Navigating through COVID-19: A snapshot on how the pandemic affected MSMEs in Sierra Leone

Middle East & Africa COVID-19 Business Impact Series: Note #2

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 Sierra Leone. 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 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 SIERRA LEONE**

<table>
<thead>
<tr>
<th>Impact of COVID-19 on MSMEs’ Financial Health</th>
<th>Business Needs</th>
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<tbody>
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<td><strong>Business Operations</strong></td>
<td><strong>Future Risk Mitigation</strong></td>
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<td>81% of businesses recorded a decrease in profits, on average by 39%.</td>
<td>Family and friends are the most important source of business advice for micro and small businesses; large businesses reach out equally to business and trade associations as well as to family and friends.</td>
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<td>71% of MSMEs have current cash flow problems. The proportion is even higher among medium businesses.</td>
<td>Help Received &amp; Primary Needs</td>
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<td>When the survey was conducted in mid-2020, more than half the businesses said they planned to maintain or even increase business activity over the subsequent three months.</td>
<td>About half of businesses said they received some government or bank support, mostly in the form of informational materials.</td>
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<td><strong>Digital Solutions</strong></td>
<td>Almost half the businesses said they needed tax breaks from the government.</td>
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<td>Businesses benefitted from using digital payment services and marketing via social media.</td>
<td>Most businesses said they needed financial support and loan restructurings from their banks; 30% of businesses did not need help from their banks.</td>
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COVID-19 AND THE MSME SECTOR IN SIERRA LEONE

For this survey, business owners of 128 Sierra Leonean MSMEs (22 percent women-led) were interviewed across the country. More than 80 percent of them are located in the capital Freetown.\(^1\)\(^2\) After the confirmation of the first case of the COVID-19 virus at the end of March 2020, the government enacted a three-day lockdown in the beginning of April. This measure was followed by inter-district and international travel restrictions as well as an overnight curfew in mid-April. While restrictions on movement were lifted by the end of June, an overnight curfew remained in place through October. The interviews for this analysis were conducted from early June to mid-August in this context of changing measures and uncertainty.

FINANCIAL HEALTH AND RESILIENCE

The study shows that 96 percent of Sierra Leonean MSMEs were impacted by the COVID-19 pandemic. Fifty-four percent of the MSMEs said they experienced a reduction in demand for their goods and services. While all businesses in the transportation sector reported negative effects on demand, the health sector was the only sector that mostly experienced increases in demand. The negative effects on MSMEs translated into a decline in business profits for 81 percent of business owners. On average, profits for those businesses fell 39 percent from pre-pandemic 2019 levels.

Liquidity problems are a serious concern for Sierra Leonean MSMEs during the pandemic with 71 percent reporting current financial shortfalls with their median amounting to $5,000. It stands out that almost all medium businesses report current financial shortfalls, with Table 1 showing a trend of increasing average shortfalls with business size.

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

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<th>Micro Businesses</th>
<th>Small Businesses</th>
<th>Medium Businesses</th>
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<tbody>
<tr>
<td>Median</td>
<td>1,500</td>
<td>5,500</td>
<td>10,000</td>
</tr>
<tr>
<td>Mean</td>
<td>3,840</td>
<td>10,860</td>
<td>16,400</td>
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The trend in shortfalls underscores the challenge of funding MSMEs. The survey finds that about half the businesses would draw on capital injections by their owners. Bank loans are the most important alternative. Moreover, some micro and small business owners also consider loans from family and friends to be viable options.

CRISIS RESPONSE AND FUTURE PLANNING

When the survey was conducted, 41 percent of business owners expected to maintain their enterprise’s mid-2020 business volumes over the next three months (Figure 1). About one quarter of the business owners anticipated a decrease of their volumes and one out of six expected to close down business activities at least temporarily. Construction firms, as well as companies in the tourism and accommodation sectors, were particularly concerned about potential future closures. Another 16 percent of businesses, however, expected business volumes to increase over the subsequent three months.

With 62 percent, almost two thirds of Sierra Leonean medium businesses expect to sustain constant business levels. At the same time, the expectations of micro and small businesses seemed to be more diverse.

Figure 1: Planned business activity over the next 3 months

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1 For this analysis, the following business 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.
Reflecting the business expectations presented in Figure 1 above, 56 percent of business owners do not plan to adjust the size of their workforces while the remainder expect some layoffs. The transportation and accommodation sectors are most prone to layoffs in the event of a continuing crisis. Enterprises expecting to temporarily close or experience a decrease in business activity accounted for the vast majority of companies that also were anticipating layoffs of 30 percent or greater. No business reported plans to hire if the crisis persists.

The study finds that the proportion of sales generated online using digital channels remained at low pre-COVID-19 levels among Sierra Leonean businesses. However, half of the business owners who were interviewed said that digital solutions and tools proved to be helpful in navigating through the crisis. Marketing via social media accounts and the usage of online payment services were the digital tools and services businesses particularly drew upon.

In response to the experiences from the current crisis, 97 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, Sierra Leonean MSMEs consider their family and friends as their primary point of reference to seek business advice. This finding is particularly pronounced for micro and small enterprises. Financial institutions are the second most important reference point for MSMEs with a large gap to family and friends of more than 20 percentage points. Business associations represent a key source of advice for medium enterprises (Figure 2).

**Figure 2: Sources of business advice by business size**

FINANCIAL AND NON-FINANCIAL NEEDS

From the start of the COVID-19 pandemic through mid-August 2020, 69 percent of enterprises had not received any support from financial institutions and 65 percent of those surveyed had not received government assistance. Of those that had received support, informational material on containing the COVID-19 pandemic from spreading were by far the most cited support that was provided by banks and governments. This coincides with public sector and private sector delays in providing financial responses to the crisis. Several initiatives have only started to be effective recently. Thirty percent of businesses reported not needing support from financial institutions while the remaining business owners primarily identified working capital loans and loan restructurings as most urgently needed supports from banks. At the same time, almost half of the business owners seek tax breaks from the government.

From a bank perspective, this analysis helps to better understand the challenges that MSME clients are currently facing. The results illustrate both potential threats (rising non-performing loans due to MSMEs’ liquidity problems) and business opportunities for financial institutions. Continuous MSME support in the form of non-financial services will help businesses build capacities. Being viewed as a primary source of business advice, financial institutions can gain a competitive edge by establishing themselves as a provider of multifaceted training and mentoring opportunities that address their MSME client base’s needs.

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