BIZCOMMUNITY

Restrictions in trade to contain Covid-19 have been devastating for Africa's urban poor

By Astrid R.N. Haas and Victoria Delbridge

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Trade routes have been significantly disrupted this year in efforts to contain Covid-19. The effects of this are already showing: global growth is set to contract by 4.9% and growth in sub-Saharan Africa will contract by 3.2%.

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This will get worse if continued restrictions further impede trade. The World Trade Organisation has warned that at worst, global trade could collapse by a third this year, and at best, it will contract by 13%, similar to the recorded drop after the 2009 financial crisis.

This has fundamental consequences – both direct and indirect – for many. For instance, within the first few weeks in March when some trade routes were initially suspended, flower exports from Kenya to the European Union fell by 50%, affecting around a million people.

Trade enables formal firms to flourish, which will be essential for economic recovery. It also protects the urban poor operating in the informal economy against poverty and hunger. The continuation of trade is even more essential for their survival as they operate without an adequate safety net.

Restricting trade also affects supply and prices. Import disruptions have resulted in shortages, including food, and prices have spiked. This has brought economic hardship to small traders and consumers across the continent.

In the current economic climate, trade is not a luxury that can be temporarily avoided. In Africa, there's a growing body of evidence showing that firms – from large to very small – have been severely affected by restrictions in the movement of goods and people. For many, this means not only losing a livelihood, but a direct impact on their ability to meet basic needs.

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Economic impact on formal firms

A study of formal firms in Uganda found that exports fell by 57% at the start of its lockdown, compared to a year earlier. It also found that imports, which these firms rely on to produce, fell by 43%.

The researchers of the study simulated what would happen with continued import reductions of this magnitude. The results were devastating: 6.6% of all formal firms in the Ugandan economy would likely have to close, resulting in a reduction of formal employment by 4.7%.

Fortunately, the Ugandan government ensured trade could continue throughout lockdown. Exports and imports started to rebound relatively quickly.

The impact of slower trade has also been tracked in Ethiopia, where a survey of firms showed that trade disruptions affected a fifth of small, medium, and large firms due to a lower supply of raw materials and intermediate goods, as well as the restricted movement of workers.

The importance of the role played by formal firms can't be overstated. Evidence suggests that in sub-Saharan Africa the labour productivity of formal firms is four times higher than that of informal firms. This is because formal firms are able to scale and specialise in a way that informal operations cannot. In addition, across the continent, taxes on incomes, profits and capital gains accounted for around 25% of all national tax revenues.

But smaller informal firms will have an equally crucial role to play in the recovery.

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Urban informal sector

In developing cities, most firms operate in the informal sector, accounting for more than 66% of employment across the continent.

A 2016 census of informal firms in the Greater Kampala area showed that informal firms were very small: about 60% have only one employee and 70% have an annual turnover of UGX 10 million ($2,700) or less. Over 90% of micro firms were operating close to, or at, the poverty line.

The challenge for the poorest of these firms operating in cities is that the majority of their income is used to buy food in urban markets. Therefore, trade is not only a question of economic activity, but more importantly of survival. It is also why the urban poor are the hardest hit by lockdown measures.

Evidence from a small-scale trader survey in Lagos showed that during the lockdown, most firms were making zero revenue. And these effects seem to be persistent: in Sierra Leone, for example, where the economy has reopened, profits for these firms are still nearly 50% lower than pre-lockdown levels.

In Uganda, which has by some estimates already eroded nearly 10 years of gains in poverty reduction efforts, the sharpest spike in poverty levels to date was in the capital city, Kampala. It is also why there have been increases in hunger and malnutrition across the country.

Uganda is not alone: simulations of an eight-week lockdown across Africa show that eight million people, including 3.9 million children under five years, would be severely food deprived.

Trade is not a luxury

Rethinking global guidelines on handling pandemics is not an easy task given that the contexts to which they will be applied are extremely diverse. Perhaps the most efficient guidelines will be those that allow for targeted, data-driven, flexible and localised approaches.

Understandably, however, during this pandemic and for future ones, much of the world also looks for global standards set by bodies like the World Health Organisation. But when setting these standards it is important to remember that for many, health versus the economy is a false dichotomy. Rather, for many in poor urban areas, trade is not only a means of making ends meet, but of avoiding the trap of poverty and hunger.

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