Understanding the impact of COVID-19 on SMEs in Nairobi

April 2021

Agenda

Kasi INSIGHT

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Research Overview

Research Approach

Target Population

Respondents were invited to voluntarily partake in the study from the ISBI Institute business network

The vast majority of respondents were based in Nairobi County (74%)

However, we did have a few businesses in other regions e.g. Mombasa, Nakuru, and other cities

Sample

231SMEs were surveyed in total

160 Micro-Enterprises (1-0 employees)

56 Small-Enterprises (10-50 employees)

15 Large Enterprises (51+ employees)

Data Gathering

Interviews were conducted in December 2020

The survey was in the form of a 15-minute-long questionnaire

Methodology

Self-completion interviews were conducted online.

Survey respondents' represented various business sectors in the ISBI database across 19 sectors, including:

Business Sectors included:
Education & Consulting,
Agriculture,
Construction & HW,
Electronics & ICT,
Marketing & Art,
Hospitality & Events,
Food & Drinks,
And many others

COVID-19 in 2020

The economic impact of COVID-19 was experienced primarily through Government interventions intended to curb the spread of the virus.

In early 2020, the Government moved to impose constraints and restrictions on physical movement and social interaction in order to curb the spread of the virus.

The reduced physical movement and regulations around social distancing inevitably led to the number of economic transactions going down with people and enterprises not able to freely move around and conduct business as before.

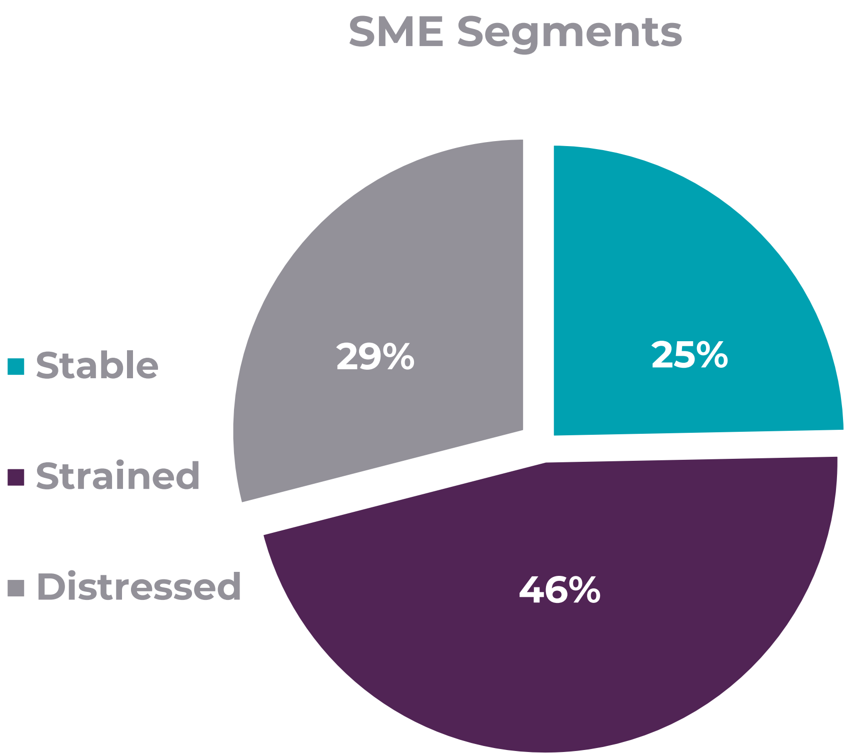
With a reduced number of transactions also comes reduced income; when one person spends, one person earns and therefore with reduced spending comes reduced income and with reduced income the ability to spend is further constrained creating a cyclical problem.

The policy response to the spread of the virus, focussed on restricting physical movement and social interaction, was the root cause of a reduction in the number of transactions.

The following slides look at how the first lockdown affected SMEs and the subsequent analysis places the SMEs in categories of Stable, Strained and Distressed (depending on how the pandemic and subsequent lockdown affected their respective operation).

Definition of SME Segments

3/4 of SMEs operating under capacity, with almost a 1/3 operating substantially below their optimal capacity.

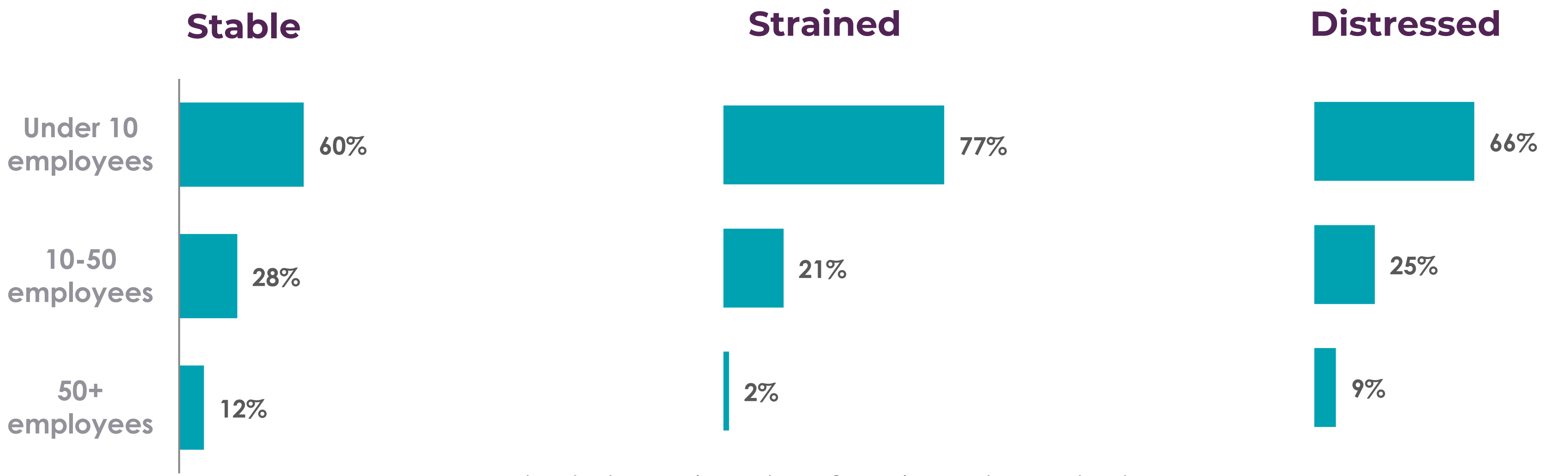


Definition of SME Segments

Stable	Strained	Distressed
Current level of operations Close to or Above Optimal Capacity.	Current level of operations Slightly Below Optimal Capacity.	Current level of operations Substantially Below Optimal Capacity.
LESS AFFECTED BY RESTRICTIONS Less reliant on social interaction and physical movement.	MODERATELY AFFECTED BY RESTRICTIONS Somewhat reliant on social interaction and physical movement.	SIGNIFICANTLY AFFECTED BY RESTRICTIONS More reliant on social interaction and physical movement.

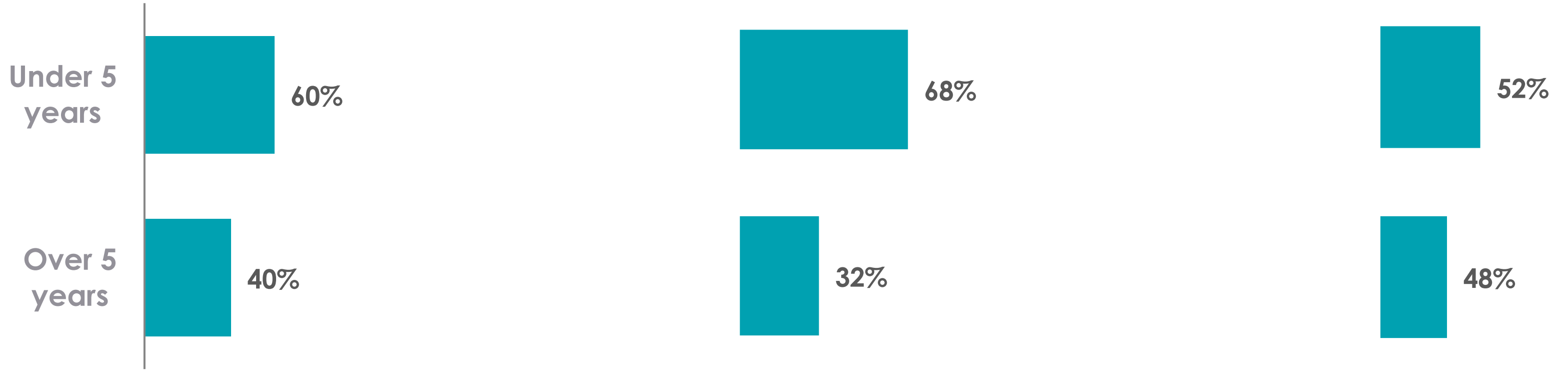
Mostly MSMEs with physical constraints

Tenure in business does not appear to have an effect on financial impact due to COVID-19



Q3. What is the total number of employees in your business?

Distressed SMEs skewed towards businesses that require physical presence or marketplace to operate e.g. Hospitality, Food & Beverage, Transport, Education & Consulting



Q4. How long has your business been operational?

Summary of Findings

Prior to the announcement of the 2nd lockdown in March 2021, SMEs cited optimism for the future, but stated the need for additional govt interventions beyond moratoriums to safeguard their businesses.

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SME OUTLOOK

SMEs remained resilient in the face of a tough economic climate

- COVID-19 placed significant strain on SMEs with 75% operating under capacity in 2020.
- Despite challenges SMEs retain optimistic outlook, with an overall Business Confidence Index of 26. Majority of SMEs cited confidence in their business' revival within 6 months.
- However, from Q1 2021SMEs have been facing additional strain due to market uncertainty, implementation of new tax regulations (e.g. minimum tax), tense pre-election political environment, and the onset of a third wave of COVID-19 causing another shock as sectors were about to recover.

COVID-19 IMPACT ON SMEs

COVID-19 impact varied due to size, financial stability & nature of business model

- Distressed SMEs were most impacted as their business model called for a physical marketplace, they tended to be less financially stable, thus more susceptible to economic pressures.
- Thus COVID-driven disruptions due to lockdowns and movement restrictions, led to reduced demand, and lower revenues.
- Liquidity constraints resulted in about a fifth of Distressed experiencing business closures.

RESHAPING THE WORLD OF BUSINESS

Flexible operational & staffing models allowed businesses to sustain operations despite physical restrictions

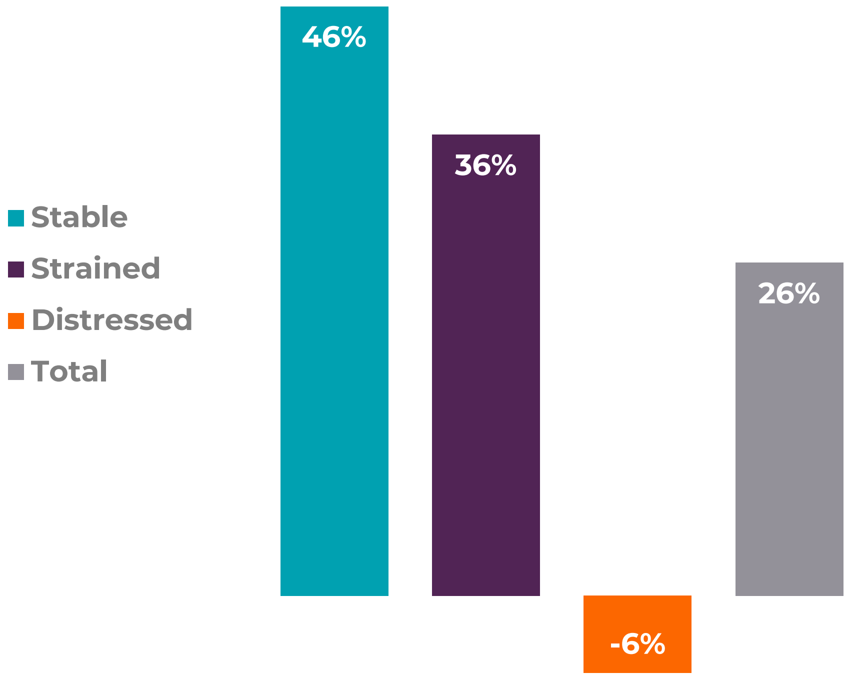
- Stable and Strained SME segments were able to pivot their business models, utilising creative and technologically-driven solutions to sustain business operations.
- Technology-adoption opened new routes to market, and new customer audiences.
- Though digital solutions opened up new revenue streams/sustained revenue during lockdowns, however physical marketplace remains the primary channel for doing business.

SME Outlook (December 2020)

SMEs remained confident despite uncertainty

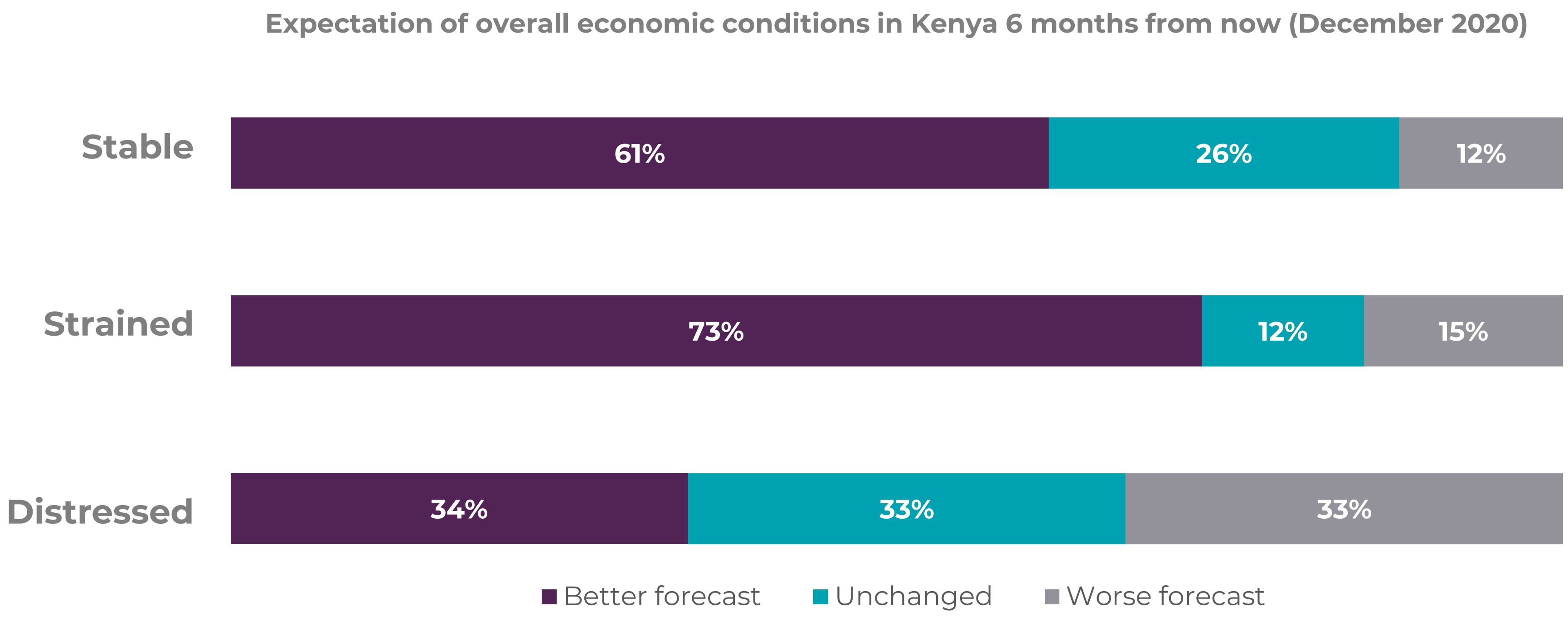
Stable and Strained SMEs were optimistic about business recovery in short-term prior to the announcement of the second lockdown.

Kasi SME Business Confidence Index 2020



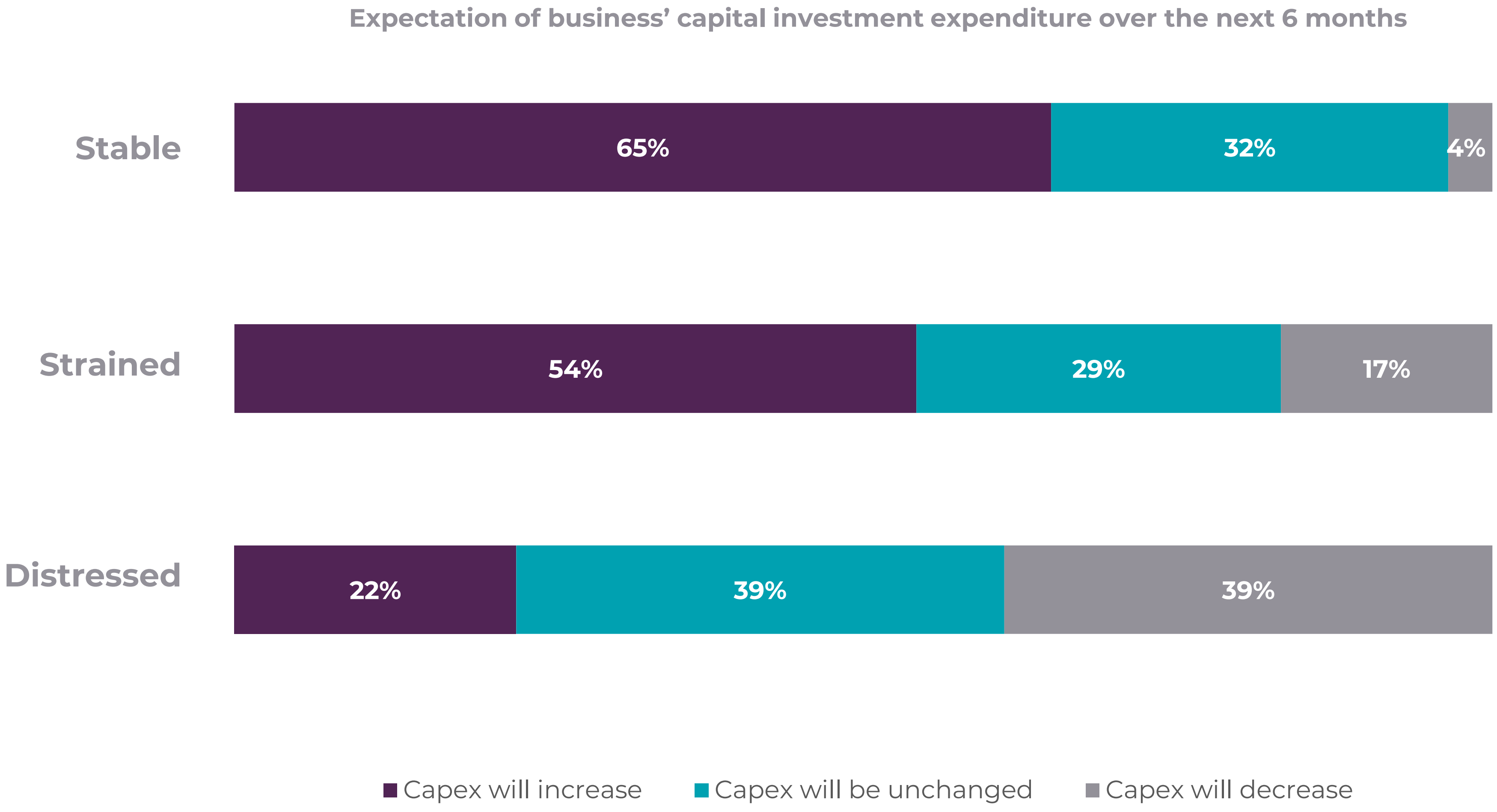
SMEs optimistic on the future economic conditions

Majority of businesses had a positive outlook for 2021 (in December 2020) and were confident the economy would recover in under a year.



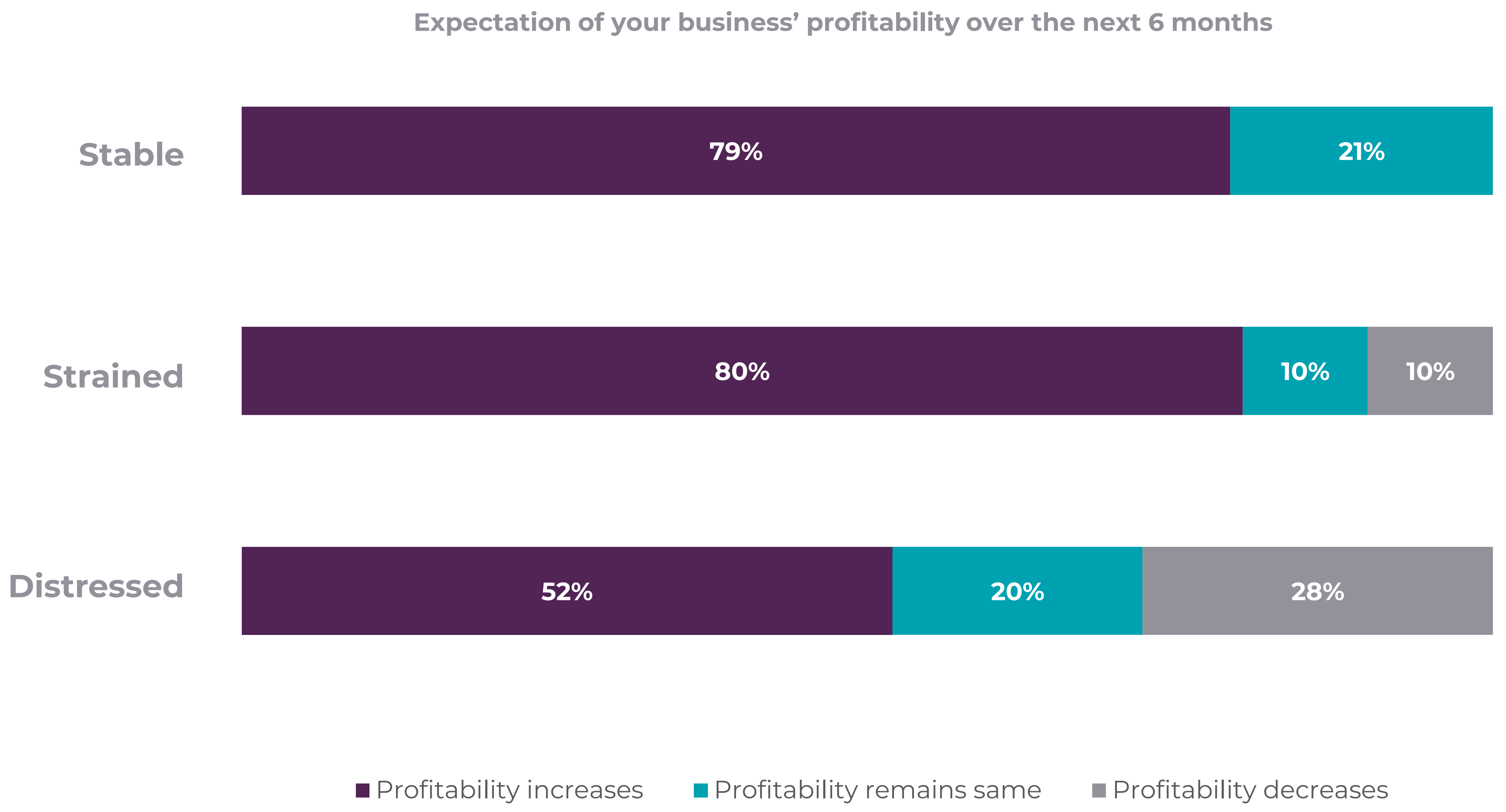
Capital expenditure outlook also positive

Due to the significant financial strain and limited financing options the Distressed SMEs had the most pessimistic capex outlook



Positive outlook on profitability but..

Distressed SMEs had more modest forecast as they were disproportionately affected; and thus, found it harder to pivot or scale operations



Signals of Confidence: Locking Down or Opening Up?

The initial period of COVID-19 in Kenya and subsequent lockdowns placed by the Government, significantly affected both business confidence and operations of all SMEs

As described in the slides above, the initial period of COVID-19 in Kenya and subsequent lockdowns placed by the Government, significantly affected both business confidence and operations of all SMEs. However, as the restrictions began to ease, and the economy was 'opened up' confidence in the short-term outlook was regained and many businesses began a modest recovery.

The confidence and positive outlook was fundamentally driven the gradual return to normalcy of business and social life through the last quarter of 2020. This confidence was further evinced by the Stanbic Purchasing Managers' Index which recorded a 3-month high In January of 2021.

"This was driven by sharp increases in output and new business. Workforce numbers rose at a faster rate, while firms also expressed stronger optimism towards the next year of activity." – Stanbic Kenya, 2021.

With the introduction of a second lockdown in March 2021, it is highly likely that the optimism and business confidence displayed at the start of the year will erode and a similar impact experienced during the initial phases of the first lockdown will be felt.

So, what findings and lessons can we learn from the experience of the first lockdown?

Lessons from the First Lockdown: COVID-19 Impact on SMEs in 2020

COVID-19’s disproportionate impact on SMEs

Distressed SMEs are least likely to rebound after the lockdown-induced crisis, almost a fifth were forced to permanently shut down their operations.

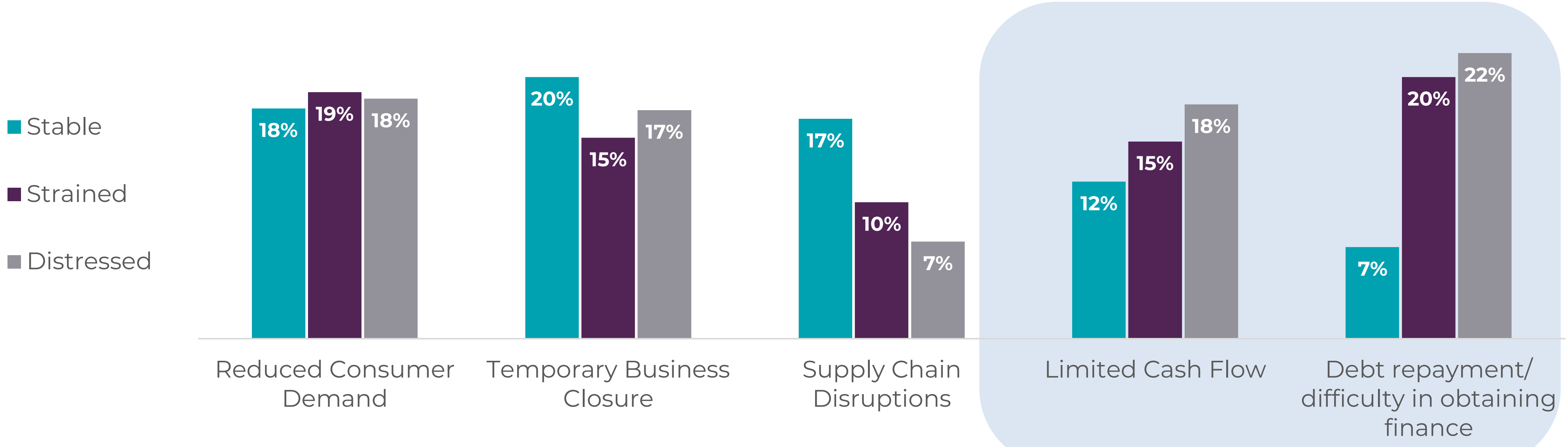
State of SME Business Operations

	Stable	Strained	Distressed
Fully open	70%	55%	31%
Partially open	30%	42%	51%
Closed	-	3%	18%

A crippling effect on Distressed SMEs

Physical restrictions due to the lockdown put immense pressure on operations resulting in cash flow challenges and temporary closures

Main setbacks experienced by businesses since the start of COVID-19



Business challenges below 10% not shown

Limited cash reserves made them less resilient

Due to instability liquidity & access to finance were cited as the most pressing needs, particularly for the Strained and Distressed segments

Ranked list of the most pressing business needs

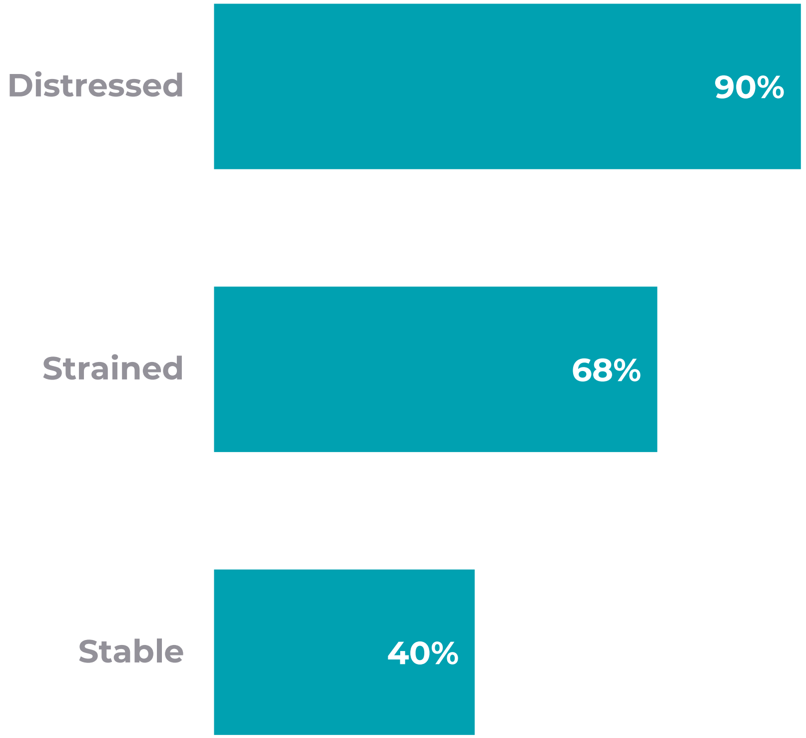
	Stable	Strained	Distressed
Working Capital (inventory/receivables/salaries)	20%	**24%**	**28%**
Liquidity (cash to pay for bills)	13%	**25%**	**24%**
Sales and Distribution	13%	16%	14%
Safety of Staff	16%	11%	14%

Business needs below 10% not shown

Revenue lower mostly for distressed SMEs

As a key contributor to the Kenyan economy the SMEs will require some govt support to survive and recover from the pandemic's impact

% of SMEs currently making *lower* than usual revenue levels



Moving digital to survive the crisis

Compared to other SME segments, Distressed SMEs weren't able to pivot; making them more vulnerable to business shutdowns

MAIN ACTIONS IN RESPONSE TO COVID-19:	Stable	Strained	Distressed
Staff worked remotely / Reduced Staff	26%	24%	**29%**
Converted to digital solutions/ leveraged new technologies	**34%**	**38%**	24%
Partial business shut down	14%	14%	**21%**
Postponed investments in the business	11%	11%	10%

Business actions below 10% not shown

Reshaping The Future of Business

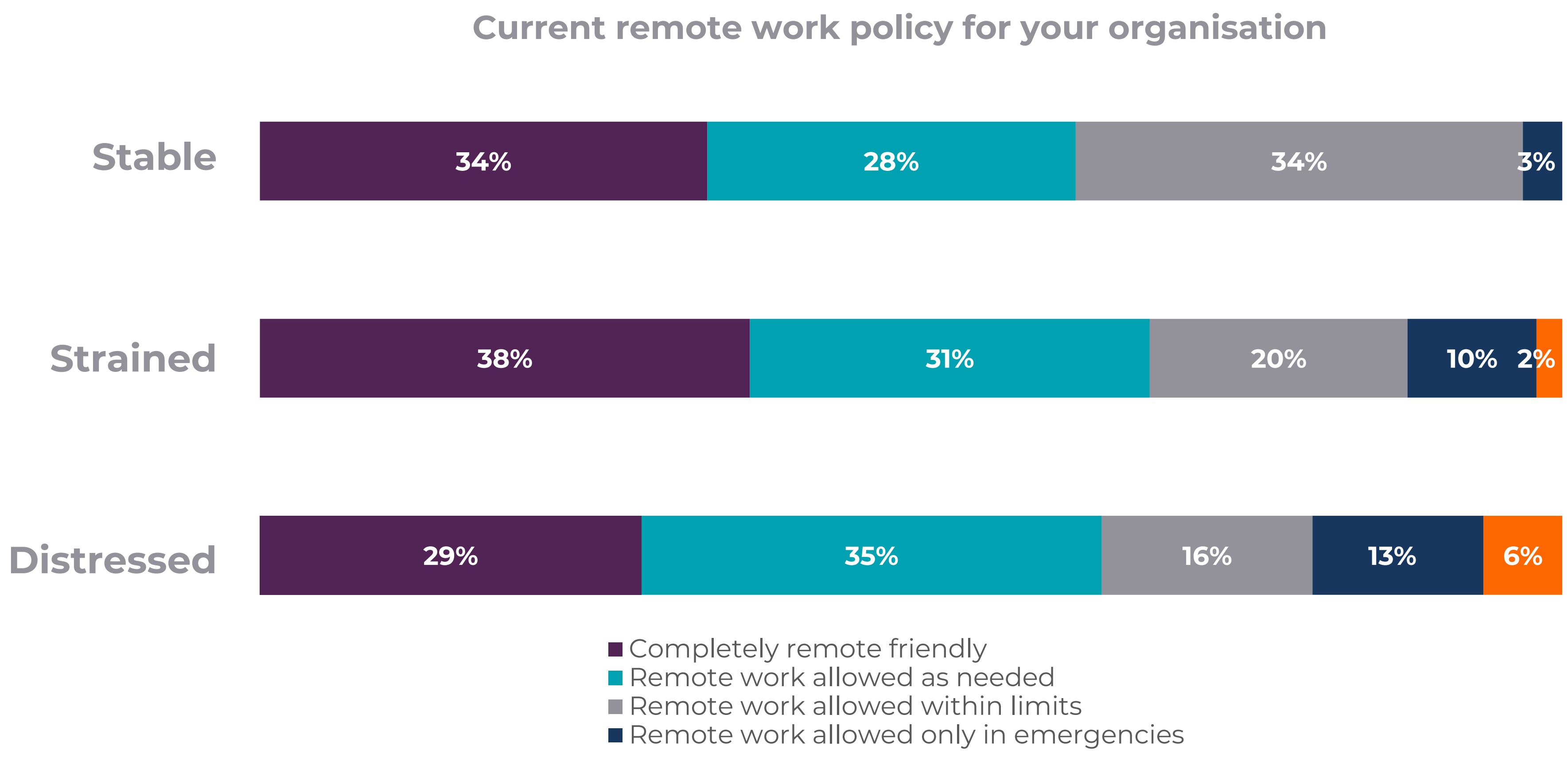
But distressed SMEs are least positioned for digital

Stable and Strained SMEs in a better position to evolve business models and take advantage of technological solutions to endure the crisis

DIGITAL READINESS (% that had a GOOD OR EXCELLENT rating score)	Stable	Strained	Distressed
ICT Access	49%	45%	25%
Technological Infrastructure	40%	39%	19%
Data Security	37%	29%	21%
Investment in Digital Transformation	28%	27%	22%
Worker Retraining (enhancing digital skills)	37%	28%	19%

A willingness to accommodate remote work

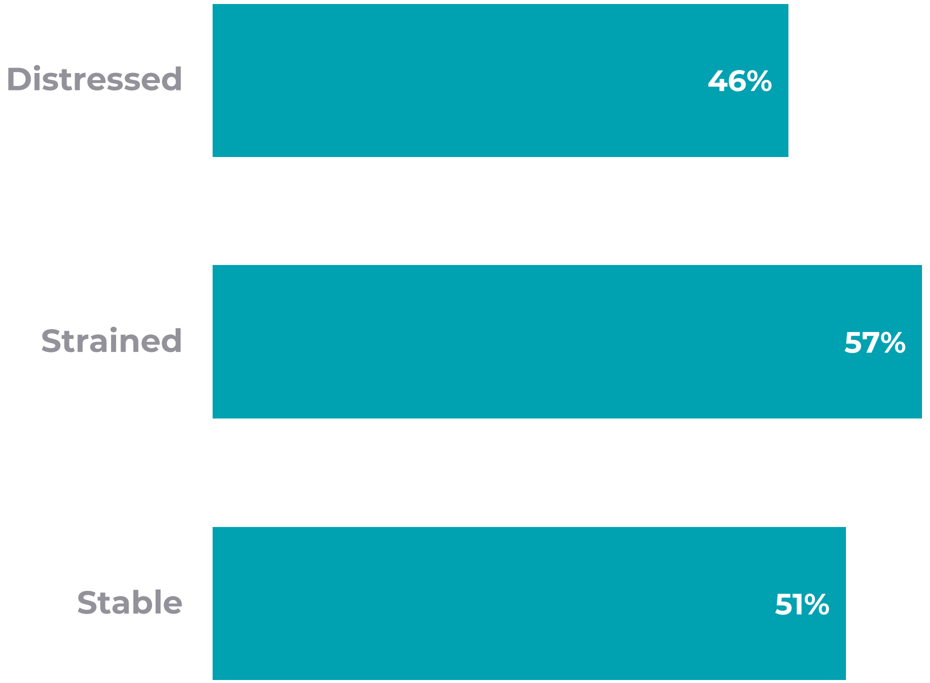
But distressed SMEs appear to have the least flexible work policy options



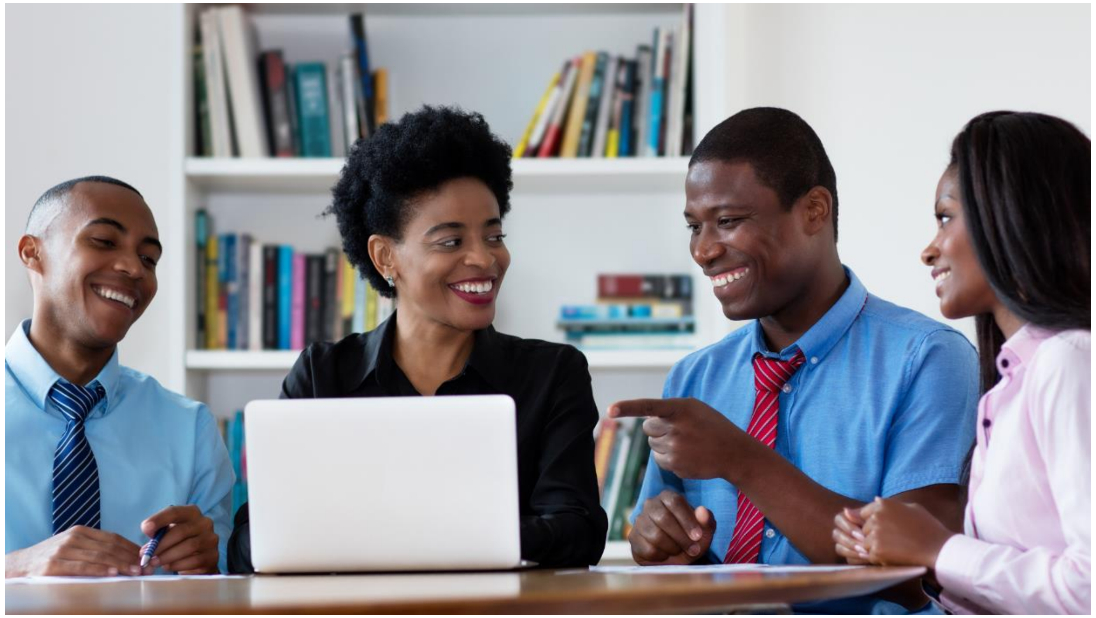
Remote work rising due to COVID-19

The flexibility of remote work has allowed agile SMEs to adapt and continue operations, lessening the economic impact of the pandemic

% of SMEs utilising remote work since COVID-19 onset



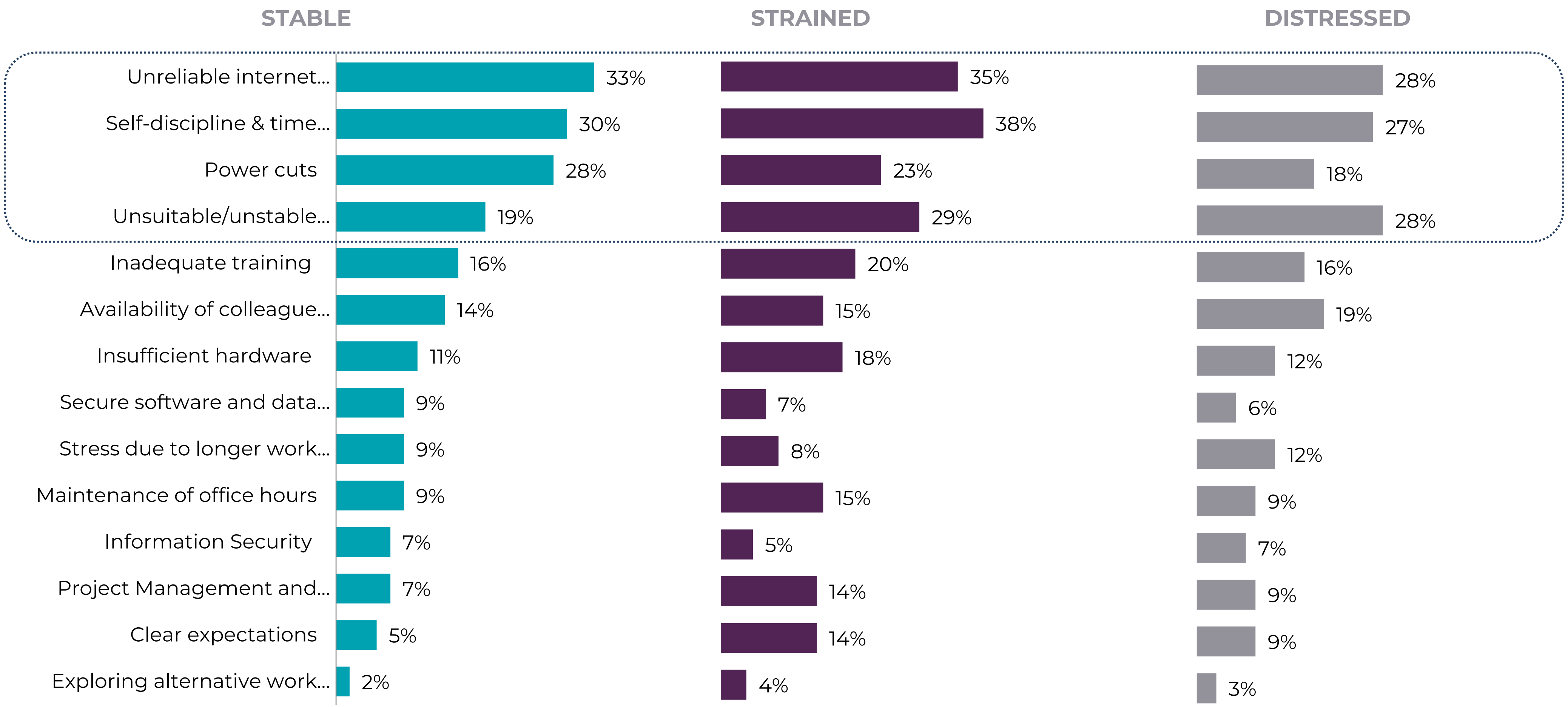
Some respondents cited that their businesses had pivoted and were now servicing a new market, introducing new revenue streams



Digital infrastructure hindering remote work

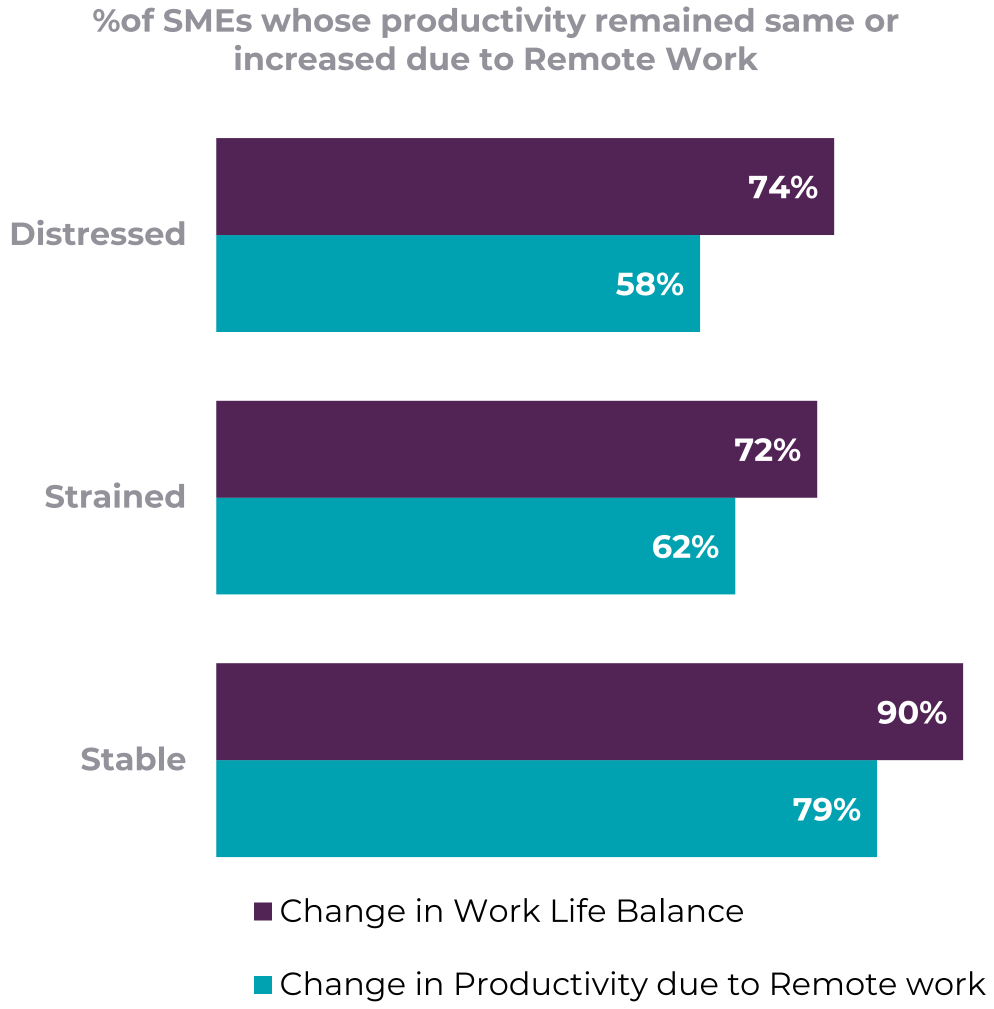
Unreliable internet connectivity, self-discipline amongst top concerns expressed by SMEs

Some respondents cited that their key challenge was power cuts that would go off during work hours, and 'single-parent challenges; e.g. having to juggle work meetings with young kids



Productivity not impacted by remote work

Remote work also yielded some positive outcomes for workers such as a better work-life balance



However, there is still a way to go with providing sufficient organizational support & resources:

- Staff require better equipment
- Challenges with self-discipline
- Unsuitable workspaces
- Staff re-training
- Digital re-skilling of workers

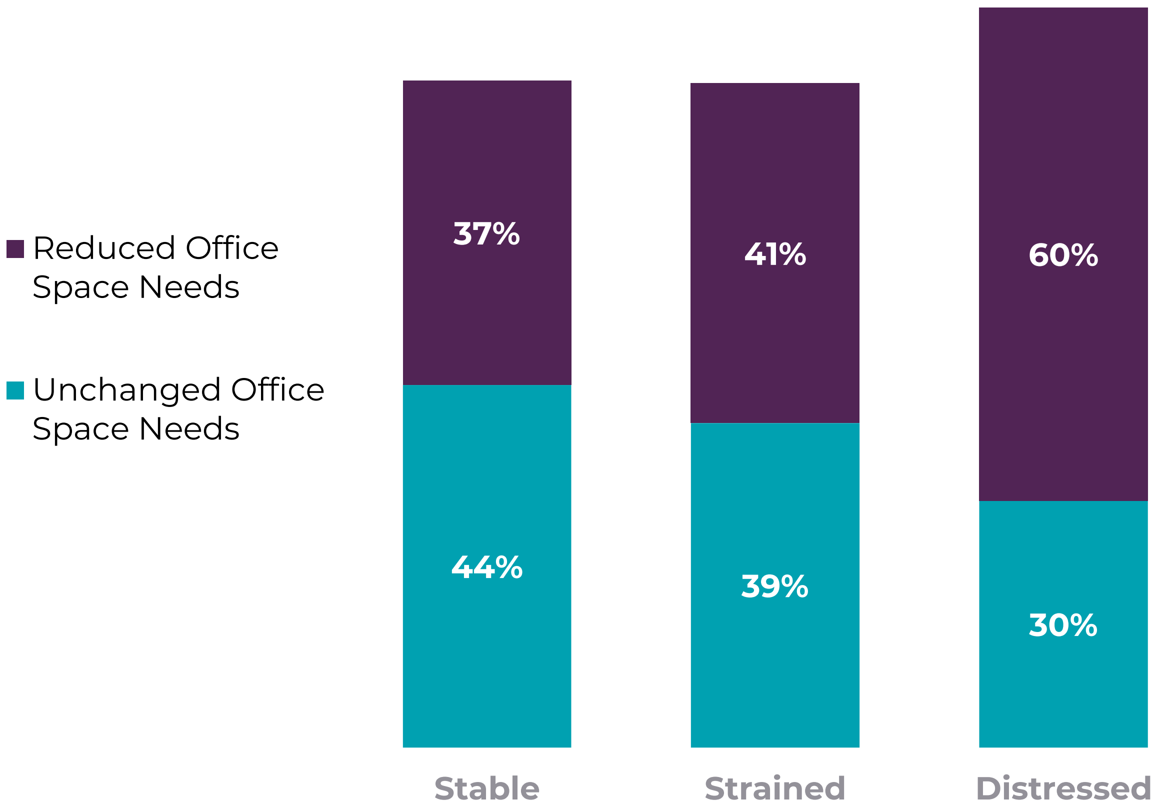
A number of respondents cited that they had completed digital courses through Google & Hubspot Academy over the past year, including:

- Digital skills training
- Marketing courses
- Inbound sales training for attracting online customers

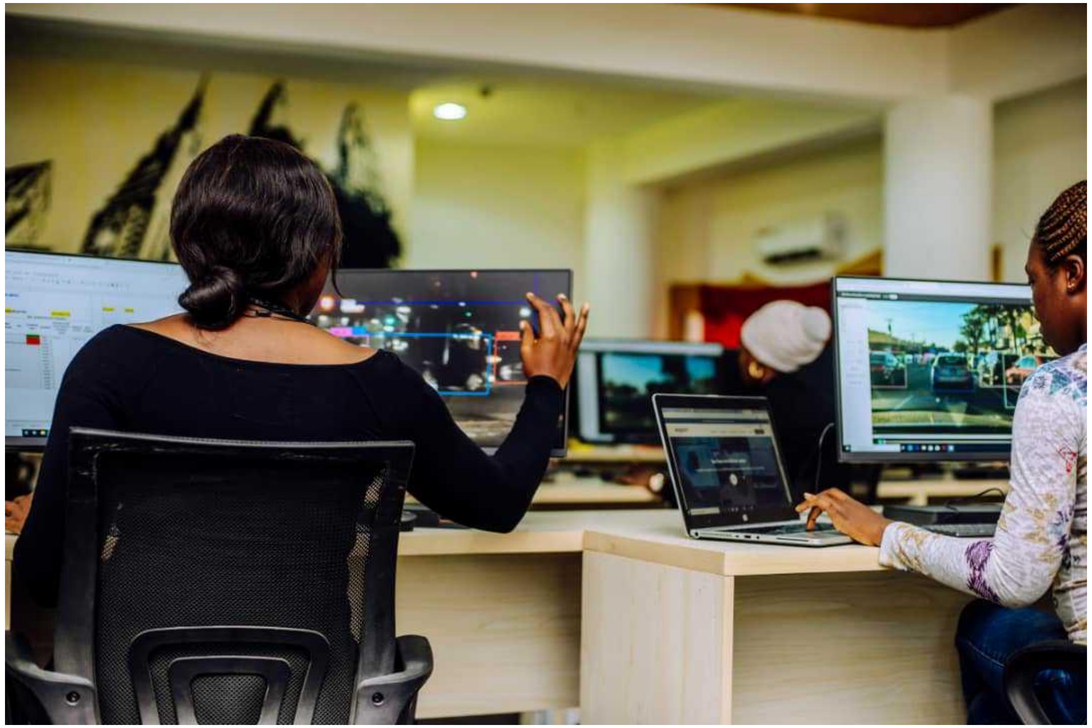
Decline in office space a result of the pandemic

Slowdown in business activity and new ways of operating has led some SMEs to approach future office space needs cautiously

Change in Office Space Needs over the next 6 months



One of the businesses in Financial Services cited that their workers fully embraced 'work-from-home' and had recently let go of their office space since COVID-19. They are now benefitting from reduced overheads without rental expenses



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Contact Us

Address
Riara Corporate Suites – 3rd Floor
Nairobi, Kenya

Email
info@kasiinsight.com

Telephone
(+254) 786 511161

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