

Navigating through COVID-19:

A snapshot on how the pandemic affected MSMEs in **Guinea**

Middle East & Africa COVID-19 Business Impact Series: Note #1

The COVID-19 pandemic is impacting businesses on a national and global scale. As governments introduced measures to contain the domestic spread of the virus, restrictions on trade have impeded the flow of goods and services and intensified global uncertainty. As a consequence, businesses, financial institutions, state agencies, associations, and other public and private enterprises need to find new ways to cope with the pandemic.

This note focuses on how micro-, small-, and medium-sized enterprises (MSMEs) are affected by the pandemic and are dealing with its impact in **Guinea**. This note is part of a series that will provide snapshots of the state of MSMEs' business operations and how they are navigating their way through the COVID-19 pandemic in countries across Africa and the Middle East.

These assessments draw on data from an ongoing standardized survey of MSME clients of financial institutions throughout the Middle East and Africa. The assessments, therefore, primarily reflect the impact of the pandemic on banked enterprises.

The country snapshot assessments focus on three main aspects: First, the financial health and resilience of the MSME sector in the country; second, the crisis response and future plans of businesses; and, third, businesses' needs and required support from governments and financial institutions.



KEY RESULTS FROM GUINEA

Impact of COVID-19 on MSMEs' Financial Health

Business Operations



87%

of MSMEs experiences **adverse effects** on business profits and about **half** of MSMEs **plan to decrease volumes** over the next **3 months**.



85%

of businesses report **cash flow problems**.



Mixed effects of COVID-19 crisis on **operating costs** of MSMEs.

Digital Solutions



Only small share of sales generated online before and during the crisis but **businesses benefited from using online tools and solutions**.

Business Needs

Future Risk Mitigation



Expressed **need for capacity building** that is particularly pronounced among smaller businesses.



Banks represent **primary reference points** where to seek **business advice** for MSMEs.

Help Received & Primary Needs



As of **June 2020**, most MSMEs had **not received support** from neither banks nor the government.



> 80%

consider **working capital loans** and **loan restructuring** as most urgently needed support from **banks**.

COVID-19 AND THE MSME SECTOR IN GUINEA

For this survey, business owners of 118 Guinean MSMEs (nine percent women-led) were interviewed across all eight regions of the country (see Figure 1).^{1,2} During the period of the interviews in May and June 2020, business owners saw themselves confronted with a variety of measures enacted by the national government: On March 26, a state of emergency was declared in Guinea. The Government imposed an overnight curfew; it closed schools, non-essential shops and external borders; and it banned large public gatherings.

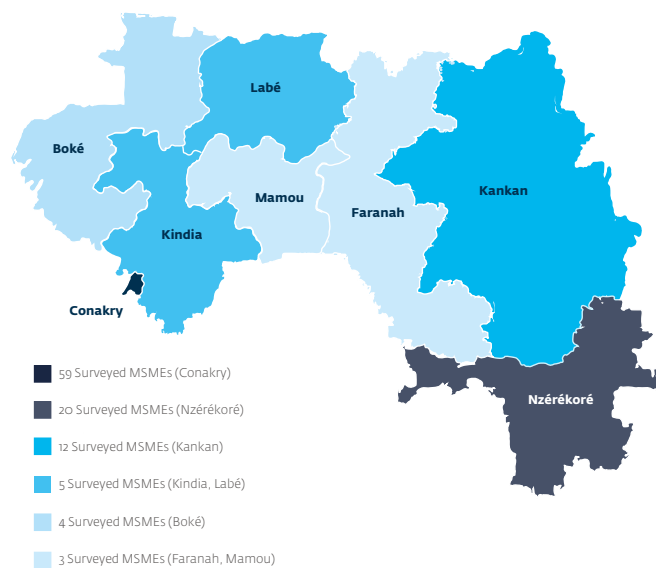
FINANCIAL HEALTH AND RESILIENCE

The study shows that 97 percent of Guinean MSMEs were impacted by the COVID-19 pandemic. The survey found that 77 percent of all MSMEs experienced reductions in demand for their goods and services. Eighty-seven percent of business owners said they experienced a decline in profits. For those, on average, profits were 38 percent lower than pre-COVID-19 levels in 2019.

Liquidity problems are a serious concern for Guinean businesses during the pandemic with 85 percent reporting current financial shortfalls. While the median shortfall amounted to \$10,000, there is a clear association between the size of financial shortfalls and business size (see Figure 2).

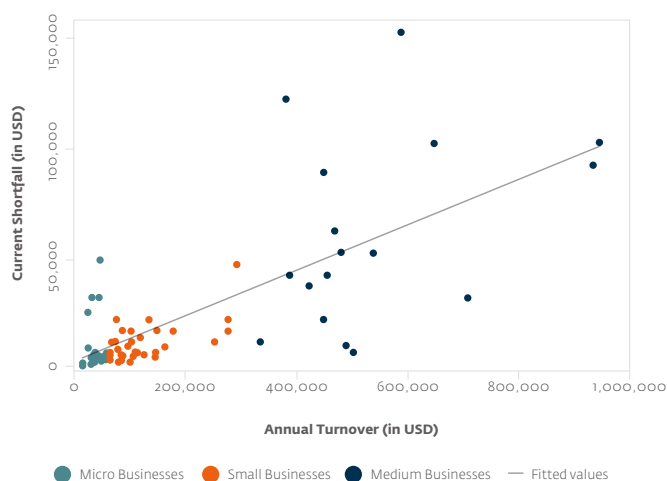
Table 1 shows in more detail the considerable differences in terms of average current shortfalls across business sizes where particularly medium-sized businesses stand out with shortfalls beyond the average shortfall of all businesses. Nevertheless, medium businesses tend to have fewer problems serving currently outstanding loan obligations.

Figure 1: Geographical distribution of interviewed businesses



Note: This figure excludes two MSMEs operating across regional borders as well as five MSMEs with missing data on the regional background.

Figure 2: Current shortfall of businesses by annual turnover



Note: This figure only includes MSMEs with data on the current shortfall and annual turnover. Two observations of micro/small businesses with shortfalls >150,000 USD were excluded.

Table 1: Current shortfalls by business size (in USD)

	Micro Businesses	Small Businesses	Medium Businesses
Median	3,000	7,750	45,000
Mean	8,990	9,900	58,544

Note: This table summarizes data for all businesses visualized in Figure 2.

CRISIS RESPONSE AND FUTURE PLANNING

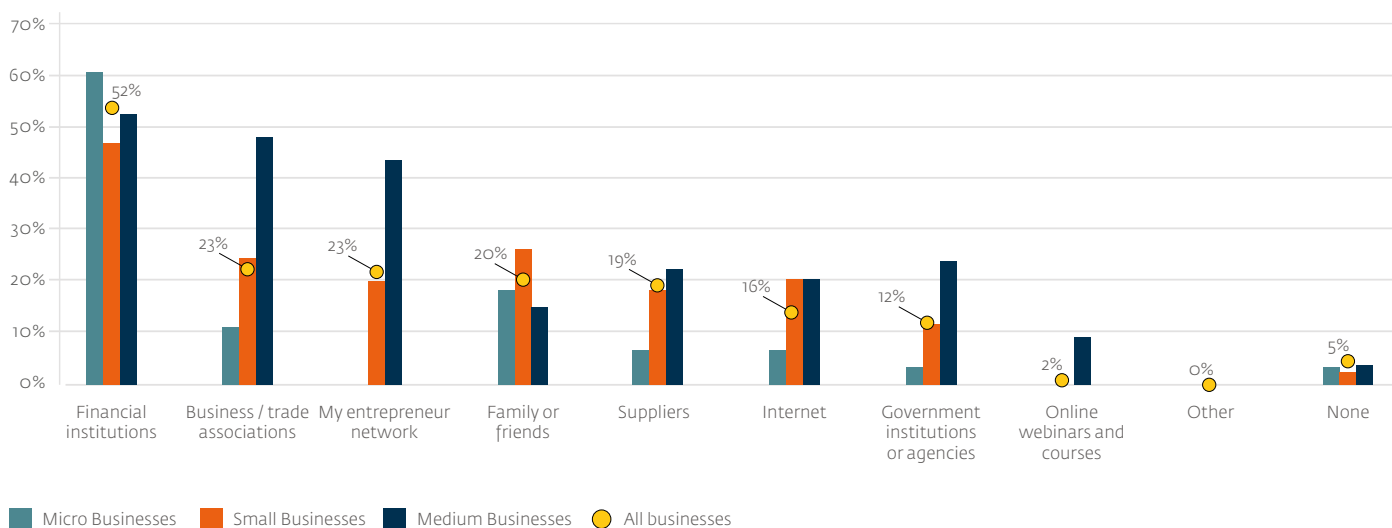
At the time of the survey in May and June 2020, more than half of the owners expected their enterprise's business volumes to decrease over the next three months if the crisis continues to unfold. Moreover, one out of six business owners even expected to be forced to at least temporarily close down business activities, most of them in the construction as well as tourism and accommodation sectors. Only eight percent anticipated their volumes to increase over the next months, and 22 percent expected no significant change.

The proportion of sales generated online remains at low pre-COVID-19 levels among interviewed Guinean businesses. However, about one fifth of the business owners indicated that digital solutions and tools in the form of both online services and product offerings, as well as marketing via social media accounts, have helped them navigate through the crisis.

¹ For this analysis, the following business size segmentation based on annual turnover in US dollars was used: micro (< \$50,000), small (\$50,000 - \$299,999) and medium (\$300,000 - \$999,999).

² The sample is not necessarily representative of the MSME sector as a whole.

Figure 3: Sources of business advice by business size



As a response to the experiences from the current crisis, 90 percent of enterprises plan to undertake future risk mitigation actions, notably creating a business continuation plan, diversifying their business activities and improving their cash-flow management.

In this context, enterprises see financial institutions as their primary point of reference to seek business advice. This finding is more pronounced for micro enterprises whereas medium enterprises draw on a larger network including business associations and a stronger entrepreneur network (see Figure 3).

FINANCIAL AND NON-FINANCIAL NEEDS

From the start of the COVID-19 pandemic through June 2020, 72 percent of enterprises had not received any support from financial institutions and 80 percent of those surveyed had not received government assistance. This coincides with public sector and private sector delays in responding to the crisis. Several initiatives have only started to be effective after the survey. In terms of businesses' needs, working capital loans and loan restructurings were identified as most urgently needed from banks while MSMEs have said that they mostly need loan guarantees, tax breaks and disaster relief from governments.

From a bank perspective, this analysis helps to better understand the current challenges that MSME clients are currently facing. On the one hand, the results illustrate the potential threat of rising non-performing loans due to MSMEs' liquidity problems. On the other hand, the reported need for finance similarly presents a business opportunity for financial institutions if carefully considered. Due to a shorter maturity and a lower associated risk perception, banks are inclined to provide short-term loans for MSME clients. However, these solutions often only provide temporary financial relief, whereas longer-term financing may offer an opportunity to structurally change and spur business operations. Moreover, this study clearly demonstrates the importance of continuously supporting the MSME client base with multifaceted, non-financial services and capacity building opportunities.

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Authors: Tim Ferber and Sinja Buri

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