



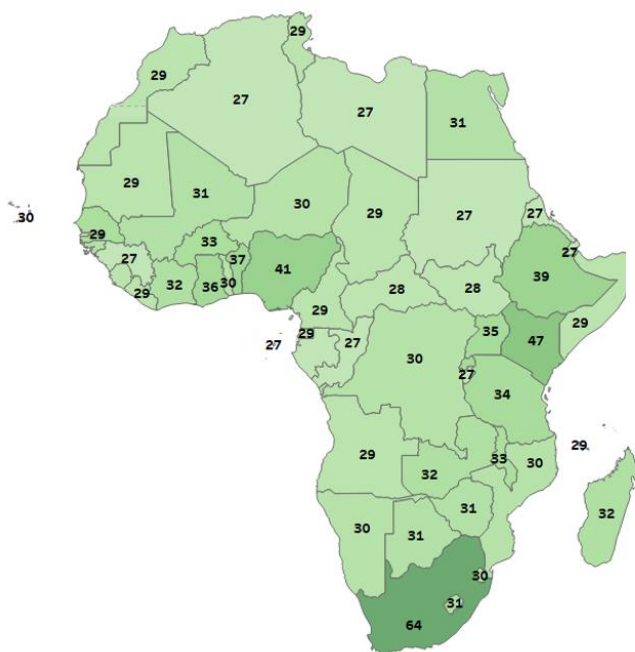
Insights on African businesses' reactions and outlook to COVID-19

This is the first comprehensive survey on the coronavirus disease (COVID-19) pandemic and its economic impacts across Africa. It takes stock of the impact of COVID-19 on businesses and trade, and identifies the challenges faced and responses made by businesses. The survey was jointly developed and carried out by the African Trade Policy Centre (ATPC) of the United Nations Economic Commission for Africa (ECA) and International Economics Consulting Ltd.

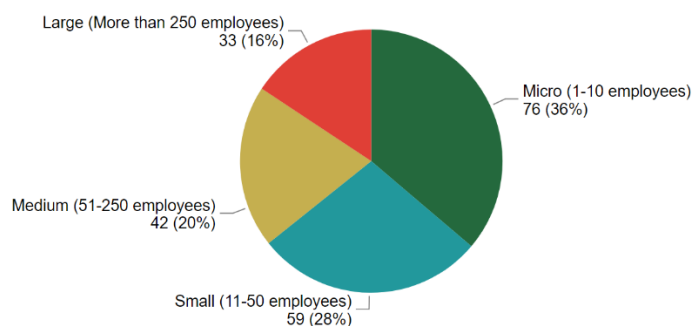
The survey was administered online during one week, from 14 to 20 April 2020. The results are based on 337 responses and 210 fully completed questionnaires, with each respondent representing an enterprise that operates in 1 and/or all 54 African countries, and disaggregated as: 76 micro enterprises, 59 small-sized enterprises, 42 medium sized-enterprises and 33 large enterprises.

Figure 1: Survey coverage

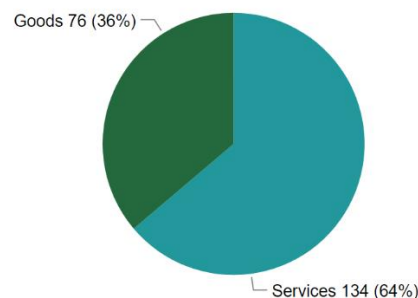
Countries



Company sizes



Sectors



Numbers in figures represent respondent numbers and percentages are shares of total respondents. It should be noted numbers in the map represents each company that operates in at least one and up to 54 African countries.



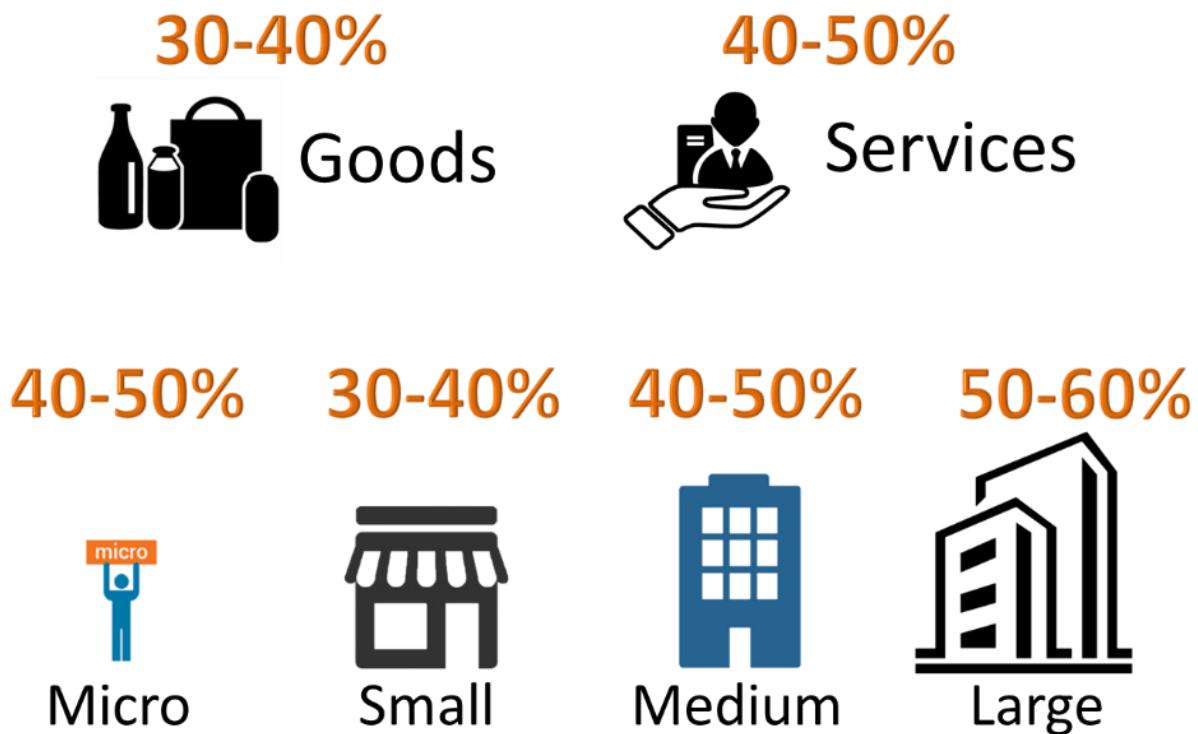
African businesses are being severely impacted by the COVID-19 crisis

Four fifths of the respondents indicated being significantly affected by the current COVID-19 crisis (rating the effect as highly severe or severe). The proportion is relatively uniform across the size of enterprises and the kind of business.

One of the immediate effects resulting from the restrictions taken by the governments in Africa and beyond to limit the spread of the virus, as well as subsequent economic implications (e.g. reduced demand), is that African businesses are functioning with considerably less employees than under normal circumstances.

The rate of capacity utilisation ranges from 30-40% (for small-sized enterprises) to 50-60% (for large-sized enterprises). It also tends to vary depending on the sector in which the business operates, with the average of respondents indicating rates of capacity utilisation of around 30-40% for goods, and 40-50% for services. Within these broad sectors, there are quite large differences. In general, manufacturing operations, travel/hospitality and transportation services appear to be operating at their lowest capacities.

Figure 2: Current capacity utilisation

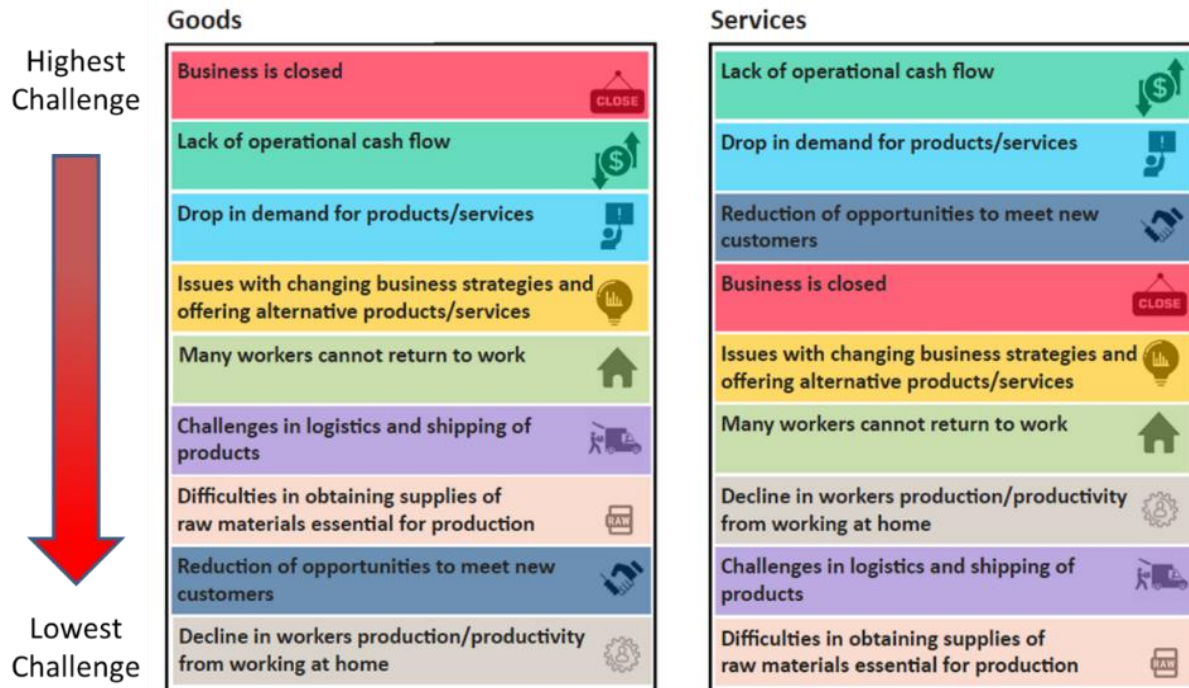


Business closed, lack of operational cash flows, drop in demand and reduction of opportunities to meet new customers are the main challenges faced by African businesses. Enterprises engaged in services perceived “lack of operational cash flow” as the greatest challenge, whereas those dealing primarily with goods identified “business is closed” as the most pressing issue and immediately followed by “lack of operational cash flow”. “Drop in demand” scores high for both types of



businesses. A noteworthy difference however, is for “reduction of opportunities to meet new customers,” which is perceived as an essentially major challenge for businesses involved in services. On the other hand, “logistics and shipping of products”, as well as “difficulties in obtaining supplies of raw material for essential production”, are perceived as bigger challenges for those companies engaged in manufacturing.

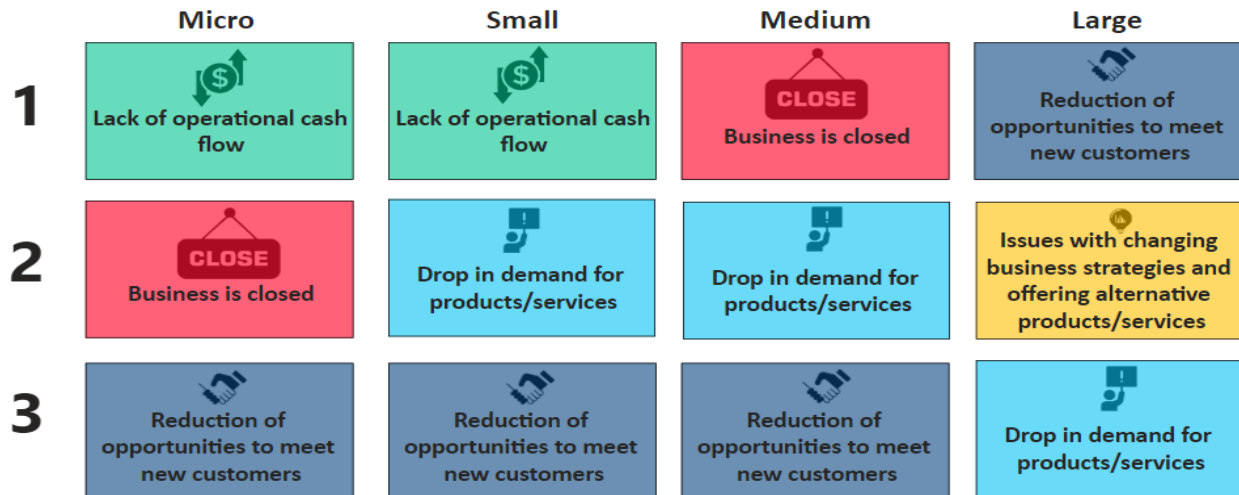
Figure 3: Top challenges faced (from highest to lowest) by companies by main business sector



Micro, small and medium-sized enterprises (MSMEs) are chiefly concerned by the cash flow outlook, while large companies are challenged by the need to adapt their business model to the crisis

Breaking-down the top challenges by company size clearly shows that surveyed micro, small and medium-sized enterprises (MSMEs) viewed operational issues as most at risk under the COVID-19 crisis; “lack of cash flow” cited as being the number one challenge for micro and small-sized companies, whereas “business is closed” for medium-sized enterprises. In the case of large companies, a “reduction of opportunities to meet new customers”, as well as “issues with changing business strategies and offering alternative products/services” are the main concerns. In other words, while MSMEs seem to be primarily concerned about surviving the COVID-19 crisis, larger businesses appear to be more worried about adaptation to a new business environment.

Figure 4: Top 3 challenges faced by company, by size



Access to supplies impacts companies differently according to the size of their operations

It should be noted that although “difficulties in obtaining supplies of raw materials essential for production was not seen as a top challenge in the survey, it remains important, especially for those companies engaged in manufacturing. In fact, when asked about any shortage with suppliers in the COVID-19 context, 51% of enterprises operating primarily in goods faced challenges with respect to national suppliers and 49% in relation to international suppliers; against only 26% and 22% of enterprises dealing with services as far as national and international suppliers are concerned, respectively. The survey reveals that larger companies are more integrated into Global Supply Chains and more dependent on accessing supplies from third markets.

Reliance on international rather than regional suppliers may be adversely affecting businesses in Africa

For those surveyed companies that rely on international suppliers for raw materials essential for production, it appears that micro and small companies are not really exploiting the African market to get their supplies. Therefore, there is a clear opportunity with the ongoing establishment of the African Continental Free Area (AfCFTA) to develop critical regional value chains and supply chains so that businesses, particularly MSMEs, can better take advantage of the African market to source their inputs.

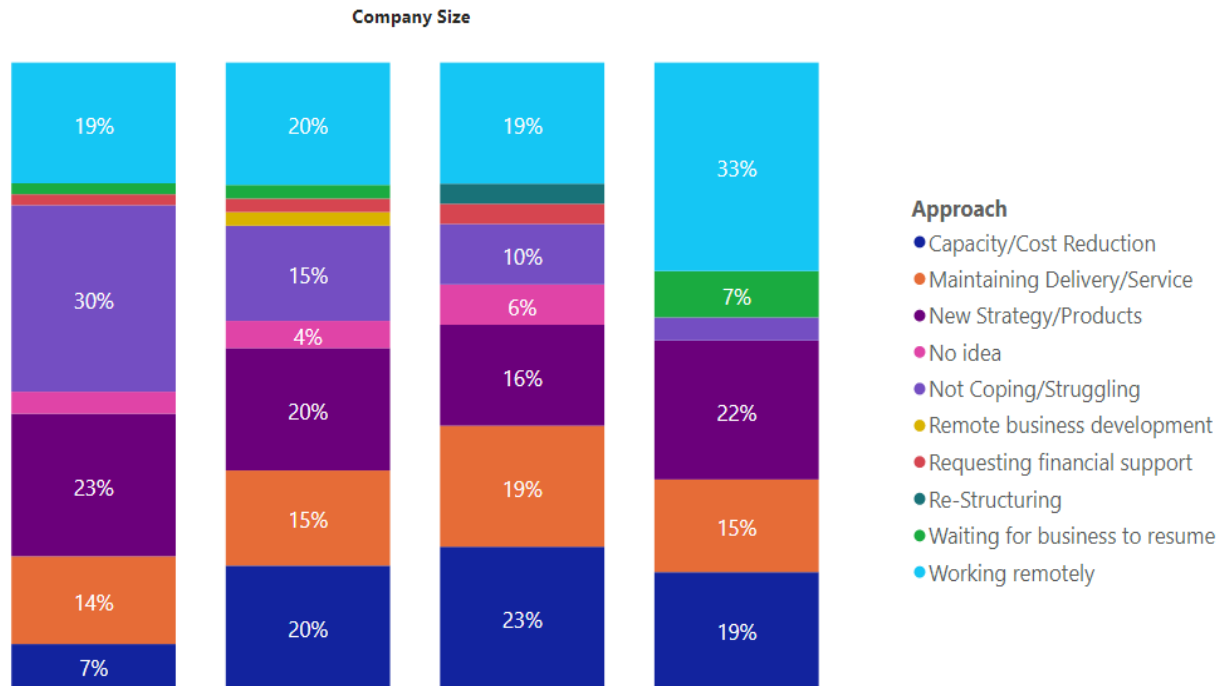
Workers are also inevitably and directly affected by the crisis

As African businesses close and capacity utilisation is being reduced with the crisis, employees are directly exposed and suffering. If companies appear to see that “many workers cannot return to work” only as an intermediate challenge, it is likely to be related to the fact that many workers can still perform tasks remotely. Indeed, when asked about “How does your company cope with current challenges?”, the first answer (for about 20% of respondents) is by “working remotely”. The proportion is relatively higher for businesses dealing with goods (27% of the respondents) than for those working in services (17%) and also for larger companies (33%) as compared to for smaller ones (around 20%); micro enterprises seem to face the hardest time in coping with the crisis as revealed by the survey. Overall though, African businesses do



not, at this stage, appear very concerned about the “decline in workers’ production/productivity from working at home” which ranks towards the bottom of the perceived challenges faced by businesses with COVID-19.

Figure 5: How does your company cope with current challenges?



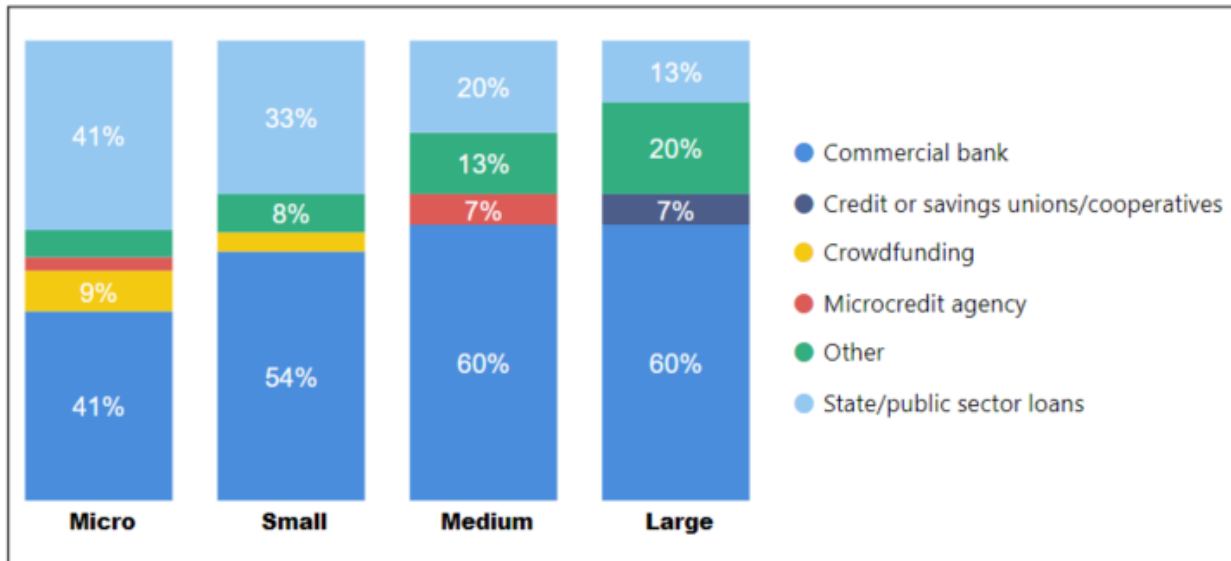
Still, a significant number of workers have been or are at risk of being laid-off. From the surveyed firms, they expect having to lay-off on average around 20-30% of their workforce in the next 3 months. Feedback received from the survey further shows that employees in MSMEs seem more at risks than employees from larger-sized companies.

The responsiveness of financial intermediaries across Africa to the needs of businesses has been variable

Not surprisingly, considering that a “lack of operational cash flow” has been identified as one of the key challenges faced by African businesses, particularly smaller ones, that 42% of respondents indicated having approached financial institutions for credit facilities, loans or other financial support. This ratio is rather homogeneous across company size and business type. Nonetheless, the type of financial institution approached and purpose of the requested support evidently varied depending on the size of the business.

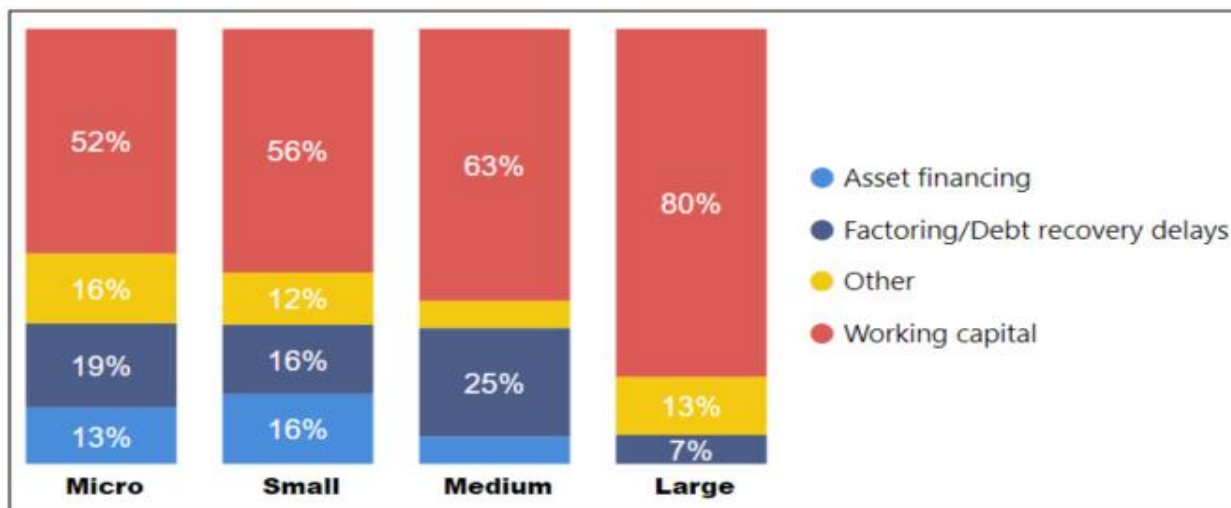
Commercial banks were generally the main financial institution contacted and this is increasingly true as the size of the company grows. On the other hand, State/public loans tended to be favoured by smaller businesses; crowdfunding also appeared to be considered as a non-negligible source of funding for micro and small companies.

Figure 6: Type of financial institution approached by company size



“Working capital” accounted for the largest share of financial support requested by respondents; and its share increases with the size of companies. “Factoring/debt recovery delays” and “asset financing” also accounted for significant shares of the requested financial support by MSMEs but were rather insignificant in the case of large companies.

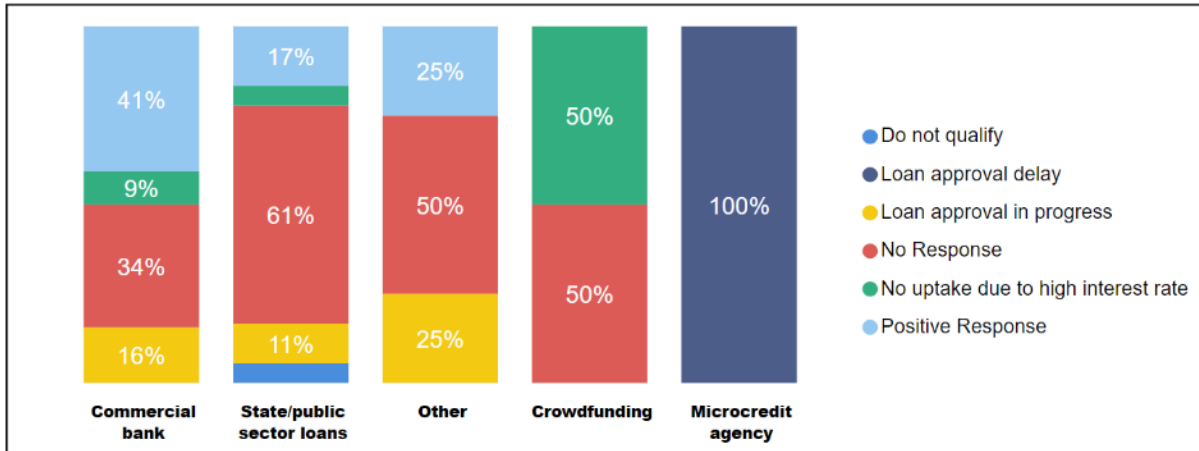
Figure 7: Purpose of financial support requested by company size



However, the responses by financial institutions contacted by the surveyed African businesses for financial support turned out to be extremely uneven. The majority of companies had not received any positive response to their requests for financial support by financial institutions, apart from the commercial banks. Only 41%, 17% and 25% of the companies that approached commercial banks, State/public sector banks and other institutions (excluding crowdfunding and microcredit agencies) have obtained positive responses, respectively. The microcredit agencies delayed all loan approvals, while in 50% of the cases, companies that contacted crowdfunding were offered high interest rates.



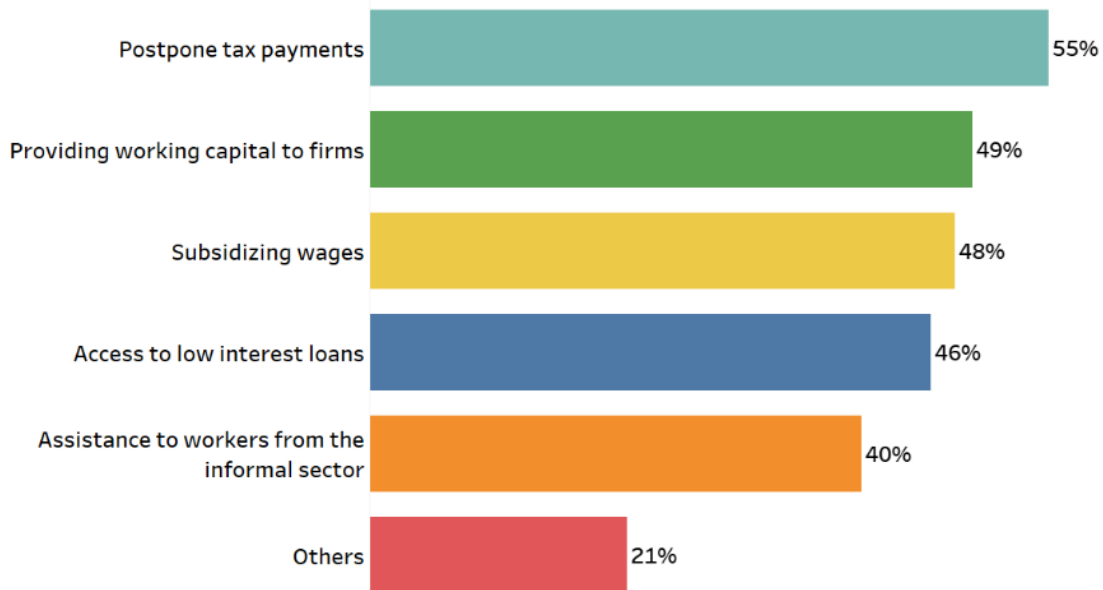
Figure 8: Responses to loan requests



African businesses have largely been disappointed by the responses to the crisis from their governments so far, and the majority wish to see governments postponing tax payments and providing capital to firms

Just over half (55%) of the respondents felt that the government responses to the COVID-19 crisis have been unsatisfactory. Asked about specific government intervention(s) they would like to see for their businesses, “postponed tax payments” was the most cited (by 55% of the respondents), closely followed by “providing working capital to firms” (49%), “subsidising wages” (48%), “access to low interest loans” (46%), and “assistance to workers from the informal sector” (40%)

Figure 9: What government intervention(s) would you like to see for your business?



Note: Percentage of total respondents

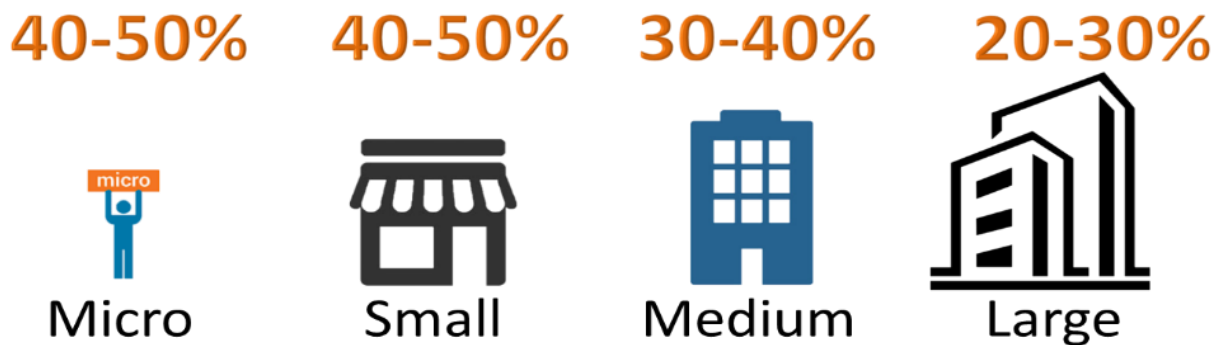


African businesses anticipate a slow recovery from the impact of the crisis and their revenues to fall by an average 30-40%, with smaller companies expecting to be impacted even more negatively

Over the next 3 months, 68% of respondents believe that their businesses will contract, while over a six-month horizon, 56% believe that their own activities will contract. As far as the economy where they are headquartered is concerned, the prospects are even slightly more pessimistic with 69% of respondents expecting a contraction in the economy over 3 months and 64% over six months. The outlook seems somewhat more promising on a 12-month horizon, with 30% of businesses interviewed anticipating a contraction of their activity over that period, whereas 41% believe that the economy as a whole will contract.

This obviously translates into expected business revenue reductions in 2020 at around 30-40% on average for surveyed companies. However, the smaller the enterprise the greater the expected loss in revenues, with micro and small-sized companies forecasting a drop in their revenues in 2020 by as much as 40-50%.

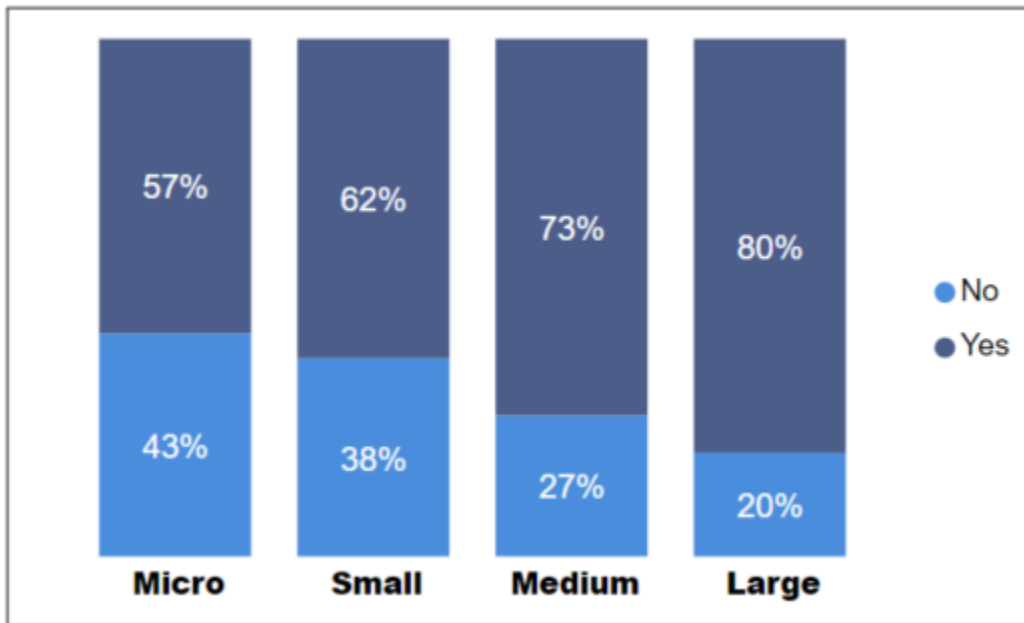
Figure 10: Levels of reduction in expected 2020 turnover by company size



Businesses are reacting pro-actively on the whole by adjusting to new technologies and changing internal working processes.

Africa is coming up with new and innovative ways to conduct businesses, even though financial institutions are not readily helping in this crisis situation. Asked whether they had identified/reacted to any new business opportunities that might have been made possible with the new situation, the majority of companies responded by the affirmative; with the proportion increasing considerably with the size of the enterprise.

Figure 11: Have you identified/reacted to any new business opportunities that might have been possible with the new situation?



Among the specific areas identified, and in similar proportion across company size, the increased use of technology and the possibility to conduct business remotely came back the most frequently among the respondents (around two thirds of the total for each), followed by online selling as well as shift to new products related to COVID-19 or entirely new product/service lines.

What the results mean for Africa going forward

ECA recently published its forecast of growth for Africa, suggesting between 1.8% and negative 2.6% for the continent in the year ahead.¹

The survey results for mid-April, covering all African countries, highlight the major challenges faced by businesses. Four fifths of companies expect a direct impact on their turnover, with the smallest firms hit the hardest. Concerns surrounding cashflow rank highest in the minds of small business owners, while larger businesses are more concerned by reduced opportunities to meet customers and the need for diversification of product and service offerings. Workers are directly impacted by the crisis, particularly in smaller-sized companies, and often forced to work remotely when not laid-off.

Trade has been impacted and those businesses relying on overseas suppliers express challenges in accessing supplies. Greater difficulties are faced by manufacturing than service industries, whose production is more fragmented and more affected by physical barriers arising from the pandemic. While African supplies seem more readily available, they appear underutilised, pointing to opportunities for boosting intra-regional trade.

¹ ECA (2020). COVID-19 in Africa: Protecting Lives and Economies. April 2020



Access to credit during COVID-19 has proved elusive for all businesses, regardless of size, but once again small businesses have been hit the hardest. The main use of credit is to finance working capital and between just one sixth to two fifths of requests for financial support are positively responded to by the financial institutions. More troubling is that between one third to two third of loan requests are not even offered any response.

The disappointment expressed by respondents to government responses has forced initiative from businesses. A number of effective measures have been adopted by businesses to mitigate the effects of operating in this new environment, such as adopting technology, working remotely and using e-commerce. Despite this, businesses would like to benefit from postponed tax payments, working capital, subsidised wages, access to low interest loans as well as seeing assistance to workers in the informal sector.

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