

SURVEY REPORT

COVID19 IMPACTS ON MSMEs IN ETHIOPIA



Enterprenourship Development Center (EDC) - Ethiopia
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Entrepreneurship Development Centre (EDC)- Ethiopia

ADDIS ABABA, ETHIOPIA

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OVERVIEW

The **1.5 million MSMEs** in the country¹, employed **4.5 million** and generated **40.7 billion** (birr) in monthly sales before the partial lockdown. Even before the pandemic hit the ground hard, these firms have laid off about **2.2 million** and lost **28.5 billion** in monthly sales revenue. Moreover, **37%** (**51%** in Oromia) have already been closed. Most worrisome, it appears it is the brightest stars—firms with enormous growth potentials—that are burning out fast. For a country with very few private enterprises per capita to begin with and the lowest entrepreneurial activity in Africa², this spells major trouble. The income and jobs from these enterprises, mostly owned by women and youth, sustain about **6.3 million** household members. To make matters worse, 85%² of the enterprises are micro, with utmost vulnerability to shocks³. And Ethiopian small enterprises tend to be really small: Employing less than 10 and with investment of 20,000 to 500,000 birr.

The survey for this report was conducted between April 16 and 24, 2020 by phone. Although results are extrapolated to all MSMEs in the country, data was collected from **489** firms—**363** micro and small and **127** high-growth small/medium-sized enterprises—from among the **32,000** supported by the UNDP-financed Entrepreneurship Development Centre (EDC)- Ethiopia. It is worth noting a caveat here: The selection was driven by convenience rather than random sampling.

The survey results show that the MSMEs sector is bleeding profusely. Rescheduling and postponing loan repayments, stabilizing the price and supply of inputs and raw materials, providing additional credit facilities and access to capital, wage subsidies, and assistance to enable MSMEs to speedily digitize their sales and marketing operations are among the **urgent** recommendations.

¹ Data from the Federal Urban Job Creation and Food Security Agency shows 800,000 micro, 12,000 small, and 8,000 medium-sized enterprises. The Federal Small and Medium Manufacturing Enterprises Promotion Authority on its part lists 15,282 small and 3,777 medium manufacturing enterprises on its roster. It is assumed that an additional 660, 941 enterprises exist in the country that are not accounted for by the two sources.

² 2010 (Ethiopian Calendar) Issue of Report by the Federal Urban Job Creation and Food Security Agency

³ OECD, (2017). Meeting of the OECD Council at the Ministerial Level, Paris, 7-8 June 2017:

I. Impact of COVID-19 on Micro and Small Enterprises (MSEs)

For this portion of the survey, data was gathered between April 16 and 24, 2020 from 362 micro and small enterprises to assess the impact of COVID-19 on their performance. Table 1 below shows the demographic characteristics of surveyed micro and small enterprises (MSEs). It indicates that;

- The MSME sector is where women are fairly represented as owners. Although the proportion of female business owners is highest in Addis Ababa (73%), albeit lowest in Amhara (29%), the fact that it is a sector with 43% women ownership speaks volumes;
- Entrepreneurs in Amhara tended to be youthful, hence the high (48%) single rate.
- A business owner, on average, supports 4 family members, the highest being in Oromia (i.e., 5 family members). Thus, to speak of MSMEs is to speak of real bread winners.

Table 1: Number of MSEs surveyed and demographic characteristics of owners by Region

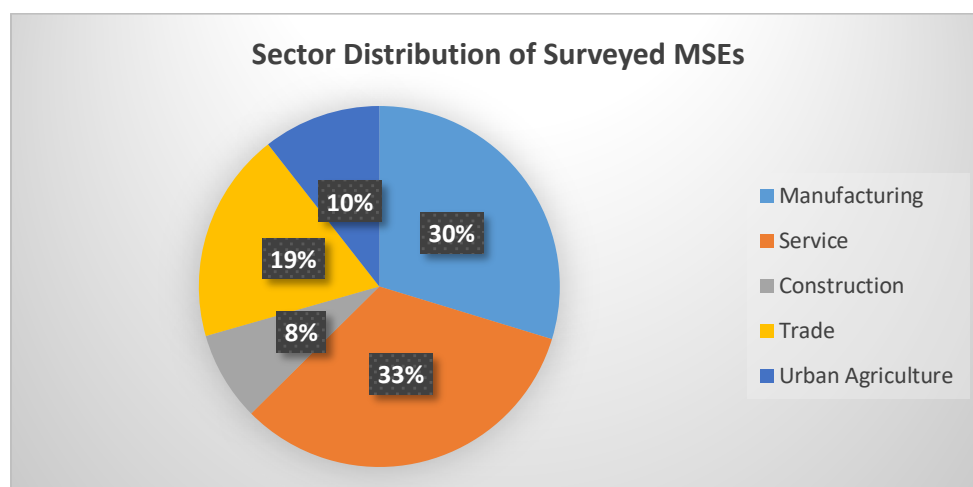
Region	Number of SMEs surveyed	% of female business owners	Average Age of business owners	Average No. of family members supported by a business	% of business owners (Marital status = Single)
Oromia	81	33%	30.5	5.1	42%
SNNPR	75	30%	30.5	4.0	48%
Tigray	64	37%	33.0	4.2	42%
Amhara	56	29%	29.2	2.8	48%
Addis Ababa	86	73%	35.5	4.5	33%
Total	362	43%	32	4.2	43%

Sector Distribution of Surveyed MSEs

From those surveyed, the service sector predominates followed by the manufacturing sector—skewed by the large number of manufacturing firms from Amhara (50%). The least represented sector is the construction sector followed by urban agriculture. See table below.

Table 2: Sector Distribution of Surveyed MSEs (%)

Region	Number of SMEs surveyed	Manufacturing	Service	Construction	Trade	Urban Agriculture
Oromia	81	25%	16%	27%	20%	12%
SNNPR	75	25%	38%	4%	29%	4%
Tigray	64	12%	56%	3%	17%	12%
Amhara	56	50%	16%	0%	7%	27%
Addis Ababa	86	38%	37%	4%	19%	2%
Total	362	30%	33%	8%	19%	11%



Status of the MSEs before the Pandemic

Micro and Small enterprises, on average, used to make birr 45,180 in monthly sales and obtain about birr 14,183 as net income. Following the pandemic and partial lock down, average monthly sales has dropped to birr 13,501 (70%) and monthly net income to birr 1,447 (90%).

Table 3: Status of the MSEs before Pandemic Vs Current status (Average per enterprise)

Region	Business status before					Current status				
	No. of Employees			Monthly Sales (in birr)	Monthly net income in birr	No. of Employees			Monthly Sales (in birr)	Monthly net income in birr
	Perm.	Temp.	Total			Perm.	Temp.	Total		
Oromia	4.3	1.7	6.0	31,190	10,058	2.5	0.6	3.1	13,393	1,085
SNNPR	2.4	1.5	3.9	36,269	11,142	1.7	0.6	2.3	8,236	-974
Tigray	2.9	0.8	3.7	34,460	13,809	2.2	0.1	2.3	17,983	957
Amhara	3.8	0.9	4.7	46,162	23,031	2.8	0.1	2.9	11,646	3,506
Addis Ababa	3.5	2.8	6.3	71,909	19,005	2.3	0.5	2.9	17,685	2,966
Average	3.4	1.6	5.0	45,180	14,983	2.3	0.4	2.7	13,501	1,417

Impact on MSEs Performance

The pandemic has significantly affected the operation of MSEs. More than a third have been forced to close their doors to business by the circumstances. Others continue to incur losses from having to pay rent and salary and other expenses, like loan repayment and other obligations.

- Oromia appears to have suffered the highest MSME closure rate (**51%**) compared to the national average of only **37%** (note that even in normal times Ethiopia has a very high SME attrition rate and some of these firms may not be resilient enough to bounce back);
- Whereas Addis Ababa did relatively well in business closure (**20%**), it had the highest reduction in employment.

Table 4: Impact of COVID 19 on MSEs Performance (Average per enterprise)

Region	% of businesses closed due to the pandemic	Loss due to the pandemic (COVID 19)				
		No. of Employees			Monthly Sales (in birr)	Monthly net income in birr
		Perm.	Temp.	Total		
Oromia	51%	-1.8	-1.1	-2.9	-17,797	-8,973
SNNPR	40%	-0.7	-0.9	-1.6	-28,033	-12,116
Tigray	41%	-0.7	-0.7	-1.4	-16,477	-12,852
Amhara	34%	-1	-0.8	-1.8	-34,516	-19,525
Addis Ababa	20%	-1.2	-2.3	-3.4	-54,224	-16,039
Average	37%	-1.1	-1.2	-2.3	-31,679	-13,566

Table 5 below shows the impact of the pandemic on enterprises supported by EDC, i.e., 32,000 micro and small businesses which have received EDC's flagship services mainly entrepreneurship trainings and business development services. It indicates that these MSEs have in total lost about birr 444.9 million in monthly net income.

- Whereas EDC-supported enterprises in Addis Ababa have been worst hit in employment and sales, those in Amhara have suffered the steepest decline in net income.
- It requires a study to find out exactly what was peculiar about Oromia causing the disproportionately high shutdowns and how those in Addis Ababa managed to stay open.
- Worth noting here that while enterprises in Oromia suffered the most business stoppage, they sustained the least impact compared to the other regional states and Addis Ababa vis-à-vis net income loss.

Table 5: Impact of COVID 19 on MSEs (Monthly loss of jobs, sales, and income) of EDC clients (N=32,000)

Region	Loss due to the pandemic (COVID 19)				
	No. of Employees			Monthly Sales (in birr)	Monthly net income in birr
	Perm.	Temp.	Total		
Oromia	(14,400)	(8,800)	(23,200)	(142,376,000.00)	(71,784,000.00)
SNNPR	(3,360)	(4,320)	(7,680)	(134,558,400.00)	(58,156,800.00)
Tigray	(3,360)	(3,360)	(6,720)	(79,089,600.00)	(61,689,600.00)
Amhara	(6,400)	(5,120.)	(11,520)	(220,902,400.00)	(124,960,000.00)
Addis Ababa	(9,600)	(18,400)	(27,200)	(433,792,000.00)	(128,312,000.00)
Total	(37,120)	(40,000)	(76,320)	(1,010,718,400)	(444,902,400)

Impact on Micro and Small Enterprises (MSEs) in the Country

It is estimated that around 1.5 million micro and small enterprises operate in the country. Extrapolating to the total estimated number of MSEs in the country, assuming that they operate at 60% of the performance of MSEs supported by EDC, MSEs in the country are predicted to have lost about birr **12 billion** in monthly income and laid off about **2,070,000** employees already.

Table 6: Impact of COVID 19 on MSEs (Monthly loss of jobs, sales, and income) in the Country (N~1.5 million enterprises)

Total No. of MSEs in the country	Loss due to the pandemic (COVID 19)				
	No. of Employees			Monthly Sales (in birr)	Monthly net income in birr
	Perm.	Temp.	Total		
~1,500,000	(990,000)	(1,080,000)	(2,070,000)	(28,511,100,000)	(12,209,400,000)

II. Impact of COVID-19 on the Performance of Growing Small Enterprises

For this portion of the study, data was collected from 127 small enterprises with great potentials for transitioning⁴ to medium-scale enterprises and those that have done so recently. When it comes to the age of the owners of these enterprises, as shown in Table 1 below those in Oromia appear to be more youthful—replacing the place of Amhara with respect to MSEs (See Table 1 in section I). Contrarily, those in Tigray tended to be operated by older owners. Studies

⁴ Despite all the talk about transition, very rarely, if ever, do micro and small enterprises graduate into medium and large businesses (ASTU, 2018, p. 112). This is rather a world-wide phenomenon (Kraaij & Molenaar, 2017, p. 351)

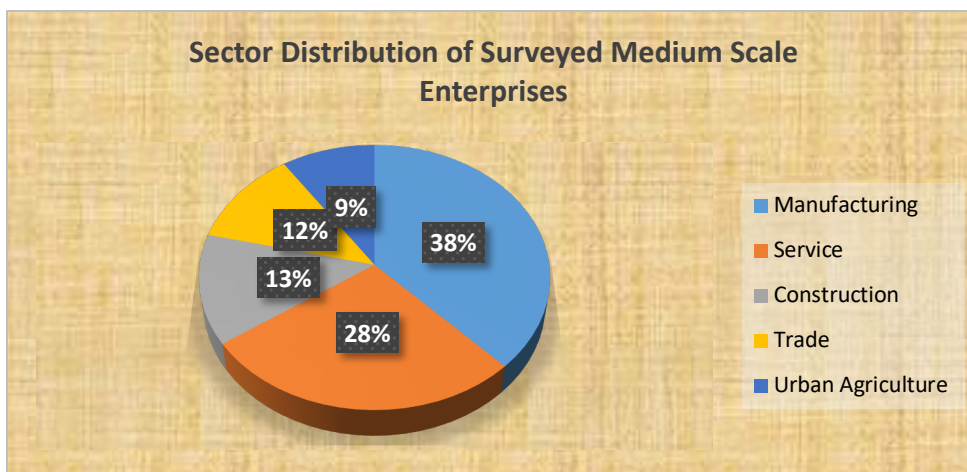
suggest that successful growth-oriented enterprises, the kinds that go on to generate large volumes of high-quality jobs, are usually launched by the middle-aged. This is because to become a successful entrepreneur, one needs a wealth of social, human, and financial capital.

- Gender-wise, Addis Ababa has the largest proportion of female entrepreneurs (**63%**) and Oromia taking up the lowest spot (**14%**). Note however that the proportion of female entrepreneurs in Addis Ababa owning growing small/medium-sized firms has declined from those what own micro and small enterprises (See Table 1, also in part I above).
- Overage firms in Addis Ababa are disposed to hiring more than the other regions (perhaps owing to larger volume of sales) whereas those in Tigray hired the least number. In the same vein, growing small/medium-sized firms in Addis Ababa supported a larger number of family members with those in Tigray supporting the least.

Table 1: Enterprises surveyed, demographic characteristics of owners by Region

Region	Number of SMEs surveyed	% of female business owners	Average Age of business owners	Average No. of family members supported by a business	% of business owners (Marital status = Single)
Oromia	28	14%	31.0	5.1	46%
SNNPR	23	21%	35.5	5.4	21%
Tigray	32	34%	37.1	4.6	25%
Amhara	20	40%	34.7	4.7	40%
Addis Ababa	24	63%	36.0	6.3	25%
Total	127	33%	34.7	5.2	31%

Among those surveyed, manufacturing firms are the most represented followed by service. Urban agriculture is still least represented in the sample.



Business status before and after the pandemic

Growing small enterprises (covered in this survey), on average, made about birr **190,987** in monthly sales and birr **43,709** in monthly net income. However, following the partial lockdown, monthly sales and net income have slumped by **79%** and **91%**, respectively.

- Firms based in Addis Ababa provide the highest number of jobs compared to their regional counterparts (perhaps explained by the larger volume of sales) whereas those in Tigray the least number of jobs.
- Note that although firms in Addis Ababa generate larger volumes of sales, their margins (income/sales ratio) appear to be dismally low (12 cents on a birr). This has perhaps a lot to do with the stiff competition between businesses in Addis Ababa compared to the regions. The reverse appears to be true in Tigray.

Table 2: Business Status before the Pandemic Vs Current status (Average per enterprise) of high-growth potential small enterprises

Region	Business status before					Current status				
	No. of Employees			Monthly Sales (in birr)	Monthly net income in birr	No. of Employees			Monthly Sales (in birr)	Monthly net income in birr
	Perm.	Temp.	Total			Perm.	Temp.	Total		
Oromia	8.3	9.2	17.5	240,361	48,640	7.0	2.0	9.0	24,772	6,509
SNNPR	5.6	9.4	15.0	201,539	51,470	4.5	1.3	5.8	36,270	-4,773
Tigray	6.3	3.3	9.6	101,301	41,775	5.4	0.5	5.9	36,018	5,230
Amhara	6.8	3.2	10.0	108,800	23,031	5.2	0.5	5.7	39,800	1,342
Addis Ababa	10.8	10.1	20.9	359,944	45,931	7.6	4.5	12.1	70,304	9,807
Total	7.5	6.9	14.4	190,987	43,709	6.0	1.7	7.7	40,900	3,911

Impact of on Growing businesses

Small enterprises with high potentials for growth and on the path to joining the roster of medium-sized and large ones that tend to create a large number of jobs as opposed to micro enterprises that rarely hire more than two to three employees throughout their life cycles. The loss of these enterprises therefore poses a far greater danger to the country's economic health. To wit, contrary to expectation, the growing small enterprises in this survey have been equally battered by the crisis and did not appear to have weathered the shock any better than micro and small enterprises. The only place where they did relatively better is in retaining their permanent employees, with only a minor cutback. Contrarily, they slashed **75%** of their temporary staff.

As far as regional variation in impact goes, whereas Addis Ababa suffered the worst losses in sales, it was the SNNPR that was hit the hardest in net income loss. A follow up study is necessary to answer why this is the case and what needs to be done to ameliorate the situation.

Table 3: Impact of COVID 19 on growing enterprises (Average per enterprise)

Region	Loss due to the pandemic (COVID 19)				
	No. of Employees			Monthly Sales (in birr)	Monthly net income in birr
	Perm.	Temp.	Total		
Oromia	-1.3	-7.2	-8.5	-215,589	-42,131
SNNPR	-1.1	-8.1	-9.2	-165,269	-56,243
Tigray	-0.9	-2.8	-3.7	-65,283	-36,545
Amhara	-1.6	-2.7	-4.3	-69,000	-21,689
Addis Ababa	-3.2	-5.6	-8.8	-289,640	-36,124
Total	-1.5	-5.2	-6.7	-150,087	-39,798

Table 4 below shows the impact of the pandemic on growing-small enterprises supported by EDC, i.e., a total of **800** enterprises. EDC supported enterprises have in total lost about birr **139.8** million in monthly sales, and birr **30.3** million in monthly net income.

Table 4: Impact of COVID 19 on the performance (Monthly loss of jobs, sales and income) of EDC clients (800 Growing-enterprises)

Region	Loss due to the pandemic (COVID 19)				
	No. of Employees			Monthly Sales (in birr)	Monthly net income in birr
	Perm.	Temp.	Total		
Oromia	(260)	(1,440)	(1,700)	(43,117,800.00)	(8,426,200.00)
SNNPR	(132)	(972)	(1,104)	(19,832,280.00)	(6,749,160.00)
Tigray	(108)	(336)	(444)	(7,833,960.00)	(4,385,400.00)
Amhara	(256)	(432)	(688)	(11,040,000.00)	(3,470,240.00)
Addis Ababa	(640)	(1,120)	(1,760)	(57,928,000.00)	(7,224,800.00)
Total	(1,396)	(4,300)	(5,696)	(139,752,040)	(30,255,800)

Impact on Growing-Small Enterprises in the Country

It is estimated that there are about **15,000** growing-small enterprises in the country. Extrapolating the result to these enterprises, it is estimated that about birr **2.3 billion** is lost in monthly sales and birr **596.9 million** is lost in net income as shown below in Table 5. A total of **100,500 employees** are already laid off from these enterprises.

Table 5: Impact of COVID 19 on Performance (Monthly loss of jobs, sales and income) of growing-enterprises in the Country (~15,000 enterprises)

Total No. of firms in the country	Loss due to the pandemic (COVID 19)				
	No. of Employees			Monthly Sales (in birr)	Monthly net income in birr
	Perm.	Temp.	Total		
15,000	(22,500)	(78,000)	(100,500)	(2,251,305,000.00)	(596,970,000.00)

III. Impact of COVID 19 on MSMEs by Sector

Among the MSEs surveyed in this assessment, construction firms hired the most whereas firms engaged in the trade sector produced the least number of jobs.

Table 1. Before Vs After of COVID 19 by Sector of the Micro and Small Enterprises

Sector	Business status before					Current status				
	No. of Employees			Monthly Sales (in birr)	Monthly net income in birr)	No. of Employees			Monthly Sales (in birr)	Monthly net income in birr
	Perm.	Temp.	Total			Perm.	Temp.	Total		
Manufacturing	4.0	2.3	6.3	46,243	15,852	2.4	0.8	3.2	12,098	2,167
Service	3.4	0.8	4.2	37,111	12,769	2.5	0.2	2.7	7,231	-57
Construction	4.3	7.2	11.5	61,272	17,240	2.4	0.9	3.3	29,818	1,860
Urban Agric.	3	0.5	3.5	39,486	17,291	2.4	0.08	2.5	16,528	3,641
Trade	2.3	1.1	3.4	58,073	15,676	1.5	0.3	1.8	19,018	1,638
Total	3.4	1.6	5	45,180	14,983	2.3	0.4	2.7	13,501	1,417

Although no sector is spared, it appears to be the construction sector that suffered the worst business closure rate (63%) whereas the emerging urban agriculture sector fared best (24%), followed by trade (28%). Construction also suffered the highest loss of employment although the vast majority were temporary staff. As far as sales is concerned, the trade sector experienced the steepest decline in sales and urban agriculture fared better, followed by the service sector.

Table 2. Impact of COVID 19 on Major Sectors of the MSEs (Average loss per enterprise)

Sector	Total enterprises surveyed	% of enterprises totally closed business due to COVID	Loss due to the pandemic (COVID 19)				
			No. of Employees			Monthly Sales (in birr)	Monthly net income in birr
			Perm.	Temp.	Total		
Manufacturing	108	31%	-1.6	-1.5	-3.0	-34,145	-13,685
Service	124	45%	-0.9	-0.6	-1.5	-29,880	-12,826
Construction	27	63%	-1.9	-6.3	-8.2	-31,454	-15,380
Urban Agric.	38	24%	-0.6	-0.42	-1.0	-22,958	-13,650
Trade	65	28%	-0.8	-0.8	-1.6	-39,055	-14,038
Total	362	37%	-1.1	-1.2	-2.3	-31,679	-13,566

SME's Perception of Potential Future Impacts

- Loss of employees because of the nature of the job and shortage of sanitary supplies.
- Raw material shortage and production cutoff.
- Fear of not being able to pay Iqub and bank (including MFI) loans.
- Being forced to put all new investment and expansion plans on hold.
- Falling sick from the virus and not only going bankrupt but also dying from it.

Recommendations by MSMEs on Impact Mitigation

- Checking the spread of the pandemic through robust and effective preventive measures.
- Preventing disruptions in the supply chains to ensure a more reliable supply of inputs.
- Re-arrangement /rescheduling and postponement of repayment of loans.
- Stabilizing the inflation in the input and raw material prices through regulatory measures.
- Providing additional loan facilities to help MSMEs recover fast from the impact.
- Assistance to shift production lines to items needed to combat Covid19.
- Capital to start businesses again or move over into newer business ventures.
- Wage subsidy by the government to be able to keep employees on payroll.
- Assist MSMEs to speedily digitize their sales and marketing operations.

IV. Towards an MSME Recovery plan

MSMEs are recognized the world over as engines of job creation, innovation, and inclusive growth. In Ethiopia itself, they make upwards of 5 million jobs available, especially in the urban centers where youth-unemployment is a chronic problem. The country cannot therefore afford to let this very vital sector of the economy implode. The impact will be catastrophic, especially on the on society's most vulnerable segments, the youth and women in particular.

It is not secret that the country lacks the resources to offer a stimulus package targeted towards salvaging at least growth-oriented MSMEs. However, given its overall significance, the issue of this sector needs to be front and center in all bilateral and multilateral discussions.

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