COVID-19 Implications on Private Investment and Markets in East Africa: A Rapid Assessment

Francis Mwesigye

***Working Paper* - COVID-19_006**

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By

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List of abbreviatons and acronyms

ALSI	All Share Stock Index
BBC	British Broadcasting Corporation
BNR	National Bank of Rwanda
BoT	Bank of Tanzania
BoU	Bank of Uganda
CET	Common External Tariff
COVID	Coronavirus Disease
CRB	Credit Reference Bureau
DSEI	Dar es Salaam Stock Exchange Index
EA	East Africa
EABC	East African Business Council
FDI	Foreign Direct Investment
FRW	Rwandan Franc
GoK	Government of Kenya
GoU	Government of Uganda
IMF	International Monetary Fund
KAM	Kenya Association of Manufacturers
Ksh	Kenya Shillings
MSMEs	Micro, Small and Medium Enterprises
NSE20	Nairobi Securities Exchange 20 Share Index
OECD	Organization for Economic Cooperation and Development
PPEs	Personal Protective Equipment
SOPs	Standard Operating Procedures
UBoS	Uganda Bureau of Statistics
UDB	Uganda Development Bank
UNCTAD	United Nations Conference on Trade and Development
USE	Uganda Securities Exchange
URA	Uganda Revenue Authority
US$	United States Dollars
VAT	Value Added Tax
WHO	World Health Organization

Executive summary

The COVID-19 pandemic coupled with government measures to contain it, has affected many economies and exposed the level of economic vulnerabilities across countries. This study uses macro- and firm-level data to examine the implications of COVID-19 on private investments and markets in East Africa. Specifically, the report used stock market performance data, Foreign Direct Investment (FDI) and remittances flows, revenues from tourism, imports of capital and intermediate goods, and the enterprise survey data in the analysis. The findings indicate that COVID-19 has affected investments and businesses in East Africa. For instance, the study found that the stock price dropped from March 2020 and had not recovered by the end of 2020. In addition, inflow of FDI and remittances declined during COVID-19, and that revenues from foreign tourists dropped to zero in the second quarter of 2020 largely due to lockdown. The value of imported capital and intermediate goods declined during the lockdown but later started recovering albeit at a slow rate when the lockdowns were eased.

On the business performance implication of COVID-19, the study found that several businesses closed during the lockdown, especially those in entertainment and arts, wholesale and retail trade, and those providing accommodation services. Business turnover reduced during the lockdown especially for businesses that closed for a longer time. The findings indicate that many businesses resorted to cost-cutting techniques, diversification of sales channels, prudent financial management, reduction of the pay roll, and use of PPEs to ensure continuity. However, these measures affected employment as many businesses laid off staff. Moreover, reduction of the payroll affected the lowest ranking staff who are also the lowest earners, suggesting that COVID-19 could have had other socio-economic effects such as food insecurity.

The study found that most businesses have not benefited from any government support. Indeed, only 10% of the businesses reported that they received any form of support from the government. Support came in different forms such as promotion of use of personal protective equipment, financial subsidy, debt restructuring, and government payment of its arrears. The study found, however, that support mainly targeted manufacturing businesses and mining but not those that had been worst hit by the pandemic such as entertainment and art, and those in the hospitality industry.

The study proposes the following key interventions to address the economic effects of COVID-19:

- Support businesses especially those in sectors that were most hit by the pandemic, such as tourism and hospitality, to aid recovery.
- Safety net interventions in form of food aid and cash transfers targeting the low-ranking staff that lost their jobs due to the pandemic.
- Promote alternative marketing channels by leveraging on digital technologies, such as E-commerce to address the restrictions imposed because of COVID-19. This is especially relevant given that new strains of COVID-19 are emerging in different East African countries such as Kenya, and a new wave has hit other countries such as Rwanda.
- Integrate efforts at the regional level to facilitate easy flow of goods across borders by reducing delays caused by multiple testing requirements, among others, and remove all charges such as Import Declaration Fees (IDF) and Railway Development Levy (RDL) for imports of raw materials, capital goods, intermediate goods and essential goods.
- Revamp the stock markets by instilling customer confidence about the future of markets. This can be done through full implementation of both fiscal and monetary measures that different East African governments proposed, many of which have not been effected and some dropped.
- Grant an extension to businesses in filing their tax returns to give relief to businesses that would not be able to meet their tax filing obligations as they struggle to mitigate the impact of COVID-19 pandemic.

1. Introduction

Coronavirus disease of 2019 (COVID-19), which started in China at the end of 2019, has continued to spread across the world at an increasing rate. The disease gained recognition in the rest of the World from 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 (WHO, 2021). 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 of both developed and developing countries.

To curb the spread of COVID-19, governments have taken extraordinary steps such as general confinement and largescale shutdown of economic activity, which curtailed the movement of people and goods. The COVID-19 pandemic, coupled with government measures to contain it, has affected many economies and exposed the level of economic vulnerabilities across countries. While it is hard to predict the extent of the economic impact of the COVID-19 outbreak because the course and duration of the outbreak are still unknown, and both cannot be predicted with certainty, it is envisaged to be immense (Uğur and Akbıyık, 2020). There is thus a growing concern about economic and social impact of the pandemic, which may define norms for "new normal" (Sharma, et al., 2020). The measures to slow the spread of the virus–lockdowns, widespread closures[2], and social distancing–have massively disrupted economic activities and are posing challenges in keeping trade flowing in the face of transport and logistics' disruptions, and new demands on border processes and trade facilitation (UNCTAD, 2020). 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 (UNCTAD, 2020).

Before the escalation of COVID-19, studies predicted that the global economy would contract given the sudden stop and/or slowdown of economic activities and the resulting income loss in the manufacturing and services sectors, and the adverse effects of the pandemic on financial markets, consumption, investment confidence, international trade, and commodity prices (UNCTAD, 2020). According to International Monetary Fund - IMF) (2021) update, the global economy contraction was projected at -3.5%, 0.9 percentage points higher than projected in the previous IMF (2020) forecast (reflecting stronger-than-expected momentum in the second half of 2020), while that

of Sub-Saharan Africa (SSA) was projected at -2.6%, also 0.6 percentage points higher than previously predicted. This is because COVID-19 has created major disruptions in the economy and the life of businesses, which are having a wide range of impacts on companies. However, both the global and Sub-Saharan Africa growth are projected to have a positive growth in 2021 of 5.5% and 3.2%, respectively, reflecting expectations of a vaccine-powered strengthening of activity later in the year and additional policy support in a few large economies (IMF, 2021).

The disruptions such as labour supply shortages, factory closures, global value chain interruptions and raw material supply reductions have affected production. Both supply and demand-side disruptions exacerbate the socio-economic impact of the crisis. While global value chains are slowly getting back to normal, many suppliers were unable to continue their activity and honour contracts especially during the first three quarters of 2020. The slow-down of economic activities has resulted into labour layoffs, income losses, and increased uncertainty, which are leading consumers and firms into reducing or deferring spending and investment decisions. Meanwhile, declining revenue and rising unemployment have increased the risk of business and household defaults, straining the financial system. In addition, the rising trade costs from transport, logistics and supply chain disruptions, and trade restrictions act as additional brakes on the global economy (UNCTAD, 2020).

The trade and investment impact of the pandemic depends on how fast it is brought under control, and it is believed that COVID-19 economic effects are felt disproportionally depending on the level of economic vulnerabilities. Developing countries face distinct pressures and constraints that make it significantly harder for them to enact effective stimulus packages without facing binding foreign exchange constraints (UNCTAD, 2020). Indeed, the COVID-19 crisis has exposed major vulnerabilities in company operations and supply chains linked to conditions of work and disaster preparedness in different countries.

The pandemic has significantly affected investments because of the low return on assets and businesses. For a period during the pandemic, individuals tend to become less interested in investing and more interested in saving capital, resulting in reduced economic growth (Donthu and Gustafsson, 2020). As a result, foreign direct investment (FDI) flows reduce, and local investments slow-down due to increased lending rates and reduced demand for loans. For instance, OECD (2020) noted that FDI flows are expected to fall by more than 30% in 2020 and that flows to developing countries are expected to drop even more because the sectors that have been severely impacted by the pandemic, including the primary and manufacturing sectors, account for a larger share of their FDI than in developed economies. The decline in FDI flows to Africa is set to create a dual shock of the coronavirus pandemic and lower prices of commodities, especially oil whose value significantly fell during the first and second quarters of 2020. The pandemic has also affected remittances, which have been key in supporting private investments especially in developing countries.

COVID-19 is also creating enormous challenges for small and large businesses worldwide (OECD, 2020; Lakuma et al., 2020). Retailers and brands face challenges

such as those related to health and safety, the supply chain, the workforce, cash flow, consumer demand, sales, and marketing. In addition, markets have been greatly affected by the pandemic. The COVID-19 outbreak is likely to cause bankruptcy for many well-known brands in many industries as consumers stay at home and economies are shut down (Tucker, 2020). Donthu and Gustafsson (2020) noted that famous companies in the US are under enormous financial pressure. In developing countries, the situation is worse because they rely largely on imported raw materials for production. Companies, especially start-ups, have implemented an indefinite hiring freeze.

Tourism and hospitality has been hit hard by the measures taken to contain the pandemic and, even though the sector is starting to recover, it will take some time to get to the pre-2020 levels especially given that international travel is still limited and the pandemic threat still persists. Ryder (2020) notes that the pandemic and global efforts to contain it could cause the international tourism economy to contract by between 45% and 70%. Within countries, the virus affected virtually all parts of the hospitality value chain. The impact of cancelled events, closed accommodation, and shutdown of tourist attractions was immediately felt in other parts of the supply chain such as catering and laundry services (Gössling, Scott and Hall, 2020). The shock has affected both the demand-side (restrictions on freedom of movement, closure of borders, guests' fear of infection) and the supply-side (closure of accommodation and catering establishments and leisure facilities used for tourism) (Uğur and Akbıyık, 2020; Donthu and Gustafsson, 2020; Sigala, 2020).

To cope with the lockdowns and the resultant movement restrictions, many businesses have embraced digital technology and resorted to online working and marketing, which is likely to last as a key form of working in the "new normal". Different modes of meeting and video communication such as Zoom, Teams, among others, have emerged and have become key for online meetings and communication. However, there is a limited scope for the online digital working platforms as they exclude tourism and hospitality, and the entertainment industries that require physical presence of customers.

Despite the undoubtable deleterious effect of COVID-19 on the economy, the studies looking at regional specific effects of the pandemic are scanty. This study examines the effect of COVID-19 pandemic on private investments and market performance among East African countries. Specifically, the study explores the changes in FDI flows, stock market performance, and revenues from the tourism sector, remittances, and the performance of micro, small and medium enterprises (MSMEs) during COVID-19 to establish the extent to which the pandemic has impacted on private investments and market performance.

The rest of the paper is organized as follows: The next section provides the context of COVID-19 in East Africa. Section three discusses the data used and the study methodology. Section four presents and discusses the results while section five concludes and provides policy recommendations.

2. Context

This sub-section presents the socio-economic situation of East African countries during COVID-19, and discusses the interventions undertaken by the countries to curb the spread of the pandemic.

COVID-19, and its mitigation and prevention measures among East African countries

The COVID-19 pandemic hit East Africa (EA) in March 2020. This was after it had spread in other continents such as Asia, Europe and America. 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 and these continued for 61 days up to 26th May 2020 when the easing started, but still with limited business activity. The measures included a complete lockdown and a curfew between 7 p.m and 6 a,m, a period during which no movements were allowed.

Kenya implemented a partial lockdown on 6th April 2020 when the country had recorded 158 cases and 6 deaths. However, there are some measures that started before the lockdown in Kenya. For example, schools closed on 15th March 2020 followed by suspension of international flights, including mandatory quarantine of incoming residents; closure of bars and restrictions on restaurant opening hours; and a ban on large gatherings, which was imposed on 25th March 2020. These were followed by an enactment of a nationwide curfew from 7 p.m to 5 a.m and, on 5th April 2020, the Kenyan government declared wearing face masks as mandatory in any public place (Quaife et al., 2020). Rwanda put in place a mandatory national lockdown policy on 21st March 2020, which was in effect for two weeks and extended for another two weeks. This included closure of borders and stringent social distancing policies (e.g. closing schools, churches, and bars; postponing conferences, mandating home-based work) and banning motorcycle drivers from carrying passengers. All commercial passenger flights to and from Rwanda were suspended on 20th March 2020 (World Banka, 2020).

Tanzania and Burundi, however, took a softer stance towards COVID-19 compared to the other EA countries. For example, while Tanzania like other countries took

immediate steps by closing schools and universities; issuing directives on how to prevent the spread of disease including wearing face masks, handwashing, and using hand sanitizer; and banning some mass gatherings including conferences and sporting activities, there was no lockdown. It should be noted that Tanzania was, at first, very keen on COVID-19 when it had just started but took a complete turnaround in early April 2020. As a result, the country took very soft measures. For instance, the congregational forms of worship in churches and mosques were permitted to continue on condition that religious leaders guided their followers to observe preventive and protective measures. In addition, the measures in Burundi were largely limited to controlling the entry of travellers coming from outside the country. Measures implemented to avoid or limit the spread of COVID-19 enacted as of 24th March 2020, included: (i) quarantine, since 6th March 2020 of all passengers from affected countries; (ii) suspension, for seven days, of all international flights from 21st March 2020, except flights related to goods transport, sanitary evacuation, humanitarian and diplomatic actions; (iii) suspension of all international official missions; and (iv) suspension, since 19th March 2020 of granting of entry visas to Burundi and encouraging citizens to practice social distancing. These measures were all intended to prevent or slow the spread of the disease by protecting Burundi residents from being exposed to people coming in from other affected countries. To date, Burundi has not enacted measures to close schools or places of worship, sports events, or placed limitations on public gatherings, like those measures enacted in many affected countries around the world (World Bankb, 2020).

Irrespective of the measures put in place to curb the spread of the pandemic, 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, Tanzania 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. For a number of countries, the pandemic is escalating and there are warnings of entering another wave of the pandemic where COVID-19 cases increase at an increasing rate, and contact tracing becomes impossible. In countries such as Uganda, election campaigns worsened the situation.

While by the end of 2020 most countries had opened their economies, there is a hovering cloud of uncertainty regarding the future of COVID-19 and the new normal. The situation is worsened by reports of a second wave of the pandemic and the emergence of new strains as reported in South African and other EA countries. Accordingly, some countries have started locking down a few regions to curb the spread and the potential for a dangerous wave of the pandemic. For instance, on 18th January 2021, Rwanda imposed a 15-day lockdown on its capital, Kigali, as the country battles a second wave of coronavirus cases. This is the capital's second lockdown since the outbreak of the pandemic. The government reported that all movements

outside homes in the capital require an approved permit from the police, except for essential service providers; travel between Kigali and other provinces and districts was not permitted, except for essential services and tourism; tourists must have a certificate affirming that they are COVID-19 negative; public transport was prohibited and all employees in public and private sector were to work from home except for those providing essential services; places of worship and learning institutions were closed; and the government increased the hours of a nationwide night-time curfew to start at 6 pm local time to 4 am (BBC, 2021).

In addition, the Kenyan president in his 14th presidential address on COVID-19 on 12th March, 2021, imposed a partial lockdown to curb the spread of the pandemic. Specifically, the president suspended parliament, banned church and limited social gatherings in its capital, Nairobi, and four other counties as the country recorded its highest number of COVID-19 deaths since the pandemic started and amid a surge of positive cases. Also, the president instituted new curfew measures to start from 8 p.m to 4 a.m, and closed entertainment points in Nairobi (Office of the President of Kenya, March 2021). The new lockdowns and surge in cases threaten the already struggling businesses as they create uncertainty, which negatively affects not only investment decisions but also consumption patterns.

Socio-economic performance of East African economies during COVID-19

COVID-19 and the measures to contain it have caused considerable socio-economic effects in East Africa. At micro-level, the pandemic has increased food insecurity and affected household welfare (Quaife et al., 2020; Kansiime et al., 2021). For instance, a study by Kansiime et al. (2021) found that more than two-thirds of the respondents experienced income shocks due to COVID-19 crisis in Kenya and Uganda and, as a result, food security and dietary quality worsened. Accordingly, the proportion of food insecure respondents increased by 38% and 44% in Kenya and Uganda, respectively. The pandemic has posed a double threat to lives and livelihoods, and given that it is evolving with new strains emerging, organizations need to design coping strategies that will enhance their resilience in the new normal.

The pandemic has also affected businesses, especially micro, small and medium enterprises (MSMEs), which are the major employers in East Africa. Studies by Lakuma et al. (2020) on the effect of COVID-19 on Ugandan businesses and by KAM and KPMG (2020) on the COVID-19 impact on Kenya's manufacturing sector revealed that small and micro businesses have experienced the largest effects of the risk associated with COVID-19 compared to large scale businesses due to their inability to cope with containment measures instituted by government. Worse still, MSMEs have not been able to benefit from the economic stimulus rolled out by the governments to combat the economic effects of COVID-19 because of the widespread informality of many businesses in East Africa. For instance, in Uganda, the informal sector provides

81% and 90% of employment opportunities in urban and rural areas, respectively (UBOS, 2018), while in Kenya the informal sector is estimated to account for 83.6% of total employment (Kansiime et al., 2021) and a similar situation holds for other East African countries.

The pandemic has also affected many other aspects of the economy. For instance, foreign direct investment (FDI) flows are likely to significantly fall because COVID-19 has affected investor confidence. In its earlier study after the onset of the pandemic, the UNCTAD report predicts that COVID-19 crisis will cause a dramatic drop in FDI in 2020 and 2021, noting that the pandemic will have an immediate negative impact in 2020, with a further deterioration in 2021 (UNCTAD, 2020). Indeed, UNCTAD's investment trends monitor in 2021 indicates that global FDI flows declined by 42% in 2020, and notes that further weakness is expected in 2021, which risks sustainable recovery. However, the decline in investment flows was disproportionately felt in developed compared to developing countries where investment flows fell by 69% and 12%, respectively (UNCTAD, 2021).

The pandemic has also affected the tourism sub-sector, which is a key source of forex and revenue to many East African countries, especially Kenya, Tanzania, Uganda and Rwanda. For most of the EA countries, there was almost no tourism business in the period of March to July 2020 due to lockdowns and the ban on international travels, which significantly reduced tourism revenues, and affected employment with gravious spillover effects on other businesses such as restaurants, and tour and travel companies. In addition to affecting business performance, the pandemic has also created uncertainity because it is not known when it will end, and this has affected stock market performance. Indeed, stock share prices have dropped during the pandemic as investors hold back on investments due to increased uncertaininty and hence business risk. Also, COVID-19, given its global nature, has affected remittances to East African countries because the remittance-sending countries were affected before and have suffered even more severe losses than the remittance-receiving 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. In Kenya, a set of fiscal measures were put in place to stimulate the supply and demand of goods and services after the lockdown. These measures included: a reduction of VAT on most goods and services from 16% to 14%; 100% tax relief for persons earning gross monthly income of up to Ksh 24,000; a reduction of resident Personal Income Tax Rate (Pay-As-You-Earn) top rate from 30% to 25%; a reduction in corporate tax (resident income tax) from 30% to 25% for residents; increase in withholding tax rate on dividend payable to non-residents from 10% to 15%; a reduction in turnover tax from 3% to 1% with

taxable turnover thresholds increased from an income of between Ksh 1 million (US$ 10,000) to Ksh 50 million (US$ 500,000) for MSMEs; suspension of Credit Reference Bureau (CRB) listing for loan defaulters; and an appropriation of Ksh 10 billion (~US$ 95 million) to the elderly, orphans, and other vulnerable members of the society (Nechifor et al., 2020; Kansiime et al., 2021). In May 2020, the Government of Kenya further announced a post-COVID-19 economic stimulus package of Ksh 53.7 billion (US$ 503 million) to support businesses that have been hit by the pandemic. The package is aimed at providing credit guarantees, loans to small businesses, and help prop up tourist facilities. However, some of the tax measures, including the reduction of top PAYE rate, corporate income tax rate and VAT, and monetary measures such as waiving or reducing of charges on mobile money transactions and suspension of listing of negative credit information for borrowers were reversed effective 1st January 2021 (IMF, 2021).

The Bank of Uganda (BoU), in its Monetary Policy Statement of 6th April 2020, made reference to credit relief measures to mitigate the adverse effects of the COVID-19 pandemic, ensuring financial sector stability, and facilitating financial intermediation during the pandemic period. The government stimulus programme aimed to: maintain households' economic welfare and prevent individuals from becoming unemployed and falling below the minimum needed to maintain their welfare; help firms survive the crisis and not go bust due to liquidity crunch; and maintain financial stability to avoid reverberating the crisis to wider parts of the economy. Among the measures introduced in Uganda include repayment holidays, debt relief of up 12 months, and reduction of the Central Bank lending rate from 9% to 8% (BoU, 2020). The Government of Uganda also announced that they would provide food relief to vulnerable workers, particularly those whose daily activities would be affected by lockdown, in a way extending social protection to vulnerable sections of the population (World Bank, 2021).

Other countries had similar interventions. The National Bank of Rwanda (BNR), on 18th March 2020, announced a number of measures to banks such as: extended lending facilities to banks (Rwanda Franc 50 billion fund) for distressed banks at CBR rate, tenure extended to 3,6,12 months; the National Bank of Rwanda (BNR) encouraged the use of digital channels and contactless mobile payments for the next 3 months beginning from 19th March 2020; and the banks agreed on zero charges on all transfers between bank accounts and mobile wallets, and on all mobile money transfers; and limits for individual transfers using money wallets increased from FRW 500,000 to FRW 1,500,000 for Tier 1, and FRW 1,000,000 to FRW 4,000,000 for Tier II customers (KPMG, 2020).

Tanzania also undertook several measures ranging from monetary to fiscal interventions. On 12th May 2020, the Bank of Tanzania (BoT) reduced discount rate from 7% to 5% and reduced collateral haircuts requirements on government securities. In addition, effective 8th June 2020, the BoT Statutory Minimum Reserves requirement was reduced from 7% to 6%. The BoT provided regulatory flexibility to banks and other financial institutions to carry out loan restructuring operations on a case-by-case basis; and the daily transactions limit for mobile money operators

was raised from about US$ 1,300 to US$ 2,170, and the daily balance limit was raised from US$ 2,170 to US$ 4,340 (IMF, 2020). Burundi had limited policies. For instance, the government is working with banks to encourage, on a targeted and time-bound basis, an extension of loan maturities to borrowers in hard-hit sectors, applying existing regulation in a flexible manner. Commercial banks have also been asked to reduce bank fees for electronic transfers and mobile money transfers to reduce the need to go to banks (IMF, 2020).

The emerging new strains of COVID-19, the increasing cases and new waves create more uncertainty about the future of markets and investments. In addition, it is not clear whether the gains from different government stimulus measures will be sustainable. It is therefore plausible to predict that investors will hold back on investing their money and hence FDI might remain low until there are clear signs of recovery.

3. Data and methodology

The study used different datasets from various sources to examine the performance of private markets and investments during COVID-19. The study mainly relied on secondary data, review of studies, and has limited use of primary data. Specifically, to examine stock markets' performance during COVID-19, the study uses stock market data from Trading Economics. In addition, the study uses data on FDI flows, remittances and tourism revenue from the central banks of East African countries, and data from statistical bureaus and other independent surveys to examine how businesses, especially micro, small, and medium enterprises were affected during COVID-19. This section provides full details of the data used.

Stock market performance data

The data on stock market performance was obtained from the "Trading Economics",[3] which publishes daily data on stocks, currencies, bonds and earnings. For analysis, we use monthly stock price indices for the three East African countries—Kenya, Tanzania, and Uganda—for the period December 2019 to February 2021. Ugandan's Security Exchange (USE) All Share Index (ALSI) is the benchmark index for the Ugandan equity market, which tracks the performance of 16 listed security equities, of which half are local companies and the other half are cross-listed Kenyan companies. It is a market capitalization weighted average index, calculated daily and had a base value of 100 as of 31st December 2001.[4] The Nairobi Securities Exchange 20 Share Index (NSE20) is a major stock market index, which tracks the performance of 20 best performing companies listed on the Nairobi Securities Exchange. The NSE20 is a major stock market index, which tracks the performance of large companies based in Kenya[5]. The companies are selected based on a weighted market performance for a 12-month period based on market capitalization, number of shares traded, number of deals and turnover. The Tanzania All Share Index (Dar es Salaam Stock Exchange Index - DSEI) is a market capitalization weighted index with a base reference of 1000. The index includes all stocks listed on the Dar es Salaam Stock Exchange.[6] Kenya has 31 listed companies while Tanzania has 28 listed companies.

FDI, remittances, and revenues from rourism

The study uses quarterly data on FDI inflows, remittances from abroad, and tourism revenues from international tourists, obtained from the central banks of EA countries: Bank of Uganda, National Bank of Rwanda, and Bank of Tanzania. While the quarterly data from Uganda and Rwanda covers the whole of 2020, Tanzania's data only covers up to the third quarter of 2020. Also, by the time this study was conducted, the data for 2021 had not yet been released. The study also uses data on visitor arrivals through the two airports in Kenya—Jomo Kenyatta International Airport and Moi International Airport—from the Kenya National Bureau of Statistics (2020) to examine how international travels were affected and in turn affected the tourism industry.

Imports of capital and intermediate goods

The analysis used monthly data covering the period January to December 2020 from different sources on the import of capital goods to examine how access to production inputs changed during COVID-19. The data was obtained from the central banks of Uganda, Kenya, Tanzania and Burundi. While the monthly data for Uganda and Kenya are complete for the whole year, the available data for Tanzania stops in October 2020 while that for Burundi stops in September 2020.

Data on cicro, small and medium enterprises

To examine the performance of micro, small and medium enterprises during COVID-19, this study uses multiple survey datasets and reports generated on different East African countries. Specifically, the study uses the East African Business Council's (EABC) survey data, which was collected using an online questionnaire that was sent to EABC members and non-members from different sectors in the EAC region (EABC, 2020). The EABC's data was supplemented by data collected by KAM and KPMG in 2020 from the manufacturing business in Kenya and was presented in a report. In addition, the study also analyzed data from the survey entitled "COVID-19 Impact Assessment on Businesses" conducted by the Uganda Bureau of Statistics in May and August 2020.

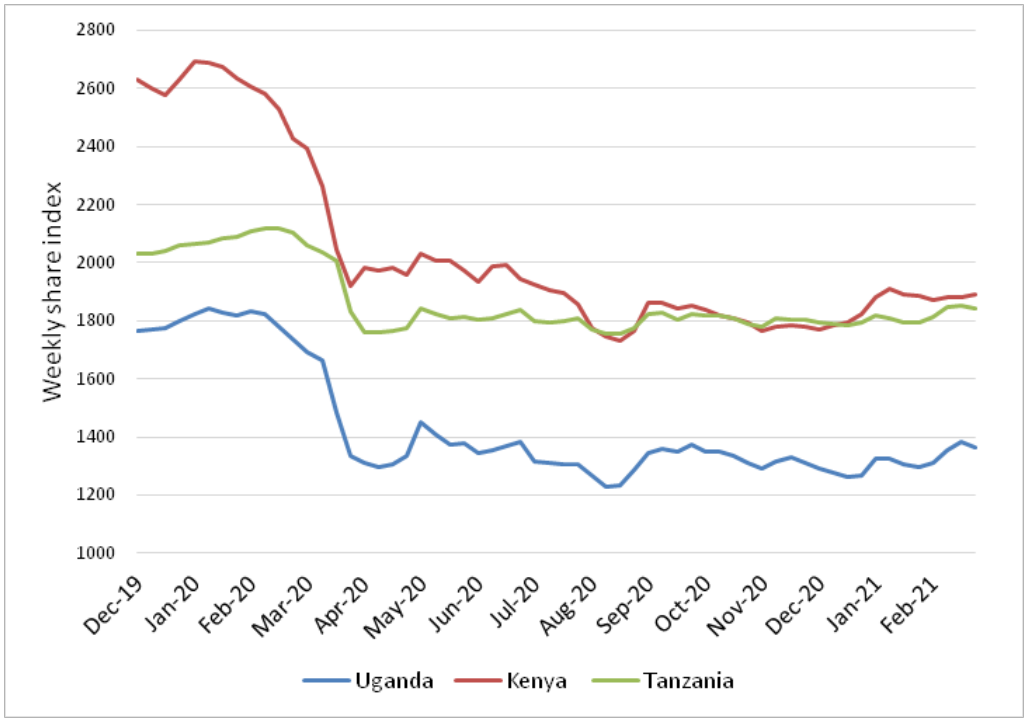
4. Results

Stock market performance during COVID-19

Stock market performance reflects the health of businesses and the economy at large. Share prices drop in response to negative economic shocks, and increase when businesses are performing well. Accordingly, it is plausible to expect that the COVID-19 pandemic, which has significantly affected business operations, would also affect share prices. Figure 1 shows the monthly weekly changes in the share index for the three countries of Kenya, Tanzania and Uganda. The results show that the weekly index started declining as early as February 2020 when COVID-19 started spreading to Africa, but the decline started later for Tanzania compared to other EA countries. Kenya and Uganda have experienced the largest fall in the index followed by Tanzania. For instance, Kenya's share index[7] declined by 27% from 2,605 in February 2020 to 1,890 in February 2021. Uganda's share index declined by 25% from 1,833 in February 2020 to 1,365 in February 2021 while Tanzania's share index declined by 13% from 2,109 in February 2020 to 1,842 in February 2021. Tanzania's index only experienced a sharp decline between March and April 2020, but thereafter the trend has remained stable, unlike in Kenya and Uganda where the indices have continued to decline.

The relatively limited impact of COVID-19 on Tanzania's stock market could be explained by the continued operation of businesses when other countries such as Kenya and Uganda went into a lockdown. Nevertheless, all country trends seem to still be on a slow trajectory.

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



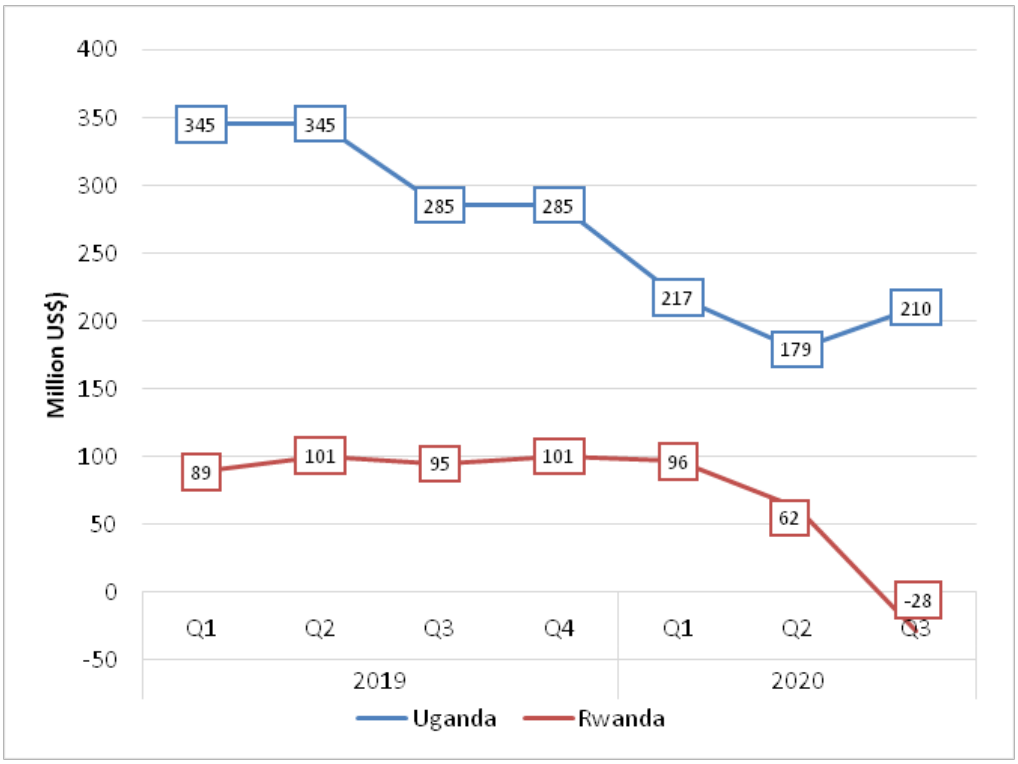
Source: Author's computation using weekly average share index from Trading Economics

Foreign direct investment flow to EA countries during COVID-19

FDI is key for availing capital for investment and is key for addressing domestic capital constraint by closing the limited domestic savings gap. Developing countries need higher investment for national income growth and job creation, but since the savings are inadequate, attraction of foreign savings becomes critical in supplementing domestic savings. Foreign savings are attracted either through external borrowing or through permitting and encouraging Foreign Direct Investment (FDI). Therefore, a reduction in FDI negatively affects investments and growth.

Figure 2 shows that FDI inflows to Uganda and Rwanda reduced during the first and second quarters of 2020, and that while FDI to Uganda slightly recovered in the last quarter of 2020, it declined further in Rwanda. For instance, FDI flows to Uganda declined by 37% from US$ 285 million in the fourth quarter of 2019 to US$ 179 million in the second quarter of 2020 but started recovering in the last quarter of 2020. However, FDI flows to Rwanda declined by 39% from US$ 101 million during the fourth quarter of 2019 to US$ 62 million in the second quarter of 2020 before further declining to US$ -28 million in the last quarter of 2020.

Figure 2: Foreign direct investment inflows for 2019 and 2020 to Uganda and Rwanda (million US$)

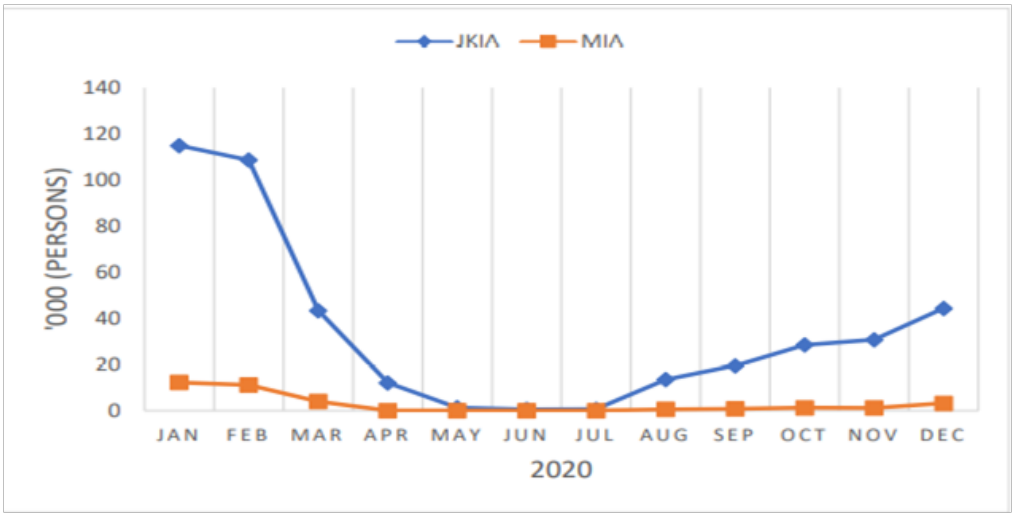


Source: Authors' computation using data from the Central banks of Uganda and Rwanda

Changes in remittances and tourism revenue during COVID-19

The pandemic has affected the tourism and hospitality industry and remittances because of travel restrictions and reduced international travels. For instance, Figure 3 shows the number of embarked passengers through Jomo Kenyatta International Airport (JKIA) and Moi International Airport (MIA) in Kenya. The number of arrivals fell to zero from May to July 2020 for JKIA while arrivals through MIA declined to zero in March (when the lockdown started) to November 2020.

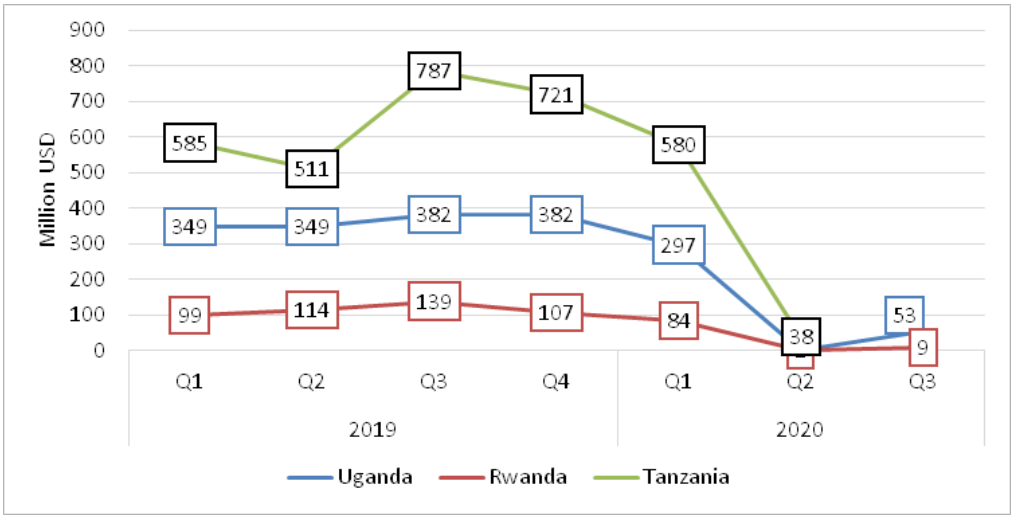
Figure 3: Visitor arrival through Jomo Kenyatta International Airport and Moi International Airport



Source: Kenya National Bureau of Statistics (2020)

The decline in the number of international visitors has far reaching implications on the tourism and hospitality industry. Figure 4 shows that tourism revenues in Uganda, Rwanda and Tanzania dropped to zero in the second quarter of 2020. This is largely attributable to the ban on international travel, and the lockdown which restricted local movement and hence affected the tourism sector. However, there was a sign of recovery in the third quarter of 2020 as indicated by the slight increase in both tourism revenue in Uganda and Rwanda. This might have been caused by the easing of lockdown and resumption of international travel in some East African countries.

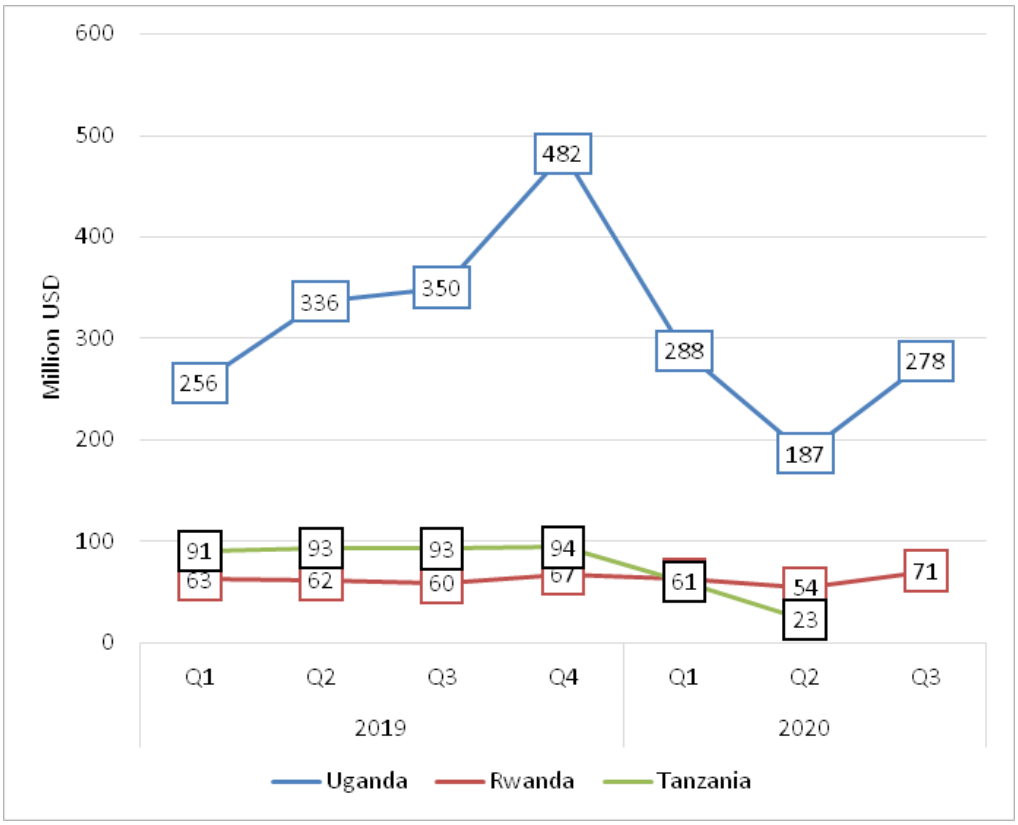
Figure 4: Tourism revenue for Uganda, Rwanda and Tanzania (million US$)



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 5 shows that remittances to the three East African countries declined significantly between the last quarter of 2019 and the second quarter of 2020. For example, remittances to Uganda declined by 61% from US$ 482 million in the last quarter of 2019 to US$ 187 million in the second quarter of 2020. That of Rwanda and Tanzania declined by 19% and 60%, respectively, during the same period. Like tourism revenue, remittances showed a sign of recovery in the third quarter of 2020 albeit at a slow rate.

Figure 5: Remittances to Uganda, Rwanda and Tanzania (million US$)

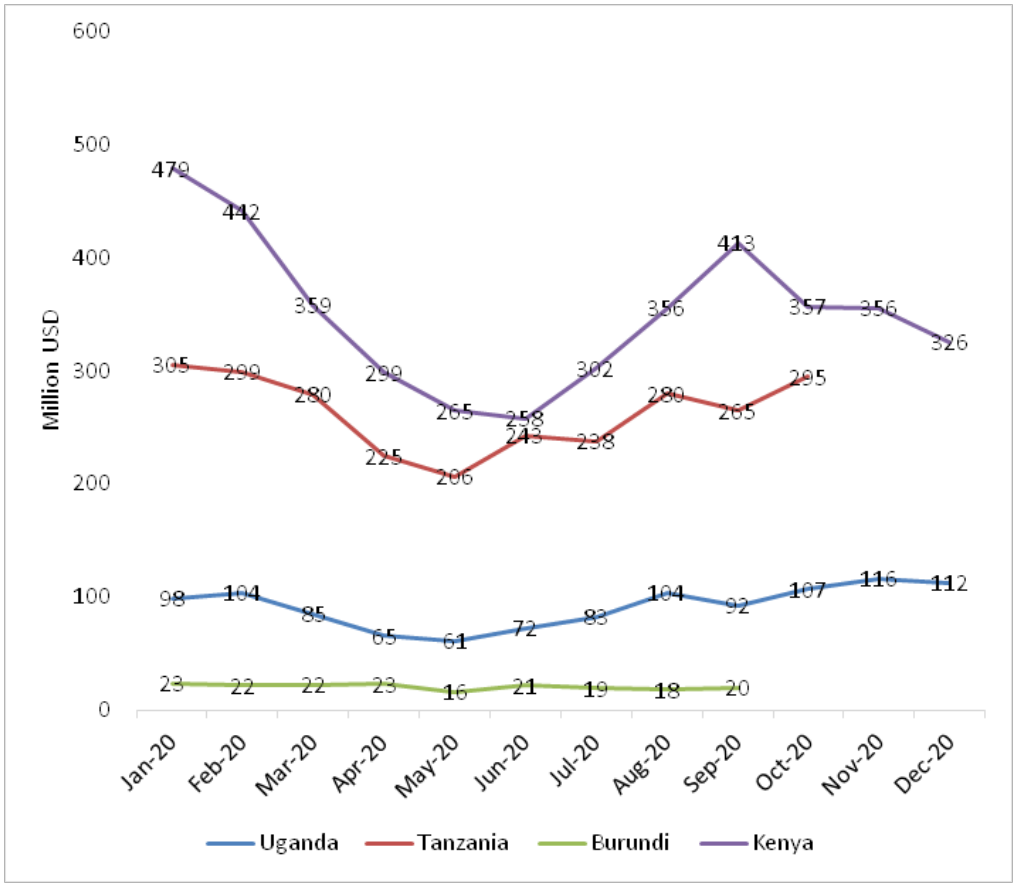


Source: Authors' computation using data from the Central banks of Uganda, Rwanda and Tanzania

Import of capital and intermediate goods

The COVID-19 pandemic affected transport logistics across countries. Accordingly, the manufacturing industry in many developing countries that largely depends on imported raw materials suffered. Figure 6 shows that the value of imported capital goods declined from January to June 2020, which might have been largely driven by the lockdown in many East African countries. The value of imported capital goods started increasing in June 2020, but it has not returned to the level prior to onset of COVID-19.

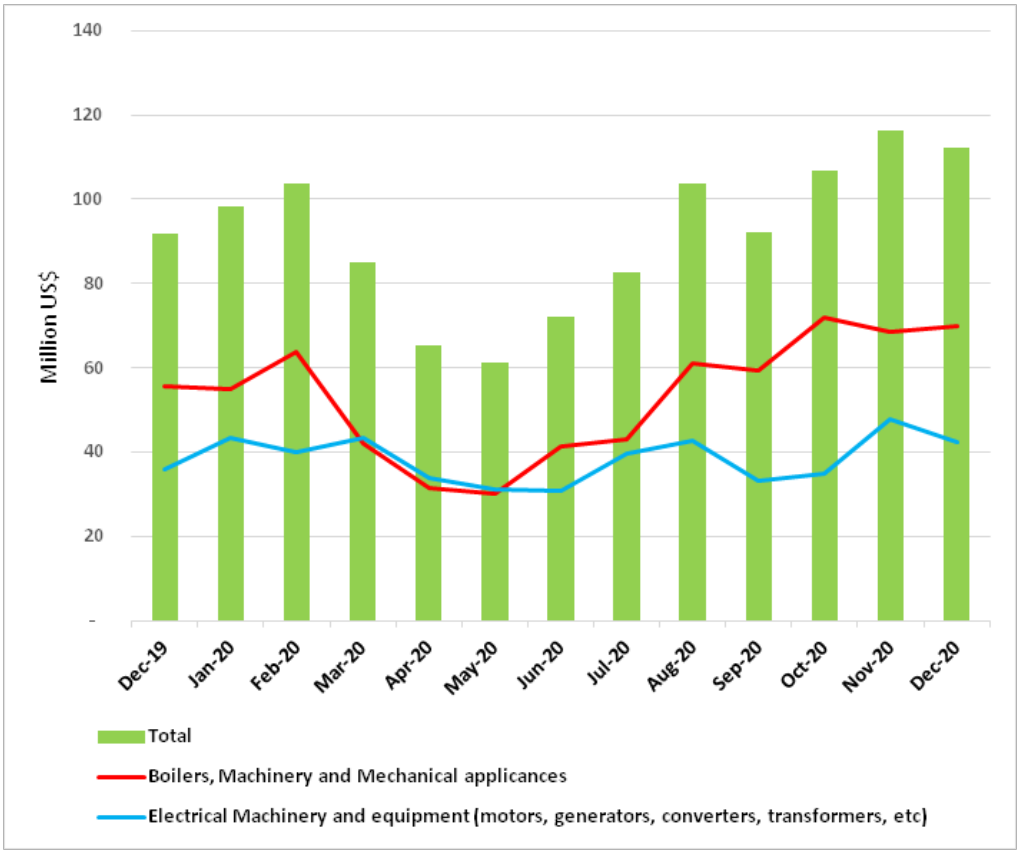
Figure 6: Import of capita goods (million US$) among East African countries



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

The situation was worse for landlocked countries such as Uganda and Rwanda. Figure 7 shows Uganda's monthly trend analysis of imports of capital goods and raw materials. Generally, imports of capital goods exhibited a sharp decline from March to May 2020, which might be explained by the lockdown. The value of imports started increasing in July 2020 albeit at a slow pace, and the recovery is slower for some capital inputs such as machinery and equipment compared to mechanical appliances. The measures implemented to counter the negative impacts of the COVID-19 pandemic severely reduced both imports and exports. This suggests that manufacturing and other sectors that import raw materials have faced a decline in production.

Figure 7: Formal monthly imports of capital goods (tax rated 0%) by category based on HSC system (million US$)



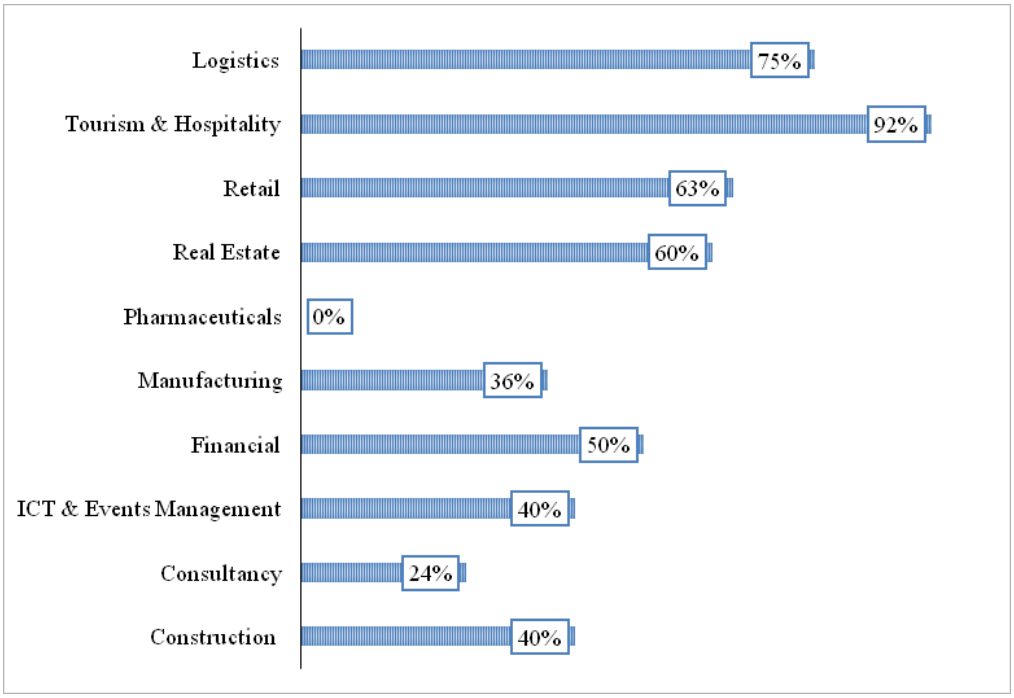
Data source: Uganda Revenue Authority

COVID-19 effect on micro, small and medium enterprises

Reduction in business cash flow due to COVID-19

The survey by the East African Business Council (EABC) during the first few months of COVID-19 established that in East Africa, tourism, logistics, and retail businesses have significantly experienced a high percentage of reduction of cash flow of 92%, 75% and 63%, respectively (Figure 8). However, the pharmaceutical sector recorded zero effect on cash flow. This is because COVID-19 pandemic increased demand for pharmaceutical products, and decisions of EAC partner states to allow movement of essential goods such as pharmaceutical businesses during this pandemic. The reduction in cash flow was caused by the limited sales and hence a fall in revenue.

Figure 8: Average percentage reduction in cash flow



Source: EABC (2020)

Business closure during COVID-19

Business closure is one direct way that COVID-19 affected businesses. The lockdown, curfews and other measures put in place to prevent the spread of the pandemic led to business closures, and/or reduction in working hours. In Uganda, some sectors such as tourism and hospitality industry, entertainment, and education sectors were completely shut down. Moreover, the entertainment industry of the country is still closed.

Table 1 presents the results on Uganda's business closure, and the days and hours of operation for the businesses that remained open. The results show that overall, 20% of businesses closed in March 2020 and this could be due to the lockdown announced from 25th March 2020. Consistent with EABC (2020) findings, the results indicate that the entertainment and art businesses were more affected as 40% of them reported that they closed in March, followed by retail and trade where 34% reported to have closed in March. Even for the businesses that remained in operation, the entertainment and wholesale/retail businesses worked for less than 4 days a week, which was the least compared to other businesses. The agricultural-related businesses were the least affected because none reported to have closed in March, followed by businesses offering professional services.

More businesses closed in April 2020 and, overall, 44% of the businesses are reported to have closed in Uganda. The disaggregation reveals that all the entertainment and arts businesses (100%) closed in April, followed by those in accommodation and professional services where 73% and 52% of businesses closed, respectively. In addition, the number of days operated per week also significantly reduced for the businesses that remained open in April 2020. However, agriculture-related businesses remained the least affected even in April 2020 where 13% reported to have closed.

Businesses started opening again in May and June, which corresponds to the relaxation of the lockdown in Uganda. Overall, 25% and 10% of businesses reported that they closed in May and June 2020, respectively. Also, the number of days worked per week and hours per day increased between May and June 2020, which was a sign of recovery. Consistent with other months, businesses in agriculture-related activities were less likely to close. Other businesses that reopened early include mining, manufacturing, and real estate.

Table 1: Business operations during COVID-19

	ALL Businesses	Agri-culture	Mining	Manu-facturing	Wholesale/ Retail	Real Estate	Transport Services	Accommo-dation	Information and finance	Professional services	Enter-tainment & Art
Business operations in March 2020											
Business closed (proportion)	0.20	0.00	0.17	0.13	0.34	0.13	0.12	0.09	0.12	0.05	0.40
Days worked per week	4.57	5.50	4.83	5.00	3.70	5.02	5.05	5.81	4.92	5.01	3.60
Hours worked per day	9.86	7.75	8.40	10.48	8.64	9.23	11.35	14.26	9.15	8.83	11.83
Business operations in April 2020											
Business closed (proportion)	0.44	0.13	0.33	0.29	0.47	0.39	0.32	0.73	0.42	0.52	1.00
Days worked per week	3.01	5.13	3.83	3.74	2.86	3.38	3.29	1.64	3.20	2.45	0.00
Hours worked per day	8.74	7.43	8.00	9.66	7.49	9.20	9.58	10.19	8.72	9.42	.
Business operations in May 2020											
Business closed (proportion)	0.25	0.00	0.17	0.13	0.21	0.23	0.20	0.59	0.29	0.42	0.90
Days worked per week	4.25	6.13	5.17	4.86	4.62	4.30	3.95	2.66	3.92	3.07	0.60
Hours worked per day	9.09	8.38	8.60	10.21	8.11	8.99	9.70	12.09	8.73	9.25	9.00
Business operations in June 2020											
Business closed (proportion)	0.10	0.00	0.00	0.06	0.09	0.06	0.10	0.20	0.08	0.15	0.80
Days worked per week	5.14	6.13	6.17	5.32	5.37	5.26	4.61	4.96	5.07	4.38	1.30
Hours worked per day	9.21	8.38	8.83	10.42	8.49	8.99	9.70	11.22	8.66	8.39	8.00
Number of observations	**1,428**	**8**	**6**	**320**	**550**	**134**	**61**	**106**	**93**	**130**	**10**

Source: Author's computation using COVID-19 Impact Assessment on Businesses data from Uganda Bureau of Statistics - UBoS (2020)

4.5.3 *Business turnover and continuity strategies during COVID-19*

Table 2 presents the results on the changes in business turnover for the enterprises that remained open during the period April and June 2020, and the strategies employed to ensure business continuity in Uganda. Overall, 28% and 11% of the businesses reported that their turnover reduced from April to May 2020, and from May to June 2020, respectively. The most affected enterprises were agriculture, entertainment, and art, those in information and finance, accommodation, transport and services and mining, among others. For instance, 63% and 25% of the agriculture-related business reported that their turnover reduced between April and May 2020, and May and June 2020, respectively. In addition, over 40% of the businesses in entertainment and art, and those in information and finance reported that their turnover reduced between April and May 2020.

The key adjustments undertaken by businesses to ensure continuity included: cost-cutting strategies, diversification of sales channels such as use of e-commerce and adoption of online marketing platforms, increased use of personal protection equipment (PPEs), stocking of raw materials to avoid shortages especially during the lockdown, and adoption of prudent financial management, among others. For instance, 49% of all businesses reported that they adopted cost-cutting strategies, 55% the use of PPEs, 24% stocked raw materials, 18% adopted prudential financial management measures, among others.

The adoption of business continuity measures varied by type of business. The agriculture businesses mainly adopted cost-cutting measures, stocked raw materials, adopted the use of PPEs, and diversified their sales to keep afloat. Over 80% of the businesses in mining had to cut costs, used PPEs, and 35% of them stocked raw materials. Other businesses also reported that they prioritized cost-cutting strategies, use of PPEs and diversification of sales channels to remain in operation. There are a high percentage of businesses that opted to temporarily close to ensure that they remain in operation, including those in entertainment and arts, accommodation, mining, professional services, among others.

Table 2: Business turnover and business continuity strategies during COVID-19

	ALL Businesses	Agri-culture	Mining	Manu-facturing	Wholesale/ Retail	Real Estate	Transport Services	Accommo-dation	Information and finance	Professional services	Enter-tainment & Art
Change in business turnover between April and June, 2020											
Turnover reduced between April and May	0.28	0.63	0.33	0.27	0.27	0.16	0.33	0.36	0.49	0.18	0.40
Turn over reduced between May and June	0.11	0.25	0.17	0.13	0.07	0.10	0.15	0.23	0.19	0.10	.
Adjustments undertaken to ensure business continuity											
Cost-cutting	0.49	0.50	0.83	0.52	0.46	0.47	0.32	0.60	0.63	0.48	0.30
Product diversification (goods/services)	0.06	0.00	0.17	0.06	0.04	0.02	0.02	0.11	0.23	0.05	0.00
Diversification of sales channels (e.g. E-Commerce)	0.11	0.38	0.17	0.12	0.09	0.02	0.02	0.19	0.35	0.09	0.00
Expanded to export market	0.03	0.25	0.00	0.04	0.02	0.01	0.00	0.04	0.14	0.01	0.00
Automated and increased use of machines	0.05	0.13	0.00	0.03	0.02	0.01	0.05	0.12	0.24	0.06	0.00
Online workers' training	0.05	0.13	0.00	0.04	0.02	0.01	0.10	0.03	0.24	0.11	0.00
Prudent financial management	0.18	0.00	0.17	0.14	0.21	0.11	0.07	0.21	0.44	0.11	0.20
Stocked raw materials	0.24	0.38	0.33	0.35	0.30	0.14	0.03	0.12	0.23	0.06	0.00
Adopted use of PPEs	0.55	0.50	0.50	0.57	0.55	0.53	0.54	0.62	0.66	0.43	0.30
Closed business	0.09	0.00	0.17	0.05	0.08	0.04	0.07	0.23	0.07	0.10	0.50
	1,428	**8**	**6**	**320**	**550**	**134**	**61**	**106**	**93**	**130**	**10**

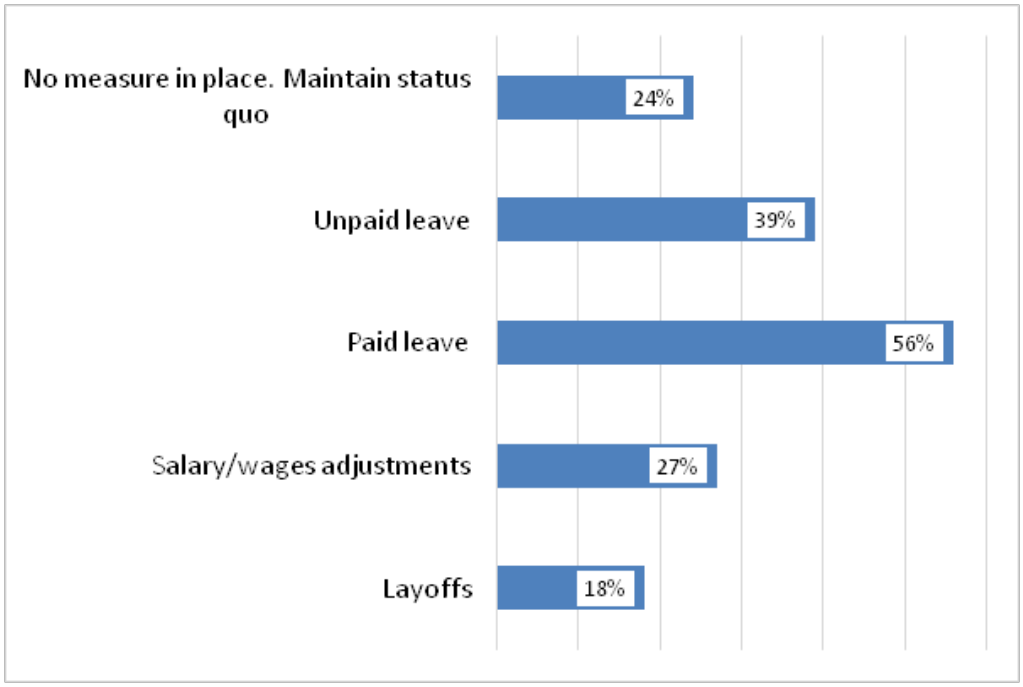
Source: Author's computation using COVID-19 impact assessment on businesses data from Uganda Bureau of Statistics - UBoS (2020)

Employment changes due to COVID-19

To cut costs and remain in operation, many businesses resorted to payroll and salary reduction.

A survey of Kenyan manufacturers by KAM and KPMG (2020) found that 69% of the participants had difficulty in paying salaries and wages, a percentage that increased to 79% for MSMEs. These difficulties have contributed to 39% sending their staff on unpaid leave while 27% have made salary/wage adjustments (Figure 9).

Figure 9: Employee remuneration measures among manufacturing businesses in Kenya



Source: KAM and KPMG (2020)

Table 3 presents the results on the effect of COVID-19 on employment in MSMEs in Uganda. The results show that 31% of the businesses reduced their payroll during COVID-19 by 46%. The most affected businesses include those in accommodation, entertainment and arts, information and financial services, agriculture, wholesale/retail trade, and manufacturing. More than 50% of the businesses in accommodation, and arts and entertainment reported that they reduced their payroll by over 55%. These are the same businesses that reported that they closed, suggesting that business closure came with employee layoffs since businesses were not receiving revenue during the same period. The businesses in mining reduced their payroll by 70% while those in agriculture reduced it by 53%.

Table 3: COVID-19 effect on employment

	ALL Businesses	Agri-culture	Mining	Manu-facturing	Wholesale/ Retail	Real Estate	Transport Services	Accommo-dation	Information and finance	Pro-fessional services	Enter-tainment & Art
Payroll reduced (proportion reporting)	0.31	0.38	0.17	0.34	0.31	0.16	0.15	0.59	0.41	0.12	0.50
Percentage reduction in the payroll	45.77	53.33	70.00	42.91	44.31	41.59	47.44	58.50	39.29	43.00	57.00
Category of staff that were affected by the payroll reduction											
Managers	0.02	0.00	0.00	0.01	0.02	0.00	0.00	0.00	0.05	0.06	0.00
Professionals/Technical	0.38	0.33	0.00	0.31	0.36	0.23	0.67	0.22	0.84	0.69	0.20
Support staff	0.60	0.67	1.00	0.68	0.62	0.73	0.33	0.76	0.11	0.25	0.80
Reasons for reduction in payroll											
Laid off workers	0.39	0.67	1.00	0.44	0.39	0.41	0.44	0.42	0.26	0.19	0.20
Forced leave with no pay	0.29	0.33	1.00	0.31	0.17	0.18	0.11	0.65	0.34	0.19	0.00
Reduced salary	0.57	1.00	1.00	0.47	0.60	0.59	0.78	0.44	0.82	0.69	0.40
Leave with part payment	0.21	0.33	1.00	0.17	0.17	0.09	0.11	0.23	0.42	0.31	0.20
Cost cutting by business	0.51	0.67	1.00	0.43	0.43	0.55	0.33	0.71	0.79	0.50	0.80
Employees resigned	0.14	0.33	1.00	0.13	0.18	0.00	0.00	0.05	0.16	0.19	0.20

Source: Author's computation using COVID impact assessment on businesses data from Uganda Bureau of Statistics-UBoS (2020)

The pay roll reduction mainly affected the very low-ranking employees who are the majority and earn little. Table 3 shows that, overall, 60% of the affected employees are support staff, 38% are technical while only 2% are managers. For some specialized sectors, for example mining, all the affected staff are support and no manager or technical staff was laid off. The results indicate that the main reasons for payroll reduction include laying off of workers, forced leave without pay, reduced salary, leave with part payment, cost-cutting by business, and employee resignation. The COVID-19 pandemic has affected lives by increasing expenditure on health care bills, death, and affecting heath access and utilization for individuals with other underlying conditions such as HIV/AIDS, cancer, among others. As a result, individual productivity has been affected because of the negative health effects of COVID-19 on families.

Opportunities due to COVID-19

While the COVID-19 pandemic has disrupted businesses, the disruption has created opportunities for some businesses to innovate their product offerings, especially those making personal protection equipment. Many businesses have changed manufacturing lines into production of sanitizers and face masks, among others. The survey of Kenyan manufacturers by the KAM and KPMG (2020) found that to respond to the heightened demand for COVID-19 related goods, 23% of manufacturers from 10 out of the 14 sectors have either shifted their focus or ramped up production of essential goods such as personal, protective equipment (PPEs), beddings, sanitizers, disinfectants, canned foods and immunity-boosting products, hospital beds, and ventilators. COVID-19 has also driven the growth in use of digital technologies, especially use of webinars for meetings. The new working methods have advantages such as reduced commuting time to work for those working from home, which might have increased productivity.

5. Discussion of results

The study examined COVID-19 implications on private investments and markets in East Africa (EA). The results show that COVID-19 has affected investments and markets in the East African countries. Indeed, consistent with Donthu and Gustafsson (2020) who argued that COVID-19 affects return on assets and discourages investors from buying stock, this study found that the share price index for three EA countries (Uganda, Kenya, and Tanzania) have been declining since March 2020 when the COVID-19 pandemic hit East Africa. The uncertainty regarding when the pandemic will finally be wiped out and get business back to normal has kept the prices low through February 2021, even after lockdowns were eased in EA countries. Given that some countries such as Kenya and Rwanda are reverting to lockdowns, this might undo some investment gains over the past few months.

In addition, the study found that COVID-19 affected the flow of FDI to EA countries. This is largely attributed to increased investment failure risk due to poor business performance induced by COVID-19, uncertainty about the future of business and markets due to persistence of the pandemic, characterized by new disease peaks, emergence of new strains as recently reported in many East African countries, and the general reduction in incomes from the source of FDI since the pandemic has been global in nature. The reduction in FDI confirms the OECD (2020) study, which noted that FDI flows to developing countries were expected to drop even more because sectors that have been severely impacted by the pandemic, including the primary and manufacturing sectors, account for a larger share of their FDI than in developed economies. The study also found that remittances to East African countries, which are a potential source of investment finance, declined significantly due to a general decline in incomes of remitters and the closure of remittance channels especially during the lockdowns in EA.

The tourism and hospitality industry is one of the sectors that was most affected by the pandemic. The study results indicate that earnings from foreign tourists shrunk to zero in the second quarter of 2020 for all East African countries. This affected forex earnings and revenue along the chain, such as hotel and accommodation, and travel businesses. Indeed, according to Uganda's Ministry of Tourism, Wildlife and Antiquities (2020), before the pandemic struck, hotels' occupancy rate was 58.2%, which significantly reduced to an average of 5.3% between March 2020 and June 2020 and was expected to fluctuate between 10% and 20% up to the end of 2020. In

Kenya, the embarked passengers through Jomo Kenyatta International Airport (JKIA) and Moi International Airport (MIA) dropped to almost zero in the second quarter of 2020 and remained low through the remaining part of the year. The situation was similar in other East African countries because of limited international flights, and a ban on social gatherings.

The pandemic affected imports because it disrupted logistical flows of goods and services across borders. This affected the production sectors, especially those that depend on imported raw materials. Indeed, this study found that the value of imported capital and intermediate goods in Uganda dramatically reduced between March and June 2020. The imports, however, started rising after June 2020, corresponding to the easing of lockdowns, albeit at a slow rate.

The study found that MSMEs suffered during COVID-19. For instance, a number of businesses closed during the three months of lockdown, and this greatly reduced cash flow. Some businesses such as entertainment and art, and those providing accommodation suffered more than others. In addition, business turnover reduced significantly especially for businesses that closed during the pandemic. The entertainment industry has not been opened to date, and many business owners in the field have lost incomes, and many sold their businesses off. The businesses have devised a number of strategies to ensure continuity, such as cost-cutting, diversification of sales, and adoption of use of PPEs.

Business performance has affected employment, with many businesses significantly reducing their payroll. Indeed, a study on East African businesses by EABC (2020) found that most businesses opted to lay down 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, who were more affected by COVID-19 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 the inequality challenge.

While most governments were quick to rollout the stimulus package to aid fast recovery from the pandemic, not many businesses especially MSMEs have received such support because of informality and high risk. 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 the COVID-19 pandemic. Indeed, a study in Kenya by KAM and KPMG (2020) found that pharmaceutical businesses were not affected by the pandemic. Also, COVID-19 has driven the growth in use of digital technologies, especially use of webinars for meetings, and online marketing.

6. Conclusion and policy recommendations

Conclusion

This study used different datasets to examine the implications of COVID-19 on private investments and markets in East Africa. The results show that the pandemic has negatively affected the stock markets, whose performance has remained poor through February 2021. The results also show that FDI inflows and remittances to EA countries reduced during the COVID-19 period. In addition, tourism revenue for foreign tourists reduced to zero in the second quarter of 2020, hence not only affecting forex earnings by the East African countries but also multiple businesses along the chain. Indeed, the analysis revealed that MSMEs in accommodation and entertainment industries suffered more relative to those in other sectors. The findings also revealed that government support has not reached many businesses.

Policy recommendations

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

1. Extend support to businesses that are struggling, specifically targeting those businesses that closed for a long time or those whose customer base has significantly been affected by the pandemic, such as tourism and hospitality industry.
2. Enhance the provision of financial support in form of subsidy, loan restructuring, and tax holidays, among others to businesses that are struggling. The study found that business support has focused on enhancing the use of PPEs but less on the financial support, which is key for aiding recovery of businesses.
3. Provide safety net interventions in form of food aid targeting those who have lost jobs, or those whose payments have significantly reduced, to address food insecurity. The study found that payroll reductions affected the lowest ranking employees in these businesses.

4. East African country governments should consider temporary removal employment taxes/levies to encourage employers to retain the existing workers and avoid downsizing during COVID-19 pandemic.
5. Promote alternative marketing channels such as E-commerce to address the logistical challenges with the conventional marketing methods. This is necessary given that the future of the pandemic is still uncertain. Some countries such as Uganda which closed social media for almost a month since 13th January 2021 exacerbated the effects of the pandemic because many businesses had turned to different social media platforms for marketing.
6. There is a need to harmonize interventions at the EA level to enhance efficiency and trade flows within the region. For example, multiple border tests have created delays and affected businesses.
7. East African partner states should ensure free movement of goods across borders. Accordingly, there is need to remove all charges such as Import Declaration Fees and Railway Development Levy for imports of raw materials, capital goods, intermediate goods and essential goods. This will provide relief to manufacturers/ producers and make such goods available at affordable prices.
8. East African country governments should grant an extension to businesses in filing their tax returns (Value Added Tax, Pay as You Earn, Excise Duty and Withholding Tax) to give relief to businesses that would not be able to meet their tax filing obligations as they struggle to mitigate the impact of COVID-19 pandemic.
9. There is need to leverage on and use digital technologies.
10. There is need for each of the East African countries to create national sovereign funds to cushion the countries against future shocks.

Notes

1. The author has benefited from the helpful guidance of the anonymous reviewers. The author also thanks the participants of the African Economic Research Consortium (AERC) East Africa Regional Policy Forum for the comments and suggestions; and Anthony Mveyange, Laura N. Naliaka, Mark Korir, Isaac Shinyekwa, Ambrose Ogwang and Enock Bulime for data assistance and advice. The research study was supported through a grant from the AERC.

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

3. https://tradingeconomics.com/.

4. https://tradingeconomics.com/uganda/stock-market.

5. https://tradingeconomics.com/kenya/stock-market.

6. https://tradingeconomics.com/tanzania/stock-market.

7. Stock market index is computed from the prices of selected stocks, typically a weighted arithmetic mean, and it measures a stock market or a subset of the stock market that helps investors compare current price levels with past prices to calculate market performance.

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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.

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