

Impact of Covid-19 on Export and Investment Activities of German Companies in Sub-Saharan Africa

A guest commentary by Prof. Dr. Tilo Halaszovich and Sonja Mattfeld, Jacobs University Bremen

Background

The Covid-19 pandemic has affected global economies and business relations, yet the long-term implications on trade and investment flows as well as the consequences for global supply chains are not foreseeable. This uncertain outlook occurs in a moment of time where German policy makers and business associations have been fostering German companies to invest intensively in sub-Saharan Africa and cautious optimism started vis-à-vis the German activities on the continent. The volume of investment and trade between Germany and sub-Saharan Africa has increased over the past years and the question appears how these rather young business contacts – which are traditionally more fragile than long-established relations – are affected by the pandemic.

Given the relevance of the business relations with sub-Saharan African countries for the industry and the development cooperation in Germany, this study aims to understand the effects and implication of Covid-19 on trade and investment patterns. For this study, we collected data of 100 German companies on their plans before the pandemic as well as on the impact of Covid-19 (March-August 2020) and the outlook on future activities and investment in sub-Saharan Africa.

Regional focus and sample size

The focus of our study is based on the sub-Saharan African countries except South Africa as this region is economically relevant for German companies but rather underrepresented in research. Moreover, South Africa is subject to a vastly different Covid-19 situation: 702,131 confirmed cases in South Africa vs. 61,307 in Nigeria, 44,196 in Kenya, 47,232 in Ghana, 509 in Tanzania, 20,301 in Ivory Coast and 88,434 in Ethiopia.¹



Fig. 1 Regional focus Sub-Saharan Africa without South Africa

For this survey, interviews were conducted with relevant decision makers of 100 German businesses active in sub-Saharan Africa. 44 companies of the sample are invested in at least one sub-Saharan country. With a total of 220 German companies invested in the region, our sample represents 20% of all German investors. 86 companies in the sample have export activities with sub-Saharan Africa (equal to 8,6% of all German companies exporting to the region). In total, 45% of the 100 companies are active in five or more countries; thus, our sample represents 373 trade and investment activities in 36 sub-Saharan countries. The companies in the sample represent a broad picture of German industry.²

Status quo: Target countries, type of activities

The sampled companies are active in a diverse range of sub-Saharan host countries. Yet, a clear focus on the leading economies in West and East Africa is given (Nigeria rank 1, Kenya rank 2).

¹ Confirmed Covid-19 cases as per Johns-Hopkins-University on 18th Oct 2020.

² See annex A of the [original document](#) for more information on firm size, industry sector, number of countries and years of activities in sub-Saharan Africa

Impact of Covid-19 on Export and Investment Activities of German Companies in Sub-Saharan Africa

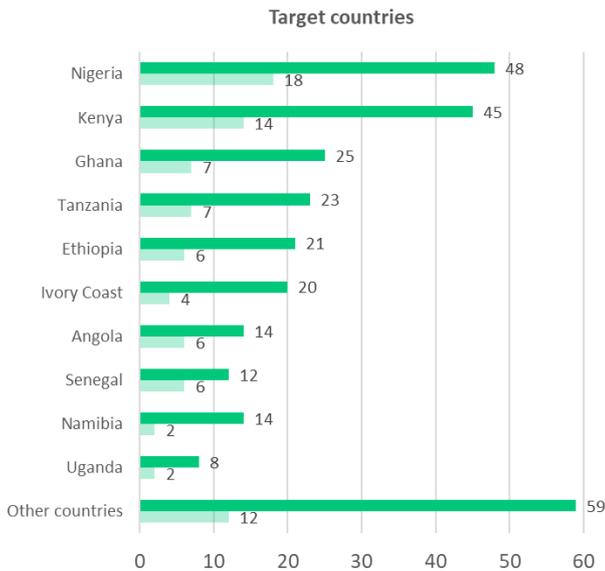


Fig. 2 Target Countries of German Activities

10% several distributors, and 14% other channels such as indirect exports via other countries. In contrast to this, only 18% of the exporting companies have no local partner and sell directly to the end client with their team from Germany.

A detailed overview of the distribution of the type of investments and trading activities in the top 6 countries shows a similar pattern.⁴

Activities in Ghana, Tanzania, Ethiopia, and Ivory Coast are almost evenly represented on ranks 3 to 5.

The nature of all 83 investment activities is equally distributed between pure sales offices (34%), sales and technical service companies (30%) and local value creation (34%)³. Thereby, the number of local employees increases with the depth of local involvement, i.e. sales offices have the smallest number of employees while local value creation employs most people.

Regarding the trading activities of German companies in sub-Saharan Africa it is noteworthy that these activities are also dependent on a high local involvement. 42% of all activities involve local agent/ representative, 16% exclusive distributors, 10% several distributors, and 14% other channels such as indirect exports via other countries.

Numbers of employees per investment type

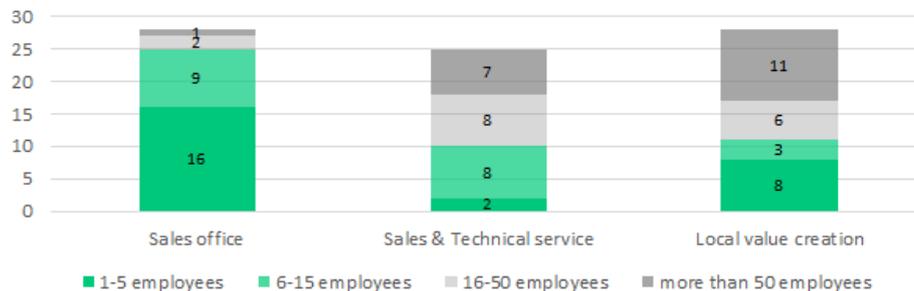


Fig. 3 Numbers of Employees per Investment Type

Original plans for 2020 and adaptations to Covid-19

As of January 2020, the companies in our sample planned to increase their engagement for a record number of 75% of all activities.

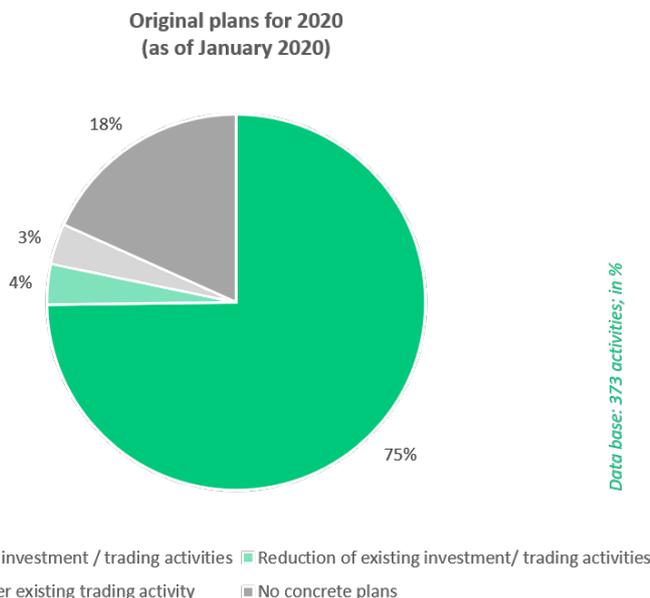


Fig. 4 Original Plans of German companies as of January 2020

These original plans clearly demonstrate a very positive outlook for German economic activities in sub-Saharan Africa before the Covid-19 pandemic hit the global economies. Only 4% of all activities were supposed to be reduced in 2020.⁵

³ We define local value creation here not only as production of goods, but also as value generating services such as logistics, consulting, engineering services, etc.

⁴ See annex B of the [original document](#).

⁵ The detailed views for the top 6

Data base: 373 activities; in %

Despite the expansion plans for 75% of the activities, only 13% of the investment and 6% of the trade plans could be executed. The scope of trade related activities has been affected much stronger

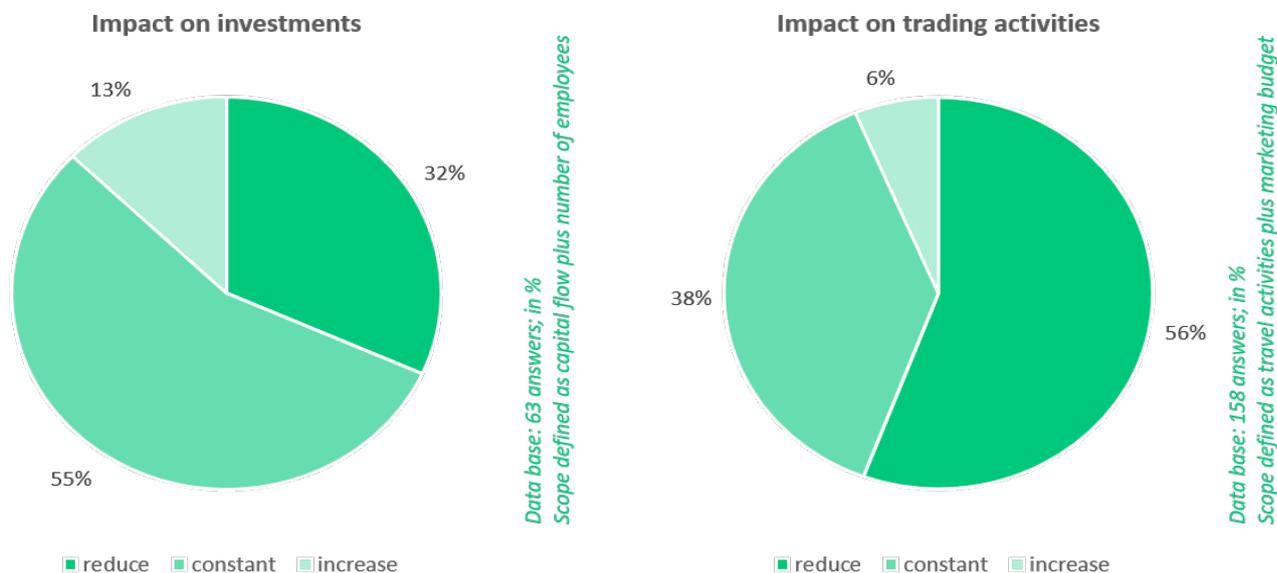


Fig. 5a and 5b: Impact on investment and trading activities

compared to investment activities which confirms that young trade relations are more fragile.

However, potential negative adjustments of investment scopes might still occur within the next months since time lags can often be experienced in investment scenarios. Trade activities, on the other hand, are easier to adjust in the short run by reducing/increasing travel or marketing budgets.

Focusing on the areas of reduction, it becomes obvious, that most cuts are indeed related to travelling (almost half of all activities) and marketing. Reductions in capital flows and employees are rather an

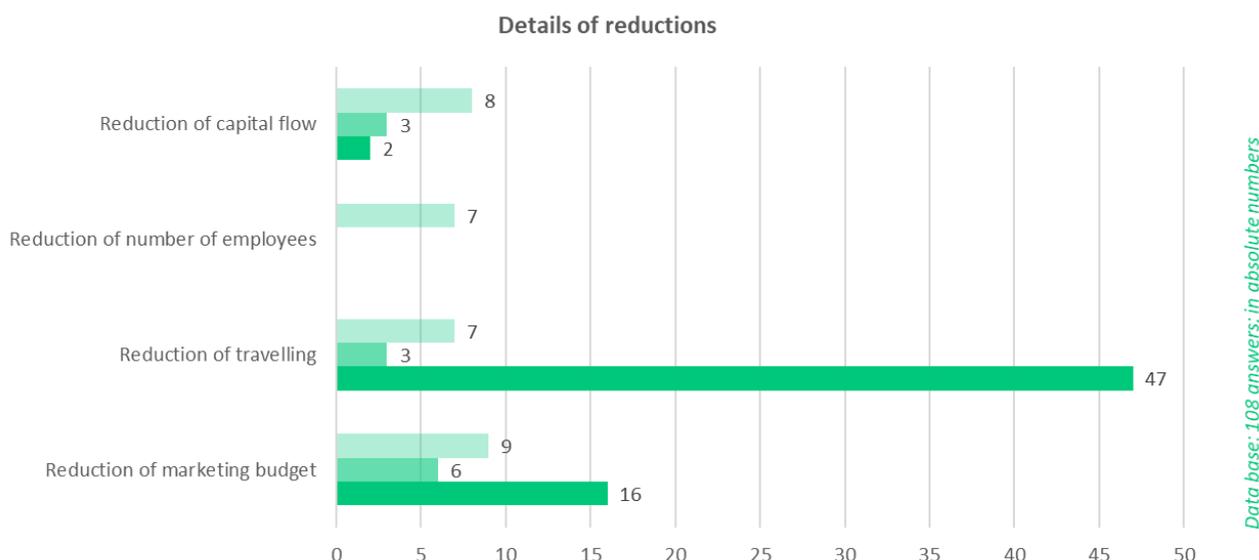


Fig. 6 Details of reductions activities

exception. Up to August 2020, reductions, therefore, have been related to current activities but not to the substantial nature of the business.

their business activities in sub-Saharan Africa as soon as possible. Most companies estimate to restart in the first or second half of 2021. Only 16% of the companies plan to postpone their activities to 2022. The strong intention by almost all German companies to increase their business activities throughout sub-Saharan Africa as soon as the conditions allow, implies a rush-hour effect with many activities launching within a very short period of time.

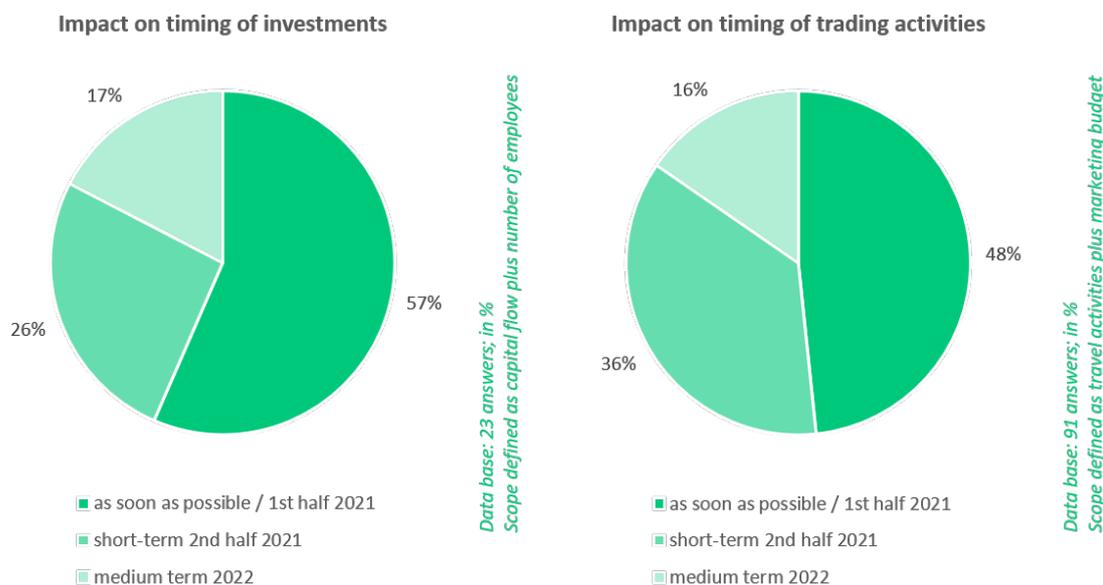


Fig. 7a and 7b Impact on timing of investments and trading activities

Shifting the perspective on the African business partners, German companies assume a severe impact of Covid-19 on these firms. Yet, the perceived impact is not as devastating as one could expect with 57% of all local business partners being able to keep their activities stable and 36% having to reduce. The outlook for a recovery is optimistic and expected for 2021 by 76% of the interviewees.

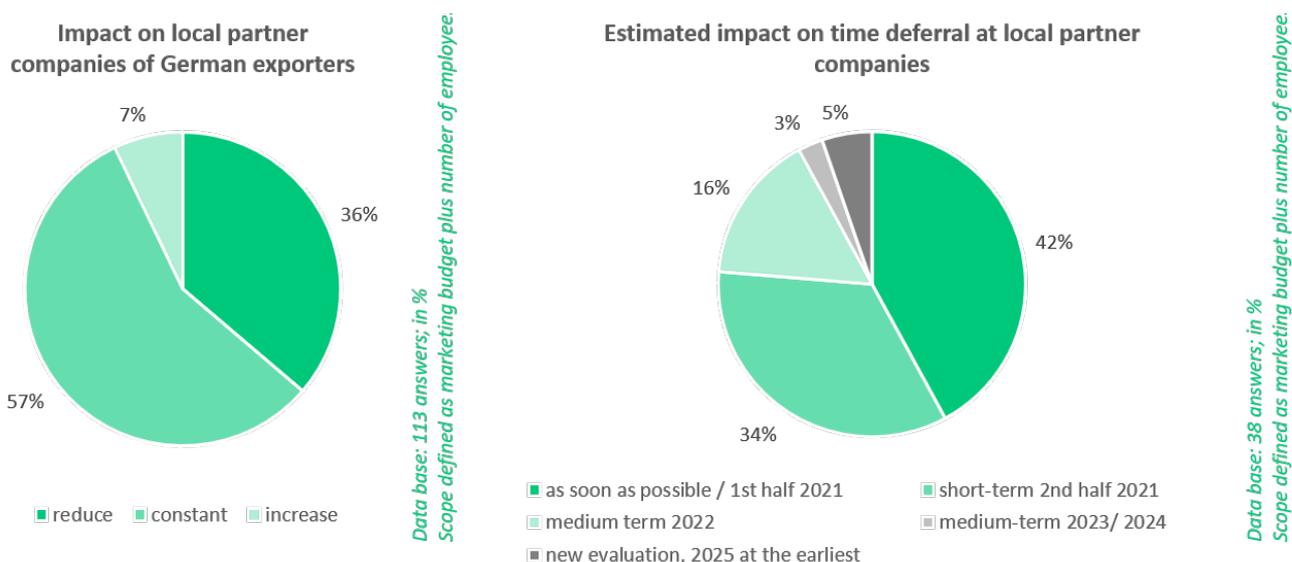


Fig. 8a and 8b Impact on local partner companies of German exporters

Critical decision factors for future engagement

In order to make strategic decisions and plans for the future engagement in Africa, different critical factors have to be fulfilled for German businesses. Most important is here the freedom and safety of travel which was often paired with the availability of a vaccine against Covid-19. German

businesspeople are here very much aware of the need that this vaccine should also be accessible in Africa and often emphasized this detail.

For the business performance itself, a recovery of the overall local and global economic situation is considered even more important than a vaccine. Local demand, solvency of clients and the stabilisation of the international finance and resource (oil) markets are judged essential prerequisites. Moreover, as per the interviewed companies the free flow of goods and improvement of supply chains within Africa are key enablers to continue the business in Africa.

Which factors need to be fulfilled in order to make concrete decisions regarding your future engagement in Africa?
(on public level and company level; mixed answers – covid-specific and non-covid-specific)

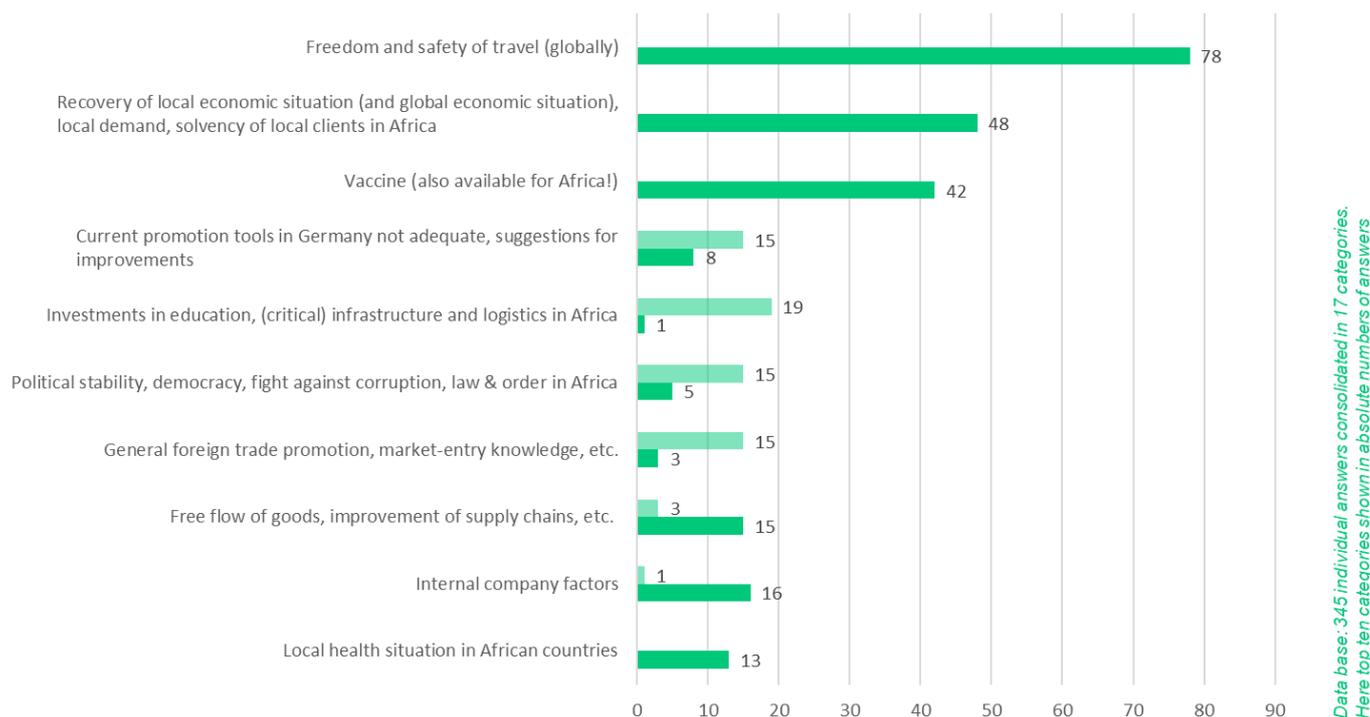


Fig. 9 Critical factors for concrete decision-making regarding future engagement in Africa

Besides the effects of Covid-19, the respondents also highlighted other factors which slow down German business activities in African countries. Most important in this regard are investments in education, (critical) infrastructure and logistics as well as improvements in the political environment (e.g. rule of law, fight against corruption, etc.). Economic and political stability and prosperity in sub-Saharan Africa are crucial factors for German businesses to develop their activities further.

Résumé

The overall plans of German companies towards sub-Saharan Africa are positive and only temporarily affected by Covid-19, so far. However, negative effects are visible, particularly on actual trading activities. The vulnerability of trade activities is due to the dependency on new inquiries from stable local economies, the missing personal relationships owing to travel restrictions and free flow of goods and functional logistics.

Thus, the study shows that for an analysis of the impact of Covid-19 on German business activities in sub-Saharan Africa it is crucial to understand first the nature of the relations themselves. The originally positive plans for 2020 and the optimistic trend to resume activities as soon as possible confirm the determination of German companies in the African markets. Although the number of companies active in sub-Saharan Africa is still very low, the present companies demonstrate a firm

commitment and that their market entry in Africa is a well-thought-through business decision.

As assumed at the beginning, the young, mainly trade-focussed ties, suffer more severely from the crisis since the personal interaction is still considered very important to build long-lasting and stable relations. However, we deduct from the data as well as from the expert interviews that once these relationships are established – either through local agents, distributors or own offices – communication can be easier maintained via virtual tools. At short term, it should therefore be key to support German companies in the research of individual local partners.

However, as much as the resilience to crisis increases with a closer integration into local value creation, it can of course not prevent the impact of local parameters, such as lockdowns, decrease of demand, dysfunctional logistics, etc. These individual economic strengths and weaknesses of countries, the political framework conditions and the embeddedness in international value chains and markets can only be influenced on a long-term base by development policies.

The full study is available [here](#).

Contact of the Authors

Prof. Dr Tilo Halaszovich | Sonja Mattfeld

Jacobs University Bremen

Campus Ring 1 | 28759 Bremen | Germany

Tel.: +49-421-200 3492 | +49-421-200 3477

E-Mail: t.halaszovich@jacobs-university.de | s.mattfeld@jacobs-university.de

Web: www.jacobs-university.de | pogmf.user.jacobs-university.de

Contact of the Initiator

Dr Karin Wedig

Chief Economist for Africa

giz Deutsche Gesellschaft für

Internationale Zusammenarbeit (GIZ) GmbH

Postfach 5180

65726 Eschborn

Tel: + 49 6196 79-1498

Email: karin.wedig@giz.de

Web: www.giz.de

Published by:

German Africa Foundation

Ziegelstraße 30

10117 Berlin

Tel: +49 30 28094727

Email: info@deutsche-afrika-stiftung.de

Website: www.deutsche-afrika-stiftung.de

17 Dec 2020