

Controlling Covid-19 will carry devastating economic cost for developing countries

By [Borja Santos Porras](#)

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Many African countries quickly closed their borders and imposed lockdown. This meant that, until the beginning of May, no African country had more than 10,000 people affected, with South Africa, Egypt, Morocco or Algeria being the hardest hit.



A deserted street in Cairo after coronavirus-related restrictions were tightened. Egypt has been one of the hardest hit in Africa. Photo by Mohamed Elraai/picture alliance via Getty Images

Weak health systems nevertheless expose these countries to high health risks. According to the World Health Organisation, the US had 170,000 respirators in mid-March. A month later, 41 African countries together had [fewer than 2,000](#), and ten had none.

The same is true for intensive care beds (Southern Sudan had less than 200), lack of health protection equipment, a [shortage of testing kits](#), low number of doctors per capita, no training in intensive care or difficulties in accessing the international markets for personal protective equipment and other health materials. All make these countries particularly vulnerable.

On top of this, isolation measures threaten the food security of millions of people. This means that even if the epidemic is successfully managed at the health level, the impact on economies – and people – will be devastating.

Growth in extreme poverty and hunger

The [World Bank](#) experts have begun to estimate that between 40 million and 60 million people could be pushed into extreme poverty (living on less than \$1.90 a day) by the pandemic. Much of this will take place in India and sub-Saharan Africa.

This will be the first growth in extreme poverty since 1998, when the Asian financial crisis hit. And it adds to the more [than 600 million people already living under such conditions](#), and whose incomes will also be affected.

On the other hand, the number of people in the world with acute hunger will double. The United Nations World Food Program, along with other organizations, released a [report](#) in April indicating that more than 130 million people will suffer acute food insecurity [by the end of the year](#) bringing the world total to 265 million.

The situation resulting from Covid-19 will aggravate the situation of people who, either because of conflict, climate change, disease, famine or simply low income, were already facing acute food insecurity. Let's see what the main aspects behind this impact will be.

Macroeconomic fundamentals

The first big challenge will be a lack of financing.

Current debt levels, an increase in the fiscal deficit and possible closures of the debt market due to low levels of additional international reserves, all make it impossible for these countries to obtain the necessary financing. Not only for the health expenditures needed to deal with the pandemic, but also for social spending and refinancing existing debt. The more the isolation is contained, the greater the fiscal space needed to mitigate the effects of the resulting recession.

The poorest countries are now at a crossroads with no viable route in any direction. Since 2010, the debt of developing economies has increased by an average of 54% due to low interest rates, reaching [a historical debt of 170% of GDP by 2018](#).

Developing countries do not enjoy the support of strong central banks able to issue debt, so they face a sudden stop in these markets. Moreover, [traditional solutions](#) are inefficient when all countries suffer from these problems, and generate negative effects on the economies of their neighbours.

To make matters worse, [according to the Institute of International Finance](#), investors withdrew nearly \$80 billion from emerging markets during the first quarter of 2020: the largest capital outflow in history. For economists like Pablo Peña and María Fayos, the temporary suspension of foreign public debt (the G-20 approved it until the end of the year), capital controls and the issue of special drawing rights could be fundamental.

The second major challenge is the decline in remittances.

Earnings sent home migrants to their home countries have [fallen by at least 20%](#). This global decline may amount to more than \$100 billion.

We have to remember that remittances represent [three times more](#) than Official Development Assistance, and in 2019 even exceeded the amount of Foreign Direct Investment received by low - and middle-income countries.

Remittances are crucial and have a very positive impact, especially in rural areas, as most money is [used to cover health, education and household expenses and](#), in periods of crisis such as crop losses or family emergencies.

Remittances have generally worked in a counter-cyclical manner: if there was a poor harvest, relatives working abroad would increase the amounts of money they send home. However, this is not currently possible as the jobs and wages of the migrant population in Western countries are precarious and in many cases have already been affected.

The third big challenge has been on the supply and demand of commodities, leading to closures or interruptions in supply chains. [Developing and emerging economies are particularly vulnerable to these events.](#)

Structure of economies

There are a host of other factors that are increasing the pain that relate to the structure of most developing country economies.

To begin with, the informal sectors are much bigger. For example, in Latin America [55%](#) of people work in the informal economy. In sub-Saharan Africa they represent [more than 65%](#), excluding the primary sector.

People who work in the informal economy don't have access to social security payments and are more difficult to locate or track.

Another factor is that small and medium-sized enterprises have problems accessing capital and liquidity that prevents them from emerging from the crisis. For many of these small entrepreneurs, farmers or workers, if there is a 10% risk of contracting the virus, it still makes economic sense to continue working than to be at a 90% risk of their families falling into poverty or not eating.

Added to this is the fact that many people do not have savings or access to insurance or a social protection network. This would be aggravated by the decline in remittances. Faced with this situation, many families in poverty end up selling or losing those resources that allow them to generate income or cannot continue to invest in the education or health of their children. This has irreparable long-term negative effects. The subsistence economy leaves no margin.

And rising food prices and the cost of other basic needs, along with shortages, can impact heavily on the most vulnerable and those with lower incomes.

Finally, many families depend on basic public services such as health or education. Widespread closure of schools impacts not only on the education of the young ([in 40 African countries, more than half of the population is under 20 years old](#)), but also on school meals programmes. Moreover, limited access to health services makes matters worse, not only because of the Covid-19, but also because of [the impact it will have on other diseases such as malaria, Ebola or measles](#).

The hard truth is that the more the isolation is contained, the greater the economic problems will be. Efforts to improve the health systems and health practices will be crucial to avoid a future crisis while reducing the impact in poverty and malnutrition.

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