Chapter 8 COVID–19 and investment in Africa

Since it emerged in December 2019, COVID–19 has taken lives and damaged health across the world. To date, 117 million people have been infected and 2.6 million have died from the disease. In Africa, there have been close to 4 million cases and 106,000 deaths. Egypt, Ethiopia, Morocco, South Africa and Tunisia are the most severely affected African countries. By March 2021, vaccination programmes started in several countries on the continent, but the quantity of vaccines available and the speed of deployment have been uneven. With successive surges of infection, COVID–19 could remain a major risk to health and economies in Africa for some time.

More than a health emergency

The health consequences are tragic for the continent, and COVID–19’s impact goes further. The pandemic is an “economic disaster, a security disaster and a humanitarian disaster—and they’re all interrelated,” according to John Nkengasong, the head of the Africa Centres for Disease Control and Prevention.

The economic cost has been severe and, without drastic actions by policymakers, could continue to be so. The Economic Commission for Africa projected that GDP growth would drop from 3.2 per cent in 2019 to between 1.8 and −2.6 per cent in 2020. The International Monetary Fund (IMF) revised its 2020 GDP growth forecast for Africa (excluding North Africa) to −3 per cent, the region’s worst performance since the IMF started keeping a record. Those are preliminary estimates, which are frequently reassessed with significant downside risk due to the uncertain depth and duration of the pandemic.

The pandemic led to a fall in foreign direct investment (FDI) in Africa in 2020 and will likely continue to put downward pressure on investment in 2021. The reduction in foreign investment inflows, a key source of financing for the continent, could harm Africa’s development. FDI could play an important role in alleviating the immediate economic impact of the pandemic and supporting economic recovery through technology transfers, job creation and linking Africa to global value chains (GVCs).

Foreign direct investment flows before COVID–19

Global FDI was already slowing before the coronavirus outbreak. In 2018, worldwide FDI inflows were $1.3 trillion (figure 8.1), lower than for any other year since the aftermath of the 2008 global financial crisis. In Africa, investment inflows peaked in 2008, dropped steeply for three consecutive years following the global financial crisis, and recovered to $57 billion, nearly their pre-crisis level, by 2015. They fell to $41 billion in 2017 before rising to $46 billion in 2018. The
2017 drop likely results from both global factors—decreasing returns on FDI, a shift towards asset-light investments enabled by digitalization, an erosion of investor confidence, and US tax policy changes to encourage capital repatriation—and specific political, macroeconomic and regulatory uncertainties on the continent. (See chapter 1 for FDI trends in Africa).

Figure 8.1 FDI inflows, 2000–2018

COVID–19’s impact on foreign direct investment in Africa

Channels of transmission

The pandemic is the primary cause of the decline in FDI in Africa. By 13 May 2020, every country on the continent had confirmed cases. Since then, Africa has experienced multiple outbreaks of infections. To protect the lives and health of their citizens, countries have imposed varying levels of lockdowns and travel restrictions. Businesses have closed and re-opened, and workers are asked to work from home. Economic activities have contracted. On the demand side, consumers and firms with actual or expected reduced earnings cut down discretionary spending. And on the supply side, the pandemic has disrupted production and global supply chains, affecting firms’ access to raw materials and intermediate inputs.

The impact on FDI is amplified by specific vulnerabilities in Africa (figure 8.2). Some key host sectors (particularly oil and gas, manufacturing and travel and tourism) have been hit the hardest by plunging demand and prices. Major investor countries and regions—China, Europe and the United States—are among the economies most affected by COVID–19. These factors have eroded investor confidence, prompted a generally negative economic outlook and severely reduced the earnings of...
multinational enterprises (MNEs). Investors are unable or unwilling to make new investments, decreasing all the key components of FDI: reinvested earnings, greenfield projects, and mergers and acquisitions (M&A). Altogether, FDI inflows plummeted in 2020 and could continue to fall in 2021 (figure 8.2).

**Figure 8.2 Channels of COVID–19 effects on foreign direct investment**

Source: ECA
Lockdowns and travel restrictions

African countries have introduced measures to restrict movement within their own borders, including school and business closures, cancellations of public events, bans on large gatherings and closing or reducing public transport capacities. By 4 May 2020, Africa had 42 localized or national lockdowns, 38 of them for more than three weeks. Although some countries have begun easing lockdowns and movement restrictions, the World Health Organization has urged United Nations Member States to put in place effective surveillance systems to detect any spikes in new infections and to adapt their opening-up measures accordingly.

Land and air borders were closed, and air links between the continent and international destinations significantly reduced. For example, before the pandemic, an average of eight flights connected destinations in China and Africa every day, up from one a day in 2000. In 2019, Ethiopian Airlines operated daily flights from its Addis Ababa hub to Beijing, Guangzhou, Hong Kong and Shanghai and three flights a week to Chengdu. In contrast, at the end of May 2020, it only offered one flight a week to Shanghai, though the number of its daily flights to China has since increased.

Domestic and international mobility restrictions affect FDI in two ways. First, shuttering factories, workplaces and construction sites delays investment projects. Second, disrupted international flights suspend or cancel trips to Africa by expatriate workers—a workforce that FDI projects often rely on, especially in technical and managerial positions—interrupting the implementation of such projects.

Demand shocks and supply/input disruptions

The COVID–19 pandemic has resulted in severe, simultaneous demand and supply shocks. Consumers and businesses spend less, due to actual or anticipated income loss. And workers and firms produce less, since health risks force them to adopt alternative working arrangements and to close manufacturing plants.

Survey results offer worrisome pictures of the pandemic’s impact on businesses’ current performance and future outlook. In a global pulse survey in March 2020, 80 per cent of MNEs with investments in developing countries said their operations were affected by the coronavirus in the past three months. The same proportion of respondents reported lower revenues and profits (by 40 per cent on average), while three quarters reported that supply chain reliability had deteriorated. Forward-looking sentiments are just as grim: 85 per cent of the MNEs surveyed expected business conditions to worsen in the following three months.

In Africa, an April 2020 survey found that, on average, African firms were operating at less than half capacity, with micro, small, and medium-sized enterprises being the most affected. A plunge in demand was the biggest challenge they faced. Supply-side issues—business closures, logistical problems, disruptions in access to raw materials and lower worker productivity due to work-from-home arrangements—were also a hindrance.
Demand and supply shocks reduce MNE earnings, thus limiting their ability to make new investments and even forcing some of them to divest. The shocks also lower returns on FDI, making it less attractive. In the longer term, uncertain business outlooks and heightened risks lead investors to adjust their portfolios towards safer assets and adopt a wait-and-see approach.

Other transmission channels

In addition to the physical and economic disruptions to foreign investment in Africa just described, the pandemic will act through various secondary means. First, COVID–19 has wreaked havoc on financial markets. In the immediate aftermath of the pandemic, investors withdrew record amounts of portfolio investment from developing countries, leading to deep currency depreciations and widening sovereign bond spreads.628 The exchange rate and sovereign bond problems pose additional risks for longer-term investors, since fluctuating currencies and the potential for capital control measures could reduce returns on FDI and make repatriating capital more difficult.

Delays in privatization plans are likely to defer an important source of FDI flows. A number of African governments were in the process of privatizing key sectors of the economy before the pandemic struck. For example, Ethiopia had planned to finalize the sale of a stake in state-owned Ethio Telecom to private investors and to award two additional telecom licences by March 2020, but winning bids had not yet been announced by March 2021.629 COVID–19 has redirected public resources and priorities elsewhere and obliged governments to more carefully review merger and acquisitions transactions in strategic sectors.

The coronavirus may also accelerate pre-pandemic trends towards reshoring and value chain shortening caused by a downturn in global manufacturing and rising trade tensions. The pandemic has exposed weaknesses in global value chains as global transport links are severed and multiple countries ban the export of essential medical equipment and supplies. After the pandemic, some businesses may reassess their business models and reduce the distance between production and their home markets. MNEs may shift further to automated production and turn from using China as the sole or dominant supplier.630 These changes could profoundly affect the African investment landscape but are ambiguous. While robotization—particularly of the lower rungs of production—would threaten labour-intensive models of industrialization, MNEs’ increased appetite for alternative chains of production to China could unlock new opportunities for African economies.

Vulnerabilities and feedback loops

Oil and tourism as vulnerable sectors

Nearly all economies have experienced lower FDI as COVID–19 works its way through the physical and economic transmission channels. But just as the coronavirus affects patients with pre-existing conditions more severely, the final magnitude of the pandemic’s impact on FDI depends on pre-pandemic vulnerabilities in different countries and regions.
Africa’s dependence on the oil and tourism sectors creates a feedback loop that amplifies the pandemic’s impact on FDI in Africa. Oil exporters (and commodity exporters more generally) and economies that rely on tourism receipts are expected to be among those hit worst by COVID–19, as world oil prices have crashed to historic lows and international travel has come to a standstill not seen in decades.631

Of the world’s 20 countries most dependent on oil revenues, 8 are in Africa (figure 8.3). Since the onset of the pandemic, oil prices have slumped to the lowest levels in decades, driven by both slowing global demand and the failure of major oil producers to agree on production cuts.632 And with commodity prices falling sharply, 13 African countries are projected to suffer an erosion in terms of trade in 2020, with 6 experiencing a fall of more than 10 per cent.633 The IMF projected the GDP of African oil-exporting countries would contract by –2.8 per cent in 2020, compared with 1.8 per cent growth in 2019.634

Figure 8.3 Oil rents as a percentage of GDP, top 20 countries, 2017

Source: World Bank, World Development Indicators.
Note: The South Sudan figure is for 2016, Syria figure is for 2007 and the Venezuela figure is for 2014.
COVID–19 has substantially harmed Africa’s top destinations for tourist arrivals and the countries most dependent on tourism. The continent’s largest tourist stops (figure 8.4) are countries in North and Southern Africa with high numbers of confirmed COVID–19 cases and deaths. Six African economies depend heavily on receipts from tourism, with the sector accounting for more than 5 per cent of GDP and 30 per cent of exports. Those countries will be severely affected by the pandemic: after their GDP growth was 3.9 per cent on average in 2019, it was projected at −5.1 per cent for 2020.

Figure 8.4 International tourist arrivals, top 10 African countries, 2018

Before the pandemic, except in some diversified countries, FDI in Africa was still largely resource-seeking. The year 2018 saw big-ticket foreign investments in oil and gas exploration and production and petroleum refining in major host countries such as Republic of Congo, Egypt and Ethiopia. And given Africa’s increasing popularity as a tourist destination, investments in travel and tourism were on the rise, reaching $28.2 billion in 2017. COVID–19 is dampening investment inflows into those sectors.
COVID–19’s economic impact on major home countries/regions

The pandemic’s negative effect on foreign investment is also magnified by the continent’s close trade and investment links with countries that have been devastated by COVID–19. The largest investors in Africa (figure 8.5) are among the world’s largest epicentres of the pandemic (table 8.1).

Figure 8.5 Top home economies for foreign direct investment in Africa

### Table 8.1 Top 30 countries for COVID–19 cases

<table>
<thead>
<tr>
<th>COUNTRY</th>
<th>NUMBER OF CONFIRMED CASES</th>
<th>COUNTRY</th>
<th>NUMBER OF CONFIRMED CASES</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States</td>
<td>28,999,542</td>
<td>South Africa</td>
<td>1,521,068</td>
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<tr>
<td>India</td>
<td>11,229,398</td>
<td>Ukraine</td>
<td>1,455,421</td>
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<tr>
<td>Brazil</td>
<td>11,019,344</td>
<td>Indonesia</td>
<td>1,386,556</td>
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<tr>
<td>Russia</td>
<td>4,284,408</td>
<td>Peru</td>
<td>1,371,176</td>
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<tr>
<td>United Kingdom</td>
<td>4,231,166</td>
<td>Czech Republic</td>
<td>1,325,291</td>
</tr>
<tr>
<td>France</td>
<td>3,964,078</td>
<td>Netherlands</td>
<td>1,135,258</td>
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<tr>
<td>Spain</td>
<td>3,149,012</td>
<td>Canada</td>
<td>892,199</td>
</tr>
<tr>
<td>Italy</td>
<td>3,067,486</td>
<td>Chile</td>
<td>855,785</td>
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<tr>
<td>Turkey</td>
<td>2,780,417</td>
<td>Romania</td>
<td>828,283</td>
</tr>
<tr>
<td>Germany</td>
<td>2,510,021</td>
<td>Portugal</td>
<td>810,094</td>
</tr>
<tr>
<td>Colombia</td>
<td>2,276,656</td>
<td>Israel</td>
<td>803,260</td>
</tr>
<tr>
<td>Argentina</td>
<td>2,149,636</td>
<td>Belgium</td>
<td>787,891</td>
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<tr>
<td>Mexico</td>
<td>2,128,600</td>
<td>Iraq</td>
<td>726,548</td>
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<tr>
<td>Poland</td>
<td>1,801,083</td>
<td>Sweden</td>
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</tr>
<tr>
<td>Iran</td>
<td>1,689,692</td>
<td>Philippines</td>
<td>597,763</td>
</tr>
</tbody>
</table>

Source: Johns Hopkins, n.d.  
Note: Updated 8 March 2021.

Economic conditions in the pandemic epicentres have deteriorated. China was the first country to report cases in December 2019. The extreme government measures to curb the spread of the disease proved largely effective, but the resultant disruptions to China’s economic activities slowed its growth in 2020. France, Italy and the United Kingdom all posted negative growth in 2020, and the US unemployment rate reached its highest level since the Great Depression in 2020, though it has since recovered. COVID–19 has not spared the developing world: infections have been high in many developing countries, South Africa and India among them. Both economies contracted in 2020.

As the economic costs of the pandemic begin to hurt the investor countries, their MNEs saw significant slumps in sales and profits. Some have gone bankrupt. Their capacity to reinvest earnings in African affiliates and appetite for new investment projects are reduced, restricting future FDI inflows to the continent.
Magnitude of impact

The direction of COVID–19’s immediate effect on FDI is clear: investment inflows into Africa have fallen sharply and could continue to fall in the immediate term. Longer-term prospects depend on the scale and effectiveness of policy responses. As an exogenous health-induced shock, COVID–19’s epidemiological trajectory will largely determine its eventual economic costs. Since the pandemic is still unfolding in Africa, any attempt at this point to quantify its impact on investment flows is necessarily inaccurate and is constantly being revised (usually downward).

In March 2020, the United Nations Conference on Trade and Development (UNCTAD) estimated that FDI could plummet by 30–40 per cent in 2020–2021, reaching the lowest level in two decades. The world’s top 5,000 MNEs revised their earnings estimates for 2020 downward by 30 per cent on average. They also expected business operations to be affected beyond 2020. Since those MNEs account for a significant portion of foreign investment, their lower profits will directly cut into reinvested earnings in their affiliates, an important component of global FDI. Mergers and acquisitions are also slowing sharply—they were expected to drop 70 per cent in the first quarter of 2020. And site closures and production interruptions are causing investors to postpone or cancel both greenfield projects and expansion investments.

Forecasts by the Organisation for Economic Co-operation and Development (OECD) in May 2020 were broadly similar. FDI was expected to drop 30 per cent worldwide in 2020 due to declines in reinvested earnings and adjustments in equity capital flows, including divestments. The decline in FDI accelerates the downward trend already in place before the pandemic. In the best case, foreign investment will recover to pre-coronavirus levels by the end of 2021. But in two other, less optimistic scenarios, the slump will last longer, and eventual recovery will depend on the effectiveness of public health measures to contain the pandemic and prevent its recurrence. The OECD also projected inflows to drop more in developing countries than in developed countries due to the concentration of FDI in primary and manufacturing sectors severely affected by the pandemic.

In a January 2021 update, UNCTAD reported that global FDI flows fell 42 per cent from $1.5 trillion in 2019 to $859 billion in 2020—a level 30 per cent lower than the trough reached in 2009 after the global financial crisis. In Africa, foreign investment fell 18 per cent from $46 billion in 2019 to $38 billion in 2020, a level not seen for at least a decade—a dip deeper than that in developing economies (12 per cent) but less severe than either the fall in developed countries (61 per cent) or UNCTAD’s original projections (25–40 per cent).
**Policy implications**

COVID–19 has plunged the world into the deepest health and economic crisis in living memory. The seriousness of the challenges posed by the pandemic demands a whole-of-government response. Although fiscal and monetary policies have been at the forefront of the economic response, investment policies also have a key role. Keeping businesses and supply chains running can help save lives now, and maintaining smooth FDI flows can support a strong recovery.

**Short term: Protect lives and livelihoods**

In the short run, the main objectives of investment policies should be to provide investors with relevant information and operational support, prevent hostile foreign takeovers of companies in strategic industries, encourage investment in key COVID–19-related industries and incentivize the production of essential healthcare goods and services.

As FDI flows dry up in the short term, investment promotion agencies (IPAs) should shift their priorities from marketing to attract new investments to retaining already launched investment projects and providing services for them. An obvious service is providing investors with relevant and up-to-date information on lockdown measures, workplace health regulations and available government supports. Sadly, African IPAs are falling short: fewer than half had COVID–19 information on their websites as of early April 2020.

IPAs should also provide maximum administrative assistance to investors, including helping them obtain any financial support they are entitled to under economic stimulus plans. Where resources are scarce, governments can ease investors’ operational pain by prioritizing their access to raw materials and essential utilities such as electricity and water. And as alternative working arrangements become the norm for many businesses, internet access is critical. Extending business visas and work permits for foreign workers can also help investors keep vital staff on the grounds.

Countries in Africa should also use investment policies to safeguard domestic companies and industries from opportunistic takeovers. Under current market conditions, marked by simultaneous and to some extent mutually reinforcing demand and supply shocks, the share prices of public companies and the valuations of private ones are plunging, making them vulnerable to acquisition by hostile foreign investors at bargain-basement prices. Policy should focus on protecting firms in healthcare, pharmaceuticals and medical supplies by designating them as strategic sectors subject to lower M&A notification thresholds and more stringent reviews. Increased merger activity could result in more concentrated markets with less competition. Regulators must be vigilant in guarding against anti-competitive business practices and the abuse of dominant positions.
since weak companies that have not been bailed out will likely exit the market, while stronger peers will increase their market share. Where strategic companies are in financial distress, governments should consider taking ownership stakes directly, as opposed to privatization, which is more efficiency-driven and not based on protecting vulnerable consumers. Governments and IPAs need to clearly communicate to investors that these extraordinary measures are required by the circumstances of the pandemic and will be transparent, temporary and non-discriminatory.

Countries must do all they can to drive up investment in producing essential medical supplies by helping existing manufacturers expand capacity and incentivizing other manufacturers to convert production lines to this purpose. Such activities require major spending on fixed assets at a time when appetites for risk are low. Governments should help reduce risks for businesses either directly (for example, by subsidizing capital spending or making advanced purchase agreements) or indirectly (for example, by loosening tax rules to allow faster depreciation of fixed asset investments). IPAs can contribute to this effort by using their contacts to reach out to investors and guiding them through bureaucratic red tape to obtain any necessary permits or authorizations quickly.

Pooled procurement and production can be used to fill any supply shortfalls from domestic production. Africa has proved it can enhance continental capacity to detect and respond to disease threats by deepening regional cooperation through the Africa Centres for Disease Control. It must now do the same for access to medicines. Governments must fast-track approvals for pharmaceutical products, expedite regulatory and quality standards harmonization and accelerate the launch of the African Medicine Agency (AMA). With these measures, Africa can leverage its considerable economies of scale and collective bargaining power to buy essential drugs and medical supplies more affordably. In the longer term, it will also be able to position itself as an attractive investment destination for large pharmaceutical companies.

**Medium term: End lockdowns safely**

Investment policies can help societies end painful lockdowns safely in two ways: by preparing government services for a future that is more digital and by unlocking access to universally accessible vaccines.

As soon and as much as possible, IPAs and other government agencies should move public services online. The process began before COVID–19. For example, through the electronic investment guides (iGuides; see box 1.1 in chapter 1)—online portals jointly developed by governments, UNCTAD and ECA—investors can access updated information on investment opportunities, regulatory requirements and...
business costs in various African countries. At the regional level, the Common Market for Eastern and Southern Africa Digital Free Trade Area allows exporters to apply electronically for certificates of origin. Now that the pandemic has closed government offices and service points, a renewed push must be given to further digitizing public services. IPAs can start by conducting an investment life cycle analysis and map out end-to-end all the bureaucratic processes investors must go through: discovering information on investment laws, regulations and incentives; registering businesses; applying for licences and permits; paying taxes; filing regulatory reports; obtaining export documentation and so on. Governments can then prioritize for online migration services that are cumbersome for investors to access offline but fairly easy to offer online. IPAs should also take full advantage of digital technologies (video conferencing, virtual reality solutions and so on) for important investment promotion and facilitation activities, such as investor meetings and site visits.

Africa has shown ingenuity in responding to the pandemic. A team of engineering students in Tunisia used 3D-printing technology to produce medical face masks and a ventilator prototype, and scientists in Senegal developed COVID–19 diagnostic kits that cost $1 and can give results in 10 minutes. As the world turns its attention and resources towards developing vaccines for the virus, Africa must be an integral part of vaccine research, trials, manufacturing and distribution. To give vaccine research a boost, African governments must deliver on their commitment to raise spending on research and development to 1 per cent of GDP. They should also help researchers unlock additional funding through international mechanisms such as the $2 billion being mobilized by the Coalition for Epidemic Preparedness Innovations. After the successful development and testing of several vaccines, producing enough doses and distributing them quickly pose an immense logistical challenge. Countries must continue to strengthen national distribution systems. And building redundancy into vaccine supply chains by encouraging manufacturing close to where it is needed on the continent is crucial due to disruptions in global transportation and logistics. IPAs across Africa should collaborate closely to attract investment into vaccine production and supply, potentially using policy tools such as pooled procurement, capital expenditure subsidies and advanced purchase agreements, as discussed above.

Long term: Build back better

Once COVID–19 subsides, global competition for FDI will be intense. But on the plus side, investors will be looking to repair and build redundancy in severely damaged global value chains. Countries in Africa should incorporate the pandemic’s lessons into investment policy formulation and reforms to prepare better for future crises.

Some mitigation measures taken by governments during the pandemic could conflict with provisions of International Investment Agreements (IIAs) and investor–state contracts meant to protect investors (see chapter 3). For example, restricting exports or compelling firms to repurpose production lines
to make essential medical supplies might violate “fair and equal treatment” or “expropriation” clauses, exposing states to lengthy and costly investor–state dispute settlement proceedings. After the pandemic, governments in Africa should kickstart reforms of existing IIAs to ensure sufficient policy space to respond to global crises, including by enhancing governments’ right to regulate in the public interest. The United Nations Conference on Trade and Development publication Investment policy monitor: Special issue—investment policy responses to the COVID–19 pandemic highlights IIA provisions that are prime candidates for reform. These considerations should also inform the negotiations of the Investment Protocol in Phase II of the African Continental Free Trade Area (AfCFTA).

A crisis should not be allowed to go to waste, it is often said. Africa can take advantage of its experience with COVID–19 to better prepare for a world increasingly at risk of pandemics, natural disasters, economic crises and environmental catastrophes. Investment policies can play a critical role in protecting supply chains and strengthening the continent’s readiness to respond to future crises. The disruptions in global value chains and the protectionist tendencies witnessed during COVID–19 highlight the urgent need for Africa to develop regional value chains and reduce its external economic dependence. Governments should work closely together to identify strategic industries (pharmaceuticals, basic foods and others) where increased production on the continent should be encouraged. Pooled demand can also be leveraged to buy components or finished products from multiple sources, allowing Africa to build redundancy into essential supply chains. IIAs must reshape their strategies and operations in line with this broader economic imperative.

Continent-wide collective actions become even more important in a post-pandemic world of increased competition and uncertainty. The AfCFTA must be at the forefront of Africa’s economic recovery: as the worst of COVID–19 passes, AU Member States must refocus on Phase I implementation and Phase II negotiations. The Investment Protocol, in particular, will boost FDI inflows by harmonizing rules and creating a level playing field for investors. Further, COVID–19 has catalysed changes in consumer behaviour and the future of work, quickly moving employment and economic activities online. This transition presents Africa with a unique opportunity to capture the benefits of e-commerce and digitalization. In this light, the 13th Extraordinary Session of the African Union Heads of State and Government on 5 December 2020 decided to merge the negotiations of the AfCFTA E-commerce Protocol with those of the Phase II protocols on investment, competition and intellectual property. Africa, by leveraging its 1.2 billion–strong continental market, will be well positioned as an attractive FDI host.