

## **The Effect of COVID -19 on Micro, Small and Medium Enterprises' Operation in Ethiopia**

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### **Abstract**

*A novel Corona virus pandemic caused a major disruption on the political, economic, social, religious and financial activities of the world population. In developing counties like Ethiopia, the pandemic led to a massive damage on economic activities in general and MSME's in particular following restriction on human mobility by the government and stay-at-home advice. This study is intended to assess the effect of COVID-19 on MSME's operation in Ethiopia. The rapid assessment findings show that the spread of the virus has adversely affected both the supply and demand side of MSME's operation. Specific consequences include raw material supply was stopped, shortage of workers happened, shortage of working capital created, their operational cost increased, and consumers consumption declined. As a result, MSME's contribution to national GDP, creation of employment opportunity, and other benefits are being hampered. Therefore, the study recommends that MSME's should take actions like shifting their operation to related businesses and production of currently demanded protective materials. Government and other stakeholders should also provide technical as well as financial support for MSME's in Ethiopia in order to ensure their survival.*

**Keywords:** *COVID-19, Crises, Employment, Enterprise, GDP, Growth, Medium, Micro, Pandemic, Small*

## **1. INTRODUCTION**

Corona Virus emerged in Wuhan, China, spread across the world infecting more than 6.1 million and causing death of more than 371, 857 people as of June 1, 2020. In Africa, since the first case was reported in Egypt, the virus has spread to 53 countries within weeks. As of June 1, 2020, more than 146, 996 cases and 4, 222 deaths were reported (CDC, 2020). In Ethiopia, total of 1, 257 cases and 12 deaths were reported by Ministry of Health on June 1, 2020(MOH, 2020).

The outbreak of COVID-19 pandemic has disturbed the political, economic, social, religious and financial structure of the world. To put this in economic perspective, as noted by Duffin (2020), the global economic growth was forecasted to decrease from 3% to 2.4%. The writer attributed the economic damage to restriction on travel and fall in demand. The pandemic is also expected to affect more African countries. African economic growth, as per prediction by Economic Commission for Africa (ECA, 2020), decreases to 1.8 percent in the best case scenario and a contraction of 2.6 percent if the worst case happen.

In Ethiopia, with the increase in the number of people infected with COVID-19, the government declared state of emergency aiming to curb the spread of the virus in the country. The state of emergency puts restriction on travel and human mobility which caused adverse effect on economy and businesses particularly micro and small sectors. This effect requires more research based evidence that shows the extent to which MSMEs are affected.

Although reports are coming out from different media outlets, further evaluation is required to reveal the effect of the unprecedented pandemic on the MSMEs and provide the possible solutions. So far no study is conducted on this issue. Now, it is time to respond the mentioned gap through rapid assessment of the effect of Corona Virus on MSMEs operation and provide insight for decision makers in the sector and for researchers to conduct further investigation.

## **2. MATERIALS AND METHODS**

This study used descriptive research design in order to assess the influence of COVID-19 on MSMEs operation in Ethiopia. According to Kothari (2004), in descriptive research, the researcher can only assess what has happened or what is happening. This study intended to highlight the context of MSMEs before COVID-19 and then onwards. The study has adopted qualitative research approach. According to Hoepfl (1997), qualitative research method can be used to gain new perspectives on issues few or little is already known, or to gain more information that may be difficult to convey quantitatively. A novel Corona virus brings a new challenge to businesses and its real impact is yet to be discovered. This study provided quite significant qualitative information on the influence of pandemic on MSMEs.

The study used both primary and secondary source of data. The primary data was collected from MSMEs owners, government officials, & experts in the field through interview. Secondary data was obtained from document review of various reports and research results focusing on the MSMEs. The interview was unstructured conducted via phone and email exchanges. The participants in the interview were selected on purposive sampling bases and sample size was determined by saturation point. This means at the point no new information is forthcoming, it

was determined that the sample is saturated and no further responses are required (Creswell, 2009). Document review was also conducted to collect data from official reports from Federal of Urban Job Creation and Food Security Agency, and expert opinions published in magazines as well as bulletins.

As a descriptive design, this study used content analysis as a method of data analysis. As noted by Geoff (2005), content analysis is an effort to enumerate qualitative data by noting, for example, frequencies of events, words, actions and so on. Hence, this study intended to assess the general situation of MSMEs and what happened to them with the outbreak of COVID-19 pandemic in Ethiopia. The data collected via interview and document analysis were synthesized together in order to generate the results of the study.

### **3. RESULTS AND DISCUSSION**

#### ***3.1 MSME's before the Outbreak COVID-19***

Micro, Small and Medium Enterprises (MSMEs) have long been engines for social and economic wellbeing of nations in every corner of the world. They play pivotal role in reducing poverty through creating massive employment opportunities, socio-cultural integration, and adds value for GDP growth.

Evidences from World Bank (2020) show that MSMEs account 90% of businesses and more than 50% of the jobs around the world. As cited by Elisabeth (2020, cited in World Bank, 2017) small businesses account for two-thirds of the globe's jobs and more than 40% of world GDP. In developed economies, MSMEs contribute 60-70% of employment opportunity and 55% of GDP (Christopher, 2019). For example, in Europe, the sector contributes 58% of GDP and 67% of employment.

Linking this to developing world, MSME sector take 33% share of the GDP and 45% of employment (OECD, 2017). This employment includes opportunities for women, youth, and other categories. For instance, 30-37% of small business owners are women in developing economies (World bank, 2017). In Africa, MSME sector contributes 50% of GDP and employment (World Bank, 2013). Specifically, in countries like Uganda and Tanzania, the sector contributes 62.2% and 49.8% of employment respectively.

In Ethiopia, micro and small scale enterprises are the second largest employment creating sector next to the agricultural sector. The sector is growing from time to time in the country. For example, according to a report by National Bank of Ethiopia dated 2018/19 indicated that a total of 110, 253 new MSMEs were started operation (Federal Urban Job Creation and Food Security Agency, 2019). These enterprises employed about 882,098 people and received more than Birr 7.3 billion in loans for operations. This shows that the sector's contribution to employment and GDP is worthwhile. Beyond GDP and employment contribution, micro and small scale enterprises have been generating more benefits such as accelerating urbanization, bringing balanced regional growth, reducing migration from rural to urban areas, enhancing the transition from agriculture based economy to industrial led economy, and protecting illegal migration of women and youth to foreign countries.

### **3.2 Observed and Forecasted Effect of COVID-19 on MSMEs'**

After the first Corona virus case was reported on March 3 2020, in Ethiopia, the number of people infected started to slightly increase. Then, by prioritizing human life, the government put restriction on human mobility by declared state of emergency and health professional advice measures such as stay-at-home as well as physical distancing which led to a massive public response to the advice. In contrary, these actions caused a massive damage on MSMEs operation by affecting both the supply and demand side.

In the supply side, trade of goods and services of MSMEs was hardly heated due to destruction on long distance supply chain. MSMEs production was also facing difficulty as raw material supply chain was stopped. Supply of workers also hindered due to stay-at-home and physical distancing advice practiced which affected production of MSMEs goods and services. In addition, financial institutions like Micro finances has paused financial supply for MSMEs leading to shortage of working capital for existing and start-ups capital for new entrants. In other way, the operational cost of MSMEs has also increased due to an increase in utility expenses, rent, salary, and raw material costs.

From demand side, MSMEs are adversely affected primarily due to public fear to purchase of goods and services produced. As the raw material cost increased, small businesses increased price of commodities which in turn led to decline in public consumption. As a result, in particular for manufacturing small businesses, finished goods inventory increased leading to an increase in carrying cost. Service providing MSMEs like beauty salons are also heavily heated to the extent of a complete shutdown. Small businesses in the tourism sector are among heavily affected as travel ban led to forced decline of demand in both domestic as well as international visitors. Likewise, small clinics and health centers also adversely affected due to public fear that they will be infected if just in case contacted with people with Corona virus. There are educational schools and colleges in the MSMEs category which are massively affected. Schools are ordered to close until further notice and their future fate remains unknown. Meanwhile, government and other stakeholders are unable to register new MSMEs as the existing ones are struggling to survive. MSMEs are also expected to pay their loans and taxes while their income is declining which jeopardizes their operation and business continuity.

Consequently, MSMEs contribution to national GDP and creation of employment opportunity will be hampered in general and specifically other benefits, such as accelerating urbanization, bringing balanced regional growth, stabilizing the market, reducing migration from rural to urban areas, enhancing the transition from agriculture based economy to industrial led economy, and protecting illegal migration of women and youth to foreign countries, may not be realized.

Various stakeholders have been providing support for MSMEs amid Corona virus. For instance, Jobs Creation Commission of Ethiopia, the MasterCard Foundation and First Consult jointly announced emergency program with initial amount of approximately USD 24.8 million to ensure MSMEs remain solvent, retain their employees, and are able to create increasingly innovative work opportunities during the pandemic (All Africa, 2020). The government introduced finance disbursement to encourage Small and Medium Enterprises (SMEs) and provision of additional

liquidity to microfinance institutions to avail credit (Fanabc, 2020). Some small restaurants have already started to shift their services to door-to-door delivery service at least in their local areas.

#### **4. CONCLUSIONS**

The outbreak of the novel Corona virus pandemic has caused a major disruption on the political, economic, social, religious and financial activities of the world population. Like many developing countries, in Ethiopia, the pandemic led to a massive damage on economic activities in general and MSMEs in particular following restriction on human mobility by the government and stay-at-home advice. These actions and advice, then, has adversely affected both the supply and demand side of MSMEs operation. Specifically, the pandemic's negative consequences on MSMEs include raw material supply was stopped, shortage of workers happened, shortage of working capital created, their operational cost increased, and decline in consumers consumption. As a result, MSMEs contribution to national GDP, creation of employment opportunity, and other benefits are being hampered.

#### **5. RECOMMENDATIONS**

In order to ensure the survival and continuity of MSMEs in Ethiopia, the following are some of our recommendations.

Public health professionals are forecasting as the country is within window period and the pandemic might reach its pick point in the months of June and July. If the pandemic persist as predicted by health professional, its consequential impact on the entire economy in general and micro, small and medium scale enterprises in particular will be devastating. Therefore, the businesses should adjust their operation to withstand the impact of COVID -19 on their survival.

Micro, small and medium scale enterprises have to shift their operation system in line with nations need for fighting against COVID-19. MSMEs have to divert their resources towards producing products that could help the public to minimize the transmission of the pandemic such as producing local soaps for hand wash and masks. South Africa's SMEs experience could be adopted in this regard. After President Ramaphosa's declaration of Covid-19 pandemic as a National State of Disaster, the Department of Small Business Development (DSBD) has identified SMMEs and Cooperatives as essential contributing partners in assisting the Country to combat this national and global pandemic. The DSBD requires textile and clothing SMME and Cooperatives to submit information proving that they can make or manufacture the face/cloth masks for the South African public.

Micro, small and medium scale enterprises also have to enhance their customer linkage and try delivering their goods and service at door-to-door. In Ethiopia, some small restaurants have already started to shift their services to door-to-door delivery service at least in their local areas and such kind of experience should be shared to other MSMEs. MSME businesses should improve their existing business model of addressing their customer needs by introducing electronically supported door-to-door delivery service. They may shift their operations to COVID-19 initiated products if their capacity allows them to do so. They also revisit their existing pricing strategies to encourage the buying decision of the frustrated customers.

Government should provide financial and technical support to MSMEs. As a technical support, establish national/ regional taskforce to assess COVID-19 impact on micro, small and medium scale enterprises and forward mitigation strategies. This task force may take the responsibility of identifying possible areas of support for MSMEs by private as well as government at various levels, make policy change recommendation to government bodies which enable the sector to quickly return to operation during and after the pandemic, and coordinate both private, public, and government supports to MSMEs. The proposed strategy by this task force should be documented and will be used as risk mitigating strategy if similar crisis will happen.

As financial support, the government at federal or regional level has to reduce or postpone tax for MSMEs to strengthen their liquidity position. Experience from China, Czech Republic and Estonia and other African countries could be solicited in this regard. For instance, in China, Beijing government alone announced 16 preferential policies to sustain the production and operation of SMEs, including policies on taxation, finance, social security, subsidies, and rent reduction. Other measures may include framing policy that enable MSMEs get credit from micro financing institutions at low or no or deferred interest rate to finance their survival, local government could cover rent for MSMEs working facilities or determining ceilings for rental of shops or other working facilities, and providing direct financial support to micro, small and medium scale enterprises who are self-employed and others to maintain their employees to minimize unemployment in the sector.

SMEs horizontally engaged in the same operation categories business should work cooperatively and cohesively to overcome the impact COVID-19 in the business. Although they can compete for a single common customer, they can share resources for their production to reduce their production costs through their cooperation. This also shows the need for MSEs to work cooperatively each other in order to reduce their expenses, for example, sharing their capital like machineries, tools and equipment. MSMEs vertically engaged in the supply chain should work cooperatively to share the cost incurred and benefits earned in the supply chain. During crisis like COVID-19, the cooperation among actors throughout the network play pivotal role to survive together.

The existence of Micro finance institutions is assured if the existence of MSMEs is realized. In order to survive together, micro finance institutions should revisit their strategy to provide finance to the actors in the sector and collect the already borrowed money from them. The strategy can be reduction of interest rate and rescheduling the collection period. Actors in the sector should apply cost reduction options like capacity reduction in order to cut some expenses (for example utility expenses). Utility service providers like water and electricity should consider the crisis happening in the operations of MSMEs businesses. The strategies can be reduction of the amount of utility expenses paid by the business and or giving time gap for the paying the amount already in their contract. Such cooperation can benefit both parties in the long run.

Academic institutions such as universities, training centers, colleges on the field, research institutes, and others should provide knowledge base advice and support for the sector on how to be successful during and after the Corona virus. Health centers and clinics should provide

professional training to MSMEs and general public with regard to panic and fear of Corona virus. This is because MSMEs and the general public are responding to CIVID-19 with panic and fear rather than taking protective measures. This effort should be supported by government and media in order to reach the wider public in the country.

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