

# TIME IS RUNNING OUT FOR MSMES IN AFRICA AND EASTERN EUROPE

COVID RAPID IMPACT ASSESSMENT

21.09.2020

**Strategy, Stakeholders, Knowledge Management**



## Objective of the project

- Complement FMO short term relief efforts with insights into what possible effective medium-term responses and support could look like
- By means of understanding:
  - The impact of COVID-19 on MSMEs
  - The root causes of these challenges and the outlook on recovery
  - The ways in which MSMEs are adapting to the crisis and (potentially) transforming their business
  - What (financial & non-financial) support MSMEs require for their transformation or recovery

## Methods and scope

- 30-min phone survey with MSMEs of ~150 MSMEs per country, sourced for 80% from FMO FI clients
- Additional on-the-ground desk research and stakeholder interviews in the countries to triangulate findings and add additional insights on drivers and outlook
- **Countries selected:** Georgia, Jordan, Kenya, Tanzania, Zambia, Ghana

## Timeline and execution

- Project conducted from June to early September 2020
- By **Dalberg**



Dalberg

# In collaboration with our FI partners who supported this project

**crystal**  Financial Inclusion Organization

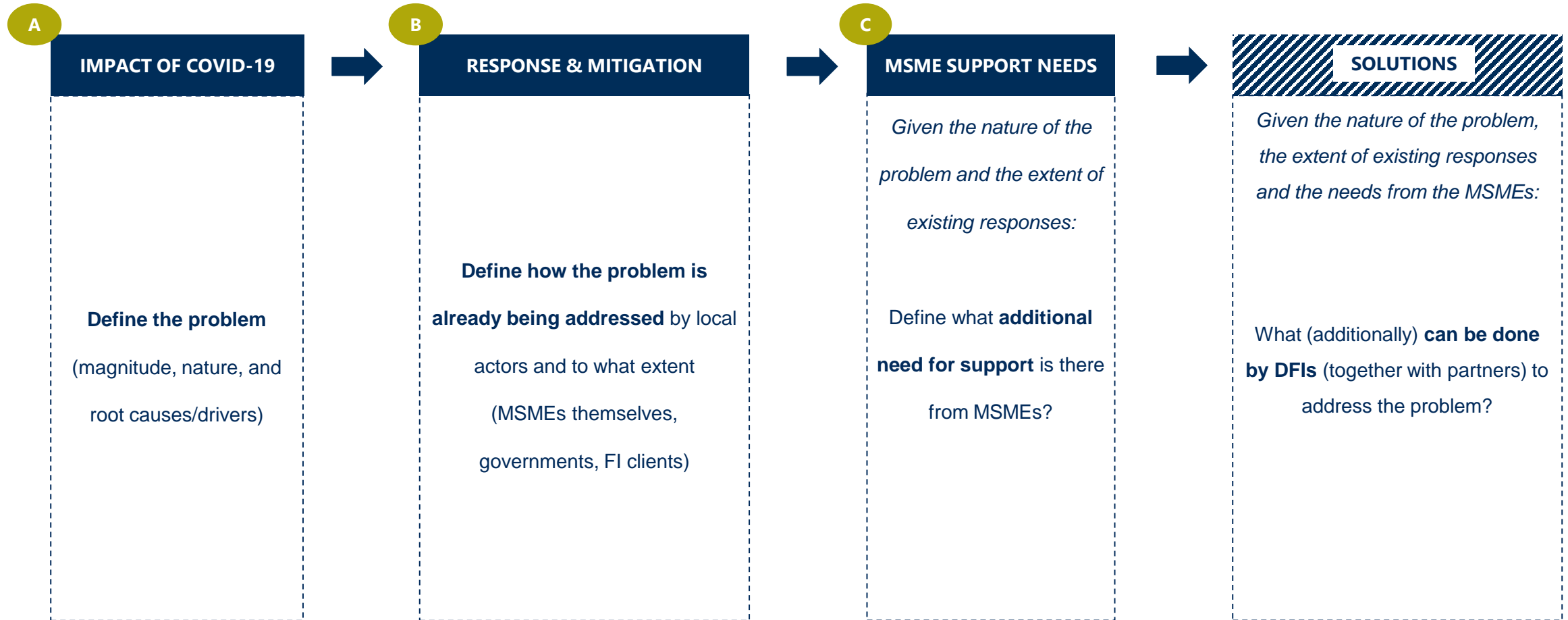
 **TBC BANK**

**SANADCOM**  
for business finance  **سندكم**  
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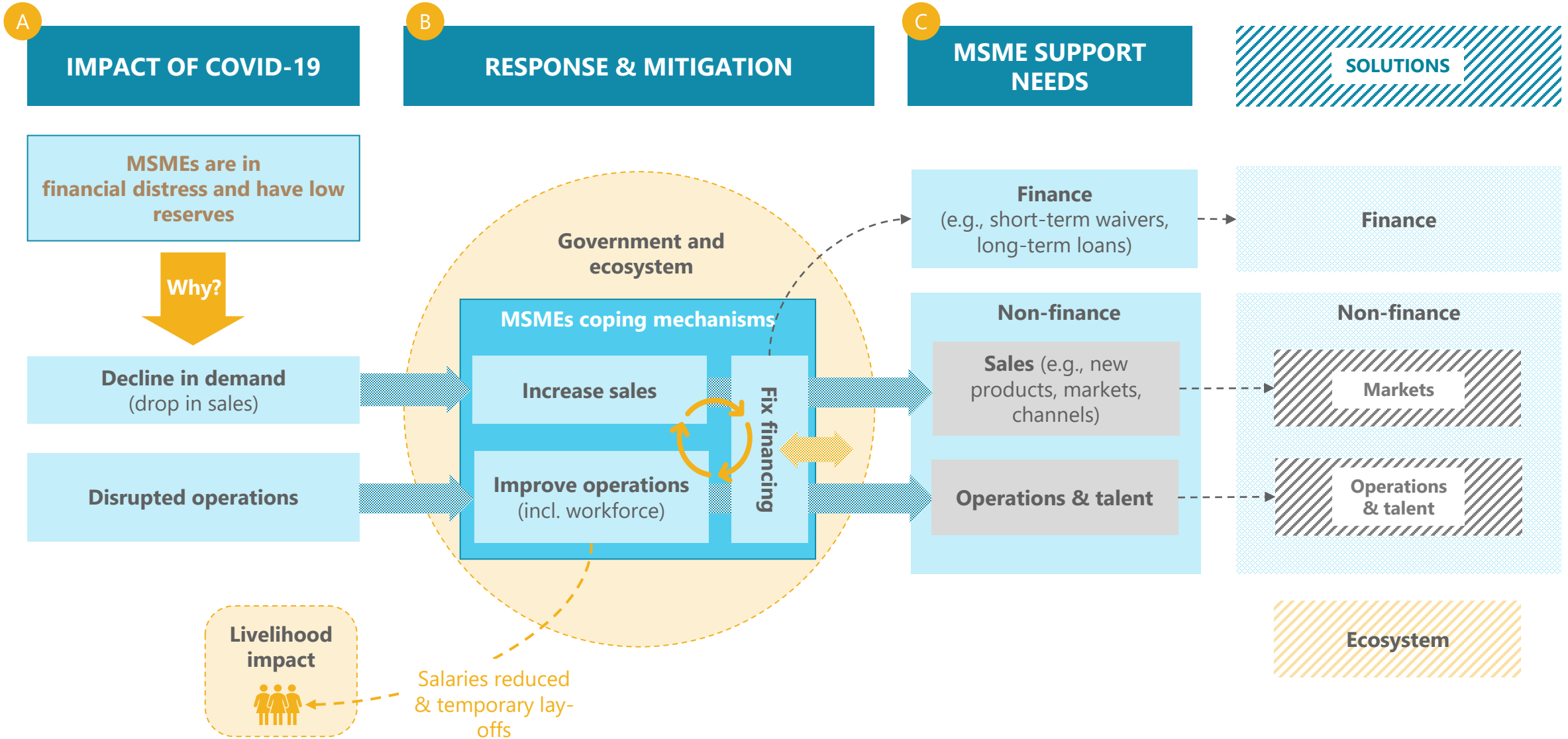
**SidianBank**   
*Own Tomorrow*

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# How we structured the impact assessment



# Let's take a snapshot of our findings before delving deeper



A

## IMPACT OF COVID-19 on MSMEs

Majority of MSMEs face financial distress, which could worsen with declining reserves and protracted recovery

Why?

Lockdowns cause a **decline in demand, resulting in drop in sales**

Lockdowns cause a **disruption of operations** (difficulties in production)

**Livelihood impact**



- **50-75% of MSMEs found it challenging to meet operating expenses and loan commitments in H1 2020**
- Situation is likely to worsen as **50-70% businesses claim to have reserves for less than 3 months**
- **>65% expect recovery to take more than 3 months**, incl. 40-50% who expect it take longer than 6 months
- Women-owned enterprises and smaller firms more affected

- **81-87% of MSMEs have witnessed major decline in sales (>25%) in Jordan, Georgia, Ghana and Kenya.** Impact relatively lower in Tanzania and Zambia (lighter restrictions in the aftermath of Covid-19)
- **Tourism, transport, construction, and select manufacturing sectors** have faced the biggest brunt, due to restrictions on movement (goods and people) and a fall in consumer spending.

- Across countries, approximately 50% of MSMEs were struggling to **operate normally due to restrictions** or being able to **procure needed inputs**

- **30 - 50% businesses temporarily trimmed jobs or reduce salaries to cut costs**, particularly in Ghana, Kenya and Zambia. Moreover, some MSME owners (up to 23% in Ghana) started dipping into personal savings for survival.

**Lost incomes for both employees and MSME owners directly affecting livelihoods.**



## B RESPONSE & MITIGATION

### Government and ecosystem

#### MSMEs coping mechanisms

Decline in demand

Disrupted operations

**Increase sales**

- **On average 20% of MSMEs across countries reached out to new customers:** Up to 50% in Ghana while Georgian businesses did not act much;
- **Up to 25% of (M)SMEs** increased their online presence or enabled online sales (particularly in Jordan and Ghana), but also Zambia

**Improve operations (incl. workforce)**

- **40 - 50% businesses** (except in Georgia) also adapted to restrictions by adopting remote working (up to 20%) and training employees to become more productive (up to 30%)
- **30 - 50% businesses temporarily trimmed jobs or reduce salaries to cut costs.** Permanent layoffs have been low thus far.
- **Limited action on more structural solutions** (<10% of MSMEs), such as automation of production processes, digitization of administrative systems or hiring external expertise

**Fix financing**

- **30 - 50% MSMEs (except in Georgia) also took actions to manage finances** such as taking additional loans, and even dipping into personal savings to tide over the crisis (particularly in Ghana).
- In Ghana also, MSMEs renegotiating payment terms with customers and vendors

#### Financial Institutions

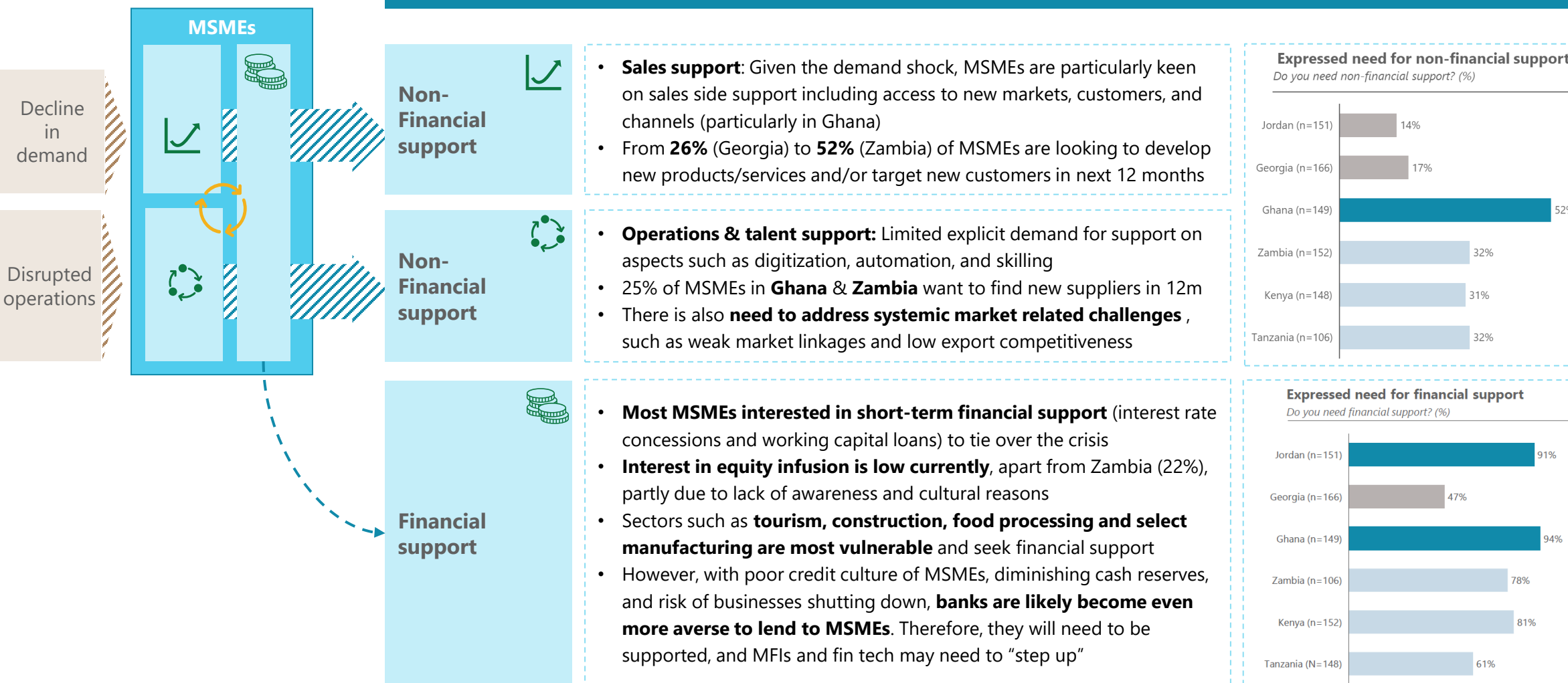
- **While ~20% of MSMEs in Jordan and Georgia accessed bank schemes, uptake was particularly high in Kenya (~40%)**

#### Governments

- **But, utilization in most countries negligible** (2% in the African countries and 20% in Jordan and Georgia)

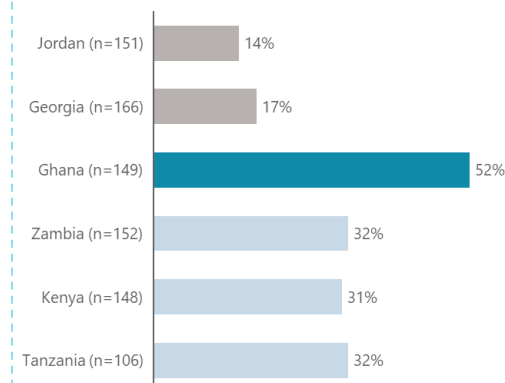
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## MSME NEEDS



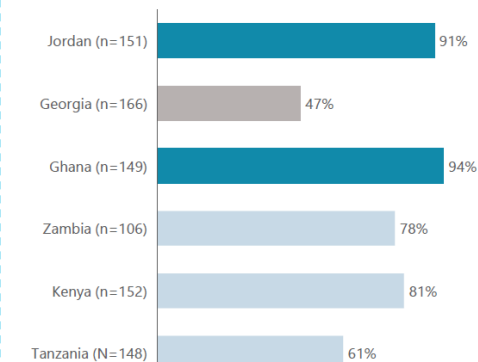
### Expressed need for non-financial support

Do you need non-financial support? (%)



### Expressed need for financial support

Do you need financial support? (%)





# We need to take into account that impact COVID differs

## Jordan



- Stringent government response made Jordan a regional Covid-19 success, **but also hit MSMEs hard, with the highest share of businesses reporting major decrease in revenue amongst the 6 countries**
- **MSMEs have taken a financial beating**, with 63% of borrowers struggling to meet loan commitments and ~90% seeking financial support
- Jordanian MSMEs are keen to develop new products and services, especially in the strong / growing IT sector

## Georgia



- While Georgia has a relatively stable economy and a well-capitalised banking system, **the collapse of tourism has had a disproportionate impact on the economy and the MSME sector**, with tourism sector in particular expecting a protracted recovery
- **The pandemic has exposed the weak culture of innovation in the country**, with the share of businesses taking proactive measures to boost sales, manage costs, or plan for the future being significantly lower than other focus countries

## Ghana



- While Ghana has the highest case burden and Ghanaian MSMEs have low cash reserves, **they exhibit a strong entrepreneurial attitude**; almost all have plans for the next 18 months, and have already started reaching out to new customers
- 94% are looking for financial support, highest among the 6 countries, specifically in the form of new sources of financing, long term loans and working capital loans, **reinforcing the need to improve credit access in the country**

## Zambia



- **MSMEs are highly informal** and fragmented, and **highly reliant** on government contracts, placing them at risk given the weak fiscal situation
- **MSMEs are also dependent on imports for inputs**, and were hit significantly by restrictions on international mobility
- As a result, they're actively looking to diversify their customer base and suppliers, and require support on the same

## Kenya



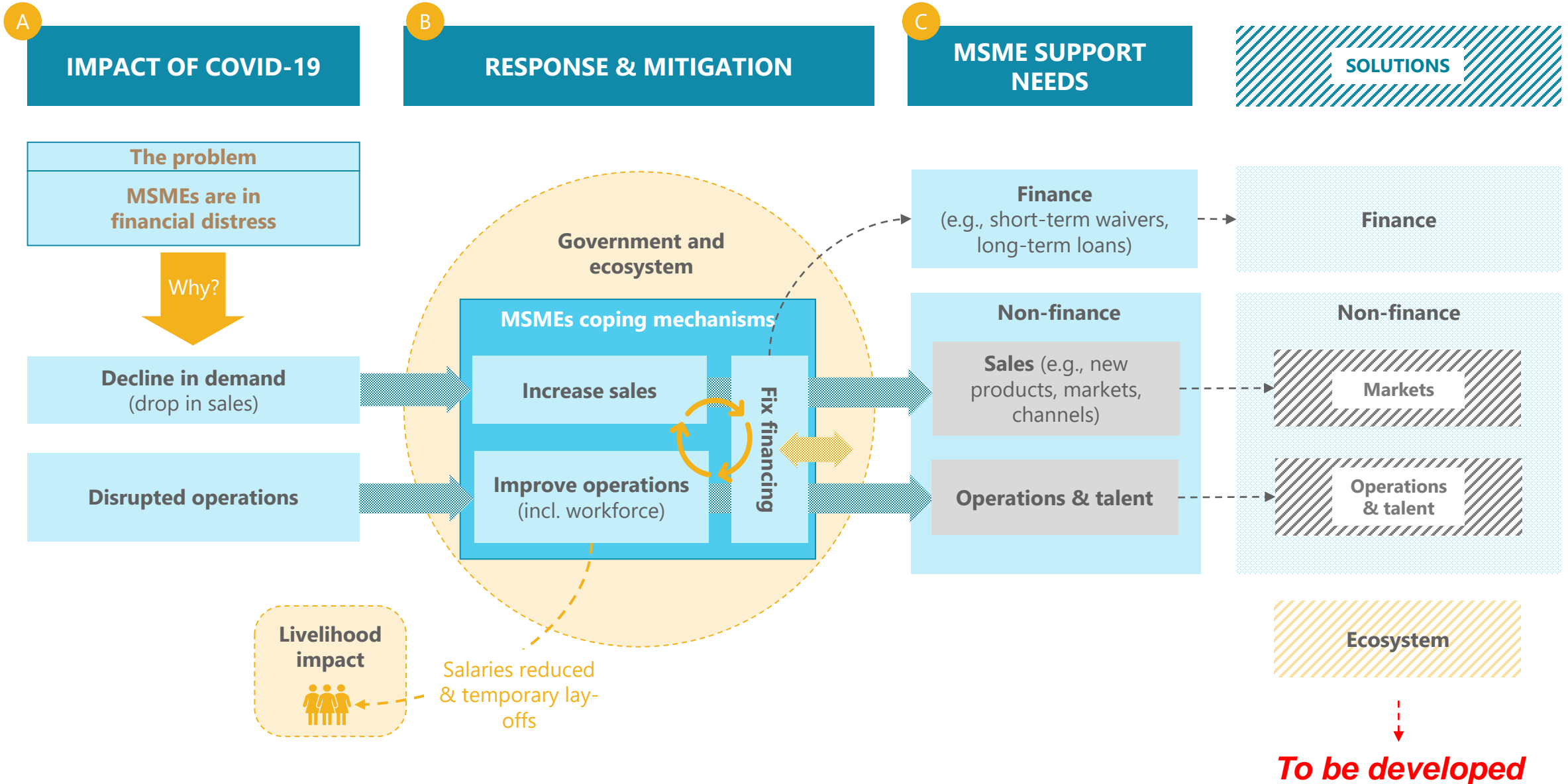
- **High utilization of FSP support measures by Kenyan MSMEs** has provided some reprieve on MSMEs financials as most Kenyan MSMEs were severely impacted and expect a relatively prolonged time to recovery
- As COVID cases continue to rise in the country, there is need for **flexible financing to enable MSMEs to tide over the crisis**

## Tanzania



- Due to a relatively limited restrictions due to Covid-19, **immediate impact on Tanzanian MSMEs has been relatively low**
- **Relationships with neighbours and international credibility has suffered**, potentially impacting trade and tourism going forward

# What are next steps?



**Thank you for the opportunity to present the results**

Slides and news article will be available shortly on the FMO website.