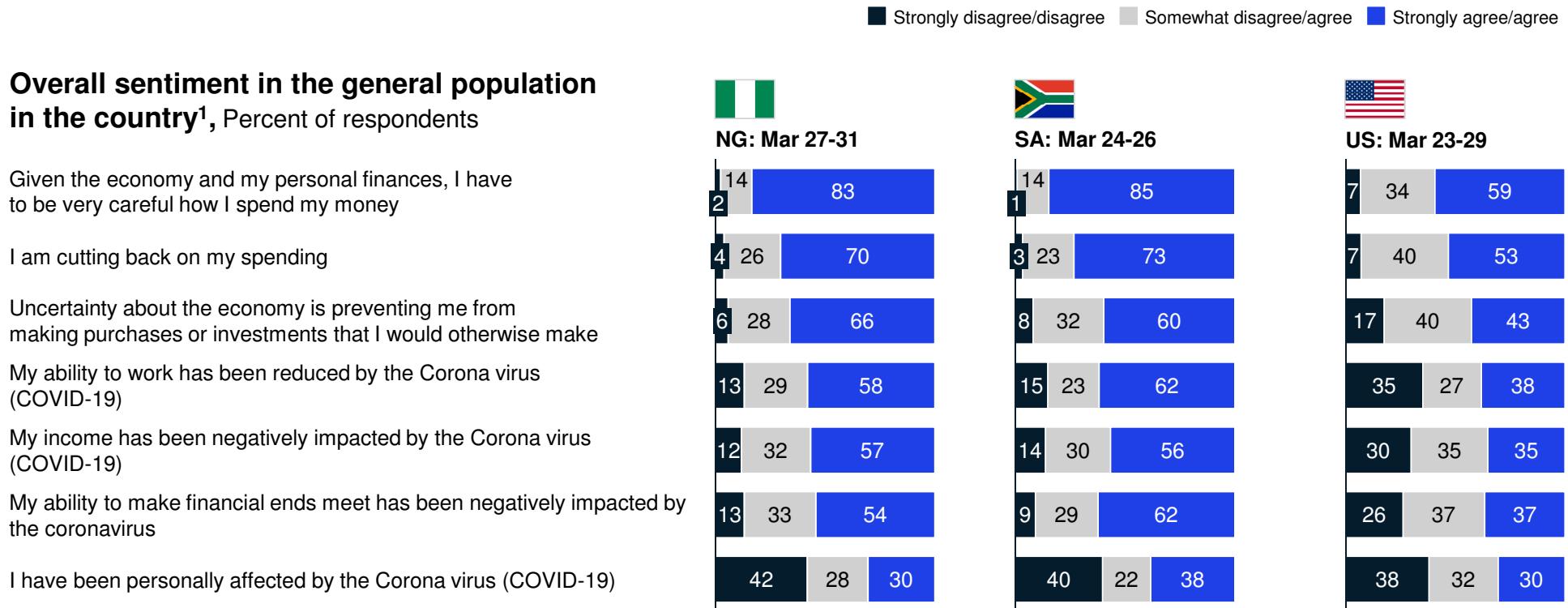
If well implemented, lockdowns could slow down growth of covid-19 cases in Africa and other developing economies

Not Exhaustive



1. Does not factor in time lag before the effects of lockdowns can be felt. On average, impact from a lockdown is realized after 5 days to 3 weeks depending on country testing effectiveness

Consumers in Nigeria and South Africa are rapidly adjusting their behavior post lock-downs with > 2/3 cutting back spend



Majority of consumers from the three countries expect to **spend their money cautiously** given the impact of COVID-19. However this impact is felt **more in the African countries** as **more than half** of the consumers in Nigeria and South Africa expect to **struggle to make ends meet**

1. Q: Please indicate how strongly you agree or disagree with each of the following statements. Please select only one response for each statement.

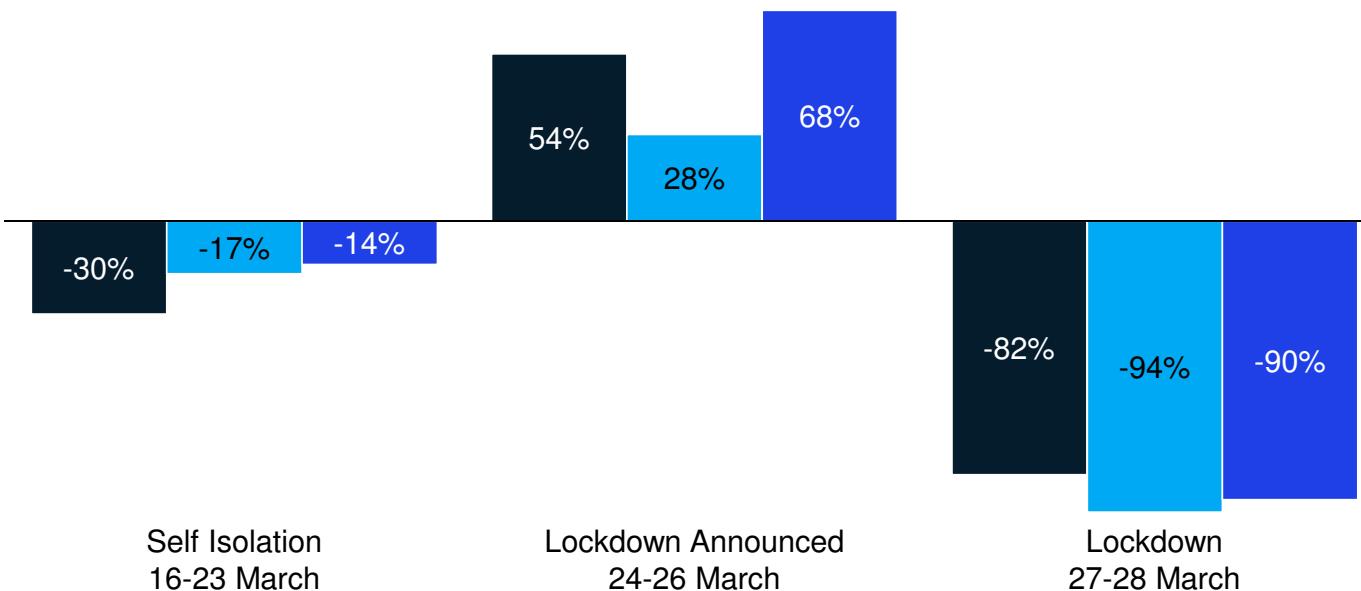
McKinsey & Company M&S COVID-19 Nigeria Consumer Pulse Survey 3/27-3/31/2020 N = 531 Sampled and weighted to match Nigeria gen pop 18+ years; McKinsey & Company M&S COVID-19 SA Consumer Pulse Survey 3/24-3/26/2020 N = 535 Sampled and weighted to match SA gen pop 18+ years; McKinsey & Company COVID-19 US Consumer Pulse 3/23-3/29/2020 n = 1,119, matched and weighted to US general population 18+ years based on American Community Survey 2016 of the US Census Bureau

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Furthermore, the real economic cost of lockdowns is significant (e.g., South Africa retail sales declined 3x in first 2 days of lockdown)

Impact of Covid-19 on Small Businesses

■ Food, drink and hospitality ■ Healthcare, beauty and fitness ■ Retail



Implications

Activity across Food, drink and Hospitality, Healthcare, Beauty and Fitness, and retail **declined 3x during lockdown as compared to self-isolation period**

There was a significant panic purchasing during the lockdown announcement period

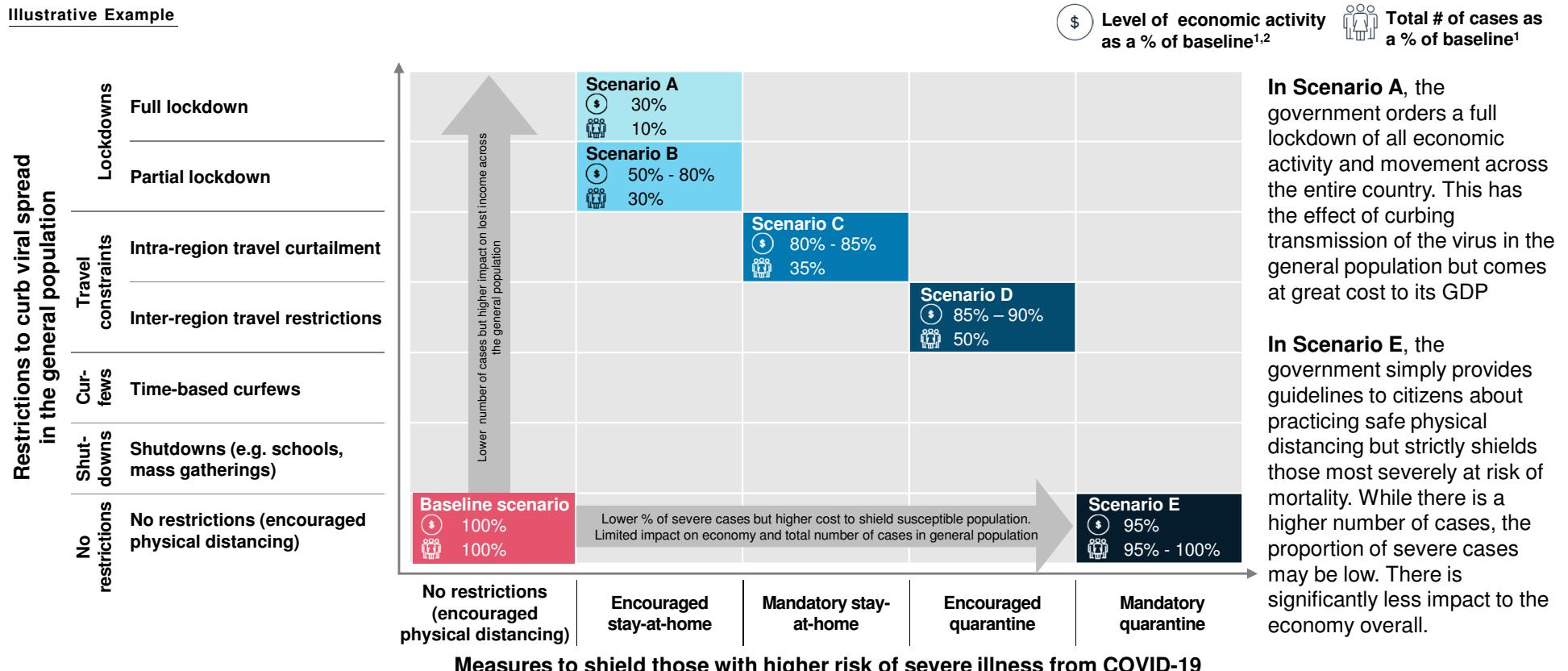
While people can still access essential items, impact on foodstuff is still significant

Striking the right balance between protecting lives and safeguarding livelihoods

Various options and scenarios for a country, over a 30-day period

Illustrative Example: Relative Impact of Restrictions On GDP and the Number of Cases

Illustrative Example



1. Baseline refers to the cell in the bottom left corner of the matrix where economic activity continues, with no restrictions that curb the spread of the virus in either the general population or those at risk of severe illness from COVID-19.
2. Economic activity refers to income generating activities that contribute to GDP.

COVID-19: Africa Economic Impact