



UNITED NATIONS
MOZAMBIQUE



UNPACKING THE POTENTIAL SOCIOECONOMIC IMPACT OF THE CORONAVIRUS PANDEMIC IN MOZAMBIQUE

A UNITED NATIONS SITUATION ANALYSIS
AND POLICY RECOMMENDATIONS

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I. GENERAL CONSIDERATIONS

The Coronavirus pandemic arrives in Mozambique at a time when, after several years of modest economic performance, the Mozambican economy was starting to show signs of recovery. Hence, the latest projections of the IMF of November 2019 had the Mozambican economy growing at 6% in 2020, with medium term projections reaching 9% and above after 2023, following the initiation of LNG exploration operations in the north of the country.

Despite this improving macroeconomic outlook prior to the outbreak of the Coronavirus pandemic, living conditions for many Mozambicans remain harsh. Poverty afflicts almost half of the population, 46.1% according to the 2014/15 national household survey, and many people continue without access to basic services, with the proportion of Mozambicans with access to basic water supply, basic sanitation and electricity remaining at very low levels: 55.7%, 29.4% and 27.4% in 2017, respectively. Moreover, despite improvements in healthcare conditions, Mozambicans, especially women and children, continue to be severely afflicted by disease and sickness. In general, living conditions tend to be worse in rural than in urban parts of the country.

The coronavirus pandemic is almost certainly going to change this short- and medium-term economic outlook and could potentially have a very significant socioeconomic impact in Mozambique. However, while all available evidence points in this direction, at this stage it is difficult to ascertain and quantify the extent of this impact, given the speed at which things are changing around the world and the uncertainty surrounding the epidemiological profile of the Coronavirus, which makes it hard to assess how long the containment and lockdown measures being applied around the world will need to remain in place.

While a detailed quantification of the socioeconomic impact of the coronavirus pandemic may not be feasible, it is still useful to identify possible transmission channels through which the pandemic may affect the Mozambican economy and society. It is also useful to identify key issues that are likely shape short- and medium-term socioeconomic prospects in Mozambique as a result of the Coronavirus pandemic outbreak in Mozambique. The following sections outline some of these.

II. DEMAND-SIDE EFFECTS OF THE CORONAVIRUS PANDEMIC

The socioeconomic impact of the Coronavirus pandemic in Mozambique can be examined from the perspective of the potential demand and supply side-shocks that could hit the Mozambican economy over the next few months.

Impact on exports of goods and services

From a demand perspective, the main and most immediate impact is likely to come from a decline in the demand for exports of goods and services, especially commodities. This will occur as Mozambique's main export markets in Asia, the SADC region, Europe and, to a lesser extent, in America contract and go into recession, following the containment and lockdown measures that are being adopted across the world. This impact could be very significant, and also quite immediate, as the world is likely to experience a sudden and very sharp decline in economic activity in the coming weeks and months.

Hence, Mozambique is a considerably export-oriented economy, at least by African standards. Its average "exports-to-GDP" ratio for the 2014-2018 period stood at 36.4%, significantly higher than the average for Sub-Saharan Africa (25%) and that of its regional peers, such as Tanzania (16.6%), Kenya (15.1%) or South

Africa (30.3%).¹ Excluding megaprojects, Mozambique’s export performance of the past few years has remained robust, with non-megaprojects exports growing annually on average at 16% between 2017 and 2019, thereby contributing to mitigate Mozambique’s weak economic performance of the past few years.² Moreover, an important part of this growth has been, indeed, driven by exports of agricultural and agro-processed good, such as cotton, sugar, cashew nuts, vegetables or fruits, that employ, directly or indirectly, many people in rural areas in Mozambique.

Tabel 1. Exports as a share of GDP (%)

Country Name	2017	2018
Angola	29.00	n.a.
Kenya	13.26	13.18
Malawi	29.16	n.a.
Mozambique	38.58	47.76
South Africa	29.63	29.91
Tanzania	15.14	n.a.
Uganda	18.19	19.51
Zambia	35.15	37.42
Zimbabwe	18.99	22.92
Sub-Sahara Africa	24.63	25.37

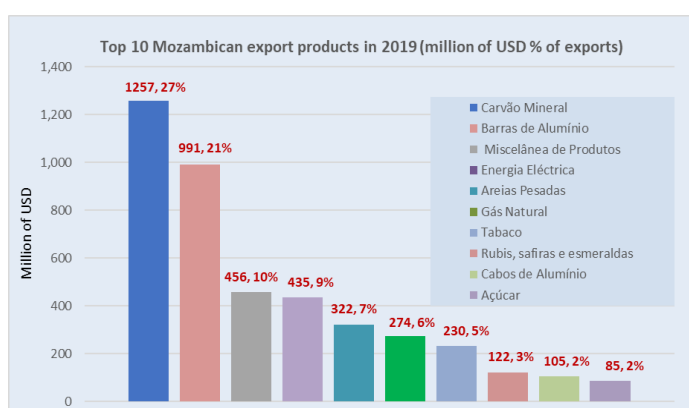
Source: WDI, World Bank

However, it is difficult at this stage to assess the impact that the coronavirus pandemic may have on Mozambique’s export performance, as this will depend on how the crisis plays out over the next few months and how it affects different parts of the world economy. A possibly useful reference is that of the global financial crisis of 2008, which was also systemic in nature. Mozambique’s export performance at the time was indeed affected by the sharp downturn experienced with the world economy, with exports dropping by 19.1% in 2009. But this was driven by the drop in exports to Europe, with export growth to all other regions – the US, Asia, Australia and the rest of Sub-Saharan Africa – remaining strong. Moreover, exports

rebounded the following year, 2010, growing by 8.7%, and remained strong subsequently: 33.6% in 2011 and 23.6% in 2012.

Whether this is a valid reference for the current crisis, remains to be seen. Of particular importance, in this regard, is what happens in Europe and Asia, Mozambique’s two main export markets, and especially in Asia, whose economy has changed significantly over the past decade. During the global financial crisis of 2008, emerging economies in Asia, such as China, were able to maintain relatively robust growth, driving economic growth elsewhere around the developing world. Including Mozambique, by maintaining strong demand for commodities.

This time, however, things could be different for two main reasons. First, because the Coronavirus pandemic has had China at its epicenter, severely impacting its economy. The *Financial Times*, for instance, reports industrial output falling by 13.5% in China during the first two months of 2020, representing the largest contraction on record.³ Urban unemployment has also surged to 6.2% in February, while retail sales and fixed asset



investment dropped by 20.5% and 24.5% respectively, on a year-on-year basis, during this same period. As a result, China could be posting its first economic contraction since 1976 in the first quarter of 2020,

¹ “World Development Indicators” database. World Bank. Washington D.C.

² Estatísticas Externas: Balança de Pagamentos. Banco De Moçambique. Maputo. Fevereiro 2020.

³ Chinese economy suffers record blow from coronavirus. Financial Times. March 16th, 2020.

according to *The New York Times*, contraction which could reach 2-3% of GDP.⁴ All of this points towards a very different scenario to that lived in the aftermath of the global financial crisis in 2008, when China was still able to maintain robust growth.

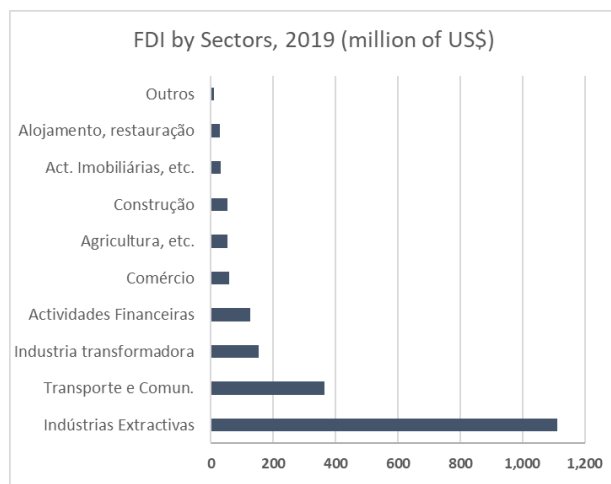
Second, Chinese economic growth may have become more sensitive to growth prospects in other advanced economies than it was in 2008, as the Chinese economy has become more sophisticated and reliant on intra-industry trade with other advanced economies. As a result, recession in Europe and the US is likely to have a bigger impact on the Chinese economy than it had in 2008.

One of the sectors that will possibly be hardest hit in Mozambique is tourism, given the closure of borders and restrictions on air and ground travel that are being implemented in countries around the world, including in Mozambique. The Coronavirus outbreak will also impact not only international tourism, but also domestic one, especially if restrictions are imposed on the movement of people, and if families put on hold leisure activities as part of lifesaving and survival strategies.

The latest figures from INE, put tourism's contribution to GDP at 1.7% in 2018. While not a large sector, it is not insignificant, plus its impact is heavily felt in coastal areas of the country and in Maputo, where much of Mozambique's tourism activities are concentrated. It also accounts for considerable pocket of formal sector wage employment, with Deloitte putting the total number of people employed in tourism in Mozambique at 63 thousand.⁵ Moreover, it is an important source of foreign exchange and foreign investment. According to INE, tourism accounted for 23% of foreign direct investment projects approved in 2018, projects that accounted for 10.8% of jobs created by FDI that year. The exact impact of the coronavirus pandemic on tourism in Mozambique will largely depend on how long travel restrictions in place around the world remain.

Impact on (foreign direct) investment

The COVID19 pandemic is also likely to have an impact on investment demand, both internal and in the form of foreign direct investment (FDI). How immediate and large this impact will be in Mozambique, will depend on a number of scenarios and associated factors.



Cash-strapped multinationals operating in Mozambique could put on hold some of their investments in the country. The coronavirus pandemic outbreak is still at very early stages and, therefore, it is still unclear what economic impacts are already materializing in Mozambique. However, the suddenness and depth of the economic shock brought about by the Coronavirus pandemic (with many companies worldwide experiencing sharp declines in corporate revenues) and the uncertainty surrounding how it will unfold in the coming weeks and months, could make this a very real prospect.

⁴ Coronavirus Could End China's Decades-Long Economic Growth Streak. New York Times. March 16, 2020.

⁵ Investment opportunities in Mozambique – Tourism Edition. Deloitte. June 2018

On the other hand, investments linked to the natural resource sector and extractive industries might be put on hold depending on the evolution of global demand for commodities and that of commodity prices. Already there are indications that Exxon Mobile could delay the greenlighting of its \$30 billion liquefied natural gas (LNG) project in Mozambique due to concerns on the impact of the coronavirus pandemic on demand and prices for LNG, as well as to the disruptions that the pandemic could bring on engineering works to set up LNG operations in Cabo Delgado.⁶ So, again, this possibility is very real.

Finally, a prolonged coronavirus pandemic crisis, caused for instance by delays in finding a vaccine, could dampen global FDI prospects, which could eventually slow down FDI into Mozambique.

Globally, there are signs suggesting that some of these dynamics are already at play. Hence, according to UNCTAD,⁷ global FDI is expected to fall between –5% and –15%, compared to earlier forecasts projecting marginal growth in FDI for 2020-2021, depending on the scenarios of the spread of the epidemic; i.e. whether short-term stabilization of the pandemic is achieved or whether it continues to spread throughout the year. Moreover, more than two thirds of the multinational enterprises (MNEs) in UNCTAD's Top 100 MNE index, which provides a good measure of global investment trends, have issued statements on the impact of Covid-19 on their business. Many of these MNEs are already reducing capital expenditures in affected areas, and at least 41 of them had issued profit alerts by the end of February. More generally, the top 5000 MNEs in the world, which account for a significant share of global FDI, have seen downward revisions of 2020 earning estimates of 9% due to the Coronavirus pandemic.

Impact on employment

Similar to other countries around the globe, Mozambique will not be able to isolate itself from the global demand slump resulting from containment and lockdown policies being pursued by countries around the world and which could induce a rise in global unemployment of between 5.3 million and 24.7 million according to the ILO. The likely slump in the demand for Mozambique's exports, together with the potential disruption of global value chains – with its subsequent impact on the availability of imported material, equipment, spare parts and intermediary goods – will severely affect economic activity across the country and, consequently, impact employment. Initial estimates by Government indicate that unemployment in Mozambique could rise as a result of the Coronavirus pandemic by as much as 7 to 10 percentage points, from the current 20% rate to 27-30%.⁸

In terms of underemployment and Mozambique's informal sector, two opposite effects are likely to be at play in the coming months. On the one hand, informal workers will be affected by the decline in demand and see their earnings fall. This will most likely occur in urban areas. On the other, survival activities are likely to increase, in an attempt to compensate for demand-induced losses in income. Such coping strategies are expected to be dominant, especially in areas without mobility restrictions, such as in the countryside. This can become a health hazard and a potential vector for the disease.

Globally, losses in labour income are expected in the range of between 860 and 3,440 billion USD worldwide. In low-income countries, such as Mozambique, with limited social protection and unemployment benefits the impact will put at risk lives and the country's social compact. The impact will be especially harsh on female headed households and other most vulnerable groups such as persons with

⁶ "Exclusive: Coronavirus, gas slump put brakes on Exxon's giant Mozambique LNG plan". Reuters. March 21, 2020

⁷ UNCTAD (2020) "Impact of the Coronavirus outbreak on global FDI". Investment Trends Monitor. Geneva, March

⁸ MITESS (2019) Boletim Informativo do Mercado do Trabalho – II Trimestre 2019

disabilities. It is also likely to increase the number of working poor. Even where workers might have some elements of social protection, these might not be robust enough to withstand the Coronavirus pandemic shock. For instance the National Institute for Social Security (INSS) is not equipped with modalities of compensation flexible enough to acknowledge or adopt exceptional evidence for the reimbursement of the remuneration of employees required to stay at home due to the impositions of the COVID-19, due to the implementation of social distancing or lockdown measures. Similar challenges will be faced by the non-contributory social protection system entities in Mozambique (such as INAS). While current coverage of INAS reaches more than half a million families, they are highly concentrated in rural areas. The number of beneficiaries of non-contributory social protection of INAS in urban and peri-urban areas is estimated only about 90,000, while a conservative estimate of families in informal sector is 310,000. This large gap poses threat for sharp increase of poverty and possibility of social unrest.

Reduced income from labour, on the other hand, will translate into lower consumption of goods and services, which is detrimental to the continuity of businesses, especially micro and small enterprises which are often heavily reliant on local demand, and in ensuring that economies are resilient. In Mozambique SMEs (Small and Medium Enterprises) present a high degree of fragility and a demand shock like that caused by the Coronavirus pandemic, even if temporary, can destroy business that will not be able to reinstate or create jobs in the recovery phase.

Table 2. Key employment indicators (% of employment)

Series Name	Female	Male	total
Wage and salaried workers	5.9	24.0	14.7
Vulnerable employment	92.7	72.5	82.9
Unemployment, youth	6.3	7.3	6.8
Unemployment, total	3.3	3.1	3.2
Self-employed, total	94.1	76.0	85.3
Employment in agriculture	81.5	60.6	71.3
Employment in industry	2.6	13.8	8.1
Employment in services	15.9	25.6	20.6

Source: WDI, World Bank

The coronavirus outbreak could also have longer term impacts on Mozambique’s labourforce, through the impact it is having on schooling. School closure – which has been declared for 30 days but might prolong depending on the COVID situation in the country – is likely to aggravate the acquisition level of Mozambican students, which was already worrying before the COVID crisis (only 4.9 % of Grade 3 pupils had desired literacy level in 2016). With the school closure further taking away precious class hours from Mozambican students causing lower acquisition level and worsened drop-out rates, the crisis might cause mid- and long-term impact on the future quality of labour as well as unemployment rate. As of 23 March 2020, over 1.3 billion learners were out of school around the world due to school closures being implemented in over 100 countries in response to Coronavirus pandemic.

A particularly important angle that will require special attention in assessing the employment impact of the coronavirus pandemic is its gender dimension. Based on past experiences, key issues to take into account in this area include the following:

- ✓ Women are hit harder by economic impacts such as those COVID-19 is driving. Women disproportionately work in insecure labour activities, in the form work in the informal sector, in low-wage activities or migrant work. Disruptions, including movement restrictions, can remove women’s ability to make a living and meet their families’ basic needs, as was seen during the Ebola crisis.⁹ This

⁹ Ministry of Social Welfare, Gender and Children’s Affairs, UN Women, Oxfam, Statistics Sierra Leone (2014). Report of the Multisector Impact Assessment of Gender Dimensions of the Ebola Virus Disease in Sierra Leone.

will have an immediate impact on the food staple shifting, contributing to meet the minimum requirements in calories for the entire household members, what can lead to malnutrition.

- ✓ Quarantines in cases of health disease outbreaks have shown negative impact on economic and livelihood activities, thus reducing employment and access to economic opportunities, such as the credit, financial services and other productive assets especially for women in rural and semi-urban areas, as well as in the informal sector.
- ✓ Public health emergencies can have a tremendous sustained impact on livelihoods. This is particularly true for women, who are more likely to be engaged. Many women have no access to paid sick leave.
- ✓ Many women have no access to paid sick leave. If they have to miss work, either because they are sick or they're self-isolating or their job site has closed down, they will lose income. Error! Bookmark not defined.
- ✓ Women dominate micro and small enterprises (vendors, mukheristas, etc), especially in urban areas where they use to sell their products. If they are unable to trade due to restricted movement and an increased burden of care work that can result from COVID 19, this will impact on their already challenged economic situation, where most are struggling to survive.
- ✓ Social norms that put a heavy caregiving burden on women and girls are likely to make their physical and mental health suffer impeding their access to education, livelihoods and other critical support.
- ✓ Women are playing a disproportionate role in responding to the Coronavirus outbreak, including as frontline healthcare workers, carers at home and community leaders and mobilisers. Experience from other disease outbreaks shows that this care burden also increases their risk of infection. Globally, women do three times as much unpaid care work as men. When health systems are overloaded, a greater burden is placed on care in the home and that burden lands largely with women.
- ✓ The likely impact of COVID 19 on women's role as homemakers and carers is an increased burden. The socio-economic challenges that many women face, including lack of water and energy or poor health services, have resulted in women having to look for alternative sources, and subsidizing public health services by taking care of the sick at home. Furthermore, female headed households with children with disabilities are putting in risk those children by engagement them in alternative income sources.

Impact on consumption and poverty

The Coronavirus pandemic's impact on household consumption and poverty levels in Mozambique will mainly result from the interplay of the following factors: the impact of the crisis on the external demand for agricultural products produced by smallholding farmers, its effect on employment in the agricultural, manufacturing and service sectors, its impact on producer and consumer prices, as well as on how the pandemic affects the health of Mozambican men and women and, therefore, their ability to work and earn a living.

Like for any other country, it is important to contextualize the potential impact of the Coronavirus outbreak on household consumption and poverty in Mozambique. A large share of the Mozambican population lives in rural areas, living off subsistence smallholding farming activities. Therefore, their exposure to global market dynamics, such as those brought about by the impact of the coronavirus pandemic, is somewhat limited. The 2018 Poverty Assessment by the World Bank, provides evidence to this effect.¹⁰ This report finds that the market orientation of smallholding farmers in Mozambique is low, with only 13% smallholder farmers selling any of their production in the market, thereby pointing to a situation where most agricultural production by smallholding farmers, mostly women and, typically the

¹⁰ World Bank (2018) "Strong but not Broadly Shared Growth. Mozambique —Poverty Assessment". Maputo, April

poorer segment of the Mozambican population, is retained by for self-consumption within the household. From this perspective, the impact of the Coronavirus pandemic on household consumption could be somewhat mitigated in rural areas.

Still, living standards in rural areas in Mozambique tend to be very basic, especially for the rural poor, whose livelihoods are highly susceptible to small changes in the external environment, whether related changes in weather patterns, the incidence of natural disasters, ill health of household members, or macroeconomic shocks. In this sense, the Coronavirus outbreak could cause considerable havoc in the more vulnerable segments of the rural population in Mozambique, if it affects the fragile household and broader socioeconomic environment in which many of these people live, through its impact on ill-health, consumption and producer prices and the availability of basic consumption goods. The longer the COVID-19 pandemic in Mozambique is before stabilizing, the more impact will be observed for rural households as well. Inflation of basic items, primarily foods, will directly impact wellbeing of the rural poor. Moreover, reduction of remittance of family members living and working in urban areas may affect rural households. Regional economic dynamics might also come into play, for instance in border areas, where lockdown policies implemented in neighboring countries, or restrictions on cross-border movements and cross-border trade (locally known as *Mukhero*), could have a significant impact in local communities.

Finally, household consumption could also suffer from possible shortages of food and other basic consumption goods in the country. This could happen if the pandemic results in the disruption of global and regional logistic and supply chains. Food may become scarcer during this public health emergency, forcing households to engage in negative coping mechanisms. Where women and children eat last and least, this can lead to additional health and nutrition complications, including increased susceptibility to COVID-19. Increased maternal and child malnutrition (chronic malnutrition among children under age five is already alarmingly high at 43%) will have direct impact on human development, which will affect long term effect on economic development. These issues are covered in more detail below.

In examining the impact of COVID-19 on poverty and consumption, particular attention will have to be given to vulnerable groups of the population, including people with disability. In this regard, the pandemic as well as the response plans has the potential of disproportionately impacting on persons with disabilities, considering:

- Persons with disabilities are doubly affected by the coronavirus outbreak considering that simple fact of being a person with disabilities is a barrier to access economic means, the coronavirus outbreak has worsened the situation persons with disabilities.
- Additionally, the majority of people with disabilities (mainly children with disabilities) live in households headed by women, which also tend to disproportionately face vulnerability situations.
- Furthermore, persons with disabilities depend on regular support of their family members which will be affected by employers' decisions to respond to the measures to stop the spread of the coronavirus.
- Pressure on health systems for COVID-19 may have secondary effects, by not being able to assist patients with other common diseases in Mozambique (e.g. malaria, dengue, etc.). Vulnerable groups such as persons with disabilities may suffer disproportionately as a result.
- Many children and adults with disabilities rely on regular community-based support and/or access to therapeutic services, services which might become harder to access with social distancing measures.

Impact on government finances

Government consumption/expenditure, both recurrent and investment, is also likely to be significantly impacted by the Coronavirus outbreak, as a general slowdown in economic activity in the country reduces tax and other government revenue and, hence, the ability of government to finance its expenditure needs. This impact could be quite significant, given Mozambique's reliance on revenues originating from imports (import duties, excise taxes and VAT on imported goods), as well as on corporate tax revenues. Hence, the figures for 2019 made available in the recently released Budget Execution Report¹¹ indicate that corporate tax revenue accounted for up to 23.5% of total recurrent revenue, while revenue generated from the import of goods and services (custom duties, VAT on imports and excise taxes on imported products) for another 19.7%, totally 43.2% of recurrent government revenues that year. Again, it is difficult at this stage to quantify the impact of the Coronavirus pandemic on government revenue. However, these figures suggest that any major impact it has on international trade and on businesses could make a significant dent on government's finances.

Table 3. Government revenue, 2019 (Million of Mts)

Revenue	value	%
Income Tax	144,323	52.2
Tax on Corporate Income	106,625	38.6
Personal Income Tax	37,327	13.5
Tax on games	371	0.1
Tax on Goods and Services	88,554	32.0
VAT Internal Operations	31,836	11.5
VAT on Imports	41,955	15.2
Custom Duties	17,065	6.2
Excise tax - national prod.	4,796	1.7
Excise tax - imported prod.	5,078	1.8
Other Nacional Taxes	14,264	5.2
Fees	11,311	4.1
Other current revenue	16,130	5.8
Capital Gains	1,849	0.7
Total	276,431	100

In addition to its potential impact on government revenue, the coronavirus pandemic could also affect public finances if government is forced to take on liabilities of Mozambique's state-owned enterprises and of other large corporations in which the state has a majority or minority shareholding stake. Some of these companies, such as CFM, Aeroportos de Mocambique or LAM, operate in sectors, such as transport, tourism and logistics, that could be heavily affected by the coronavirus crisis, given their exposure to the global economy, and hence could see their balance sheets deteriorate in the coming months. Several of these companies were already facing a dire financial situation,¹² so their ability to withstand the economic impact of the Coronavirus

pandemic without additional government support might be limited. This could put additional pressure on the government's finances, at a time when public debt in Mozambique is already at an all-time high, equivalent to 108% of GDP in 2019, according to the IMF.

Government finances might come under additional pressure, as companies request deferring taxes and other tax measures, and even ask the pension system to compensate the workforce that will not be working due to restrictions of movements or a possible lockdown. The Industrial sector has already moved in this direction, with the *Associação Industrial de Moçambique* (AIMO) formally requesting this and other support measures in a letter to the Minister of Industry and Trade of March 20th, and more requests of a similar nature are likely to come.

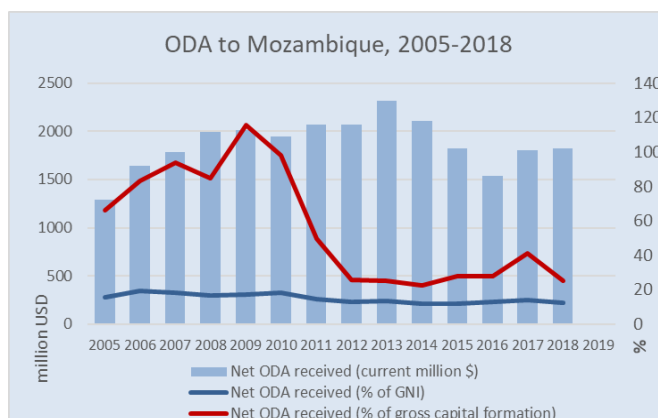
¹¹ Relatório da Execução do Orçamento do Estado (REOE), Janeiro a Dezembro de 2019. MEF, Fevereiro

¹² "11 empresas controladas pelo Estado com contas no "vermelho"". O País, 28 de Maio de 2019

Impact on overseas development assistance

An important element to take into consideration from a demand perspective is how the coronavirus pandemic may affect overseas development assistance (ODA). This will depend on decisions that still need to be made by donor countries, decisions which will depend on the interplay of a variety of factors: their support to global development, their fiscal position, geopolitical concerns, etc. If we go by what happened during the 2008 global financial crisis, when the world faced a systemic crisis of similar magnitude and during which ODA to Mozambique actually experienced an increase,¹³ the coronavirus pandemic might not necessarily translate into a fall in ODA.

In fact, globally, several IFIs have already announced special programme support packages to developing countries around the world, to help deal with the social and economic impacts of the Coronavirus pandemic. Hence, the World Bank, has announced a \$14 billion COVID-19 support package of new financing that will be made available on a fast-track basis, complemented by reprioritization of \$2 billion of the Bank Group's existing portfolio. The IMF, on the other hand, is making available \$50 billion



through its rapid-disbursing emergency financing facilities for low income and emerging market countries. Of this amount, \$10 billion will be made available at zero interest for the poorest member states.¹⁴

However, there is a risk of shifting priorities for ODA due to the crises, even if this doesn't mean a reduction in the volumes of aid going into the country. This is particularly concerning in a context in which commitments made on IDA1 and Kenneth recovery are yet to be met by donors one year after these two cyclones hit Mozambique, and the international community is far from satisfactorily responding to the needs identified during the Post-Disaster Needs Assessment.

III. SUPPLY SHOCKS LINKED TO THE CORONAVIRUS PANDEMIC

On the supply side, three main factors need to be taken into consideration in examining the potential socioeconomic impact of the Coronavirus pandemic in Mozambique: (1) The impact of government measures to reduce the spread of the coronavirus pandemic in the country; (2) the impact of the coronavirus pandemic on people's health and their ability to work; and (3) its potential impact in disrupting regional and global supply and logistic chains.

Impact of measures to reduce human mobility and economic activity

Countries around the world are introducing social distancing measures to try to reduce the spread of the coronavirus pandemic, measures that have already started to be implemented in Mozambique, as of March 23rd. Such measures typically seek to reduce people density, human mobility and economic activity, all three key social transmission channels of the coronavirus. They include anything from social

¹³ Average annual ODA increased from \$1.6 billion between 2004 and 2008 to \$2.1 billion between 2009 and 2013.

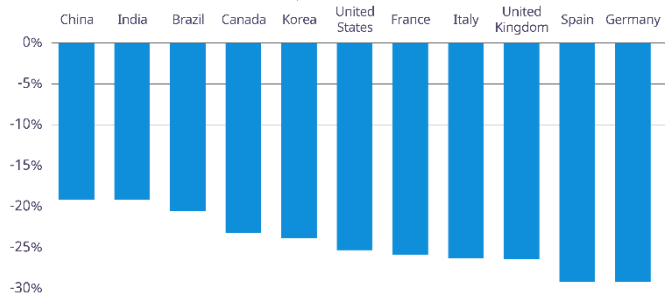
¹⁴ See Raga (2020) "Time to level up: international donor responses to the Coronavirus". ODI. for more on these issues.

campaigns, to closing schools and, in the extreme, the (partial/full) confinement of the population and the lockdown of non-essential sectors of the economy.

While the impact of social campaigning and school closures is likely to be negligible, at least from an economic perspective, the adoption of more restrictive measures, such as population confinement of economic lockdown, could carry much higher economic and social costs. For instance, a recent study by the IFO Institute in Munich, one of Germany's largest economic think-tanks, estimates that a two-month

The initial impact of containment measures will be felt worldwide

Selected countries, in % of GDP at constant prices



Source: OECD Annual National Accounts; OECD Trade in Value-Added database; Statistics Korea; Brazilian Institute of Geography and Statistics; and OECD calculations.

economic lockdown in Germany involving a reduction of economic activity of up to 60% would lead to a 7.2% to 11.2% drop in GDP, depending on the scenarios taken. The costs would be significantly higher if this lockdown was extended to a third month, anywhere between 10% and 20.6% of GDP.¹⁵ The OECD has recently released similar estimates for selected countries, reporting a very significant impact on GDP of lockdown measures

implemented in both advanced and emerging economies, such as China, India or Brazil .

Assessing the economic impact of such measures in Mozambique would require of detailed analysis of how they affect different parts of Mozambique’s economy, geography and society, as well as full understanding of what these measures would entail in the Mozambican case. In this sense, going for full lockdown in Mozambique such as those applied in Europe, North America or even South Africa, might perhaps not be as feasible – or as effective – in Mozambique, given prevailing socioeconomic conditions. Hence, such measures would be difficult to implement in rural parts of the country, where the reach of the state is often limited – plus perhaps they would be less necessary, given that rural areas present lower population densities and, therefore, lower risks of viral transmission. As a result, lockdown measures may have to be limited and targeted to businesses, as well as to people living in urban or peri-urban areas.

Even then, it will be important to come up with intervention designs that are tailored to the specific living conditions that Mozambicans in targeted areas face. This will be key in ensuring they are effective and in unnecessarily overburdening the more vulnerable parts of the Mozambican population, who already face harsh living conditions and often lack access to basic services.

In urban settings, in particular, it will be necessary to consider how COVID-19 may impact people living in densely populated and unsanitary environments and identify what could mitigate the worst of these impacts. This is challenging, as the health and social needs of these populations are often invisible. The threat of COVID-19 is currently mostly being discussed in universal terms, but there is a real risk that the impacts on the urban poor will be considerably higher than elsewhere. Mitigating these, much will depend on improving the way we see, understand and address health and living conditions in informal settlements. For many people living on the margins, crisis is already the norm and change is long overdue.

¹⁵ Fuest *et al.* (2020) “The economic costs of the corona shutdown for Germany: a scenario calculation”. IFO. Munich, 22 March

In Mozambique, 80% of the urban population live in informal settlements. Informal settlements are dense, overpopulated and with poor sanitation and public health conditions, and lack of access to basic services, with the 2018 Afrobarometer survey indicating that up to 42% of urban households don't have a water source inside their compounds, 13% don't have a latrine or toilet and 28% don't have mains electric supply or connection to the home. Preliminary analysis by UN-WIDER suggests that, at most, 30% of urban households could be reasonably "locked down" in the sense of feasibly remaining isolated for extended periods (excl. excursions for essential purchases) and having minimal resources/savings to survive. From this view, any form of general lockdown or confinement measures in overcrowded urban areas with inadequate housing conditions would not seem viable.

	Rural	Urban	National
Source of water in home	20.3	57.1	34.1
Toilet in the home	66.5	85.6	73.6
Electricity at home	72.4	27.8	55.7
Owns phone	68.9	86.4	75.5
Has bank account	18.0	48.5	29.4
Owns Radio	50.4	54.2	51.8
Owns TV	16.2	55.1	30.8
Not cashed constrained	32.7	45.1	37.3

Source: 2018 Afrobarometer survey

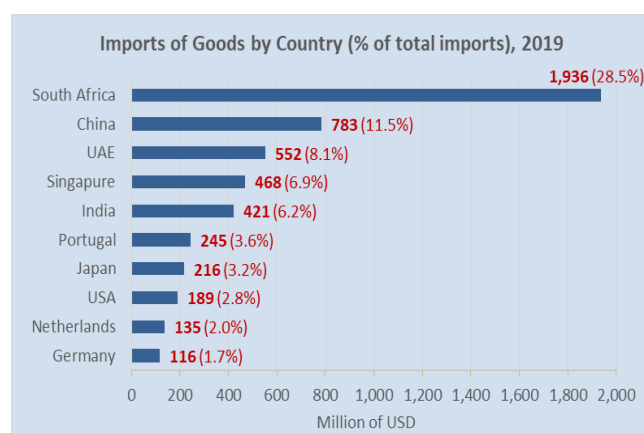
The impact of Coronavirus on health and people's ability to work

A second supply-side channel through which the Coronavirus outbreak can hit the Mozambican economy is through its impact on the Mozambican workforce and the supply of labour to the economy, as the sudden increase in the number of people falling sick or, in the extreme, dying, affects their ability to work, produce or earn a living. Pressure on health system for COVID-19 may have secondary impact for not being able to assist patients for other common disease in Mozambique (malaria, etc.) which may have further impact. The most vulnerable group such as persons with disabilities may suffer the most for lack of attention and support by health services.

It's difficult at this stage to assess the socioeconomic impact of the coronavirus pandemic through this channel, as little is known about the epidemiological profile of COVID19. However, the experience of other disease, such as malaria, TB, dengue or HIV/AIDS suggests that this impact could be significant.

Disruption of global and regional supply chains

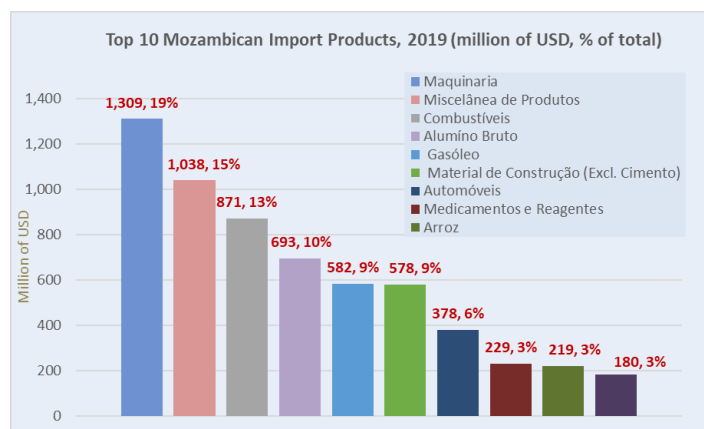
A key supply-side socioeconomic impact that the Coronavirus pandemic could have in Mozambique is the disruption it could cause on global and regional supply chains, and that could affect the availability of imported investment and consumption goods. (especially noting the high dependence to South Africa on both manufactured goods and agricultural produce). This is particularly important in the Mozambican context, given the country's strong reliance on imported spear parts, equipment, construction material, consumption goods, oil and oil products, and even raw materials (e.g. raw aluminum for MOZAL).



Hence, at 84.2% in 2018, Mozambique has one of the highest ratio of imports-to-GDP in Sub-Saharan Africa, only surpassed by the Seychelles (102.1%), Somalia (99.6%) and Liberia (94.3%). Its imports are

also heavily concentrated in a small number of countries of origin. Only South Africa, accounted for 28.5% of its imports in 2019, according to the Bank of Mozambique and large share of this come into the country through the Ressano Garcia border crossing. Other, important import countries of origin of are the China (11.5% of total imports), the UAE (8.1%), Singapore (6.9%) and India (6.2%).

Concerns over the potential impact of the coronavirus on global supply chains are already being voiced in in the international business press and among business and economic analysts. Baker McKenzie, for instance, reports that the Coronavirus (COVID-19) has resulted in significant production shutdowns and supply chain disruptions due to port closures in China, with manufacturing, industrial and construction companies in the Africa region expected to face shortfalls in the



supply of key components and construction material from China.¹⁶ In addition, construction companies in Africa are facing shortages of skilled workers coming from parts of the work affected by the Coronavirus outbreak. Baker McKenzie also report problems in the global manufacturing sector, with prices of pharmaceutical ingredients manufactured in China rising or being unavailable after extended factory closures and supply chain disruptions and the Indian government announcing export restrictions of up to 26 medical products and ingredients, including paracetamol and some antibiotics.

In a similar line, the Financial Post in Canada reports that international freight and logistics companies are posting drops of as much as 85% in the volume of Chinese-made goods arriving in Vancouver, as a result of the impact of Coronavirus on supply chains.¹⁷ The US online journal Vox.com, on the other hand, reports that the coronavirus pandemic is wreaking havoc on the global supply chain for all kinds of products (hand sanitizer, bottled water, toilet paper, etc.) and retailers, including Amazon.com,¹⁸ while a recent survey by the Institute of Supply Management (ISM) in the US had 75% of companies in the survey reporting supply chain disruptions in some capacity due to coronavirus-related transportation restrictions.¹⁹

IV. OTHER CONSIDERATIONS – LENGTH OF THE CORONAVIRUS PANDEMIC SHOCK

Key in assessing the impact of the Coronavirus pandemic in Mozambique is whether this will be a short lived crisis, e.g. lasting 1-2 months, or whether it will be prolonged over several months or even a longer period, for instance a year or even a year and half, which is the time scientists have estimated it will take to develop and roll out a vaccine for this virus.

Currently, much of the messaging in international media is that this will be a short crisis, and that it will have a “V-shape” type of impact on the world economy; i.e. a very sharp initial drop of economic activity, as confinement and economic lockdown measures are implemented around the world in the immediate

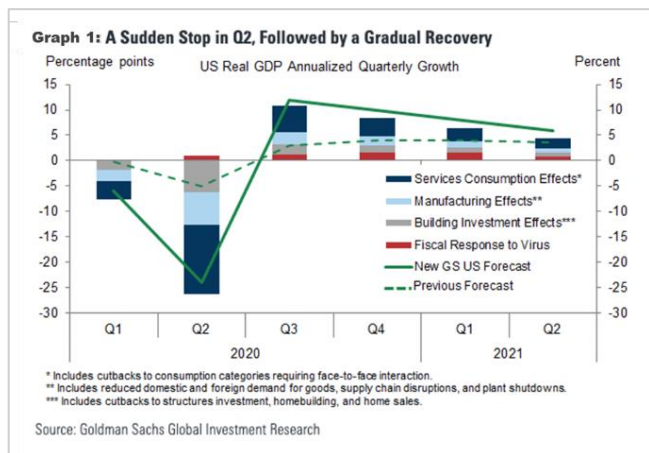
¹⁶ Baker McKenzie (2020) “The Impact of COVID-19 on Key African Sectors”. March 10th

¹⁷ “Nothing's ever hit us like this!: Cargo from China plummets as COVID-19 shakes supply chains”. Financial Post. March 10th.

¹⁸ “How long will essentials like toilet paper be hard to get? It depends”. Vox.com. March 17th

¹⁹ “COVID-19 Survey: Impacts On Global Supply Chains”. Institute of Supply Management (ISM). March 11th, 2020.

aftermath of the Covid19 pandemic, followed by a very quick recovery of economic activity, that could take a matter of months, or even weeks, as the pandemic is brought under control and the number of infections and related deaths drop. For instance, Goldman Sachs is now projecting a very sharp drop of GDP in the US of 24% during the second quarter of 2020 – followed by a strong rebound of economic activity in the third quarter (12% quarterly GDP increase) and fourth (10% quarterly GDP increase), and with annual GDP registering negative growth of “only” - 3.1% in 2020.²⁰



The V-shape scenario assumes that the world economy can be put on hold, or on “freeze mode”, while the peak of the coronavirus pandemic unfolds, and that this is possible without any major longer-term implications for the world economy.²¹ It is unclear, though, to what extent this premise is justified. It is indeed true that the radical measures being implemented by countries around the world are warranted as a way of avoiding unnecessary economic disruption and the destruction of the world business fabric. In this respect, these measures are more optimal than letting the

world economy go, with the consequent destruction of business and employment, which would be both economically and socially costly. However, as shown by the 2008 global financial crises – which saw a similar massive policy response to avoid the collapse of the world economy – this is likely to lead to a very sharp rise of public debt, at a time when debt levels were already high, which could lead policy makers around the world to pursue fiscal adjustment/consolidation policies once the Covid19 crisis is under control.

However, some analysts are already pointing that the current health and economic crisis the world finds itself in could continue beyond these initial stages and that economic recovery could be “U-shaped” or even “L-Shaped”, rather than “V-shaped”. The president of the US, Donald Trump, already indicated in his press conference of March 16th, that the crises could last beyond August 2020,²² i.e. at least 4 to 5 months down the line. On the other hand, there are reports indicating that social distancing measures could be required for at least another 18 months until a vaccine becomes available,²³ suggesting it might take some time before societies and economies around the world return to normality. And in an interview to the BBC on March 23rd, Angel Gurría, Secretary General of OECD, predicted that the global economy will “suffer for years to come”, stating that “I do not agree with the idea of a 'V' shaped phenomenon ... Right now we know it's not going to be a 'V'. It's going to be more in the best of cases like a 'U' with a long trench in the bottom before it gets to the recovery period. We can avoid it looking like an 'L', if we take the right decisions today.”²⁴

²⁰ “U.S. economy to shrink 24% from April to June 2020; Goldman Sachs” Goldman Sachs. Yahoo! Finance. March 20th

²¹ See Garicano (2020) “The COVID-19 bazooka for jobs in Europe”. VOXEU.org. CEPR Policy Portal

²² “Trump says coronavirus upheaval could last beyond August”. The Guardian. March 17th

²³ “Social Distancing May Need To Last 18 Months, UK Study Finds”. Forbes Magazine. March 17th

²⁴ “Global economy will suffer for years to come, says OECD”. BBC. March 23rd

V. POLICY RECOMMENDATIONS TO MITIGATE THE SOCIOECONOMIC IMPACT OF COVID19

Based on the above analysis, the following policy recommendations are suggested as a way of mitigating the socioeconomic impact of the Coronavirus pandemic in Mozambique:

1. In line with the advice that the UN has been providing since the beginning of the coronavirus pandemic outbreak, we believe the government needs to take urgent and decisive action to stop transmission of COVID19. Priorities on how to do this have been clearly stated by WHO: testing every suspected case, isolating and caring for every confirmed case, and tracing and quarantining every close contact. This response must be scaled-up, as soon as possible, at Maputo and provincial level. If Mozambique is able to contain the coronavirus outbreak for the next 4-6 weeks, or at least maintain it at low levels, it will be better placed to receive material support from other countries that by then will be coming out of the outbreak. This reinforces the need to take decisive action now.
2. In doing so, it is important to come up with social distancing measures (e.g. confinement, self-isolation, economic lockdown) that are attuned and tailored to Mozambique's socioeconomic reality, and that of the various parts of the country, including its urban areas, so that we ensure a response that is operationally viable and that therefore effectively contains transmission levels, without placing unnecessary burdens on the more vulnerable parts of society that already live in hardship.
3. These measures need to be complemented by a strong social protection response that ensures that basic needs for all people are met during the crisis. This response should build on existing initiatives and programmes and introduce inclusive social protection measures that help those more in need, with a specific focus on urban areas, informal and casual workers, persons with disability and women. Given the social distance measures being introduced by the government, which will reduce people's ability to work or earn a living, these social protection actions should preferably focus on providing cash to beneficiaries.

In the medium term, as the socioeconomic impact of the coronavirus pandemic makes its way into rural areas (e.g. through its effect on lower urban-rural remittances, its impact on prices and the cost of living, or the shortage of goods in local markets) safety net programmes might need to expand to food insecure rural areas, especially those affected by climate shocks, This could include some school meals programme either on-site or through take-home rations (THR).

4. In addition, it is important to intervene in informal urban settlements with quick actions to increase water supply, soap distribution and raise awareness. At the same time, identify potential solution to guarantee supply of food in these areas and support alternative forms of income/cash transfer to avoid social unrest.
5. With public gatherings limited to 50 people maximum and the necessity to avoid physical contacts, Electronic payment should be the preferred option. Use of a mix of mobile money solution with Vodacom mPesa in rural and peri-urban areas and pre-paid cards with BCI in urban areas. Where electronic payments are not suitable/feasible, vouchers (value and commodity) will be used. Shops can also be used to spread messages through posters and alike inside/outside the shops.
6. As part of the COVID-19 response, it is key to maintain the health and fortify the immune system of the population by meeting their nutritional needs, with a special focus on vulnerable groups, such as pregnant women, young children, the chronically ill, the elderly, and the ones living in food insecure conditions. This nutritional support will prevent against, but also fight off infection. This involves

consuming adequate micronutrients, like zinc and vitamin A, and protein that play an important role in the functioning of the immune system. In addition, a person dealing with an infection requires more micronutrients to fight off the infection and replenish body reserves.

7. Keep workers safe: Workers and employers and their families should be protected from the health risks of COVID-19. Companies to adopt special measures female workers due to the double burden of domestic care and telecommuting requirements. Protective measures and information campaigns at the workplace and across communities should be introduced and strengthened, requiring large-scale public support and investment. This includes flexible work schemes for companies and the public administration to allow them implement teleworking scheme and avoid social contact.
8. In the area of employment, it is necessary to promote social dialogue, with a view of reaching an agreement among Government, Employers and Workers to share the cost of protecting those jobs and avoid business closures.
9. In order to address potential disruptions in supply chains, it will be important to work with relevant government and business actors (Alfandegas, importers, despachantes, *mukheristas*) and the relevant authorities in neighbouring countries to identify measures that can ensure that supply chains into the country face minimal disruption. This should include supply chain assessment, coordination and advisory role to support the supply chain component of response plans of humanitarian/health partners and governments.
10. The government needs to take necessary measures to mitigate the negative impacts of school closure, by ensuring distance learning (internet, TV, radio, etc.), offering catch-up/accelerated learning opportunities, adjusting school calendar and modality of exams (if necessary), preventing school drop-out by sensitization and support mechanism.
11. Effective response to the crisis will require strengthening monitoring and data systems in order to generate real time information on the socioeconomic impact of the Coronavirus pandemic across the country, in order to inform policy responses that are able to address the needs of Mozambican men women and business in a targeted and meaningful way. The government could consider “piggybacking” on the ongoing 2019/20 National Household Survey (IOF, 2019/20) and other similar exercises to generate such information.

Monitoring and data collection efforts could build on existing initiatives, such as mobile Vulnerability Analysis and Mapping (mVAM) platform. This platform has been developed by WFP in collaboration with the Secretariado Técnico de Segurança Alimentar e Nutricional (SETSAN). It operates as a National Food Security and Nutrition monitoring system and is based on remote phone surveys. The questionnaire has been recently adjusted and COVID 19 module has been added to it.

12. The government and other development actors need to engage in countrywide information and awareness campaigns targeting different segment of the population on prevention/mitigation of COVID19 through different channels, including schoolchildren and teachers through the production and dissemination of education materials for schools. This information should be accessible to people with disabilities, by using sign language, captioning, text messages and relay services.
13. Finally, international experience shows that people with disabilities are excluded as planners are unaware of inclusion processes, and this is combined with negative attitudes, stigmatization and discrimination and lack of knowledge about the rights of people with disabilities. Therefore, there is

a need that all stakeholders, government entities, Donors, INGOs, local civil societies and the private to plan their response actions to COVID-19 taking into consideration persons with disabilities.

The United Nations has proven expertise and a track record in many of these areas, having supported governments in developing countries around the world in similar situations of crisis. It therefore stands ready to support the government and the people of Mozambique in their efforts to mitigate the socio4economic impact of the Coronavirus epidemic in the country.