



## ORIGINAL RESEARCH

# Economic impact of COVID-19 on Ethiopian micro, small, and medium enterprises and policy measures

Ishfaq A Malik<sup>1</sup>, Showkat A Shah<sup>2\*</sup>

## Abstract

The aim of this study is to determine the impact of MSME's affected by the Covid-19 pandemic. We used a panel data design and collected data from 650 respondents randomly from various parts of Ethiopia. The data is collected in three rounds: the first from June-July 2020, the second from November-December 2020, and the third from June-July 2021. The analysis found that in (Round 1) 91 percent MSME's reported decline in production or sale, while in (Round 2) and (Round 3) enterprises reported improvement in production and sale. The study results shows that about 64 percent respondents in average of the three rounds reported increased in debt. Similarly, an average of three rounds, 16 percent and 12.5 percent workers were permanently and temporarily lay-off. Based on the findings of the study its being suggested that short-term and long-term policies should be established for reviving MSME's.

**Keywords:** COVID-19, MSME's, pandemic, Ethiopia.

## Introduction

The COVID-19 pandemic has a substantial influence on businesses community as well as consumer behaviour across the world. The pandemic has had direct socioeconomic effects in both developed and developing countries as a result of the virus's fast spread. According to the World Bank's Global Economic Outlook (2020), the COVID-19 recession features the fastest economic growth downgrades of any worldwide recession. It hurts budding entrepreneurs, especially those from low-income countries with little government support. Authorities' imposition of lockdowns and movement restriction are the key factors impacting entrepreneurial activity. Low demand and market stagnation have also come from the pandemic, making it

more difficult for entrepreneurs to sustain their start-up firms. The fear of business failure has increased in the current scenario, with the greatest danger of suspending or limiting entrepreneurial activity. Scaling up and maintaining the operations of entrepreneurial enterprises is tough. Converting conventional firm models to digital business models has a restricted number of options. The pandemic has made it much more difficult for firms to explore modifications to their current structure due to a lack of resources and abilities. According to the World Bank, the COVID-19 recession will be the worst since World War II, posing new challenges for businesses in all sectors (World Bank 2020). Entrepreneurial activities will decline in the future, whether they are conducted in a rich or developing nation, since the economic implications will last longer.

The COVID-19 pandemic is undoubtedly having a significant effect on businesses around the globe. The micro, small, and medium-sized enterprises are the most susceptible to the COVID-19 outbreak as they often fall shortage of financial and managerial resources, and are unprepared for such shocks as running longer than expected (Bartik et al., 2020). Furthermore, many companies depend largely on repeat sales and a limited number of customers (Williams *et al.*, 2017). As a consequence, many MSME's are running out of stock, some are barely surviving, and others are on the verge of going out of business.

In Ethiopia economy MSME's have emerged as a vibrant and active sector during the past decade. Due to their role as accelerators for the transition to an industrial society, these

<sup>1</sup>Department of Economics, College of Business and Economics, Mettu University, Ethiopia.

<sup>2</sup>Department of Economics, College of Business and Economics, Mizan Tepi University, Ethiopia.

\***Corresponding Author:** Showkat A Shah, Department of Economics, College of Business and Economics, Mizan Tepi University, Ethiopia, E-Mail: shahshowkat05@gmail.com

**How to cite this article:** Malik, A.I., Shah, S.A. (2023). Economic impact of COVID-19 on Ethiopian micro, small, and medium enterprises and policy measures. *The Scientific Temper*, 14(2):288-293.

Doi: 10.58414/SCIENTIFICTEMPER.2023.14.2.06

**Source of support:** Nil

**Conflict of interest:** None.

entrepreneurs employed 4.5 million people and made 40.7 billion birr in monthly sales prior to the COVID-19 pandemic. MSME's are seen as "seedbeds" for the development of large enterprises. According to UNIDO, Ethiopia has the lowest entrepreneurial activity rate in Sub-Saharan Africa, with fewer private enterprises in proportion to its population (UNIDO, 2019). Furthermore, 85 percent of today's enterprises are small, leaving them especially vulnerable to external shocks. Furthermore, micro and small businesses are seldom promoted to medium and large businesses (ONE UN ETHIOPIA, 2020). Ethiopia's MSME attrition rate is also fairly high.

During the COVID-19 problems, entrepreneurship research is critically required to help entrepreneurs on how to obtain the impact, maintain, and scale-up businesses. The present pandemic, which has caused havoc on micro, small, and medium enterprises, provided the impetus for this study. During this critical stage, entrepreneurs took a range of actions, including requesting financial aid, altering business models, and using diverse ways to run their enterprises. The pandemic has opened up new avenues for research into support strategies for sustaining entrepreneurial activity during pandemics. In order to contribute to entrepreneurial scholarship for practitioners, academics, and fellow researchers, this study focuses on the issues experienced by MSME's in Ethiopia during the COVID-19 pandemic. It assists in the understanding of pandemic-sensitive business patterns, which may be beneficial to Ethiopian entrepreneurs.

The following is a breakdown of the paper's structure. The second portion is devoted to a thorough examination of relevant literature. Part 3 describes the methodology, while section 4 discusses the results and discussion. Section 4 presents the policy implications, and Section 5 presents the conclusions.

### **Literature Review**

COVID-19 first aired in early 2020, and it had a big impact on communities and economy (Parnell et al. 2020; Ratten, 2020). Many limitations aimed at avoiding the spread of the virus have had a significant negative impact on businesses. The pandemic had a negative effect on tourism, hotels and restaurants, transportation, and oil and gas supply since they lacked contingency plans. With the exception of a few successful cases, little is known about how entrepreneurs have planned and managed their business risks. In Pakistan, Shafi et al. (2020) investigated the effect of COVID-19-induced lockout on small and medium firms. According to their findings, the great majority of businesses were unprepared in the event that a lockdown was imposed suddenly. Furthermore, the study found that businesses were having financial challenges as a consequence of lower sales and profits. Supply chain delays, decreasing demand, and high transportation costs were all issues they had to contend

with. In the impacted locations, the COVID-19 pandemic has had a significant effect on SMEs. Over 4800 SMEs in China were affected by COVID-19 (Lu et al., 2020). According to another study that looked at 5800 firms connected to the network, the COVID-19 pandemic has affected sole proprietorships and small partnerships. Businesses have been forced to shut as a consequence of the pandemic due to a lack of resources (Bartik et al., 2020). COVID-19's harmful effects on the business environment have also been exposed by commercial organizations (Seetharaman, 2020). Small and medium-sized enterprises are harmed by forcible and forced company closures, as well as operating constraints (Fairlie, 2020). Businesses were forced to curtail their company operations or migrate from non-essential to crucial commodities such as masks, PPE kits, and sanitizers due to a lack of financial strength, raw material availability, labor constraints, and other considerations (Tripathy, 2020). Few studies have been conducted in Ethiopia to investigate the effect of the COVID-19 pandemic on MSME's. Mengistu et al. (2020) studied the effect of the current pandemic on Ethiopian industrial parks, finding that 10% of firms were temporarily closed and 75% of sales and production volumes were lowered. Abebe et al. (2020) collected data from 441 firms in Addis Ababa. They highlighted that about 42 percent reduction in sales revenue, 40 percent drop in production, and 40 percent drop in employment on average of enterprises in Addis Ababa. COVID-19 cut the real earnings of high-skilled and low-skilled employees by 14.1 percent and 3.7 percent, respectively. Yohannes Ayele et al. (2020) picked 627 small-scale manufacturers at random from different areas in Ethiopia for their research, and they found that 95% of enterprises saw a drop in sales income, as well as layoffs.

Our study is an addition to the existing literature and fills up the literature gap which they arise. The present study is collecting the data from enterprises in three rounds from different parts of the Ethiopia and examines the impact of covid-19 pandemic on MSME's production and sale.

### **Methodology**

We used an exploratory strategy, which includes a comprehensive review of available literature, such as policy papers, research publications, and field reports. To provide empirical evidence, we also collected data from Ethiopian micro, small, and medium-sized enterprises (MSME's). Due to a combination of variables, including time constraints, financial constraints, and, most importantly, the COVID-19 outbreak, data was collected through distributing an online questionnaire through a range of social media platforms, including Telegram, IMO, emails, and phone calls. The information was gathered from 650 Ethiopian MSME's in three rounds: the first in June-July 2020, the second in November-December 2020, and the third in June-July 2021. Basic information about enterprises and their features,

the effect of the COVID-19 pandemic on businesses, and sales and profit decreases were all questioned about in the poll. Before the survey was made public, a limited group of business owners were given the questionnaire items to test for clarity and applicability, as well as to rule out any possible complications. Six distinct sectors were examined in this panel study. This research included 161 food, urban agriculture, and drinks in the subsector’s general commerce (141), metal, chemical, and plastic (118), and so on, as shown in Figure 1.

**Results and Discussion**

Throughout the research period, all sectors saw equivalent changes in output or sales, as well as the accumulation of new debt, as a result of COVID-19. Food and agricultural companies stated they were less inclined to shut down permanently. By the end of 2020, no industry had entirely recovered from COVID-19’s economic effect.

COVID-19 concerns have had a detrimental influence on all levels of MSME manufacturing. In contrast, the food and agriculture sectors were initially unaffected, with almost all company owners reporting a drop in production from mid-March to June-July. In Round 1, 91% MSME’s reported drop in production or sale. However, as compared to Round 1, output and sales increased by roughly 9% and 16 percent in Rounds 2 and 3 respectively as shown in Figure 2

According to the survey, even if there is a pandemic, the majority of businesses continue to operate in Ethiopia. However, owing to the monitoring of COVID-19 positive cases or violations of SOPs, 12 percent of the enterprises in our samples were temporarily closed in Round 1. The administration looked to be more worried about the appearance of COVID-19 positive cases and breaches of

SOPs during this time period. While, as in Rounds 2 and 3, 8% and 4% of respondents reported their business was temporarily shuttered, respectively as shown in Figure 3. This was due to rather mild approach towards positive cases and violation of SOPs.

We asked respondents how long they anticipated their company will be able to run for. In response, more than half of the companies said they were unsure about the future. About 30% of respondents said they would be able to run our business for no more than 6 months. Such type of potential threat and uncertainty is quite corrosive for business environment.

After the pandemic and mobility restriction, over half of MSME owners slipped into debt. COVID-19 caused debt for 53% of businesses in Round 1, but the number grew to 76 percent in Round 2 and 63 percent in Round 3. As a result of the prolonged Covid 19 lockdown and other precautionary measures that hampered business operations, the companies faced a significant debt burden. The overall amount of debt payable to COVID-19 in 2020 remained constant across all sectors, as illustrated in Figure 4. As a result, the sample industries’ reactions to Covid 19 limits and preventive measures were consistent.

Those who were in debt as a consequence of COVID-19 borrowed money mostly from friends and relatives. The Ethiopian firms in the sample seldom used official channels. In June-July, for example, 60% of respondents (Round 1) borrowed money from friends or relatives. This shows how peer groups and family can act as a buffer against situations of economic crisis. at the same time the lack of access to formal channel is off borrowing or their costly nature is also underlined.

Throughout the research period, MSME owners used a variety of ways to deal with the COVID-19 issue. Some of

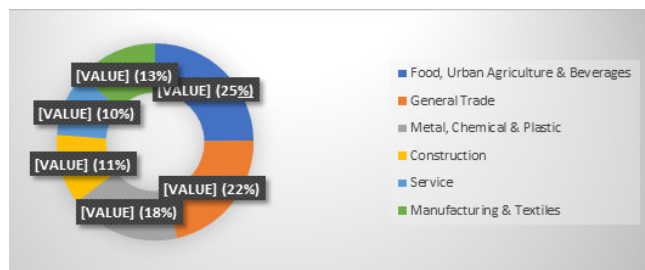


Figure 1: MSME Sector Breakdown

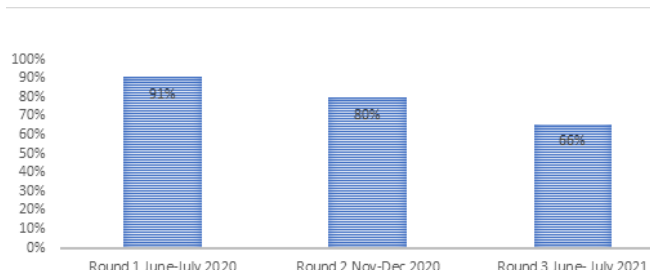


Figure 2: Percentage of MSME Production or Sales Decline

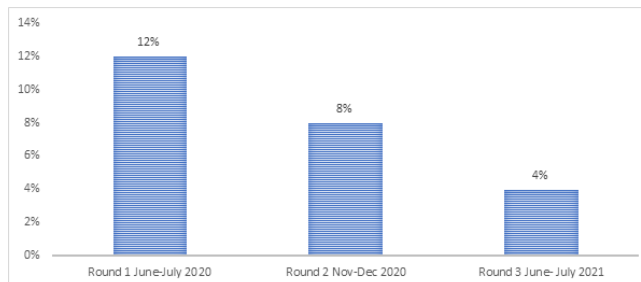


Figure 3: Percentage of MSME's Closing Temporarily

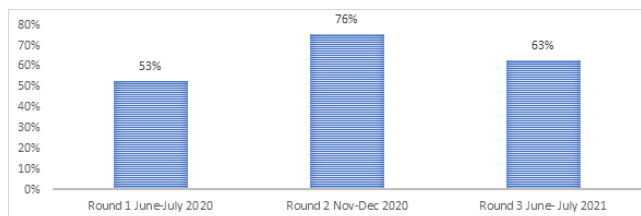


Figure 4: COVID-19-related debt incurred by MSME

the labor market’s slow recovery once the restrictions were lifted might be attributed to a shift away from layoffs and toward process changes.

In the panel research, the top coping technique was the same across all industries. In (Round 1), leniency in satisfying financial obligations was the most popular option (31%), followed by permanent layoffs (23%), and temporarily decreasing staff (21% of the total). In Rounds 2 and 3, the pattern continued, albeit business improved to some extent due to the loosening of restrictions, and MSME’s were able to minimize the number of permanent and temporary layoffs (see Figure 5). Businesses used to sell their goods online in most countries, but this is not feasible in Ethiopia for a number of reasons.

By 2020, the supply of inputs and sales to MSME’s was substantially reduced. 88 percent of MSME’s reported fewer domestic sales in the early months of the pandemic, while 55 percent reported difficulty obtaining inputs domestically. Although the percentage of MSME’s reporting lower domestic sales declined from 88 percent in June-July (Round 1), it remained high throughout the year. Round 2: 74 percent; Round 3: 55 percent (Round 3). As the number of COVID-19 cases declined and limitations were eliminated during the year, MSME’s got more access to inputs. From a starting point of 38% reporting difficulties collecting inputs in (Round 1), 19% and 11% reported trouble obtaining inputs in (Round 2) and (Round 3) respectively. However, in (Round 1), 55 percent of correspondents reported reduced domestic sales to consumers, with 35 percent and 29 percent reporting lower domestic sales to consumers in Rounds 2 and 3, respectively as shown in Figure 6.

The COVID-19 problem has a significant influence on a company’s ability to retain workers. The average number of workers before to COVID 19 was 5.8, but during the

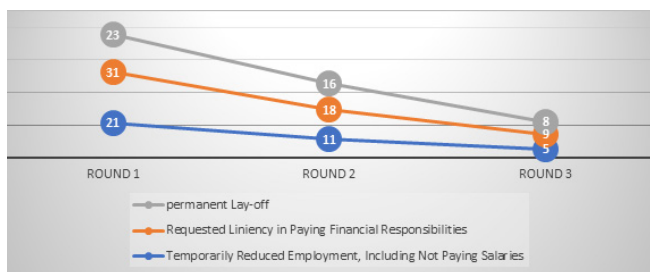


Figure 5: The Most Effective COVID-19 Crisis Response Strategies

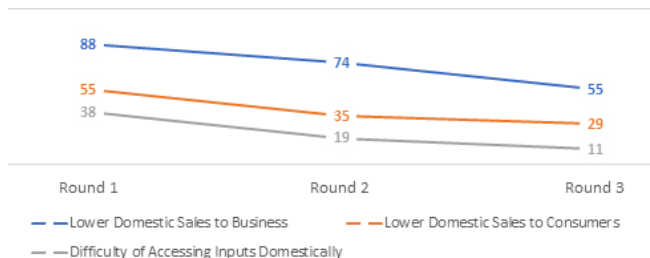


Figure 6: Impact on Sales and Input Access

pandemic, companies reduced employment due to a variety of economic concerns, bringing the average number of employees down to 3.5. By all accounts, this represents a significant reduction in employment, which would have a negative impact on the sales prospects of the same enterprises.

In Rounds 2 and 3, firms, on the other hand, rehire their employees at a rate of 3.9 percent and 4.2 percent, respectively as shown in Figure 7. Despite improving economic conditions, surveyed MSME’s have been unable to rehire people after Round 2, and employment levels have not rebounded to pre-COVID-19 levels. As a result, the effect of Covid-19 on employment is a long-term phenomenon that will need significant revamping to reform the system and return it to pre-Covid employment levels.

MSME’s monthly revenue was be drastically reduced by 2020. After COVID-19 breakout 88 percent drop in average monthly income compared to pre-COVID-19. Throughout the research period, the recovery from the present crisis has been slow, similar to the labor market. According to firms, the average sale dropped by 76 percent in Round 2, although some average sales improved in Round 3 as shown in Figure 8. However, it has not yet reached the pre-COVID-19 level.

**Policy Implications**

In Ethiopia, MSME’s need two types of policy. The first is to provide immediate assistance to millions of individuals who have been affected by the COVID-19 epidemic, regardless of whether they work in formal or informal settings. Second, long-term structural policies are required to re-establish major industrial sectors.

**Measures to Assist in the Short Term**

- Capitalized sectoral funds are used to finance the cash flow of a firm.
- Interest-free loans, low-cost lending, and credit

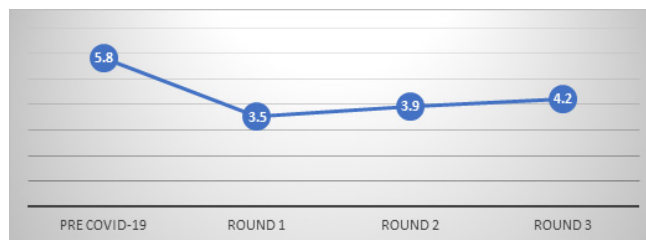


Figure 7: Average Employee Count

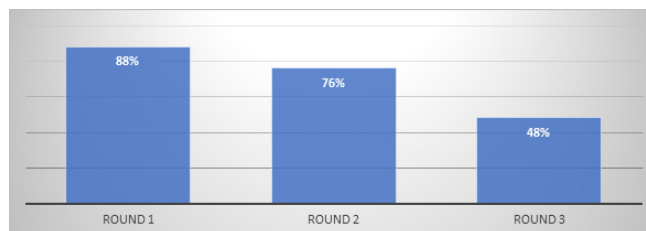


Figure 8: The Average Sale has Dropped

- guarantees should be stressed to boost MSME liquidity.
- The distribution routes for input and output must be consistent.
- Taxes and restrictions have been temporarily suspended.
- For a short period, the risk-weighted capital requirement has been reduced.
- Long-term debt financing

### **Structural Policies for the Long Term**

- Capacity building in the field of entrepreneurship
- A policy attitude that is flexible enough to allow for a more gradual approach to fiscal goals.
- Continued cash transfers and subsidies, as well as increased investment in some areas.
- The implementation of fiscal buffers and the expansion of the domestic tax base.
- Priorities for regional trade and industry are strong.
- Encourage medium- and long-term company investments that will help to preserve important commodity and service supply chains.
- Increase your digital connectedness.

### **Conclusion**

The COVID-19 pandemic has a substantial influence on the business operations as well as customer behaviour across the world. It hurts budding entrepreneurs especially those from low-income countries with little government support. Low demand and market stagnation makes more difficult for entrepreneurs to sustain their start-up firms. The fear of business failure has increased in the current scenario, with greatest danger of suspending or limiting entrepreneurial activity. We believe that MSME's are the most vulnerable to the COVID-19 because they often lacked of adequate resources, notable financial and managerial resources and are unprepared for such upheaval. The MSME's are the lifeblood of many economies throughout the world, generating revenue and jobs for a large number of people. Nonetheless, after the outbreak of COVID-19 pandemic large number of people lost their jobs and business community lost the sale as well. Therefore, this study analyses the economic impact of COVID-19 on MSME's in Ethiopia. We employed an exploratory strategy to achieve the objectives of the study. The information was gathered from 650 MSME's from various regions in three different rounds. The first round was held in June-July 2020, followed by second round in November-December 2020 and the third round in June-July 2021. Six distinct sectors were examined in this panel study such as food, urban agriculture & beverages, general trade, meta, chemical & plastic, construction, service and manufacturing & textiles. COVID-19 influence production or sale, in the Round-1, 91 percent MSME's reported drop in production or sale, while as it increased to 9 percent and 16 percent in Round-2 and Round 3 compared to Round-1. During the peak of pandemic, the majority of businesses

continued to operate in Ethiopia, however, very meagre number of businesses were shut due to violation of SOP's. Moreover, during pandemic MSME's slipped into debt like 53 percent in Round-1 and it increased to 76 percent in Round-2 and 63 percent in Round-3. Throughout the research period, MSME's followed different strategies to cope-up effect of pandemic, like leniency in satisfying financial obligation, followed by permanent lay off and temporary lay off of workers. Subsequently, supply of inputs and sales of MSME's was substantially reduced, 88 percent of MSME's reported fewer domestic sales, while 55 percent reported difficulty in obtaining inputs domestically. The COVID-19 pandemic has a significant influence on a company's ability to retain workers, before COVID-19 average number of worker's was 5.8 but after breakout of COVID-19 average number of employees decreased to 3.5. despite improving economic conditions, surveyed MSME's have been unable to rehire people to pre-COVID-19 levels. As a result, the effect of COVID-19 an employment is long-term phenomenon that needs significant revamping to reform the system and to return it to pre-COVID-19 employment levels. The study recommends two sets of policies are required for MSMSE's in Ethiopia. The first is to give short-term help to millions of people afflicted by the COVID-19 pandemic, second long-term structural strategies to re-establish key industrial sectors are needed.

### **Conflict of Interests**

There is no conflict of interest in authors

### **Funding Agency**

The study is not funded by any agency.

### **Acknowledgments**

The authors are grateful to Ethiopian micro, small, and medium-sized enterprises (MSME's) for providing relevant information's of this study.

### **References**

- Abebe, G., Bundervoet, T. and Wieser, C. (2020). Report no. 7 on the effects of Covid-19 on Ethiopian businesses.
- Bartik, A. W., Bertrams, M., Cullen, Z., Glaeser, E. L., Luca, M. and Stanton, C. (2020). COVID-19's influence on small business performance and expectations 117(30), 17656-17666 in Proceedings of the National Academy of Sciences.
- Fairlie, R. W. (2020). COVID-19's effect on small company owners: Continued losses, with a minor recovery in May 2020 (No. w27462). <https://www.nber.org/papers/w27462> The National Bureau of Economic Research (NBER).
- Global Economic Outlook. (2020). The global economic Outlook during the COVID19 pandemic: A changed World, 10.01.21, <https://www.worldbank.org/en/news/feature/2020/06/08/the-global-economic-outlook-during-the-covid-19-pandemic-a-changed-world>.
- Lu, Y., Wu, J., Peng, J. and Lu, L. (2020). Evidence from a sample of 4807 SMEs in Sichuan Province, China, on the perceived

- effect of the covid-19 outbreak. *Environmental Hazards*, 19(4), 233-259.
- Mengistu, A., Krishnan, P., Maaskant, K. Meyer, C. J. and Krkoska, E. (2020). Firms in Ethiopia's Industrial Parks: COVID-19 Impacts, Challenges, and Government Response. The World Bank Group.
- ONE UN Ethiopia. (2020). Assessment report, Sub-Saharan Africa (SSA)
- Parnell, D., Widdop, P., Bond, A. and Wilso, R. (2020). COVID-19, networks, and sports are all things that come to mind while thinking of COVID-19. *Managing Sport and Leisure*, 1-7.
- Ratten, V. (2020) Coronavirus (COVID-19) and entrepreneurship: changing life and work landscape. *Journal of Small Business and Entrepreneurship*, 32(5), 503–516.
- Seetharaman, P. (2020). Impact of covid-19 on business paradigms. *International Journal of Information Management*, 54, 102173.
- Shafi, M., Liu, J. and Ren, W. (2020). The impact of COVID-19 Pandemic on micro, small, and medium-sized Enterprises operating in Pakistan. *Research in Globalization*, 2, 10018.
- Tripathy, A. (2020). COVID-19 has an impact on micro, small, and medium-sized businesses. *The Times of India* (Indian-newspaper). <https://timesofindia.indiatimes.com/blogs/ageyaya/covid-19-affect-on-micro-small-and-medium-enterprises-msmes/>
- Tripathy, S. and Bisoyi, T. (2021). The effect of the COVID-19 epidemic on India's micro, small, and medium businesses. *Jharkhand Journal of Development and Management Studies*, 19(1), 8651-8660.
- United Nations Industrial Development Organization (UNIDO), Annual Report 2019, <https://www.unido.org/sites/default/files/unido-publications/2023-03/Annual-Report-2019-en.pdf>
- Williams, T. A., Gruber, D. A., Sutcliffe, K. M., Shepherd D. A. and Zhao, E. Y. (2017). Fusing crisis management and resilience research streams to better understand how organizations respond to adversity. *Annals of the Academy of Management*, 11(2), 733-769.
- World Bank. (2020). Global economic prospects A World Bank group flagship report" international bank for reconstruction and development. The World Bank Accessed 10.01.21 <https://openknowledge.worldbank.org/bitstream/handle/10986/33748/9781464815539.pdf>.
- Yohannes, A., Habtamu, E. and Getaneh, M. (2020). The Impact of COVID-19 on Ethiopian Small-Scale Manufacturing Establishments. *Research Papers from the PEDL*.