

COVID-19 and the Impact on MSMEs

MSME Clients in Lagos, Nigeria

DATA FROM WAVE 1 TO 4
2020-2021

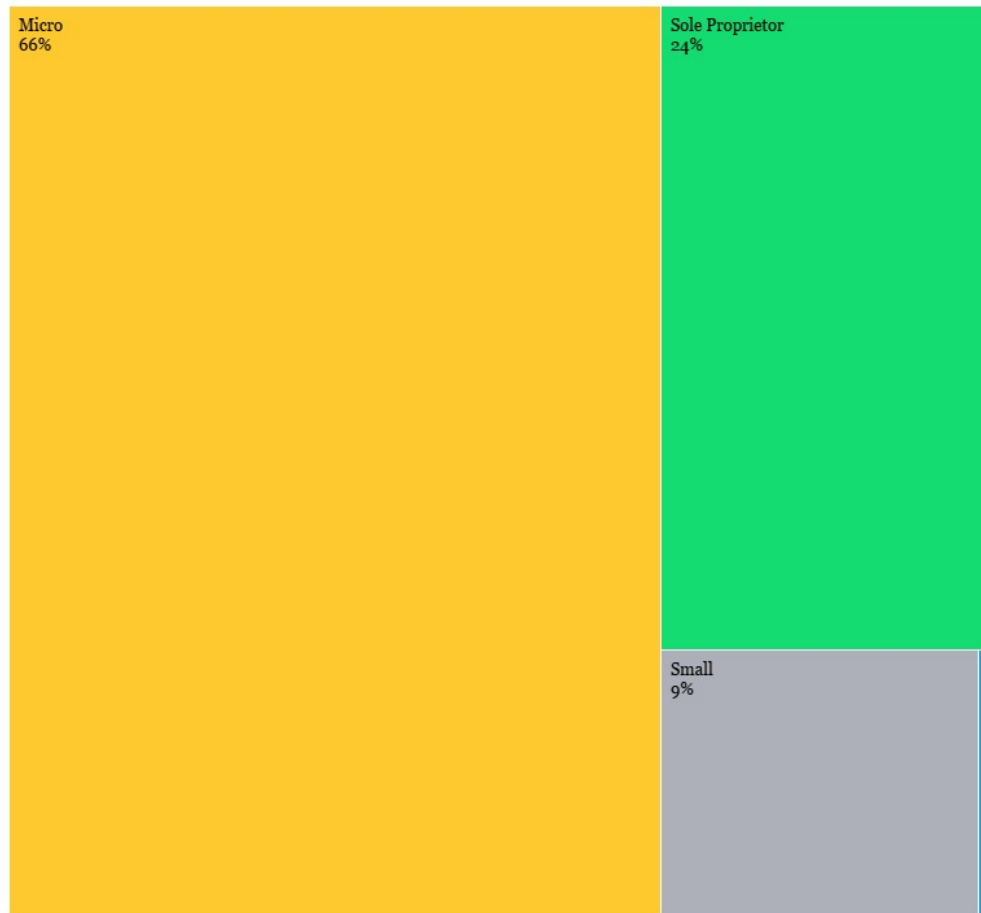
PROGRAM PAGE: bit.ly/COVID-MSMEs

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CFI has been interviewing MSME clients in Lagos every two months since June 2020

Business Size



AVERAGE CLIENT IN OUR SAMPLE:

More likely to be a woman

On average, each survey wave contained more women (54%) than men (46%).

Operates a small, retail business

Most of the businesses in the sample are classified as micro business (1 to 10 employees) or are sole proprietorships (no employees). 58% of the sample are retail businesses (grocery, clothing, electronics, etc.).

Had a growing business before COVID-19

62% of clients reported their profits increased in the year before COVID-19. Another 11% had said their profits had remained the same in the past year.

Nigeria's economy was fragile before the pandemic. The public health crisis created a macro-economic crisis

1

Sluggish Growth

Nigeria's economy never fully recovered from the 2014 to 2016 economic recession by the time the pandemic struck. Before the pandemic, the World Bank and IMF downgraded economic growth forecasts from 2.5% to 2%.

2

Declining Oil Prices

Global oil prices crashed from a high of \$59/barrel in February to a low of about \$19/barrel by April, reducing government revenues at a time when fiscal stimulus was needed for a response.

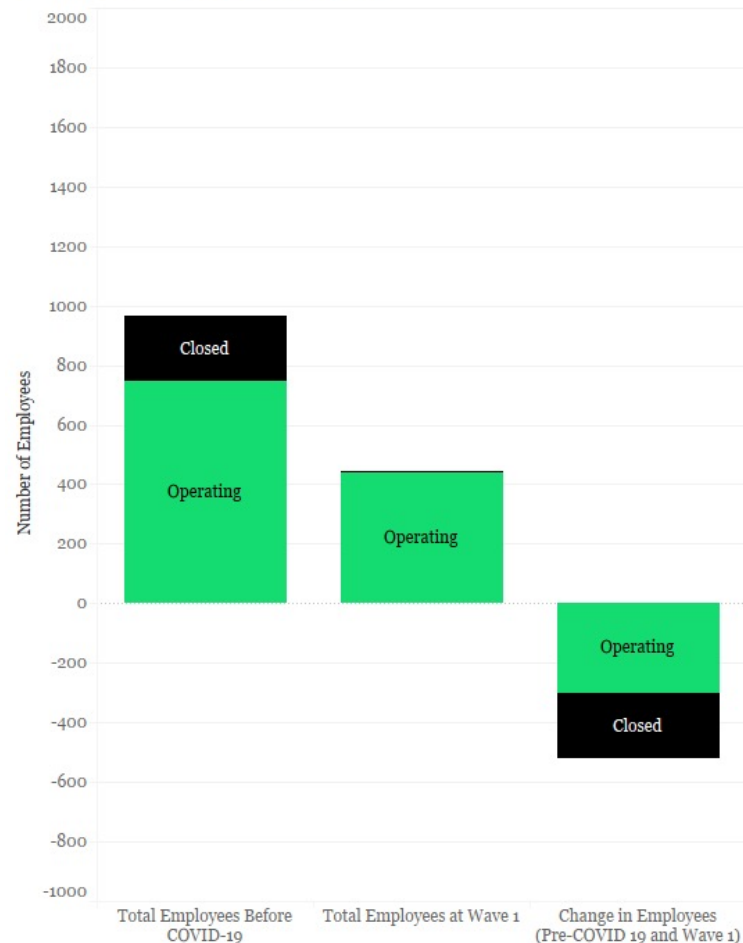
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Movement Restrictions

Widespread movement restrictions depressed aggregate demand forcing closures of businesses; 9% of all businesses in the sample closed, and of those, government restrictions were the primary cause of closure for 55%.

The economic contraction made it harder for owners to cover expenses, leading to negative business and household outcomes

Change in Employees: Wave 1



Inability to cover operating expenses

45% of MSME owners reported that they could not cover their expenses from earned revenue in the early months of the pandemic.

Widespread layoffs

55% of all employees lost their jobs in the early months of the pandemic. This figure was very similar to data collected by BFA, i2i, and the World Bank.

Significant food insecurity

About 60% of owners reported reductions in food consumption during the start of the pandemic. A third reported they or someone in their household had gone to bed hungry because there was not enough money for food since the start of the pandemic.

There has been an uneven recovery since government restrictions eased

ENCOURAGING SIGNS:

- ✓ **Businesses are operating again.**
- ✓ **60% increase in employment levels** compared to their low point at the start of the pandemic.
- ✓ **61% of owners covering expenses from revenue**, up 7 percentage points since June 2020.
- ✓ **90% think they will be able to continue operating** for another 3 months (increased from 72%).

CONCERNING SIGNS:

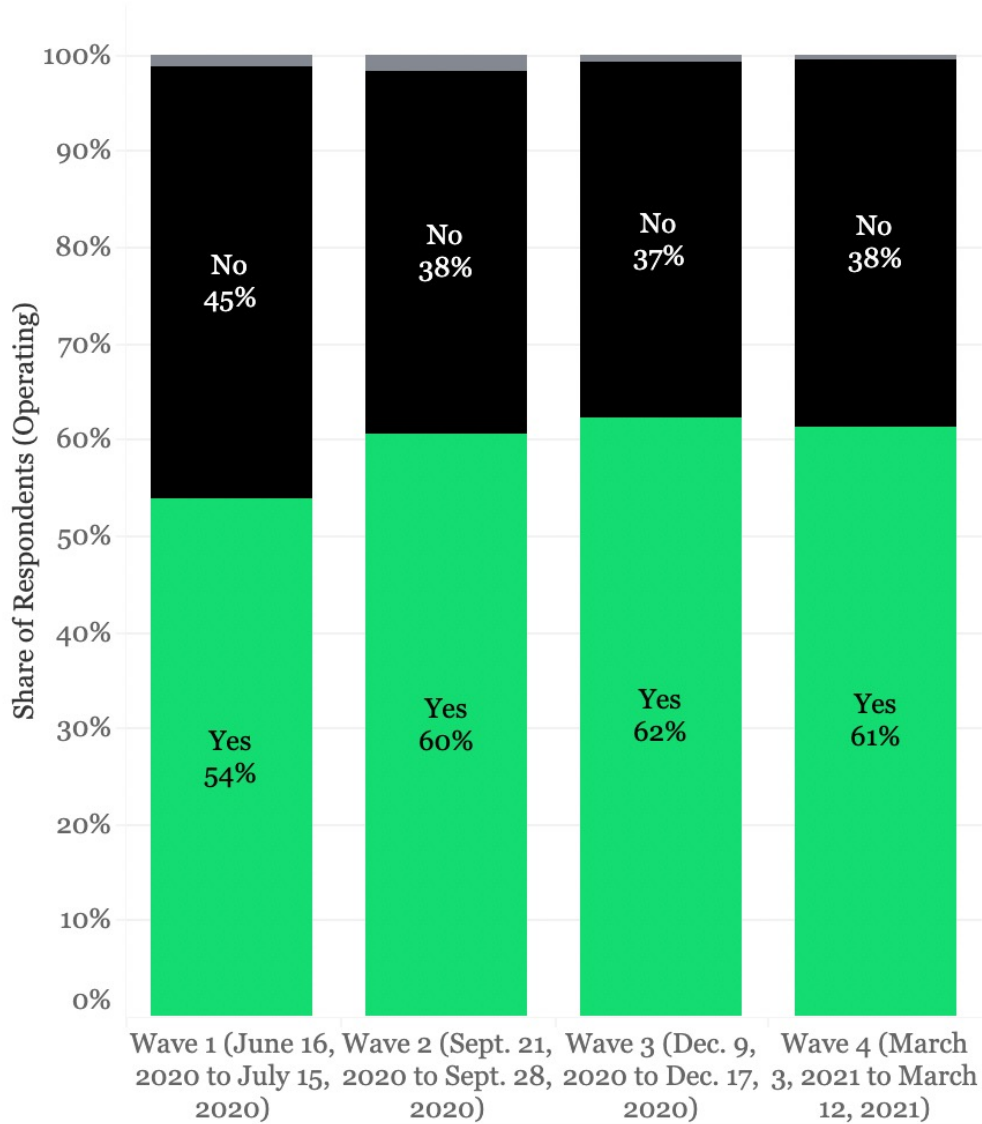
- **Employment levels** are 27% lower than pre-pandemic levels.
- **Profit trends have lagged** their pre-pandemic levels: 49% of respondents said their profits are on the rise vs. 80% before the pandemic.
- **Food insecurity** remains stubbornly high, with 20% of owners reporting someone in their household has gone to be hungry because of lack of food.
- **Financial cushions have been exhausted:** owners report having spent nearly 60% of household savings since the pandemic began.

Employment by Survey Wave

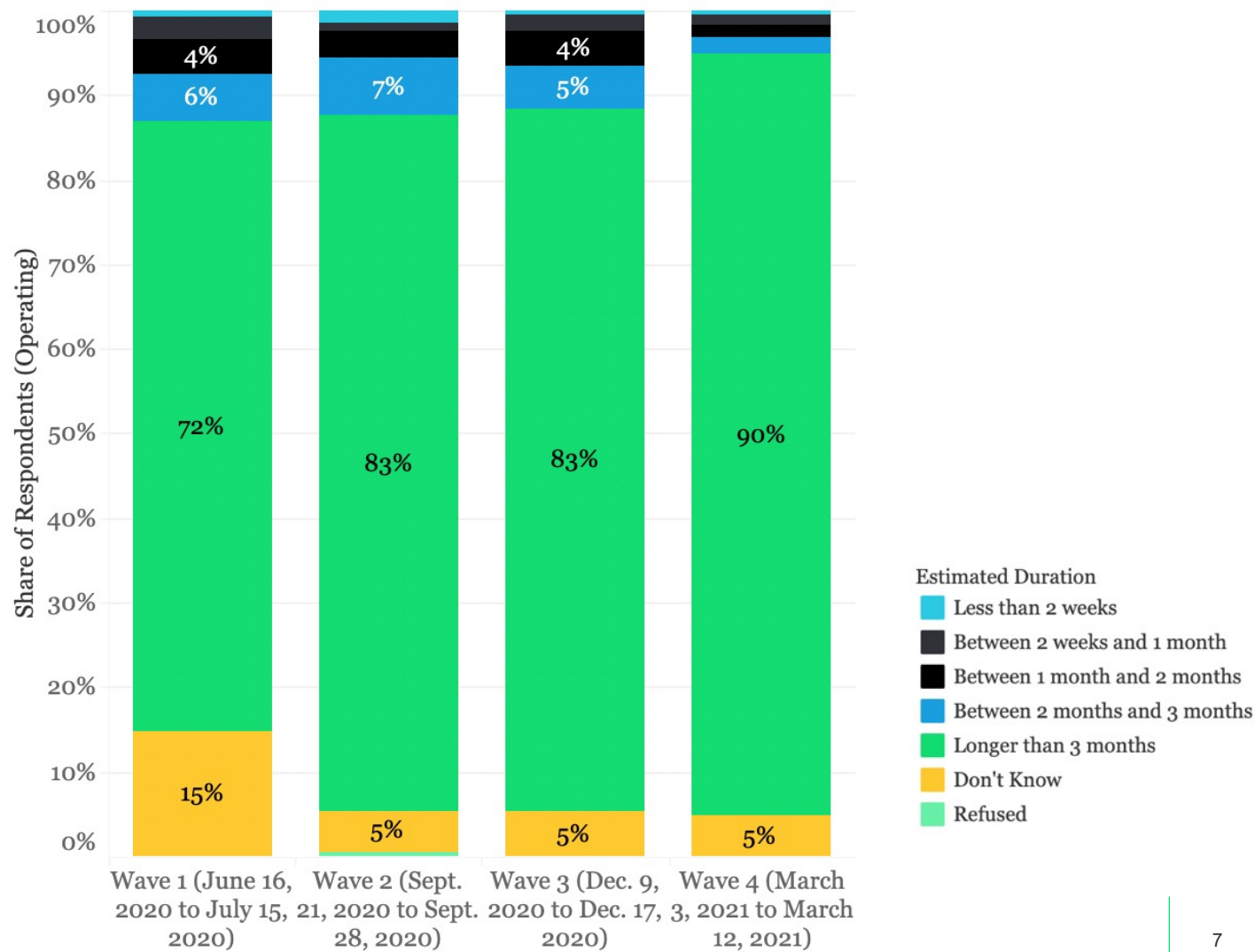


Financial Resilience – Business

Covering Expenses

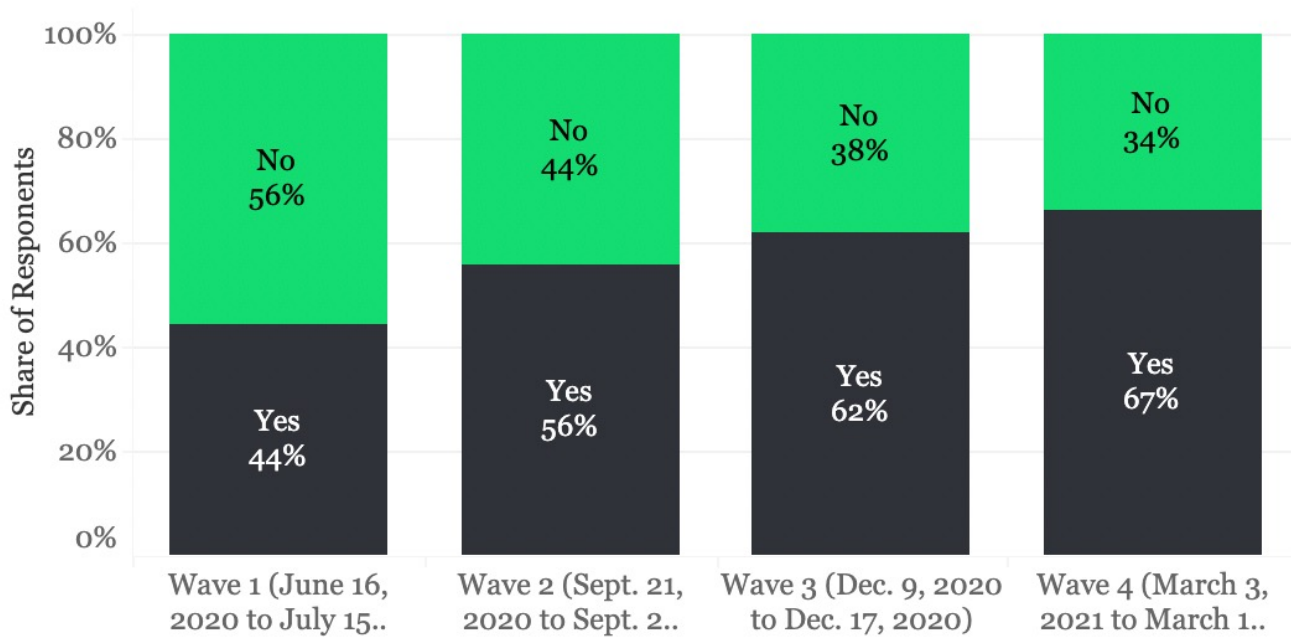


Estimated Duration of Continued Operation Given Current Conditions



Financial Resilience – Household

Covering Household Expenses

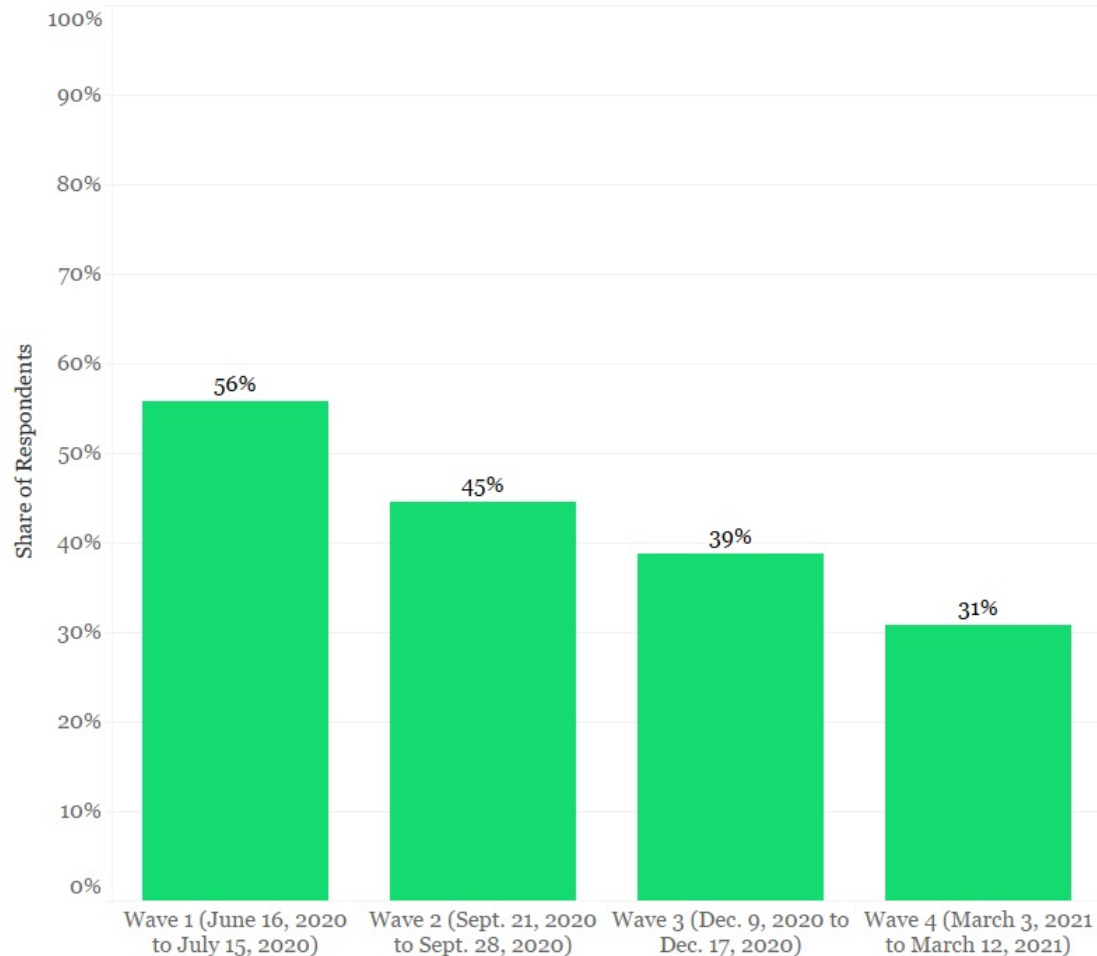


At Least One Household Member Has:

	Wave 1 (June 16, 2020 to July 15, 2020)	Wave 2 (Sept. 21, 2020 to Sept. 28, 2020)	Wave 3 (Dec. 9, 2020 to Dec. 17, 2020)	Wave 4 (March 3, 2021 to March 12, 2021)
Eaten Smaller Meals	59%	49%	40%	34%
Eaten Fewer Meals	61%	47%	42%	36%
Gone to Bed Hungry	34%	25%	24%	20%

Deep Dive: Financial Tools

Skipped a Loan Repayment as a Coping Strategy



Savings has declined dramatically.

MSME owners report spending down 60% of their savings and reports of owners making savings withdrawals is 50% higher than owners making savings deposits.

Borrowing is back but managing debt is a struggle.

In the immediate aftermath of the pandemic, 14% of MSME owners took on a formal loan. By the end of 2020, 41% of respondents reported taking a formal loan. This borrowing may be a necessity given low savings rate and persistently high reports of skipping loan repayments are worrisome.

MSME owners are senders, not recipients, of social network support.

MSME owners are much more likely to be the sender of domestic cash transfers to friends and family than recipients and only a small share of owners reported receiving international remittances.

Deep Dive: Government Transfers

Share of Interviews with a Government Transfer Reported



- Transfer Reported
- Government Transfer Reported
 - No Government Transfer Reported

Economic weakness limited fiscal response

Early stimulus was relatively small, offered in the form of targeted credit facilities, and aimed at small and medium formal firms in specific, hard-hit sectors like aviation, hospitality, and manufacturing.

It is not yet having a major impact on AMFB’s MSMEs

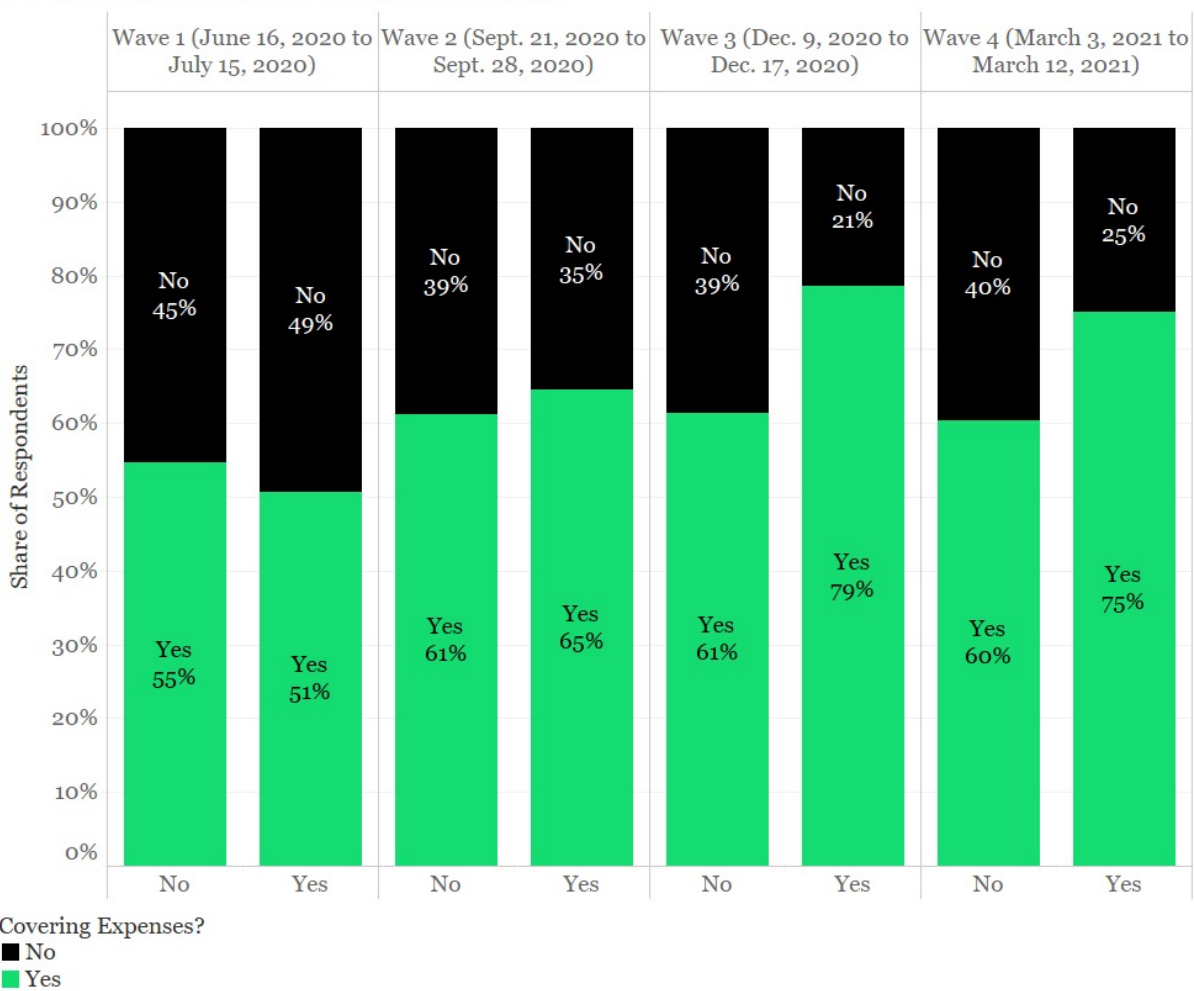
There have only been 34 reports of receiving government aid out of nearly 2,000 interviews in the past year. There is no definitive evidence that those transfers are having a meaningful impact on business or household outcomes.

Fiscal stimulus is increasing

At the end of 2020, the World Bank announced a \$3 billion dollar agreement to support Nigeria’s recovery, including \$750 million for the Nigeria Covid-19 Action Recovery and Economic Stimulus (CARES) program, which aims to get aid to provide social transfers to low-income households, improve food security, and support MSMEs.

Deep Dive: Selling on Digital Platforms

Selling on Digital Platforms and Expense Coverage



MSMEs selling goods on digital platforms have increased dramatically.

Prior to the pandemic, only 6% of all MSMEs reported selling goods on a digital platform. Since the start of the pandemic, an average of 9-10% of MSMEs reported selling on a digital platform – a 33% increase.

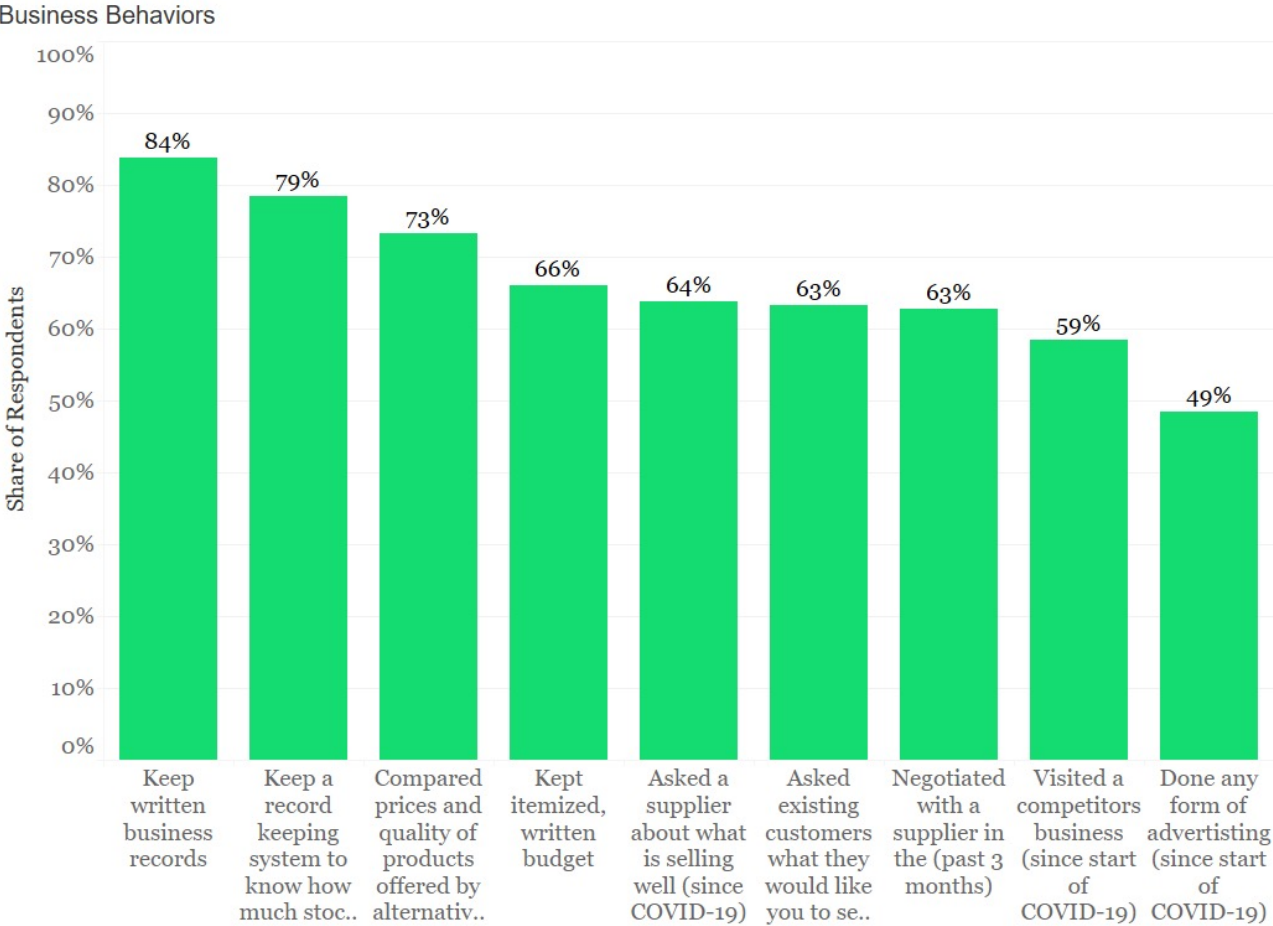
MSMEs do not report consistent use of digital platforms.

The data suggest use of platforms is intermittent. In the last wave, only 30% of owners who sell on digital platforms had reported doing so during more than one survey period.

Evidence for impact is limited but there are some positive signs.

There is not enough evidence to say definitively that selling on a digital platform is having a meaningful impact on business outcomes. However, particularly in the later waves, there are positive trends: digital sellers were more likely to report an increase in profits and more likely to be covering their operating expenses.

Deep Dive: Financial Capability



MSMEs owners appear to have high levels of financial capability.

CFI asked 10 questions validated by the World Bank on business behaviors. A large majority of owners reported engaging in these behaviors, suggesting a wide-spread, minimum level of capability.

Financial capability is not a differentiator for business or household outcomes.

There are no significant differences between the financial capability of owners based on their profit trend, whether they are covering business expenses, or household food insecurity. However, there may not be enough variance (i.e., low and high capability owners) to pick-up an effect.



FUTURE FORECAST

A lengthy, uneven recovery.

A year removed from the pandemic, MSMEs are doing better but gains across key indicators – operating status, profit trends, employment, and others – are slowing. In some cases, they are declining again.

Ongoing macroeconomic fragility.

The World Bank, African Development Bank, and others are predicting a modest recovery driven by rising oil prices. However, rising inflation (particularly for food) and a limited set of fiscal response options make it unlikely that significant fiscal support or boom in economic productivity will be able to stabilize the recovery.

Need for bank and regulatory flexibility.

The uneven and fragile nature of the economic recover means MSME owners are using things like sweat equity, price adjustments, and flexible payment arrangements with customers to make ends meet. Flexibility to respond to one's immediate needs – potentially through restructuring repayment agreements – will help MSMEs' survival.