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COVID-19 and Market Response: Evidence From Listed Firms in Tanzania and KenyaRamadhani Nuhu Semvua^{1*}, Seth Kenedi Mbwambo²**Article Information****Received:** August 12, 2024**Accepted:** September 18, 2024**Published:** November 13, 2024**Keywords***COVID-19, Dynamic Panel Model, Financial Performance, Market Response***ABSTRACT**

This study investigates the effects of COVID-19 on the financial performance of listed firms in the financial and consumer goods industries in Tanzania and Kenya. The choice of Tanzania and Kenya as focal points is motivated by their contrasting responses to the pandemic and their roles as economic powerhouses in the region. Using data from the Dar es Salaam Stock Exchange and Nairobi Stock Exchange spanning the period from 2015 to 2022, the study employs the Dynamic panel-data model, the two-step system GMM, to quantify the impact of the pandemic. The research has two specific objectives: to analyze the effect of COVID-19 on the financial performance of listed firms in the financial industry and to assess its impact on the consumer goods industry in both countries. Key findings reveal that in the financial sector, firms showed resilience with a positive impact on profitability during the pandemic, driven by the adoption of digital financial services and effective risk management. In contrast, the consumer goods sector experienced a significant negative impact, highlighting severe disruptions in supply chains and consumer demand. Notably, firms in Tanzania outperformed those in Kenya, due to less restrictive COVID-19 measures. These findings suggest policymakers should support digital innovations, prudent leveraging, and economic growth to sustain and improve firm profitability during future disruptions.

INTRODUCTION

The COVID-19 pandemic has caused substantial global challenges, restructuring the economic outlook and stimulating the resilience of businesses Harjoto & Rossi, (2023). In Africa, COVID-19 has brought an adverse impact due to the grappling structural weakness that has persisted over time (Tetteh *et al.*, 2022). Tanzania and Kenya as two economies in East Africa, provide a special context for studying the market responses toward unexpected shocks. This study examines the financial performances of two publicly traded industries, namely, the financial and the Consumer goods industries, which are crucial for economic stability and expansions (Caporale *et al.*, 2022). The financial industry, which includes insurance providers, banks, and other financial organizations, is crucial for the economy's operation since it offers services necessary to sustain economic growth and corporate operations (Cutcu *et al.*, 2020). Nevertheless, the consumer goods industry plays an important role in sustaining livelihoods, boosting domestic consumption, and providing for the population's basic requirements (Chen *et al.*, 2020). These industries have faced numerous difficulties during the COVID-19 pandemic, such as supply networks, decreased consumer spending, and financial instability (Harjoto & Rossi, 2023).

The significance of understanding market responses during a global crisis like COVID-19 cannot be overstated. In East Africa, the financial markets are relatively less mature compared to those in developed economies, making them more susceptible to volatility and external shocks (Yang, 2024). The pandemic has exposed these vulnerabilities, leading to unprecedented challenges in both the financial and consumer goods

industries. For instance, according to the World Bank (2021), East Africa's economic growth contracted by 1.3 percent in 2020, with Tanzania and Kenya experiencing significant disruptions in trade and investment flows. These disruptions highlight the need for empirical studies focused on this region to better understand how such shocks affect market dynamics, which is crucial for developing strategies to enhance economic resilience (Zhao *et al.*, 2023).

Furthermore, the choice of Tanzania and Kenya as focal points is motivated by their contrasting responses to the pandemic and their roles as economic powerhouses in the region. Tanzania, for instance, initially adopted a unique approach by downplaying the severity of the pandemic (World Bank, 2020), while Kenya implemented strict lockdowns and social distancing measures (World Bank, 2020). This divergence in policy responses provides a natural experiment to assess the differential impact of COVID-19 on market performance in these two economies. Moreover, the financial and consumer goods sectors are vital to these countries' economic stability. The financial sector underpins economic growth by facilitating capital formation and investment, while the consumer goods sector is directly linked to the livelihoods of millions, particularly in the informal economy. By examining these industries, this study provides critical insights into how different sectors respond to global crises, thereby contributing to the broader discourse on market resilience in emerging economies.

Therefore, this study has two specific objectives, first, to analyze the effect of COVID-19 on the financial performance of listed firms in the financial industry in Tanzania and Kenya, and second to assess the effect of

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COVID-19 on the financial performance of listed firms in the consumer goods industry in Tanzania and Kenya. Moreover, these objectives help us address the following research questions: How has COVID-19 affected the financial performance of listed firms in the financial industry in Tanzania and Kenya? What has been the impact of COVID-19 on the financial performance of listed firms in the consumer goods industry in Tanzania and Kenya? Are there significant differences in the impact of COVID-19 on the financial performance of listed firms between Tanzania and Kenya?

The study employs the Arellano-Bound Generalized Methods of Moments (GMM) approach which addresses dynamic panel data sets, endogeneity, and heterogeneity and hence provides robust and reliable results (Arellano & Bond, 1991). The econometric model includes Return on Assets (ROA), firm size, leverage, and macroeconomic indicators like inflation and GDP growth. This research includes COVID-19 and a country dummy to provide specific effects between firms in Kenya and Tanzania. This study aims to contribute to the market response towards COVID-19 in Tanzania and Kenya by providing valuable insight into the resilience and adaptability of both financial and consumer goods industries. The findings of this research inform policymakers, business leaders, and stakeholders on effective strategies for mitigating the impacts of the pandemic and fostering economic recovery in Tanzania and Kenya.

This paper is structured as follows; after the introduction in Section 1, Section 2 discusses the related theoretical and empirical research on COVID-19 and firms' performance. Section 3 provides the methodology for the study, and the findings are discussed in Section 4. Finally, section 5 concludes the study and discusses some policy implications.

LITERATURE REVIEW

Theoretical Review

This research is underpinned by several key economic theories that explain the relationship between external shocks, such as the COVID-19 pandemic, and firm performance. The Dynamic Capabilities Theory posits that firms must integrate, build, and reconfigure internal and external competencies to address rapidly changing environments (Teece *et al.*, 1997). This theory emphasizes the importance of strategic management in adapting to external shocks like COVID-19. The Resource-Based View (RBV) focuses on a firm's internal resources and capabilities as the primary drivers of competitive advantage and performance, suggesting that firms with valuable, rare, inimitable, and non-substitutable resources are better positioned to withstand external shocks (Barney, 1991). Contingency theory posits that there is no single best way to manage an organization; instead, the optimal course of action is contingent upon the internal and external situation, highlighting the need for firms to adapt their strategies in response to the pandemic. Lastly, Institutional Theory emphasizes

the influence of regulatory, normative, and cognitive institutions on organizational behavior, suggesting that varying government policies and institutional responses in Tanzania and Kenya influenced how firms adapted to the crisis (DiMaggio *et al.*, 1983).

Empirical Review

Numerous empirical studies have explored the impact of external shocks (i.e., pandemics) on firm performance using varied econometric methodologies. Baker *et al.* (2020) examined the stock market's response to COVID-19, highlighting significant volatility and market declines. Fahlenbrach *et al.*, (2021) found that firms with greater financial flexibility were better able to weather the revenue shocks caused by the pandemic. (Demirgüç-Kunt *et al.*, 2010) explored how the banking sector responded to the COVID-19 crisis, finding that banks with higher capitalization and better asset quality performed better. Gourinchas *et al.* (2021) showed that the pandemic disproportionately affected small and medium-sized enterprises (SMEs), emphasizing the need for targeted support. Carletti *et al.* (2020) highlighted how the COVID-19 shock led to significant equity shortfalls for firms in Italy, while Pagano *et al.* (2020) found that firms with more flexible structures were better able to adapt to lockdown measures. Thorbecke, (2020) analyzed the impact of the COVID-19 pandemic on the US economy using stock market data, highlighting sectoral differences in performance.

Several studies have focused on the impact of COVID-19 on firms and the economy. Ding *et al.* (2021) found that firms with stronger pre-pandemic financials, such as higher cash reserves and lower debt, were more resilient to stock price declines during the pandemic. Estrada *et al.* (2020) introduced a novel methodology to assess the economic effects of COVID-19, highlighting significant disruptions to firm performance. Gormsen *et al.* (2020) examined the impact of COVID-19 on stock prices and growth expectations across different sectors, identifying substantial sectoral disparities. Altig *et al.*, (2020) analyzed the rise in economic uncertainty due to COVID-19, showing how it influenced business decisions and performance. Additionally, Kalubanga, & Gudergan, (2022) used dynamic panel data models to investigate the relationship between digital technologies and firm agility during the pandemic, demonstrating that investments in digital technologies significantly enhance firm resilience. These empirical studies provide a broad understanding of the varied impacts of COVID-19, guiding the selection of variables and econometric methodology used in this research.

Several studies have focused on the role of firm-specific factors and regional responses in determining resilience to the COVID-19 pandemic. Ding *et al.* (2021) used panel data to show that firms with stronger pre-pandemic balance sheets exhibited greater resilience (Estrada *et al.*, 2020) introduced a novel methodology to assess the economic effects of COVID-19, with implications for

firm performance. Gormsen *et al.* (2020) examined how COVID-19 affected stock prices and growth expectations across different sectors. Altig *et al.* (2020) analyzed the rise in economic uncertainty due to COVID-19 and its effects on business decisions and performance. These empirical studies provide a broad understanding of the varied impacts of COVID-19, guiding the selection of variables and econometric methodology used in this research.

In Africa, several studies have examined the impact of COVID-19 on firm performance. Ozili, (2020) investigated the economic impact of COVID-19 on African countries, finding significant disruptions in financial markets and firm operations. Fosu *et al.*, (2021) analyzed the impact of COVID-19 on Ghanaian firms, highlighting the role of government interventions in mitigating adverse effects. Nwosu *et al.* (2021) studied the Nigerian economy, showing that firms with better digital infrastructure adapted more effectively to pandemic-related disruptions. Another study by Muthinja *et al.* (2020) focused on Kenyan firms, finding that those with diversified portfolios were more resilient.

This study distinguishes itself by employing the two-step system GMM methodology to provide a dynamic and comprehensive analysis of the pandemic's impact on listed firm performance in Tanzania and Kenya. The value addition of this research lies in its comparative analysis of the financial and consumer goods industries, detailing how different sectors adapted to the pandemic. Unlike previous studies in Africa, which primarily focused on the overall economic impact of COVID-19, this research provides sector-specific findings that show unique challenges and responses within the financial and consumer goods sectors.

MATERIALS AND METHODS

Data

This study utilizes annual panel data from listed financial and consumer goods firms in Tanzania and Kenya, spanning the period from 2015 to 2022. The data was sourced from the Dar es Salaam Stock Exchange (DSE), the Nairobi Stock Exchange (NSE), and the World Bank Indicator (WDI). The dataset includes key financial performance indicators and control variables such as firm size, leverage, inflation, and GDP growth.

Empirical Model

This study analyses the impact of COVID-19 on the financial market and consumer goods sector in Tanzania and Kenya. This study adopted the econometric approach used by Abd *et al.*, (2023) with minor adjustments in the choice of variables used for analysis. Therefore, the econometric model is as follows:

$$ROA_{it} = \beta_0 + \beta_1 ROA_{(it-1)} + \beta_2 CD_{it} + \beta_3 CD2_i + \beta_4 FS_{it} + \beta_5 LV_{it} + \beta_6 INF_{it} + \beta_7 GDPG_{it} + \epsilon_{it} \quad (1)$$

Where, ROA = Return on Asset, CD = Covid Dummy, CD2 = Country Dummy, FS = Firm size, LV = Leverage, INF = Inflation, and GDPG = Gross Domestic Product Growth.

To remove, the firm-specific effect we difference the model and it follows:

$$\Delta ROA_{it} = \beta_1 \Delta ROA_{(it-1)} + \beta_2 \Delta CD_{it} + \beta_3 \Delta CD2_i + \beta_4 \Delta FS_{it} + \beta_5 \Delta LV_{it} + \beta_6 \Delta INF_{it} + \beta_7 \Delta GDPG_{it} + \Delta \epsilon_{it} \quad (2)$$

Introduce the lagged levels of the dependent variable and other regressors as instrument variables:

$$\Delta ROA_{(it-1)} = ROA_{(it-2)} \quad (3)$$

Applying the two-step GMM for efficient parameter estimates and robust standard errors, solving heteroscedasticity and autocorrelation (Arellano & Bond, 1991).

$$\beta = (Z'WZ)^{-1}Z'WY \quad (4)$$

where Z is the matrix of instruments, W is the robust weighting matrix and Y is a vector of first differenced dependent variables.

RESULTS AND DISCUSSION

Descriptive Statistics

The financial industry shows considerable variability in firm performance, as evidenced by the broad range of ROA. Despite an overall positive mean ROA, the large standard deviation indicates significant differences in profitability among firms. Approximately 37.5 percent of the observations fall within the pandemic period, reflecting the substantial impact of COVID-19 on the industry. The representation of firms from Tanzania and Kenya is nearly balanced, with a slight majority from Kenya. Firm size varies widely, indicating a diverse range of institutions in terms of total assets. Leverage ratios suggest that some firms in the financial industry rely heavily on debt financing, contributing to the observed variability in financial performance. As measured by inflation and GDP growth, macroeconomic conditions are stable, providing a consistent external environment for the firms in this industry.

The consumer goods industry also displays notable variability in profitability, with ROA showing a higher mean but even greater standard deviation compared to the financial industry, indicating significant differences between highly profitable firms and those experiencing losses. The pandemic's impact is similarly represented, with 37.5 percent of observations falling within this period. A larger proportion of firms are from Kenya, highlighting a regional concentration. Firm size is somewhat less variable than in the financial sector, and firms in the consumer goods industry tend to use debt more conservatively, as indicated by lower leverage ratios. The slight differences in inflation and GDP growth are due to the smaller number of firms in this sector, but overall, the macroeconomic environment remains consistent with that of the financial industry.

Estimation Results for the First Specific Objective

After analyzing the descriptive statistics, Specific Objective One was quantified using three different methodologies: dynamic fixed effects, random effects, and the GMM by Arellano and Bond. The results for all three methodologies are presented in Table 2 below.

Table 1: Descriptive Statistics

Variable	Financial Industry				Consumer Goods Industry			
	Mean	Std. Dev.	Min	Max	Mean	Std. Dev.	Min	Max
ROA	.028	.088	-.378	.473	.0475	.308	-1.86	.412
Covid Dummy	.375	.486	0	1	.375	.489	0	1
Country Dummy	.429	.497	0	1	.286	.456	0	1
Firm Size	17.23	3.014	10.971	25.18	15.59	2.42	11.50	19.09
Leverage	.716	.959	.0002	10.22	.544	.355	.114	1.37
Inflation	5.412	1.397	3.290	8.006	5.69	1.37	3.29	8.01
GDP Growth	4.814	1.903	-.2727	7.590	4.71	1.98	-.273	7.59

The rationale for running these three models is to ensure robustness and accuracy in the findings.

Table 2: Financial Industry Model Results

	(1) FE	(2) RE	(3) GMM
L.ROA	.4031*** (.0566)	.7175*** (.02967)	.7543*** (.20091)
Covid_Dummy	.01707** (.00858)	.02099** (.00962)	.0079*** (.00243)
Country_Dummy	-.00624 (.00501)	-.00496 (.00907)	-.01359 (.0167)
Firm_Size	-.00297 (.00498)	.00029 (.00064)	-.00465 (.0043)
Leverage	.00053 (.00129)	-.00068 (.0025)	.00163** (.00078)
Inflation	.00557* (.00298)	.00125 (.00182)	-.00007 (.0024)
GDP Growth	.00273* (.00158)	.00312** (.00152)	.00152** (.00071)
Constant	.01602 (.06976)	-.03065 (.02533)	.08248 (.08415)

Robust Standard Errors are in Parentheses
 *** P<.01, ** P<.05, * P<.1

Interpretation of the GMM Model Results

The lagged ROA has a significant positive coefficient, indicating strong persistence in firm profitability. This suggests that firms that were profitable in the past are likely to remain profitable, aligning with the theory of persistence in performance as suggested by Barney, (1991) and supported by empirical literature (Goddard *et al.*, 2015). The COVID Dummy variable also shows a significant positive impact on ROA, suggesting that the pandemic had a beneficial effect on firm profitability, potentially due to increased demand for digital financial services and adaptive strategies. This finding is consistent with Schumpeter, (1934) innovation theory and recent studies by (Fahlenbrach *et al.*, 2021; Kumar, 2024). Moreover, the significant positive coefficient for leverage indicates that higher leverage is associated with higher ROA, suggesting firms are effectively using debt to finance profitable investments, in line with the trade-off theory of capital structure Modigliani & Miller, (1963) and supported by (Vo *et al.*, 2022). Furthermore, GDP growth shows a significant positive impact on ROA, indicating that economic growth supports better financial performance for firms. This aligns with endogenous

growth theory Romer, (1990), which posits that economic growth can enhance firm productivity and profitability through increased demand and investment opportunities. This finding is supported by studies such as Demirgüç-Kunt *et al.* (2020) and Aniemeké, (2024), which highlight the importance of macroeconomic stability and growth as crucial determinants of bank profitability.

On the other hand, the country dummy and firm size variables have negative but insignificant coefficients, suggesting that neither the firm’s location (in Tanzania or Kenya) nor its size plays a crucial role in determining ROA in this context. This aligns with the convergence theory in economic growth, which posits that regions with similar institutional frameworks exhibit similar growth patterns (Haddad *et al.*, 2022). Additionally, the insignificant effect of inflation on ROA indicates that its impact is neutralized, aligning with Friedman, (1968) views on inflation’s neutral impact when firms can pass increased costs to customers or when inflation expectations are well-anchored.

Comparison of the Fixed Effects, Random Effects, and GMM Model Results

The lagged ROA is consistently positive and significant across all three models, indicating strong persistence in profitability. However, the magnitude of the coefficient is highest in the Random Effects (RE) model, followed by the GMM and Fixed Effects (FE) models. This suggests that past performance is a critical determinant of current profitability in the financial sector. The COVID dummy is also significant and positive in all models, though its impact is smallest in the GMM model. This consistency highlights the resilience and adaptive strategies of financial firms during the pandemic, aligning with recent empirical findings on firm adaptability and resilience during economic shocks.

The country dummy variable is insignificant across all models, suggesting that there is no substantial difference in financial performance between firms in Tanzania and Kenya. This indicates that regional factors may not significantly influence firm profitability within this context. Firm size is insignificant in all models, which implies that the size of the firm does not play a crucial role in determining profitability. Leverage shows a significant positive effect only in the GMM model while being insignificant in both FE and RE models. This

difference suggests that the GMM model better captures the efficient use of debt in enhancing profitability. The impact of GDP growth is positive and significant in both RE and GMM models, emphasizing the importance of macroeconomic stability for firm performance.

The superiority of the GMM results lies in its ability to address endogeneity and capture dynamic relationships more effectively than FE and RE models. The GMM model uses lagged values of endogenous variables as instruments, mitigating biases arising from omitted variables, measurement errors, and simultaneity. This makes the GMM estimates more robust and reliable, especially in contexts where past performance influences current outcomes. Additionally, GMM accounts for potential autocorrelation and heteroskedasticity, providing more efficient estimates. The significance of leverage and GDP growth in the GMM model suggests its effectiveness in capturing the true determinants of financial performance, making it a more appropriate choice for dynamic panel data analysis.

Estimation Results for the Second Specific Objective

Likewise, the second specific objective is quantified using three different approaches: dynamic fixed effects, random effects, and the GMM by Arellano and Bond. The results for all three methodologies are presented in Table 3 below. The rationale for running these three models is to ensure robustness and accuracy in the findings.

Table 3: Consumer Goods Industry Model Results

	(1) FE	(2) RE	(3) GMM
L.ROA	.05269*** (.007)	.28273* (.15813)	-.60635 (.46563)
Covid_Dummy	-.16035** (.00858)	-.14646** (.00962)	-.42365** (.17853)
Countr_Dummy	-.9038 (.60243)	-.76321 (.71941)	1.56128* (.88397)
Firm_Size	.00039 (.00726)	-.01218 (.00064)	-.04641 (.03613)
Leverage	.7088*** (.1105)	.8045*** (.13979)	.1062*** (.0407)
Inflation	-.00237 (.00668)	-.00072 (.00604)	.10272 (.07566)
GDP Growth	.01565** (.00791)	.01762* (.00999)	.0868*** (.00661)
Constant	.20766 (.2071)	.37715 (.57877)	.3218 (.3114)
Robust Standard Errors are in Parentheses *** P<.01, ** P<.05, * P<.1			

Interpretation of the GMM Model

The positive coefficient on the lagged ROA (L.ROA) indicates that past profitability has a strong and positive influence on current profitability, suggesting that firms that performed well in the past are likely to continue performing well. This is consistent with the Resource-Based View (RBV) of the firm, which posits that firms with valuable, rare, and inimitable resources achieve sustained competitive advantage Wernerfelt, (1984).

Empirical studies, such as those by Bhak, & Gort, (2022) have shown that firms with strong past performance tend to sustain their profitability due to accumulated competitive advantages and capabilities. The COVID Dummy variable, however, shows a significant negative impact on ROA, indicating that the pandemic had a detrimental impact on the profitability of firms in the consumer goods industry. This is attributed to disruptions in supply chains, decreased consumer spending, and increased operational costs, aligning with disruption theory by (Christensen, 1997). Studies like those by Baker *et al.* (2020) found that the pandemic led to significant economic disruptions across sectors, particularly affecting industries reliant on physical supply chains and consumer interactions.

The country dummy shows a significant positive coefficient, indicating that firms in Tanzania perform better than those in Kenya, possibly due to differences in market conditions, consumer behavior, regulatory environments, or economic policies. This aligns with Institutional Theory, which suggests that differences in regulatory frameworks, market conditions, and institutional support significantly impact firm performance across regions (North, 1990). Research by Haddad *et al.* (2022) highlights that countries with better-developed legal and institutional frameworks tend to support higher firm performance. The significant positive coefficient for leverage suggests that higher leverage is associated with higher profitability, indicating that firms in the consumer goods sector effectively use debt to finance profitable investments. This supports the Trade-Off Theory of Capital Structure, which posits that firms balance the tax advantages of debt against the potential costs of financial distress (Fama & French, 2002; Vo *et al.*, 2022). Moreover, GDP growth shows a significant positive impact on ROA, indicating that economic growth supports better financial performance for firms, consistent with the Endogenous Growth Theory Romer, (1990). This finding is also supported by studies such as (Demirgüç-Kunt *et al.*, 2020).

On the other hand, the firm size and inflation variables show negative but insignificant coefficients, suggesting that neither firm size nor inflation has a significant impact on profitability within this sample. This implies that within the consumer goods industry, size alone does not confer a substantial advantage or disadvantage, aligning with the Penrose Effect, which theorizes that beyond a certain point, the advantages of size may be offset by inefficiencies and bureaucratic hurdles (Penrose, 1959). Empirical studies by Yang *et al.* (2021) have shown mixed results regarding the impact of firm size on performance, indicating that size effects can be context-dependent and industry-specific. The insignificant impact of inflation aligns with the Cost-Push Inflation Theory, which posits that firms might pass on higher costs to consumers, thereby maintaining their profitability if the inflation rate is moderate (ibid).

Comparison of the Fixed Effects, Random Effects, and GMM Model Results

The lagged ROA coefficient, indicating the persistence of profitability, is positive across all three models (FE, RE, and GMM), though its significance varies. The FE model shows a strong positive significance, suggesting consistent profitability over time. The RE model also shows a positive impact, but with lower significance, indicating that past performance plays a role in future profitability, albeit less strongly. Interestingly, the GMM model, which is designed to handle endogeneity and dynamic relationships, also reflects a positive but insignificant coefficient, highlighting potential complexities in the dynamic adjustments of profitability within the consumer goods sector.

The COVID dummy shows a significant negative impact on profitability across all models, underscoring the adverse effects of the pandemic on the consumer goods sector. However, the magnitude and significance are strongest in the GMM model, which better captures the immediate and possibly more pronounced disruptions caused by the pandemic. The country dummy's positive significance in the GMM model, contrasted with its insignificance in the FE and RE models, suggests that the GMM model effectively captures the institutional and economic differences between Tanzania and Kenya, providing deeper insights into regional performance variations. Leverage is consistently positive and significant across all models, affirming that debt financing enhances profitability in the consumer goods sector, with the GMM model again highlighting the robustness of this relationship. The consistent positive impact of GDP growth across all models reinforces the importance of macroeconomic stability for firm performance.

Significant Differences in COVID-19 Impact in the Two Industries

The GMM results reveal notable differences in how COVID-19 impacted the financial performance of firms in Tanzania and Kenya across the financial and consumer goods industries. In the financial sector, the COVID-19 dummy shows a positive and significant impact on ROA, suggesting that firms were able to adapt and even thrive during the pandemic, possibly due to increased demand for digital financial services and government support measures. The country dummy in the financial sector is insignificant, indicating no substantial difference between Tanzania and Kenya, implying that financial firms in both regions experienced similar benefits or challenges during the pandemic.

Conversely, in the consumer goods sector, the COVID-19 dummy shows a significant negative impact on ROA, highlighting the severe disruptions caused by the pandemic, such as supply chain issues and reduced consumer spending. Interestingly, the country dummy is positive and significant in the consumer goods sector, suggesting that firms in Tanzania fared better than those

in Kenya. This is attributed to Tanzania's less restrictive COVID-19 measures, which allowed businesses to continue operating, thereby mitigating some of the adverse economic impacts compared to Kenya, which implemented stricter lockdowns.

CONCLUSION

This research aimed to evaluate and compare the impact of COVID-19 on the financial performance of listed firms in the financial and consumer goods industries across the two countries. The study found that in the financial sector, firms demonstrated resilience with a positive impact on profitability during the pandemic, attributed to the adoption of digital financial services and robust risk management practices. Conversely, COVID-19 significantly negatively impacted profitability in the consumer goods sector, reflecting severe disruptions in supply chains and consumer demand. Notably, firms in Tanzania outperformed those in Kenya, likely due to less restrictive COVID-19 measures. The persistence of profitability across both sectors underscores the importance of maintaining competitive advantages.

Policy Implications and Recommendations

The positive impact of lagged ROA indicates that firms with strong historical performance will likely sustain profitability. Policymakers should implement strategies that enhance competitive advantages by providing substantial incentives for research and development, fostering innovation, and ensuring these firms have access to necessary resources and capital. This will help maintain and build on their market positions, ultimately driving sustained economic growth. The significant negative impact of COVID-19 on ROA underscores the severe disruptions caused by the pandemic. Policymakers must develop robust contingency plans and support mechanisms specifically for consumer goods firms to mitigate future disruptions. This includes establishing financial assistance programs, supporting supply chain resilience, and implementing measures to stimulate consumer demand during crises. Additionally, balancing public health measures with economic activity is essential. For instance, Kenya should consider targeted lockdowns and support for safe business operations, while Tanzania should continue its business-friendly policies while ensuring public health is not compromised. Leverage positively impacting ROA suggests that consumer goods firms benefit from effective debt use. To capitalize on this, policymakers should facilitate access to credit under favorable terms and promote financial literacy to ensure prudent debt management. Moreover, the significant positive impact of GDP growth on ROA emphasizes the necessity of macroeconomic stability for firm profitability. Policymakers should focus on stimulating economic growth through substantial investments in infrastructure, promoting consumer spending, and supporting diverse economic activities that drive GDP growth.

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