

THE IMPACT OF COVID-19 ON AFRICAN SMES, POSSIBLE REMEDIES AND SOURCE OF FUNDING

Dr. Samuel Muiruri Muriithi
Daystar University KENYA

ABSTRACT

The negative effect of Covid-19 to the world economy is estimated to be \$12 trillion by 2021. During the same period, over 400 million full-time jobs were lost globally by the second quarter of 2020. In Africa, the pandemic led to a negative growth of -5.1% by 2020 thereby plunging the continent into the worst recession in 25 years. For small and medium enterprises (SMEs) which employs between 70% and 90% of the population the effect of the COVID-19 Pandemic has been even more severe with 87% of business owners uncertain the future of their businesses. The biggest challenges to business survival were associated inadequate financing support, uncertainty, lack of government support and numerous measures meant to curb COVID-19 such as lock-downs. In Africa and elsewhere in the world, business survival, growth and sustainability is dependent on a paradigm shift and adoption of innovative business models and strategies. Such strategies include proactive planning, financial boosts, non-financial support and government incentives. For post-COVID-19 period specifically, a new thinking is essential. Such thinking including development of new business models, reshaping and redefining customer bases, an eye on business opportunities and establishment of reliable source of funding.

Keywords: COVID-19, SME, SBGs, paradigm, strategies, poor government support, lock-down.

INTRODUCTION

The effect of Covid-19 to the world economy has been devastating with International Monetary Fund (IMF) estimating a cost of \$12 trillion by 2021 while the projected economic growth for the year 2020 is at 4.9%. The Report further revealed that nearly 95 percent of countries globally are expected to experience negative per-capita-income growth in 2020 (IMF, June 2020). At the work place, the United Nation Labour Organisation (ILO) reports that over 400 million full-time jobs will be lost globally by the second quarter of 2020 (UN News, June 2020). In terms of region, American countries were expected to loss 70 million jobs, Africa (45 million), Asia and the Pacific (235 million), Europe and Central Asia (45 million) (ILO, June 2020).

A World Bank Report indicates that Africa will be greatly hit be the Corona Pandemic (Covid-19). The effect of the pandemic in the Sub-Sahara region is expected to be even more severe. According to the Report, the economic growth for Sub-Sahara Africa is expected to decline from 2.4% in 2019 to -5.1% in 2020 thereby plunging the continent into a recession that has not been experienced for over 25 years. For instance, the continent is to loss between US\$37 billion and US\$ 79 billion by the end of year 2020 arising from decrease in external trade, reduced tourism and fall in commodity prices (World Bank, 2020).

LITERATURE REVIEW

With COVID-19 pandemic wrecking and crippling economies of most countries, the negative impact is expected to take several years to reverse. And with small and medium enterprises (SMEs) being the engines of any economic development, the pandemic impact has brought many of these businesses to their knees. With the sector employing between 70% and 90% of the population (Muriithi, 2017), COVID-19 has worsened the situation and many businesses have closed down owing to lack of capital, customers and government support.

Several global studies have revealed worrying trend arising from impact of COVID-19 pandemic. For instance, a study by BFA Global Survey participating 1,561 businesses in different countries among them India, Kenya, Mexico, Nigeria, South Africa, United Kingdom and USA, found that SMEs had only cash reserves for 4 to 6 months. This means that beyond six months, the business survival is uncertain (BFA Global). A similar study by Genome in the emerging markets found that only 60% of businesses studied had cash to carry them beyond three months. The study further revealed that 74% of start-up businesses had terminated their full-time employees. In terms of countries, North America was on top of the list with 84% of start-ups having terminated their full-time employees. This was followed by Europe with 67% and Asia at 59% respectively (Morelix, 2020). The three economies “account for 63% of world supply-chain imports and 64% of supply-chain exports” (ITC, 2020).

The pandemic severity has affected all business sectors worldwide. For instance, a study by International Trade Center entitled, *SME Competitiveness Outlook* survey revealed that the global loss on manufacturing export for China, European Union and United States arising from COVID-19 lock-downs was expected to reach \$126 billion (ITC, 2020). The same study cited the service sector (accommodation and food services) as the most affected by the Pandemic with 76% of business surveyed associating their losses to both partial and full-time lock-downs. The tourism industry was also not spared by the pandemic. The World Tourism Organisation reported that the international tourist business was expected to decline by 60% and 80% in 2020, a decline considered 15 to 20 times greater than the 2008 global financial crisis. The World Travel and Tourism Council estimates that 100.8 million jobs would be lost during the same period (ITA, 2020).

In Africa, the situation is even worse and affecting already devastated SMEs sector shaking it to the core. According to African Management Institute (AMI) in a survey that participated business owners from 17 African countries, 87% of business owners were uncertain about their business survival during the pandemic period while another group (67%) cried that COVID-19 control measures put in place by governments such as lock-downs, curfews and social distancing had negatively affected business survival (Harrison, 2020). In terms of specific losses, the *SME competitive Outlook* predicted that African business exporters were to lose \$2.4 billion from industrial supply-chain exports due to factory shutdowns in China, European Union and United States of America (International Trade Center (ITC), 2020, xiii). The G3 countries were also to lose \$126.3 billion in international trade (manufacturing) as result of COVID-19 shutdown (UNCTAD, 2020). The same survey further indicated that two out of three African businesses experienced reduction in sales of 75% and 54% drop in their ability to accessing inputs (ITC, 2020).

To survive the COVID-19 crisis, businesses worldwide need financial and other administrative and logistical supports otherwise navigating the challenge would be difficult and spells doom for their existences. A study by AMI pointed out that the survival of Small Growing Businesses (SGBs) in emerging markets required financial support of not less than \$50,000 (Harrison, 2020). Unfortunately, many African businesses have no assured sources of funding, owners lack adequate business education and entrepreneurial skills nor do they have adequate financial muscles to empower them. Another challenge is lack of governments' support and willingness to provide financial assistance and insurance to relieve such distressed businesses. This is contrary to developed countries where such assistance is readily available including numerous stimulating packages to boost such businesses.

COVID-19 BUSINESS SURVIVAL STRATEGIES

With businesses and other organisations tumbling downward worldwide as result of COVID-19, only businesses with right strategies will survive. It is also important to note that not all businesses have suffered under COVID-19 Pandemic. According to a study by Global Accelerator Learning Initiative (GALI) in partnership with Aspen Network of Development Entrepreneurs (ANDE), the pandemic has created numerous opportunities especially in the emerging markets. The study revealed that 12% of businesses in finance, 11% in education, and 10% in the health sectors among SGBs projected increased revenues in their 2020 projections (ANDE, 2020). However, with majority of businesses not sure how to navigate the mucky waters of the Pandemic, then, the need to develop appropriate strategies becomes imperative. The next section discusses the most workable strategies for such businesses on their path to recovery. It is important to point out that business survival is critical to as the only hope and a lifeline of millions of employees and their dependents, not mention the national governments that depend on such businesses to raise revenue (in terms of taxes and licenses) to finance development and other social amenities.

1. Financial boosts: The challenges of financing SMEs and SGBs is evidence across the globe. Even before the COVID-19 Pandemic, the rate of failure for these businesses remained very high with only a tenth of them celebrating fifth birthday. But with the sector providing the bulk of employment for majority of people in developing and emerging markets, the importance of safeguarding these businesses from failure is important. Across the globe, many SMEs and SGBs are financed through personal and family savings or support from micro-financing institutions. The businesses also serve very small markets making it difficult for them to repay loans borrowed from formal financial institutions. To survive during and after the COVID-19 Pandemic era, then, other forms of financing must be established. Firstly, the sector requires direct financial injections without going through the formal bureaucratic and tedious processes put in place by formal financial institutions like banks. Secondly, the sector requires flexible financial providers able to adjust and accommodate unpredictable and unfolding situations as the Pandemic continue to negatively impact businesses. While the developed countries like United States and many European countries have put measures and emergency funds to assist the sector remain in business by developing strategies to cushion against future pandemics, governments in developing have put little effort. It is important that developing countries and especially African governments

put strategies in place to assist SMEs and SGBs to enable SMEs them remain afloat in the “pandemic ocean” where many are drowning.

2. Non-financial support: The provision of financial support to the SMEs and SGBs is instrumental to their survival during the Pandemic era. However, financial support is the not the only needs facing the sector. Non-financial support including technical assistance, financial management training and psychological supports are important during the Pandemic period and beyond. It is also notable that with many businesses closing down, the owners, employees and families continue to suffer and are unable to meet their daily and monthly obligations. A study by International Trade Center (ITA, 2020) among medium and large companies showed that most businesses would desire to retain their workforce. The study showed that 37% of medium-sized businesses and 39% of large companies favored employment programs meant to retain and support their workers and retain their incomes. Assistance from well-wishers would be handy for such affected businesses. Development partners and donors should direct their attention to such businesses either through registered associations or government bodies.

3. Revise business policies: Some SMEs and SGBs have taken many years of effort and energy to develop and sustain them. However, with the COVID-19 Pandemic shattering the dreams of many business owners and employees, governments’ intervention is the only hope for many of them. This is especially for businesses involved in export-businesses. As noted earlier, the losses arising from export manufacturing supply-chain amount to billions of dollars. Measures required include governments developing policies that support and encourage business survival during the Pandemic. Such policies include setting aside funds for paying wages for workers, initiate tax exemption for affected businesses, provide short-term tax free loans and grants, assist provide cash-strapped businesses, renegotiating with financial institutions to extend loan repayment period or writing-off unbearable loans for such businesses. Many countries, for instance, United States, Bangladesh, China, Kenya, Pakistan, Philippines and Turkey have taken lead in these initiatives, and other counties should emulate them.

4. *Informal sector businesses: Often the informal sector is forgotten when major government decisions are made. The sector contributes greatly to economic development besides many of them not registered, not taxed, less monitored and not benefiting from government supports (employment benefits, retirement, or social protection programs). A European Union Report entitled, Contribution of the informal economy to GDP, showed a significant contributions of the informal to the economy. In North Africa, for instance, the contribution of informal sector including agriculture account for 35.8%, Sub-Sahara Africa (63.6%) and Latin America the sector contributes 29.2% (Charmes, 2012). The contribution of the informal sector especially in Sub-Sahara Africa of 63.6% is the highest in the world with countries like Benin, Niger and Togo having over 70% of their Gross National Product (GDP) coming from the sector. The sector is also associated with 86% of all employment in Africa (ILO, 2018) with 90% of women working in the sector. This signifies the critical role played by the informal sector, a role that cannot be ignored. Unfortunately, the sector in Africa is the hardest hit and lacks strategies to revive the sector. This explains why the Africa governments or any other governments should pay close attention to the sector and*

develop reviving strategies. Some of the suggested practical solutions include removal statutory fees and licenses levied on the informal businesses. The governments are also encouraged to establish funds to assist the businesses to restart afresh while deferring interest charged on such business. Countries like Kenya, Burkina Faso and *Mauritius are examples that have taken initiative to revive the informal sectors through favourable takes exemptions and injecting funds to the sectors. However, even in these countries, more need to be done to ensure business stability.*

5. Proper planning: The COVID-19 Pandemic has questioned formal business planning done without proper environmental assessment. Although many businesses plan have concrete strategies, the plans have been rendered unattainable and unrealistic. The need to assist small businesses develop practical plans that reflect changing and unpredictable plans is important. There is also a need to assist SMEs and SGBs with proper training. Such training needs to address topic like cash flow management, crisis management, pandemic's management, business forecasts and future business environment. Other areas of concern include good communication, negotiation skills and business simulations. Many SMEs and SGBs owners and employees lack good education, formal training and practical skills. As such there is need to design programs that fit the demographic and intellectual levels and abilities and business environment faced by such business persons.

POST COVID-19 BUSINESS STRATEGIES

The Post-COVID era would signifies a paradigm shift in the way the word operates. The normal day-to-day way of doing business that existed prior to COVID-19 period must change. As the with any paradigm shift, this call for change in thinking and overall approach to business practice. Already the world has seen numerous changes ranging from physical contacts to virtual modes of business, workplace layouts and change of normal job routine. It is notable that most of jobs are done at home and away from office environment. It is difficult to talk about physical teamwork and a shift to virtual teams has become the norm. With millions of businesses having shut down, then, the need for new strategies to survive and remain competitive is necessary. Likewise, with many jobs continually getting lost at an alarming rate, the need to develop appropriate strategies become essential. The following strategies are projected to give business stability both financially, socially and psychologically.

1. Rethinking Business: The first step to have a business remain strategic and competitive is to have business owners realise that the old models of business will not work. New ways of thinking ranging from work-set up and structure, dealing with employees, daily operations and dealing with uncertainty are the new normal. The new thinking also needs the business leadership to be more smarter and innovative in their management styles and practices.

2. Customer first: The importance of having customers at the heart of business planning is central to businesses' survival. With customers adjusting their needs and tastes to fit the new normal, businesses must be sensitive to such changes and develop products that meet those needs. For instance, Zoom and Google took advantage of COVID-19 and adjusted their products to become relevant during the pandemic period. As a result, the two companies continue to grow their businesses while others continued to suffer or close-down. The adage that "customer is always right (rule number one) and " if you think customer is wrong refer to rule number one"

(rule number two) is even more true today and will continue to be important in the future. “Understand and respond to customer needs and you remain in business. Neglect customers and kill your business. Smart business value and add value to customer services.”

3. Exploit business opportunities: Just like in the past, businesses must also rethink about new revenue streams away from traditional methods. Identify business opportunities and prioritizing on the most promising and those that match business knowledge, skills and competencies. Online business strategies must be developed to reach customers and meet their needs efficiently. During the COVID-19 Pandemic period, the most successful businesses are those that quickly and efficiently migrated their business practices to digital platform, a shift that will need be accelerated and optimised for maximum production and service delivery. And since most businesses continue to suffer, their customers are left stranded and any attractive business strategy will easily win them. It is also important that businesses come up with new marketing models targeted at attracting back their loyal customers who may have been lost during the time businesses declined their performance due to financial crisis arising from COVID-19 impact. Other strategies include price adjustment, discounts, re sizing products or services to fit different markets. The need to automate business processes to improve efficiency and customer satisfaction is a must for businesses. This approach calls for redesigning business operations and overall value chain (forward, backward and vertical) to ensure the customers get value for their spending. To succeed, businesses whether small or large will need to re-engineer their operations, management and marketing strategies. They must remain innovative, creativity and ambitious and ready to adopt change and adopt resilience approach to business.

SOURCE OF FINANCIAL AND NON-FINANCIAL SUPPORT

The greatest challenge facing SMEs and SGBs is lack of finance and inability to identify credible sources. While financial institutions are very expensive and out of reach for most businesses, any source of financial that is not tied to strings or restrictions becomes a great asset for the business, whether in Africa or elsewhere in the world. The following sources of funding and financial supports are carefully selected to meet the need of the millions of such businesses that cannot get support. The sources are both financial and non-financial and fits specifically during the COVID-19 period.

Source of Financial and Non-financial Support

1. BizBritain (funding start-up businesses). visit: <https://www.bizbritain.com/>
2. Business support (loans, tax reliefs, cash grants, employer relieves, grants): <https://www.gov.uk/coronavirus/business-support>
3. Businesses and Individuals in British Columbia. https://www2.gov.bc.ca/assets/gov/employment-business-and-economic-development/business-management/small-business/covid-19_small_business_supports.pdf
4. Covidcap.com online searchable database for entrepreneurs worldwide via CASE at Duke and World Economic Forum: <https://www.covidcap.com/>
5. COVID-19 Coalition among investors and entrepreneurs via Village Capital: <https://newsandviews.vilcap.com/posts/covid19-coalition>
6. COVID-19 Updates, visit official government website: www.sacoronavirus.co.ke
7. COVID-19 Crisis: Global Knowledge Base for Startup Ecosystem Actors via Startup Genome: <https://startupgenome.com/blog/covid-19-knowledge-base-startup-ecosystem-actors>

8. COVID Action Platform via the World Economic Forum: <https://www.weforum.org/platforms/covid-action-platform/>
9. COVID Response Alliance for Social Entrepreneurs, which includes 40+ leading global organizations to coordinate responses: <https://www.weforum.org/reports/covid-social-entrepreneurs-alliance>
10. Equalife Capital: <http://www.equalifegroup.com/equalife-capital.html>
11. How are impact investors addressing COVID-19? via the GIIN: <https://thegiin.org/covid19#phases-of-funding>
12. International Finance Corporation: https://www.ifc.org/wps/wcm/connect/news_ext_content/ifc_external_corporate_site/news+and+events/covid-19
13. Nova Scotia: Coronavirus (COVID-19): financial help and social support: <https://novascotia.ca/coronavirus/support/>
14. Open Road Alliance: <https://openroadalliance.org/investors/>
15. Philanthropy's Commitment During COVID-19 via Council on Foundations: <https://www.cof.org/news/call-action-philanthropys-commitment-during-covid-19>
16. Relief Resources for Entrepreneurs Everywhere. <https://www.covidcap.com/>
17. Resources to support social entrepreneurs during the COVID-19 crisis: <https://socialcapitalmarkets.net/2020/03/resources-to-support-social-entrepreneurs-during-covid-19/>

CONCLUSION

It is the responsibility of every government to create a health environment and support for small businesses. It is also the responsibility of business owners to come up with strategies that will ensure business survival and sustainability in the future. With good management, planning and execution, SMEs and SGBs businesses can be re-positioned and re-engineered to generate revenue and become profitable. A new thinking of doing business must also be invented during the post-COVID-19 period and only those businesses able to adjust positively by developing appropriate strategies and execution will succeed.

REFERENCES

- BFA Global (2020). COVID-19 and your finances seven country survey. Retrieved from: <https://datastudio.google.com/u/0/reporting/1yyG5QHGV-v-bxw6pJNZvwtqnIfCLj-7q/page/kJOKB>*
- Charmes, J. (2012). The informal economy worldwide: Trends and characteristics, *margin*. The Journal of Applied Economic Research, 6(2) , 103–132.
- Georgieva, K. (June 2020). *A joint response for Latin America and the Caribbean to counter the COVID-19 Crisis*. Retrieved from: <https://www.imf.org/en/News/Articles/2020/06/24/sp062420-a-joint-response-for-latin-america-and-the-caribbean-to-counter-the-covid-19-crisis>
- Global Accelerator Learning Initiative (GALI)(2020). Entrepreneur survey. In ANDE. Retrieved from: https://cdn.ymaws.com/ande.site-ym.com/resource/resmgr/publications/covid_and_sgbs_issues_brief-.pdf*
- Harrison, R. (2020). Things SMEs need right now. *The African Management Institute*. Retrieved from: <https://www.andeglobal.org/blogpost/920159/346143/5-things-SMEs-need-right-now>

- International Labour Organization (ILO), (2018): *The contribution of social dialogue to programme 2030: Formalizing the informal economy*. TUDCN.
- International Trade Center (ITC) (2020). COVID-19: The great lockdown and its impact on small business. *SME Competitiveness Outlook*. Retrieved from: <http://www.intracen.org/covid19/>
- International Trade Center (ITC) (2020). *Assessing the COVID-19 impact on SMEs and preparing for a new normal*. Retrieved from: <https://www.intracen.org/news/Assessing-the-COVID-19-impact-on-SMEs-and-preparing-for-a-new-normal/>
- Morelix, A. (2020). *The impact of COVID-19 on global start-up ecosystems: Global start-up survey*. Retrieved from: <https://startupgenome.com/blog/covid19-insights-global-startup-survey>
- Network of Development Entrepreneurs (ANDE) (2020). *The small and growing business sector and the covid-19 crisis: Emerging evidence on key risks and needs*. ANDE Issue Brief. Retrieved from: https://cdn.ymaws.com/ande.site-ym.com/resource/resmgr/publications/covid_and_sgbs_issues_brief-.pdf
- Kevin Sneader, K. & Bob Sternfels, B. (2020). *From surviving to thriving: Re-imagining the post-COVID-19 return*. Retrieved from: <https://www.mckinsey.com/featured-insights/future-of-work/from-surviving-to-thriving-reimagining-the-post-covid-19-return#>
- The World Bank (2020). *Assessing the economic impact of covid-19 and policy responses in Sub-Saharan Africa*. *Africa's Pulse*, 21, 1-136
- UNCTAD. (2020). *Trade and development report update: Global trade impact of the coronavirus (covid-19) epidemic*. *United Nations Conference on Trade and Development*. Retrieved from: <https://imo.libguides.com/c.php?g=679081&p=4839377>
- International Labour Organisation (ILO), (2020). *ILO Monitor: COVID-19 and the world of work. Fifth edition updated estimates and analysis (pp1-22)*. ILO now casting model, see Technical Annex 1. Retrieved from: https://www.ilo.org/wcmsp5/groups/public/---dgreports/---dcomm/documents/briefingnote/wcms_749399.pdf