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EBOLA IN WEST AFRICA—ALSO AN ECONOMIC TOLL

By George F. Ward

Health workers carry the body of a woman that they suspect died from the Ebola virus, as children, right rear, watch in an area known as Clara Town in Monrovia, Liberia, Wednesday, Sept. 10, 2014. (Source: AP Photo/Abbas Dulleh)

With the number of deaths in the West African Ebola outbreak climbing past 2,200 amid predictions that 20,000 people throughout the region may eventually be infected, the major focus properly remains on caring for the sick and bringing the outbreak under control. Even as these efforts continue and intensify, analysts are beginning to take stock of the economic impact of the outbreak. The three countries most affected by the disease—Guinea, Liberia, and Sierra Leone—were all emerging from years of economic decline prior to the onset of Ebola. They have already suffered significant economic setbacks. Although it is too early to draw conclusions about the ultimate economic effects of the outbreak, some preliminary observations are possible. *more...*

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IDA's three federally-funded research and development centers provide objective analyses of national security issues and related national challenges, particularly those requiring scientific and technical expertise.

IDA's Africa team focuses on issues related to political, economic, and social stability and security on the continent.

4850 Mark Center Drive – Alexandria, VA 22311-1882
www.ida.org

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Ebola Infections Continue to Increase

According to the World Health Organization (WHO), the number of suspected and confirmed Ebola cases in the nine-month-long outbreak continues to grow, from 3,707 cases and 1,848 deaths as of the end of August 2014 to 4,366 cases and 2,218 deaths by September 12. WHO data as of September 7 showed that 48 percent of the cases had been reported in the preceding three weeks. The vast majority of cases and deaths have occurred in Guinea, Liberia, and Sierra Leone. The number of cases elsewhere in West Africa, chiefly in Nigeria, remains in the low dozens, in part due to better systems for reporting, tracking, and caring for infected persons. Despite this, worries over the possible spread of the disease within West Africa persist. In the three hardest hit countries, fragile health-care systems are collapsing, and the number of patients, at least in Liberia, exceeds the number of hospital beds available.

Economic Impacts beyond the Epicenter

As *The Economist* has pointed out, "one of the first casualties of any epidemic is tourism." This certainly has been true in West Africa, with hotel bookings plummeting and many airlines suspending service. Business activity in the region has also been affected. A number of international mining firms have evacuated foreign staff from the three heavily affected countries. Further, although outside the area affected by Ebola, South Africa, Zambia, and Kenya instituted bans on the entry of travelers from the affected countries.

Impacts on the Hardest Hit

Eventually, and depending on the effectiveness of the international response to Ebola, hotel bookings and travel will recover. Observers believe that the larger economies in West Africa—Nigeria, Ghana, Ivory Coast, and Senegal—will come through largely unaffected. That may not be the case for Guinea, Liberia, and Sierra Leone, where the economic damage will likely be much more substantial, with possible consequences for social stability. The International Monetary Fund (IMF) has already concluded that the Ebola outbreak will engender significant harm for the economies of these countries. In specific terms, the IMF's projections for annual economic growth in Sierra Leone have been reduced from 11.3 percent to 8 percent, in Liberia from 5.9 percent to 2.5 percent, and in Guinea from 3.5 to 2.4 percent. Each of these countries faces a fiscal imbalance on the order of \$100 to \$130 million. Relative to the small size of the three economies, these deficits are substantial.

With these forecasts in mind, it is worth looking at the economic impact of Ebola in each of the three countries.

Liberia—The Hardest Hit

The Ebola outbreak could reverse many of the economic and social gains made in the decade since the civil war ended in

Liberia. GDP growth, which averaged over 8 percent from 2011 to 2013, was already slated to decline to 5.9 percent in 2014 because of slower mining production, weak revenues from timber and rubber exports, and the drawdown of the United Nations peacekeeping force. Because of Ebola, the growth rate may be cut by more than half. Planned expansion of mining production has been placed on hold. Trade in agricultural goods has been crippled because of transportation disruptions. Tax collections are falling. With 78 percent of the labor force, mainly subsistence farmers, holding "vulnerable employment" without assurance of a salary, there is little economic cushion.

In this situation, it is unsurprising that riots and other incidents of civil unrest in Liberia are occurring, even with an 8 p.m. curfew in place. With the government of President Ellen Johnson Sirleaf already under fire for alleged corruption and failure to deliver on economic improvement, a volatile situation in which significant social unrest could occur has been created.

Sierra Leone—Punched in the Gut

Although Sierra Leone has seen fewer cases of Ebola than Liberia, conditions in the two countries are somewhat similar. Sierra Leone's economy had been growing rapidly. Its goal had been to export $220 million in diamonds in 2014. The government has announced that goal will not be reached. Miners are reluctant to report for work, as the diamond fields are located in areas hit hard by the disease. As in Liberia, international personnel have been evacuated. Hundreds of troops have been dispatched to cordon off the border, agricultural trade has been disrupted, and food is not getting through to the capital, Freetown, because of quarantine measures. As a consequence, prices are rising. If there is a silver lining in the outlook for Sierra Leone, it is that the reduction in economic growth will come off a higher base than in Liberia, with a respectable 8 percent increase still anticipated.

Guinea—Cushioned by Mining

Guinea, where the first case of Ebola in the current outbreak occurred, has, like Liberia and Sierra Leone, been affected by the suspension of airline service and a general slowdown in economic activity. The agricultural sector, which has been the hardest hit in all three countries, is, however, relatively less important in Guinea than in the other two. The mining sector, on the other hand, is more important. That sector accounts for 21.5 percent of GDP in Guinea, compared with 11.6 percent in Sierra Leone and 2.4 percent in Liberia. Fortunately for the Guinean economy, mining operations are continuing, albeit on a reduced scale. Nevertheless, the possibility of significant mine work stoppages due to Ebola exists. Specifically, cases of Ebola have been reported in the prefecture of N'zerekore, an important mining town in the area of the extremely large Simandou iron ore project. As previously reported in *Africa Watch*, the Simandou project is seen as key to Guinea's economic future.

If the outbreak in Guinea, which has seen far fewer cases than the other two countries, can be contained so as to allow development of the Simandou and other deposits to go forward, then the damage to the Guinean economy should prove temporary. Failure to contain the outbreak could well result in the reversal of Guinea's nascent economic growth after decades of stagnation.

After the Outbreak Is Over

Continued engagement by the IMF, other multilateral economic institutions, and bilateral donors will be key in determining whether and how quickly the economies of the three countries hardest hit by Ebola will recover. All three countries have already benefited from relatively recent IMF bailouts. Guinean received a $200 million loan in 2012, and Sierra Leone received a loan of $100 million last year. Liberia signed an agreement for an $80 million credit facility in 2012. The fight against the Ebola virus will consume a significant proportion of these resources, and more will be needed. The IMF has stated its intention to remain actively engaged with all three countries to determine how best to cover additional financing requirements. Without that assistance, the tentative political and economic progress made in recent years by these three countries could come to a halt or even be reversed.

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The Investment Strategy

According to a very recent interview with Jose dos Santos, the fund's target allocation is envisioned to look something like this: one-third will be invested in liquid securities (a figure that by law can never drop below 20 percent); one-third in alternative investments (i.e., agriculture, mining, infrastructure, and real estate sectors across sub-Saharan Africa); and one-third in "opportunistic investments internationally," such as distressed assets that might be revitalized with the infusion of capital. In the same interview, Jose dos Santos was reluctant to provide specific details of the fund's progress to date, though he did continue to emphasize the priority that will be given to investment in hotels, commercial real estate, infrastructure, agriculture, mining, and soft commodities. He believes that employing this strategy will accomplish two goals: to generate returns and to prompt growth in the Angolan and African economies. For example, constructing world-class hotels could attract investors while providing job opportunities for local Angolans.

Audit Results

On September 3, FSDEA issued a press release summarizing its 2013 audit results conducted by the international management consulting firm Deloitte & Touche. The statement confirmed that the fund received its final endowment of $1.35 billion in June 2014 for a total balance of $5 billion. Despite the absence of further detail on actual investments and specific returns, this was the first time the FSDEA released such information to the public. It was therefore a welcome change to the general lack of transparency that tends to characterize the Angolan government's operations. On the other hand, the audit results were released in the form of a press release from the FSDEA, which did not include the original report by Deloitte & Touche, prompting some, including the International Monetary Fund (IMF), to question the actual level of transparency being demonstrated by the FSDEA's managers.

Investing in Human Resources

In August, FSDEA announced the launch of its Scholarship Program, called "Future Leaders of Angola," which is aimed at building the economic empowerment and capacity of a new workforce in the country. Under this program, the FSDEA will send 45 Angolans to Zurich University of Applied Sciences in Switzerland for six months to obtain a diploma in asset management. The Dean of the Swiss school, André Haelg, appears to be on board, stating the school is "delighted to be able to play a role in the development of a strong financial services sector in Angola."

FSDEA also announced the completion of a study examining the launch of a Hospitality School for the African continent, the purpose of which is to offer training and education for Africans wishing to gain employment in the hospitality sector.

The study concluded that the hospitality industry in Africa today is experiencing heightened interest from international hotel operators, with several having announced ambitious expansion plans in the region. Because there have been no attempts to develop a corresponding workforce, this school would fill that gap, according to the FSDEA.

Looking Ahead

The two FSDEA programs outlined above will provide *some* education and employment opportunities for *some* Angolans, but the benefit they will confer on the Angolan population as a whole remains to be seen. One must consider the possibility that those individuals who receive a space in the hospitality school or one of the scholarships will be associated with influential Angolans, who may exert leverage over the admissions process. It will therefore be important that the application process be transparent enough to determine whether patronage is reinforcing the existing cycle of corruption that precludes the majority of Angolans from accessing opportunities available to the political elite, their families, and close associates.

More broadly speaking, SWFs are typically created in countries with budgetary surpluses from the export of raw materials, such as oil. In these countries, SWFs can be effective in reducing the government's exposure to revenue volatility, in providing a savings fund for future generations, or both. Jose dos Santos, however, has characterized the FSDEA as a vehicle to promote social development in Angola, in addition to attracting foreign investors. Angola appears therefore to be experimenting with a new model of SWF, one that will presumably require a different approach than more traditional SWFs. For example, careful research and analysis of the country's needs and the effectiveness of existing investments will need to be conducted. The results remain to be seen, but one thing is certain—if the FSDEA is expected to yield social as well as financial returns, then its managers must place importance on developing more opportunities for more Angolans, not just for a fortunate few.

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