

EABC SNAPSHOT SURVEY ON THE IMPACT OF COVID-19 ON BUSINESS AND INVESTMENT IN THE EAST AFRICAN COMMUNITY REGION



EABC SURVEY REPORT

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in East Africa

REPORT ON EAST AFRICAN BUSINESS COUNCIL SNAPSHOT SURVEY ON THE IMPACT OF COVID-19 ON BUSINESS AND INVESTMENT IN THE EAST AFRICAN COMMUNITY REGION

INTRODUCTION

The outbreak of Corona Virus Disease (COVID-19) since December 2019 has created a global health, social and economic crisis that has had a deep impact world's economy. The outbreak was declared a global pandemic by the World Health Organization (WHO) on 11 March 2020.

All of the East African Community Partner States namely Burundi, Kenya, Uganda, Rwanda Tanzania and South Sudan have recorded cases of COVID-19. The outbreak has led to some measures such as travel bans, curfew and lockdowns which are causing negative impacts on business and investments in the region.

In response to this global economic crisis, the East African Business Council (EABC) undertook a survey on the outbreak of the COVID-19 and its impact on East African businesses and investments. The survey aimed at establishing the extent and the expected impact of the spread of COVID-19 on business cash flow, sales, and employees as well as getting views of business owners on what should be done to mitigate the impact of COVID-19 pandemic on businesses in the EAC. The survey also intended to find out which sectors have been affected more by COVID-19.

Finally, the findings of the survey are expected to inform EABC's recommendations to EAC policymakers and the private sector on appropriate measures that EAC Partner States should take in order to mitigate the impact of COVID-19 pandemic to businesses in the EAC region.

METHODOLOGY

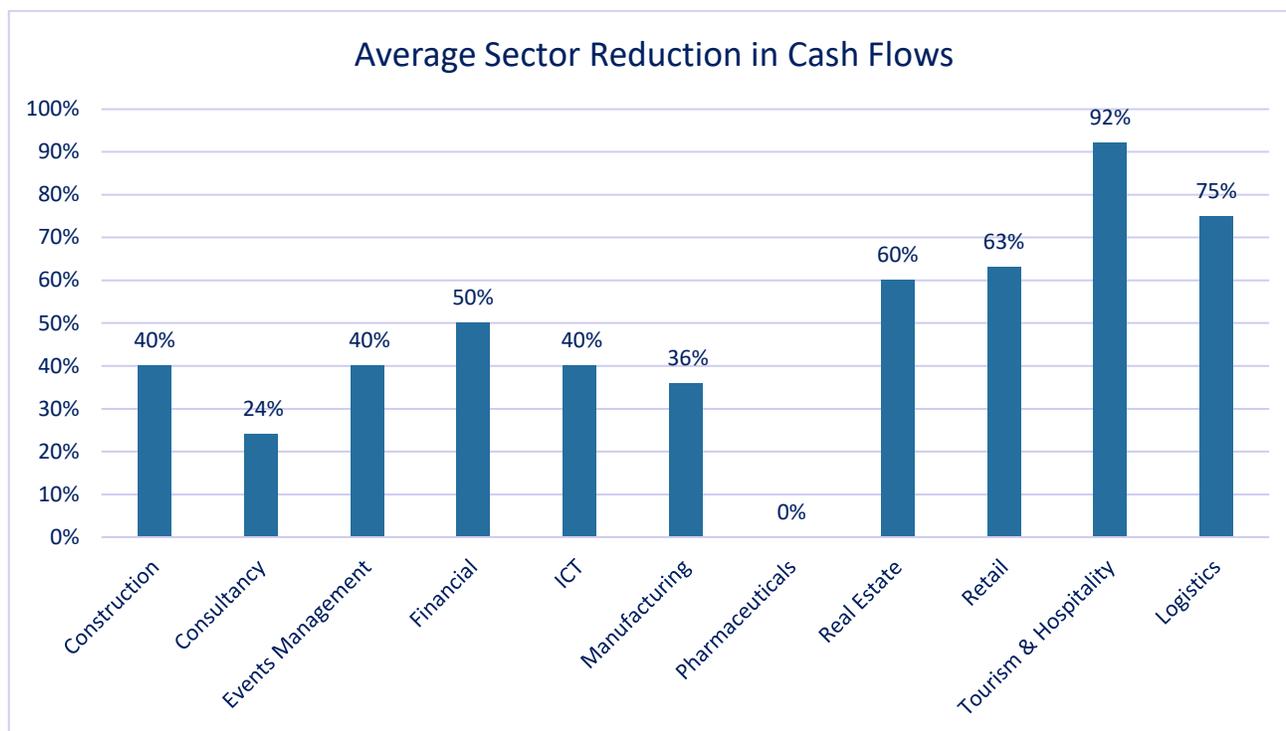
Source of Data for this survey were collected using an online survey whereby a questionnaire was sent out to EABC members and non-members from different sectors in EAC region. Respondents were asked to indicate how COVID-19 affected their business cash flows in their respective sectors and suggest mitigation measures.

RESULTS

The findings of the survey are as follows:

1. ON SECTOR CASH FLOW

Sector	Reduction in Cash Flows (Average)
Construction	40%
Consultancy	24%
ICT & Events Management	40%
Financial	50%
Manufacturing	36%
Pharmaceuticals	0%
Real Estate	60%
Retail	63%
Tourism & Hospitality	92%
Logistics	75%



The survey established that tourism, logistics, and retail have significantly experienced a higher percentage of reduction of cash flow of 92%, 75% and 63%, respectively. Other sectors affected include: Real estate, Finance, construction, Events management, ICT, manufacturing and consultancy. However, the Pharmaceutical sector has recorded zero effect on cash flow. The COVID-19 pandemic has attributed to the increase of demand for pharmaceutical products as well as decisions of EAC Partner States to allow movement of essential goods such as pharmaceutical businesses during this pandemic.

According to the response from respondents of the survey, the reduction of cash flows will continue disrupting value chains and may lead to the closure of businesses and investment projects as well as increase the rate of unemployment unless EAC Partner States come up with appropriate measures to mitigate the impacts of COVID-19 pandemic.

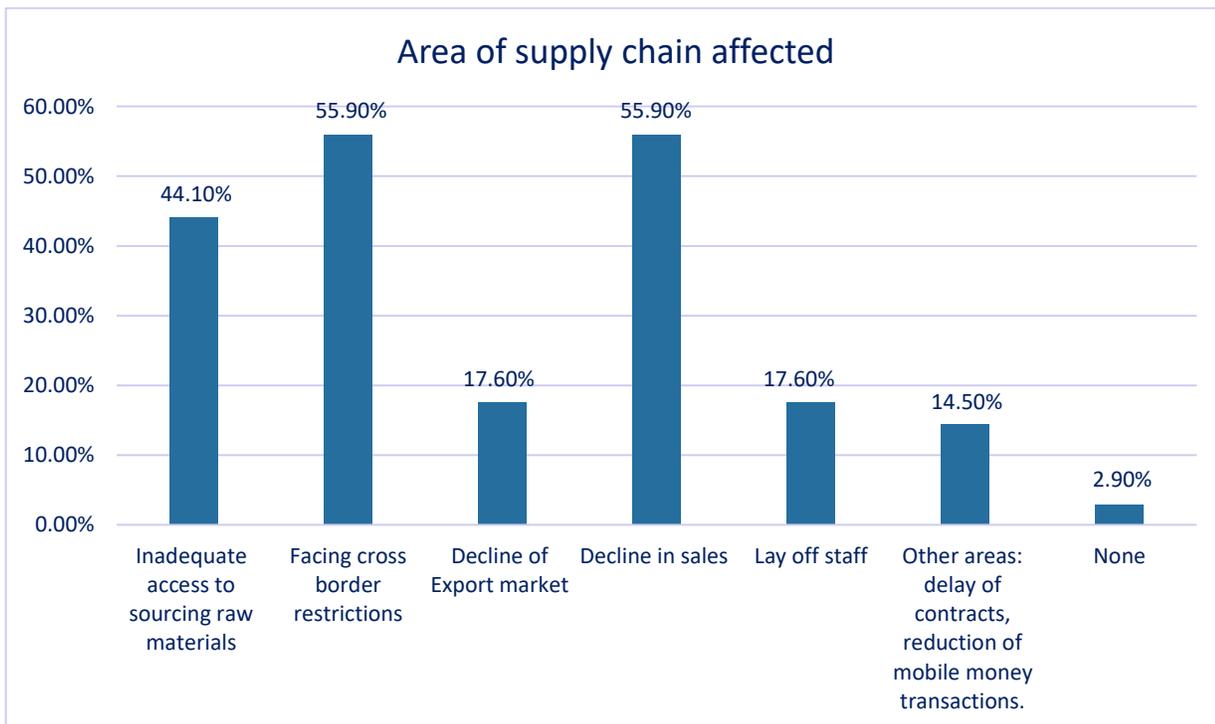
To mitigate the impact of the reduced cash-flow, EABC recommends as follows:

- I. EAC Governments to allocate enough funds to cater for outstanding Value Added Tax (VAT) Refunds and domestic debts. The payment will give businesses the needed liquidity to boost their working capital during the COVID19 period;
- II. Central banks need to extend lending facility to commercial banks (Releasing special fund);
- III. Central banks to lower Central Bank Rate to enable commercial banks to borrow at a lower rate at Central banks and lend to businesses at lower lending rates;
- IV. Reduction of Corporate Tax Rate to 20%. This will enable businesses/companies to have cash which can be invested back to the businesses to boost the working capital to sustain businesses;
- V. EAC Governments need to consider granting an extension to businesses in filing their tax returns (Value Added Tax, Pay as You Earn, Excise Duty and Withholding Tax). This will give relief to businesses which would not be able to meet their tax filing obligations as per the period specified in the law, as they struggle to mitigate the impact of COVID-19 pandemic;

VI. Authorize companies in full compliance with the COVID-19 SOPs to continue in operation as compared to a complete lockdown of the factories.

2. WAYS IN WHICH BUSINESSES AND INVESTMENTS HAVE BEEN AFFECTED

Area of supply chain affected	% of respondents affected
Inadequate access to sourcing raw materials	44.1%
Facing cross border restrictions	55.9%
Decline of Export market	17.6%
Decline in sales	55.9%
Lay off staff	17.6%
Other areas: delay of contracts, reduction of mobile money transactions.	14.5%
None	2.9%

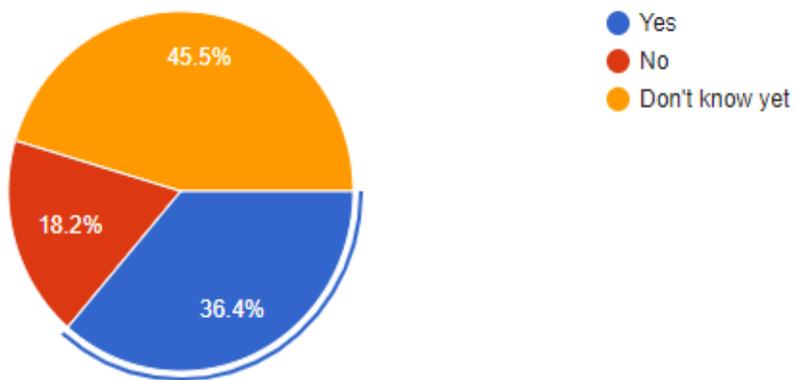


Based on the data analysis presented above, COVID-19 as affected companies as follows: decline in sales (55.9%), increased cross border restrictions (55.9%) and challenges to source raw materials (44.1%). Other ways in which businesses have been affected are; reduction in the export market & laying off staff (17.6%), delay of contracts and reduction of spending by customers (14.5%).

Recommendations

- I. EAC Partner State to allow free movement of goods across borders
- II. There is a need for removal of all other charges of equivalent effects (such as Import Declaration Fees-IDF & Railway Development Levy-RDL) 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.
- III. EAC Partner States to reduce the standard Value Added Tax rate to at least 12% during the COVID-19 period. This will protect consumers across the EAC Partner States against high prices and enable them to access consumable goods and services at affordable prices hence increase of sales.

3. COMPANIES DECISION ON LAYING OFF STAFF



Under conditions of economic stagnation, enterprises' uncertainty to continue with business poses a major challenge and places a significant impact on employment.

Many of the respondents (45.5%) are still in a dilemma. They have not yet decided whether to maintain or lay off staff. While 36.4% have decided to lay off staff and 18.2% will not lay off their staff. Laying off of staff will have multiple effects on EAC economies leading to a higher level of unemployment.

Recommendation

- EAC Governments to consider temporary removal employment taxes/levies (Skill Development Levies). This will encourage employers to retain the existing workers and do away with downsizing in the midst of COVID-19 pandemic

4. PROJECTED PERIOD OF BUSINESS SUSTAINABILITY WITH THE CONTINUED COVID-19 PANDEMIC

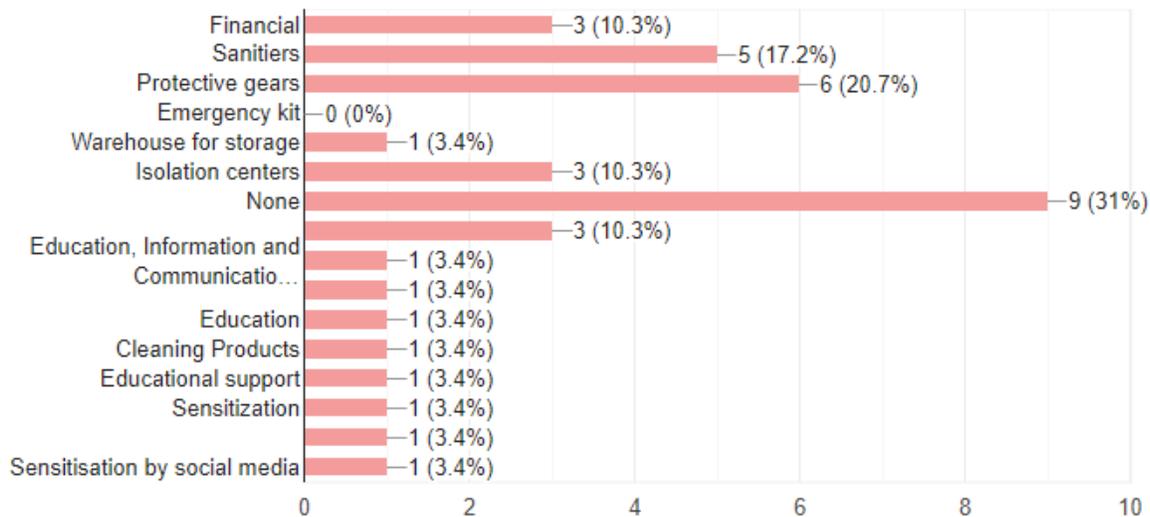


The spread of COVID-19 has also generated substantial uncertainty for EAC businesses which may result in the closure of business and investments. 41.2% of the respondents said their business maybe not sustainable for more than 6 months. While 29.4% said their business may sustain between 6 months and 1 year. Few said their business will be able to sustain if the situation of COVID-19 pandemic continues.

Recommendations

- I. EAC partner states governments to offer stimulus packages for most affected sectors and business.
- II. Central banks need to extend lending facility to commercial banks (Releasing special fund)

5. AREAS COMPANIES MAY OFFER SUPPORT TO MITIGATE THE IMPACT OF COVID-19



Most of the companies (44.7%), are ready to support government and community through providing material support such as protective gear, sanitizers, cleaning products, warehouses for storage and cleaning products. While others are ready to offer financial support (10.3%), isolation centers (10.3%) and 3.4% are ready to offer awareness and education support through social media.

However, some companies (31%) didn't show commitment to supporting the government in terms of donations to mitigate the spread of COVID-19. This may be as a result of the negative effects companies have experienced since the outbreak in December 2019.

CONCLUSION

The East African Business Council (EABC) commends Partner States governments and private sectors for their efforts and measures towards mitigating the impact of COVID-19 on the EAC economies. The EAC Partner States should closely involve the private sector and agree on a coordinated EAC / regional approach of measures and responses on COVID-19. This is vital for business continuity safeguarding jobs, exports and facilitating free movements of goods and services across the region.

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