



COVID-19 Implications on Private Investment and Markets in East Africa

Francis Mwesigye

September 2021

The Context

Coronavirus disease (COVID-19), which started in China at the end of 2019, has spread across the world at an increasing rate. The disease gained recognition in the rest of the World in March 2020 and no continent has escaped the virus. As of 30th March 2021, there were about 128 million confirmed cases and 2.8 million deaths around the world. Declared a pandemic by the World Health Organization (WHO) on 11th March 2020, COVID-19 has become a global emergency, given its impact on the entire world population and the economy. The pandemic has had deleterious effects on the health systems and health and, as a result, led to

loss of lives. To curb the spread of COVID-19, governments have taken various steps such as general confinement and largescale shutdown of economic activities, which curtailed the movement of people and goods. These measures have had serious social and economic implications.

The problem

The COVID-19 pandemic has affected many economies and exposed the levels of economic vulnerabilities across countries. The measures to slow the spread of the virus—lockdowns, widespread closures¹, and social distancing—have massively disrupted economic activities. Indeed, before the escalation of COVID-19, studies predicted that the global and regional economies would contract given the sudden stop and/or slowdown of economic activities, and the adverse effects of the pandemic on financial markets, consumption, investment confidence, international trade, and commodity prices. Accordingly, different countries have enhanced efforts to contain the economic impact of the COVID-19 pandemic by issuing aid and recovery packages to support struggling companies and workers. There is, however, limited evidence on how the pandemic has affected private investments and markets in East Africa.

This policy brief summarizes the findings of the study that examines the effect of COVID-19 pandemic on private investments and market performance among East African countries². Specifically, the study used macro and business-level data to explore the changes in FDI flows, stock market performance, and revenues from the tourism sector, remittances, and the performance of MSMEs during COVID-19 and how the situation has evolved since the outbreak of the pandemic in early 2020.

COVID-19, and mitigation and preventive measures among East African countries

The COVID-19 pandemic hit East Africa (EA) in March 2020. To prevent the spread of the pandemic, many EA countries were quick to implement mitigation and preventive measures to minimize its spread. Most of the EA countries started implementing the measures in March 2020. For instance, Uganda started implementing preventive measures on 25th March 2020, which included a complete lockdown and a curfew

1 Many public and private institutions, including schools, restaurants, hotels, convention centres, have been temporarily closed.

2 The study is entitled “COVID-19 Implications on Private Investments and Markets in East Africa: A Rapid Assessment” by the African Economic Research Consortium.

between 7 pm and 6 a.m that lasted for 61 days. Kenya's mitigation measures started on 15th March 2020 and intensified with a partial lockdown on 6th April 2020. Rwanda effected a mandatory national lockdown policy on 21st March 2020. Tanzania and Burundi, however, took a softer stance towards COVID-19 compared to the other EA countries. For example, while Tanzania took immediate steps by closing schools and universities, there was no lockdown, and congregational forms of worship in churches and mosques were permitted to continue. Measures in Burundi were largely limited to controlling the entry of travellers coming from outside the country and Burundi has not enacted measures to close schools or places of worship, sports events, or placed limitations on public gatherings.

Irrespective of the measures, the infection cases and deaths have continued to increase, but with significant variations across EA countries. For instance, as of 30th March 2021, Uganda had 40,751 confirmed cases and 335 deaths, Kenya had 132,646 confirmed cases and 2,147 deaths, Rwanda had 21,645 cases and 306 deaths, Tanzania³ had 509 cases and 21 deaths, while Burundi had 2,757 cases and 6 deaths. It is believed that the reported cases for many EA countries might be lower than the actual due to limited testing capacity, just like for many other developing countries.

Policy response to COVID-19

To cushion their citizens against the adverse economic effects of the pandemic, most East African governments announced various measures to address the healthcare crisis and support the recovery of economic activities. For instance, Kenya implemented both fiscal and monetary measures, including a reduction of Value Added Tax (VAT) from 16% to 14%; tax relief for persons earning gross monthly income of up to Ksh 24,000; a 5% reduction in resident Personal Income Tax Rate, and a 5% increase in withholding tax on dividend payable to non-residents; and suspension of Credit Reference Bureau (CRB) listing for loan defaulters; among others.

However, Kenya, effective January 2021, has reversed measures, including the reduction of top PAYE rate, corporate income tax rate and VAT, reduction of charges on mobile money transactions and suspension of listing of negative

Uganda's measures included debt relief of up to 12 months, and reduction of the Central Bank lending rate from 9% to 8%, among others. Rwanda implemented measures such as extending lending facilities (Rwanda Franc 50 billion fund) for distressed banks, and the banks agreed on zero charges on all transfers between bank accounts and mobile wallets, and on all mobile money transfers, among others. The Bank of Tanzania (BoT) reduced discount rate from 7% to 5%, and the statutory

3. The cases for Tanzania are believed to be more than the reported because of the limited data disclosure, and limited testing since mid-2020.

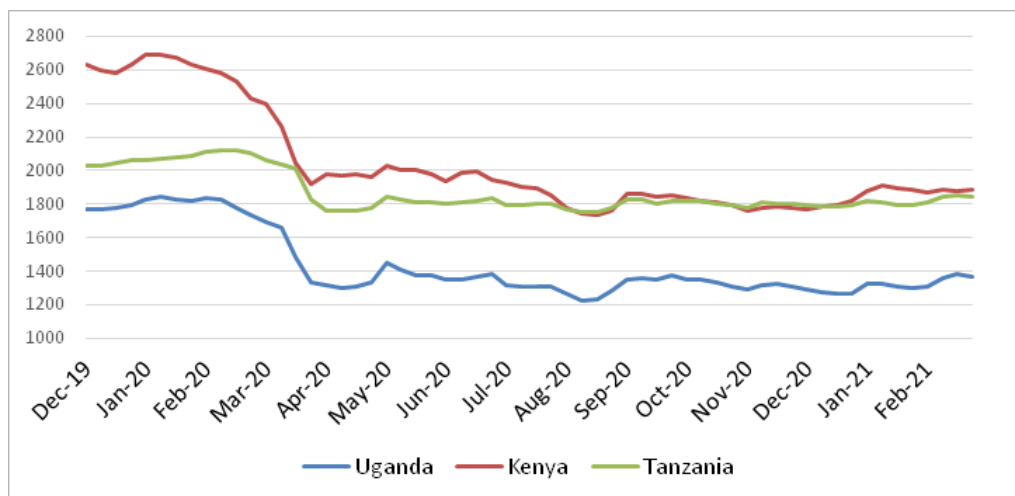
Minimum Reserves requirement was reduced from 7% to 6%, among other measures. The measures taken in Burundi included encouraging banks to extend loan maturities to borrowers in hard-hit sectors, and asking commercial banks to reduce bank fees for electronic transfers, and mobile money transfers. Also, many EA countries formed national COVID-19 taskforces to fight the pandemic. For instance, Kenya and Uganda formed the “national emergency response committee”, and the “emergency response team” respectively, while Rwanda formed COVID-19 National Steering Committee.

Research results

(i) Stock markets performed poorly during the COVID-19 period.

Figure 1 shows that the monthly share price index for the three East African countries—Kenya, Uganda, and Tanzania—started declining as early as February 2020 when COVID-19 started spreading to Africa. The results also show a slow recovery in 2021.

Figure 1: Weekly average share index before and during COVID-19 for Uganda, Kenya, and Tanzania

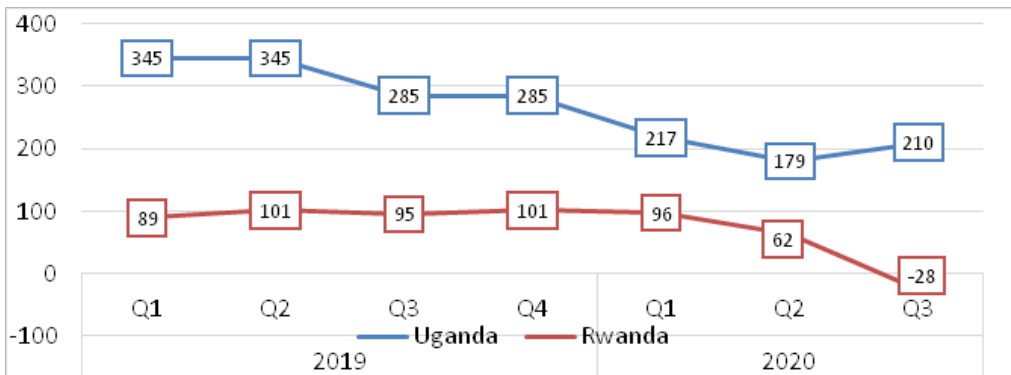


Source: Author’s computation using weekly average share index from Trading Economics

(ii) Foreign Direct Investment (FDI) flows to EA reduced

FDI flows to Uganda and Rwanda declined by 37% and 39%, respectively, between the fourth quarter of 2019 and the second quarter of 2020 (Figure 2). While FDI flow to Uganda started recovering, that of Rwanda further declined by 28% in the last quarter of 2020.

Figure 2: FDI inflows for 2019 and 2020 to Uganda and Rwanda (million US\$)

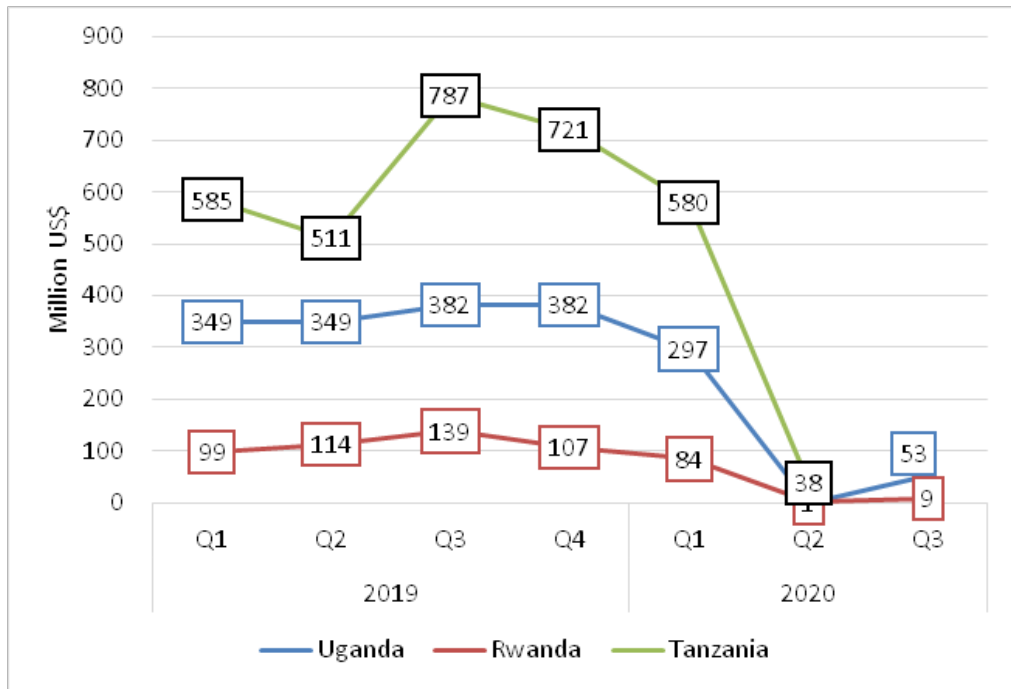


Source: Authors' computation using data from the Central banks of Uganda and Rwanda

(iii) Foreign remittances and tourism revenue declined

The pandemic has affected the tourism and hospitality industry, and remittances because of the lockdown, travel restrictions and reduced international travels. Figure 3 shows that tourism revenues in Uganda, Rwanda and Tanzania dropped to almost zero in the second quarter of 2020, with some signs of recovery albeit at a very slow pace. The slight recovery might be attributed to the easing of lockdown and resumption of international travel in some East African countries.

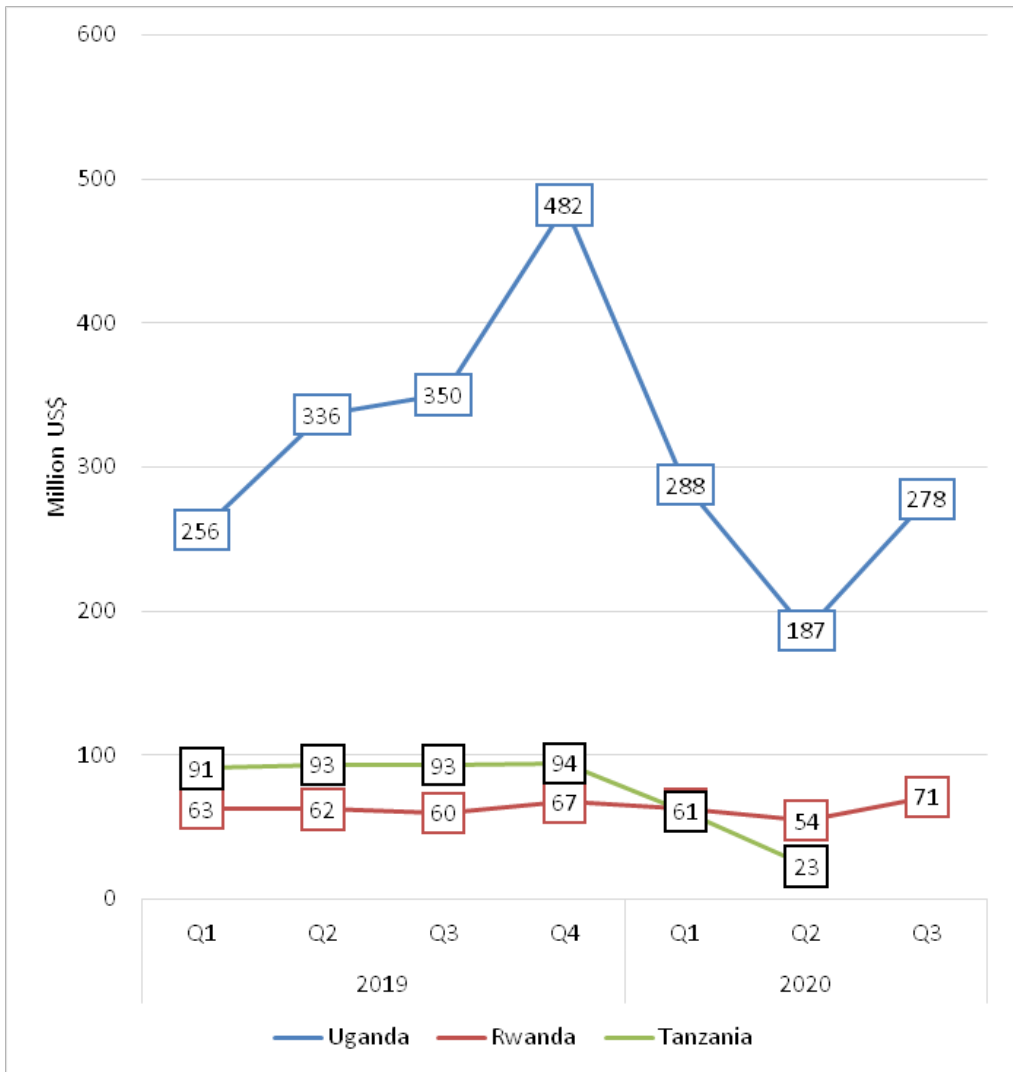
Figure 3: Tourism revenue for Uganda, Rwanda and Tanzania (million US\$)



Source: Authors' computation using data from the Central banks of Uganda, Rwanda and Tanzania

The flow of remittances was also affected by COVID-19. Figure 4 shows that remittances to the three East African countries declined significantly between the last quarter of 2019 and the second quarter of 2020. Like tourism revenue, remittances showed a sign of recovery in the third quarter of 2020.

Figure 4: Remittances to Uganda, Rwanda and Tanzania (million US\$)

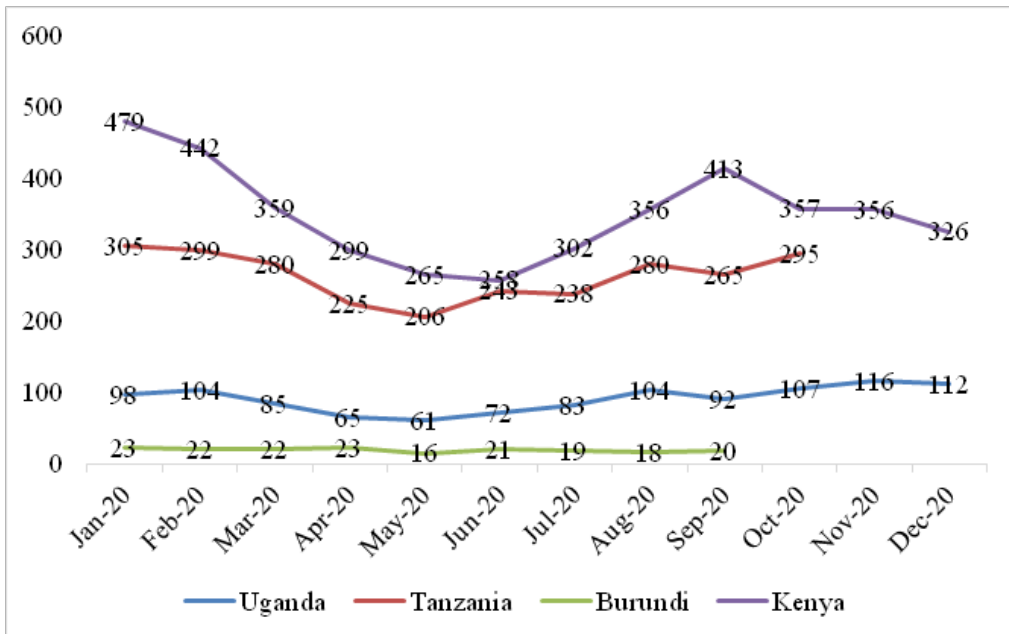


Source: Authors' computation using data from the Central banks of Uganda, Rwanda and Tanzania

(iv) Importation of capital goods declined during COVID-19 period

The COVID-19 pandemic affected transport logistics across countries, and the manufacturing industry in EA countries, which largely depend on imported raw materials suffered. Figure 5 shows that the value of imported capital goods declined from January to June 2020, largely driven by the lockdowns in many East African countries. The value of imported capital goods started increasing in June 2020, but it has not returned to the pre-COVID-19 level.

Figure 5: Imports of capital goods (million US\$) among East African countries

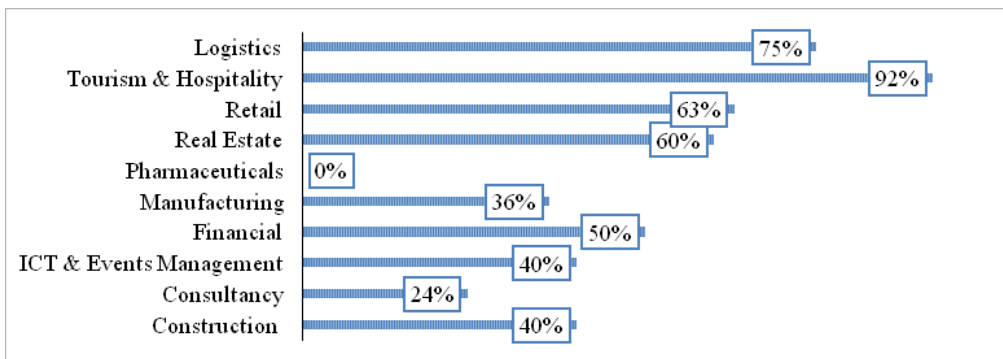


Data source: Computed using data from Central banks of Uganda, Kenya, Tanzania and Burundi

(v) Micro, small and medium enterprises' performance was affected by COVID-19

The study found that a number of businesses in EA countries closed during the three months of lockdown, which significantly reduced cash flow. Some businesses such as entertainment and art, and those providing accommodation suffered more than others.

Figure 6: Average percentage reduction in cash flow



Source: EABC (2020), Snapshot survey on the impact of COVI-19 on business and investment in the East African Community region.

In addition, business turnover reduced significantly, especially for businesses that closed during the pandemic. The businesses have devised a number of strategies to ensure continuity, such as cost-cutting, diversification of sales, and adoption of use of protective personal equipment (PPEs). Poor business performance resulted in many businesses significantly reducing their payroll. Indeed, the study on East African businesses by EABC (2020) found that most businesses opted to lay off workers as a coping mechanism to sustain operations. The study also found that payroll reduction mainly affected the lowest ranking cadres, such as support staff compared to the technical staff and managers. This suggests that the pandemic will not only lead to a reduction in incomes but will also exacerbate inequality.

The study, however, found that there were some opportunities that came with COVID-19 especially for manufacturing businesses that were flexible enough to move into manufacturing sanitisers, masks, PPEs and other products essential in the fight against COVID-19 pandemic

Implications for policy makers

To address the challenges facing many businesses and aid recovery from the effects of COVID-19, the study proposes the following interventions:

- Enhance the provision of financial support in form of subsidy, loan restructuring, and tax holidays to businesses that are struggling.
- Provide safety net interventions in form of food aid targeting those who lost jobs or whose earnings reduced.
- East African country governments should consider temporary removal of employment taxes/levies to encourage employers to retain the existing workers and avoid downsizing during COVID-19 pandemic.
- Promote alternative marketing channels such as E-commerce to address the logistical challenges with the conventional marketing methods.
- Harmonize interventions at the EA level to enhance efficiency and trade flows within the region.
- There is a need for each of the East African countries to create a national sovereign fund to cushion them against future shocks.



Mission

To strengthen local capacity for conducting independent, rigorous inquiry into the problems facing the management of economies in sub-Saharan Africa.

The mission rests on two basic premises: that development is more likely to occur where there is sustained sound management of the economy, and that such management is more likely to happen where there is an active, well-informed group of locally based professional economists to conduct policy-relevant research.

www.aercafrica.org

Learn More



www.facebook.com/aercafrica



www.instagram.com/aercafrica_official/



twitter.com/aercafrica



www.linkedin.com/school/aercafrica/

Contact Us

African Economic Research Consortium
Consortium pour la Recherche Economique en Afrique
Middle East Bank Towers,
3rd Floor, Jakaya Kikwete Road
Nairobi 00200, Kenya
Tel: +254 (0) 20 273 4150
communications@ercafrica.org