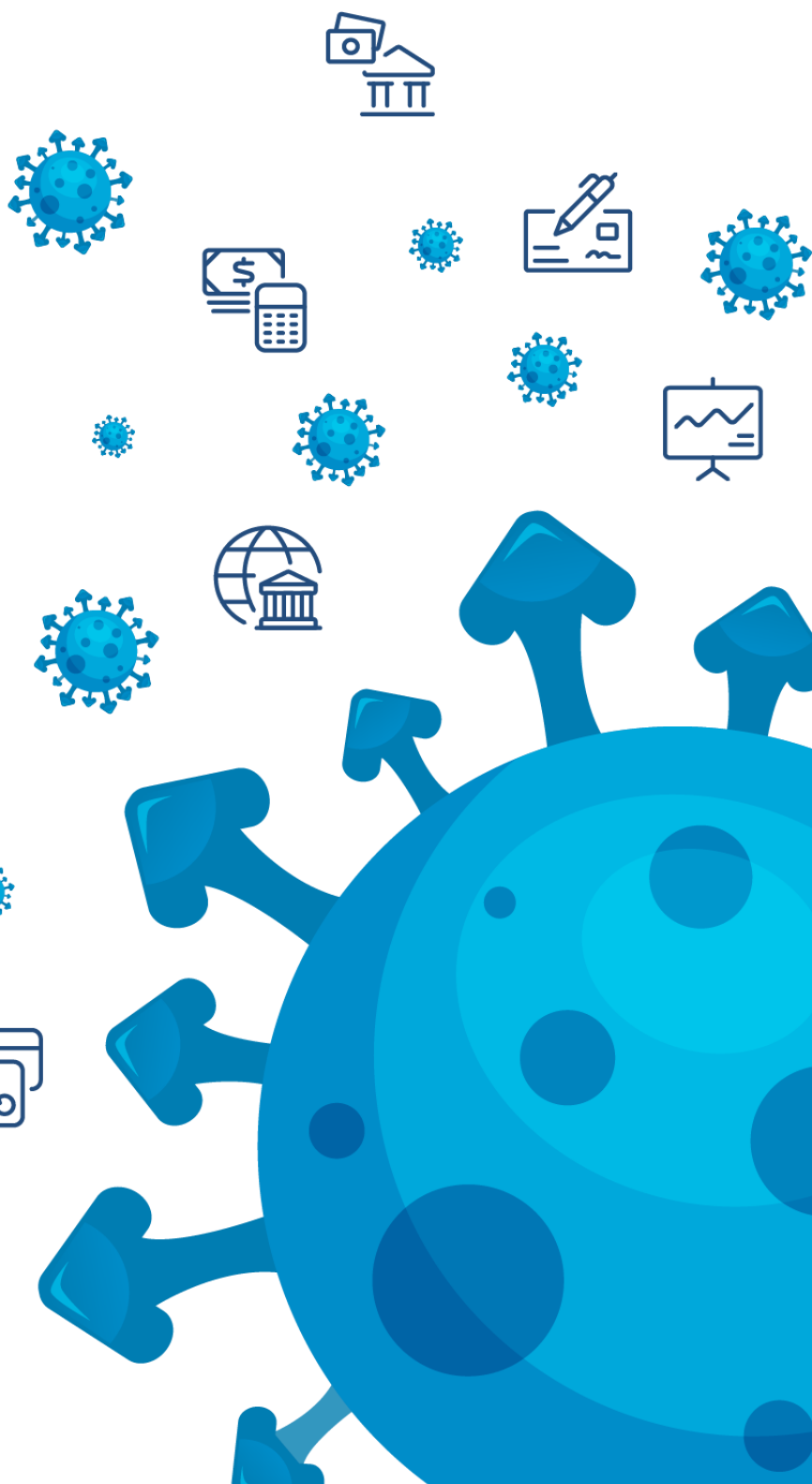


# Government funding





The COVID-19 pandemic significantly affected government funding in Africa through primarily two ways. Firstly, the pandemic led to a sharp contraction of tax revenue<sup>1</sup> and, secondly, it placed extreme stress for increased public spending on the health sector, social and business relief, and other measures to reduce the impact of the pandemic and meet various other related needs<sup>2</sup>. For example, in Kenya, Rwanda, Burkina Faso, Egypt and Somalia, the government has tried to cushion the socioeconomic impact of the pandemic by providing tax reliefs, fee waivers and subsidies to individuals and Small and Medium Enterprises (SMEs)<sup>3</sup>. This situation is further compounded by low domestic saving rates; low levels of domestic resource mobilization; high illicit financial outflows; capital flight; volatile commodity prices; high fiscal deficits and stagnating official Development assistance<sup>4</sup>.

Africa could lose up to 20 to 30% of its fiscal revenue because of the pandemic, which is estimated at \$500 billion<sup>5</sup> while fiscal deficits are estimated to double in 2020 to a historical high of 8.4% of GDP in Africa<sup>6</sup>. Governments will, therefore, be forced to rely on international markets which may increase their countries debt levels. Many countries have already resorted to large-scale external and domestic borrowing, which can lead to imminent future debt crisis<sup>7</sup> and limit future borrowing capacity<sup>8</sup>. Global public debt is estimated to have reached 98% of gross domestic product (GDP) at the end of 2020 compared with 84% in 2019<sup>9</sup>. In poor economies, governments (including Angola and Zambia) faced severe difficulties paying their sovereign debts hence seeking debt restructuring<sup>10</sup>.

<sup>1</sup> <https://onlinelibrary.wiley.com/doi/10.1111/1467-8268.12531>

<sup>2</sup> <https://aercafrica.org/latest-news/impact-of-covid19-on-public-finance-in-africa-challenges-opportunities/>

<sup>3</sup> ECA. 2021. Africa's quarterly economic performance and outlook. January–March 2021. Addis Ababa, Ethiopia

<sup>4</sup> COMESA. 2020. Macroeconomic Impacts of COVID 19 in Sub-Saharan- Africa. Available at: <https://www.comesa.int/wp-content/uploads/2020/06/Macroeconomic-Impacts-of-COVID-19-in-Sub-Saharan-Africa.-3.pdf>

<sup>5</sup> COMESA. 2020. Macroeconomic Impacts of COVID 19 in Sub-Saharan- Africa. Available at: <https://www.comesa.int/wp-content/uploads/2020/06/Macroeconomic-Impacts-of-COVID-19-in-Sub-Saharan-Africa.-3.pdf>

<sup>6</sup> ECA. 2021. Africa's quarterly economic performance and outlook. January–March 2021. Addis Ababa, Ethiopia

<sup>7</sup> <https://onlinelibrary.wiley.com/doi/10.1111/1467-8268.12531>

<sup>8</sup> <https://aercafrica.org/latest-news/impact-of-covid19-on-public-finance-in-africa-challenges-opportunities/>

<sup>9</sup> IMF. 2021. *Primary commodity prices updated*. International Monetary Fund, Washington, DC. (<https://www.imf.org/en/Research/commodity-prices>).

<sup>10</sup> <https://www.ncbi.nlm.nih.gov/pmc/articles/PMC8207010/#afdr12531-bib-0010>



In Africa, the COVID pandemic exposed and amplified existing weaknesses in public finance management, inefficiencies and inequalities in the delivery of public services, and a lack of preparedness when it comes to the ability to weather economic shocks and manage resources effectively<sup>11</sup>. The overwhelming need to give priority to responding to the public health emergency and to strengthening safety nets, for which there wasn't adequate preparedness, is likely to reduce the amount of funding that is available for other public investments such as education<sup>12</sup>.

Given that there is anticipated fiscal stimulus received by many African countries in 2020, the fiscal deficits are anticipated to narrow down in 2021<sup>13</sup>. However, there is considerable uncertainty about the likely overall economic impact of the COVID-19 pandemic. Its duration and severity will depend on the success of measures to stop the spread of the virus and how quickly economic activity can resume, trade can recover, and financial markets and commodity prices can be stabilized.

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<sup>11</sup> <https://aercafrica.org/latest-news/impact-of-covid19-on-public-finance-in-africa-challenges-opportunities/>

<sup>12</sup> World Bank Group. 2020. THE IMPACT OF THE COVID-19 PANDEMIC ON EDUCATION FINANCING. Available on: <https://documents1.worldbank.org/curated/en/479041589318526060/pdf/The-Impact-of-the-COVID-19-Pandemic-on-Education-Financing.pdf>

<sup>13</sup> ECA. 2021. Africa's quarterly economic performance and outlook. January–March 2021. Addis Ababa, Ethiopia