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 Côte d’Ivoire. This note is part of a series that provides 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 a 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 CÔTE D’IVOIRE

<table>
<thead>
<tr>
<th>Impact of COVID-19 on MSMEs’ Financial Health</th>
<th>Business Needs</th>
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<tbody>
<tr>
<td><strong>Business Operations</strong></td>
<td><strong>Future Risk Mitigation</strong></td>
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<tr>
<td>78% of businesses reported a decrease in turnover, on average by 34%.</td>
<td>Overall, financial institutions are the most important source of business advice. The Internet and entrepreneur networks are the most important alternatives, but the relevance of sources varies by business size.</td>
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<tr>
<td>About three quarters of MSMEs have current cash flow problems. The proportion is slightly higher among smaller businesses. Similarly, MSMEs have more loan repayment problems than large enterprises.</td>
<td>Help Received &amp; Primary Needs</td>
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<td>More than half of businesses said at the time of the survey (mid-Aug to end-Sep) that they plan to maintain current business activity over the next three months with the largest businesses having more positive expectations.</td>
<td>At the time of the survey, a quarter of businesses reported having received support from the government. A third of business owners received bank support, mostly in the form of restructured loan terms.</td>
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<td>Two thirds of business owners expect employee layoffs of less than 10% or no changes in the composition of their workforce over the next three months.</td>
<td>Half the businesses report needing tax breaks from the government, long- and short-term financing as well as further loan restructurings are most required from banks.</td>
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COVID-19 AND THE MSME SECTOR IN CÔTE D’IVOIRE

For this survey, the owners of 101 Ivorian MSMEs (15 percent women-led) were interviewed across the country, all but one located in the capital Abidjan. All of these businesses are formally registered. Some interviewed businesses reported annual turnover beyond the MSME threshold and are therefore classified as large enterprises in this analysis in order to compare how MSMEs navigated through the crisis compared to larger enterprises.

After the first cases of the COVID-19 virus were confirmed in the country in mid-March, the Ivorian government declared a state of emergency on March 23, 2020. Among other measures, an overnight curfew and travel restrictions between Abidjan and the rest of the country were imposed. Even though the national state of emergency continues to be in place and land borders remain closed, the curfew was lifted in mid-May and interregional travel restrictions were lifted two months later. The interviews for this analysis were conducted between mid-August 2020 and the end of September in this context of uncertainty.

FINANCIAL HEALTH AND RESILIENCE

The study shows that 93 percent of interviewed businesses were impacted by the COVID-19 pandemic. They experienced various effects: 75 percent, the largest proportion of MSMEs, reported adverse financial consequences, which mostly manifested in the form of liquidity problems but also in the inability to service debt and make the payroll. Financial problems are even more pronounced for smaller businesses. In general, larger enterprises seem to have experienced fewer consequences on their business operations. While the transportation sector was particularly confronted with liquidity problems, the manufacturing and construction sectors primarily faced sharp declines in demand. The negative effects on MSMEs translated into decreasing turnovers for 78 percent of business owners. On average, turnover for those businesses fell 34 percent from pre-pandemic levels in 2019. These findings are in line with the results from another IFC-commissioned survey of 604 Ivorian businesses carried out in May 2020. The earlier study found that 90 percent of businesses reported lower sales compared to the previous year, as well as stronger effects on smaller businesses than on large businesses.

Overall, businesses reported serious financing problems during the pandemic with some variation across businesses size. Generally, larger enterprises are more exposed to bank credit than MSMEs. In 2019, 50 percent of small, 74 percent of medium, and 82 percent of large businesses took bank loans to finance their business operations (Table 1). Before the crisis, larger businesses recorded the least problems with late repayments. Repayment problems were significantly heightened for businesses of all sizes during the crisis. Table 1 shows that the percentage of businesses with problems servicing outstanding loans is very high, ranging from 60-to-80 percent. Smaller- and medium-sized businesses currently have more problems than large enterprises to honor their payment obligations on time. Similarly, both this study and the previous IFC study found that large enterprises are better prepared than medium and particularly smaller businesses to meet operating expenses over a longer time horizon without having to draw on additional external funds.

Table 1: Business finance key characteristics

<table>
<thead>
<tr>
<th></th>
<th>% of liabilities financed with bank credit</th>
<th>% of businesses with bank loans in 2019</th>
<th>% of businesses with repayment problems since the outbreak of the pandemic</th>
</tr>
</thead>
<tbody>
<tr>
<td>Small</td>
<td>15%</td>
<td>50%</td>
<td>80%</td>
</tr>
<tr>
<td>Medium</td>
<td>14%</td>
<td>74%</td>
<td>83%</td>
</tr>
<tr>
<td>Large</td>
<td>20%</td>
<td>82%</td>
<td>60%</td>
</tr>
</tbody>
</table>

As a consequence, three quarters of business owners report current financial shortfalls. The median shortfall amounting to about $80,000 – is eight percent of the median annual turnover of all interviewed businesses of about $1 million.

The overall results on current financial shortcomings and challenges emphasize the relevance of additional external funding sources for businesses. The survey finds that almost all business owners would rely on loans from financial institutions as potential sources of additional funding. In this context, it is however striking that more than 80 percent of the MSME owners expect difficulties when applying for bank funding. Most notably, every third business owner anticipates problems in the application process due to a lack of collateral.

CRISIS RESPONSE AND FUTURE PLANNING

At the time of the survey in August and September 2020, 60 percent of business owners expected to maintain their business volumes over the subsequent three months. Ten percent of businesses expected to increase business volumes whereas about a quarter of business owners anticipated a decrease in their business volumes. Only a few smaller businesses were concerned that they would need to temporarily close if the crisis persisted. None of the owners of the largest businesses were worried about having to close down. While MSMEs in the construction and wholesale sectors tended to be more pessimistic about business activity in the three months following the survey, the health sector had a comparatively more positive business outlook.

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1 The sample is not necessarily representative of the MSME sector as a whole.
2 For this analysis, the following business segmentation based on the annual turnover was used: micro (< $100,000), small ($100,000 – $800,000), medium ($800,000 – $3.6M), large ($3.6M – $10M) and very large (> $10M).
Results from the previous IFC study further complement findings on the pandemic's impact on different sectors. Having included more businesses in the education as well as tourism and hospitality sector in their sample, this previous study reveals that these two sectors are among the most affected sectors, particularly due to forced temporary closures of business operations.

Businesses' future outlook is also reflected in their expectations with respect to the effect of the pandemic on their employee size if the crisis continues (Figure 1). Two thirds of MSMEs expect layoffs of current employees. The remaining one third of business owners said they do not plan to change employee numbers. Noting uncertainty about the duration of the crisis, no business reported plans to hire. The vast majority of enterprises that anticipated larger reductions in the size of their labor force work in sectors that were more seriously affected by the pandemic such as transportation, wholesale and construction. In addition, expected layoffs are clearly decreasing by business size; smaller businesses anticipate a more severe impact if the crisis persists.

Figure 1: Expected changes in employee size if crisis continues for 3 more months

As a response to the experiences from the current crisis, 65 percent of enterprises plan to undertake future risk mitigation actions, notably creating a business continuity plan, diversifying their business activities, and improving their cash flow management. In this context, Ivorian businesses consult a variety of sources for business advice. While small businesses mostly turn to the internet for advice, medium businesses primarily draw on their entrepreneur network as well as the internet. Most large enterprises see financial institutions as their primary point of advice followed by their entrepreneur network.

FINANCIAL AND NON-FINANCIAL NEEDS

From the start of the COVID-19 pandemic through September 2020, 66 percent of interviewed enterprises had not yet received any support from financial institutions and 74 percent of those surveyed had not received government assistance. Among those that had received bank support, restructured loan terms and short-term working capital loans were the most cited. While only a few business owners reported to have received support, almost all express a need for support: long-term financing as well as further loan restructuring, short-term loans and tax breaks were identified as the most urgently needed supports. In line with these needs, the Ivorian Ministry of Economy and Finance extended low-interest loans to the MSME sector through a dedicated fund (Fonds de Soutien aux PME – FSPME). Between May and October 2020, the FSPME has disbursed $24 million, $4 million at the time of this survey.

From a bank perspective, this analysis helps to better understand the challenges their business clients are currently facing. There is a sizeable risk that business liquidity problems will translate into non-performing loans in banks’ portfolios. This situation calls for action from financial institutions, which need to carefully consider how to proceed during the crisis. Both the results from an IFC commissioned study in May 2020 as well as this survey show that large enterprises were financially more resilient since the outbreak of the crisis than smaller businesses. Given the strong request for further loan restructurings and current repayment problems, there is an urgent need to relieve pressure on smaller businesses' cash flow in the short- and medium-term. In this context, both moratoria on loan repayments of three-to-six months and lower interest rates in the next six-to-12 months may present viable options for banks.

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