Implications of COVID-19 for the Survival and Performance of Rwandan MSMEs

Ggombe Kasim Munyegera (PhD)
MD of Mazima Research Consultancy & Senior member of EPRN
www.mazimaconsultancy.com
mazimaconsultancy@gmail.com; +250787574625

Public Lecture for University of Rwanda

May 15, 2020
Outline

- Background
- Role of MSMEs in development
- The state of Rwandan MSMEs
- COVID-19 and the lockdown
- Implications for MSMEs survival and performance
- Potential heterogeneous effects - sector, gender, firm size, etc.
- Conclusions and policy recommendations
Background

- MSMEs play an important role in the development process through many pathways
  - Employment creation (Katua, 2014; Mullineux, 1997)
  - Socio-economic outcomes including poverty reduction (Ali, 2013; Green et al., 2006; Cook and Nixson, 2000; Sharafat et al., 2014)
  - A major source of tax revenue
  - Yet majority of MSMEs never live beyond their first birthday
  - In Uganda, 90% of MSMEs don’t exceed a year in operation; 60% don’t survive for 5 years (Sejjaaka et al., 2015)
  - Challenges are both internal and external
  - Challenges differ often by sector, firm size, gender of owner, etc.
Post liberalization surge in number of businesses started
99.8% of firms are micro, small and medium enterprises (MSMEs)

91.6% are micro (1-3 workers)

7.2% are small (4-30 workers)

1.0% are medium (31-100 workers)

Only 0.2% are large (100+ workers)

On average, 92.5% of firms are informal

Informality is higher (95%) among MSMEs; 9% among large firms

52.5% of firms are in wholesale and retail trade
What the structure implies for firm vulnerability to shocks

- Small size
  - Limited productive capacity
  - Less access to markets
- High degree of informality
  - Constrained access to formal credit
  - Expensive credit (high interest rates)
- Wholesale and retail trade
  - Makes firms susceptible to low consumer demand
### Characteristics of household enterprises based on EICV4

<table>
<thead>
<tr>
<th>VARIABLES</th>
<th>(1) Male-owned business</th>
<th>(2) Female-owned business</th>
<th>(4) Difference (1) - (3)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Mean</td>
<td>SD</td>
<td>Mean</td>
</tr>
<tr>
<td>1 if urban premises</td>
<td>0.196</td>
<td>0.397</td>
<td>0.191</td>
</tr>
<tr>
<td>Age of HH head</td>
<td>41.26</td>
<td>13.47</td>
<td>51.51</td>
</tr>
<tr>
<td>Household size</td>
<td>5.307</td>
<td>2.188</td>
<td>4.255</td>
</tr>
<tr>
<td>1 if head has lower primary education</td>
<td>0.242</td>
<td>0.428</td>
<td>0.225</td>
</tr>
<tr>
<td>1 if head has upper primary education</td>
<td>0.468</td>
<td>0.499</td>
<td>0.279</td>
</tr>
<tr>
<td>1 if head has (post)secondary education</td>
<td>0.144</td>
<td>0.318</td>
<td>0.06</td>
</tr>
<tr>
<td>Number of workers</td>
<td>1.845</td>
<td>4.393</td>
<td>1.396</td>
</tr>
<tr>
<td>1 if business is formal</td>
<td>0.287</td>
<td>0.453</td>
<td>0.198</td>
</tr>
<tr>
<td>Turnover per worker</td>
<td>1,524</td>
<td>4,899</td>
<td>927</td>
</tr>
<tr>
<td>Net revenue per worker</td>
<td>1,023</td>
<td>4,157</td>
<td>608</td>
</tr>
<tr>
<td>Number of observations</td>
<td>6,234</td>
<td>1,547</td>
<td></td>
</tr>
</tbody>
</table>
Distribution of annual turnover per worker by gender
Distribution of annual net revenue per worker by gender
## Business and Demographic Characteristics - REC 2014

<table>
<thead>
<tr>
<th>VARIABLES</th>
<th>(1) Male-owned business</th>
<th>(2) Female-owned business</th>
<th>(3)</th>
<th>(4) Difference</th>
<th>M-F</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 if owner aged 14-35</td>
<td>0.579</td>
<td>0.572</td>
<td>0.541</td>
<td>0.498</td>
<td>0.035***</td>
</tr>
<tr>
<td>1 if owner aged 36+</td>
<td>0.42</td>
<td>0.493</td>
<td>0.458</td>
<td>0.498</td>
<td>-0.038***</td>
</tr>
<tr>
<td>1 if female manager</td>
<td>0.007</td>
<td>0.084</td>
<td>0.98</td>
<td>0.14</td>
<td>-0.973***</td>
</tr>
<tr>
<td>1 if manager aged 14-35</td>
<td>0.586</td>
<td>0.493</td>
<td>0.554</td>
<td>0.497</td>
<td>0.032***</td>
</tr>
<tr>
<td>1 if manager aged 36+</td>
<td>0.414</td>
<td>0.492</td>
<td>0.445</td>
<td>0.497</td>
<td>-0.031***</td>
</tr>
<tr>
<td>1 if maintain regular accounting</td>
<td>0.06</td>
<td>0.237</td>
<td>0.068</td>
<td>0.252</td>
<td>-0.008***</td>
</tr>
<tr>
<td>1 if urban premises</td>
<td>0.284</td>
<td>0.451</td>
<td>0.616</td>
<td>0.486</td>
<td>-0.332***</td>
</tr>
<tr>
<td>1 if formal/registered</td>
<td>0.18</td>
<td>0.384</td>
<td>0.212</td>
<td>0.406</td>
<td>-0.032***</td>
</tr>
<tr>
<td>Number of workers</td>
<td>1.746</td>
<td>6.037</td>
<td>1.578</td>
<td>3.257</td>
<td>0.169***</td>
</tr>
<tr>
<td>Number of years since start</td>
<td>3.476</td>
<td>4.464</td>
<td>3.661</td>
<td>4.525</td>
<td>-0.186***</td>
</tr>
<tr>
<td>1 if employed capital &gt; RWF 300K</td>
<td>0.225</td>
<td>0.418</td>
<td>0.207</td>
<td>0.405</td>
<td>0.018***</td>
</tr>
<tr>
<td>Number of observations</td>
<td>19,041</td>
<td>50,815</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Female-owned MSMEs employ less capital (Munyegera and Akampumuza (2018))

<table>
<thead>
<tr>
<th>VARIABLES</th>
<th>(1) (0/1) Turnover &gt; 300K</th>
<th>(2) (0/1) Capital &gt; 300K</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 if female owner</td>
<td>-0.100*** (-0.0278)</td>
<td>-0.0465*** (-0.0149)</td>
</tr>
<tr>
<td>1 if foreign owner</td>
<td>-0.0229 (-0.032)</td>
<td>0.104*** (-0.0236)</td>
</tr>
<tr>
<td>1 if female manager</td>
<td>0.0510* (-0.028)</td>
<td>0.00263 (-0.0164)</td>
</tr>
<tr>
<td>1 if manager age below 36</td>
<td>0.0846*** (-0.0257)</td>
<td>0.0551*** (-0.0144)</td>
</tr>
<tr>
<td>1 if owner age below 36</td>
<td>-0.0878*** (-0.0258)</td>
<td>-0.0917*** (-0.0151)</td>
</tr>
<tr>
<td>1 if maintains regular accounts</td>
<td>0.279*** (-0.0102)</td>
<td>0.308*** (-0.00864)</td>
</tr>
<tr>
<td>1 if urban premises</td>
<td>0.180*** (-0.00652)</td>
<td>0.109*** (-0.00424)</td>
</tr>
<tr>
<td>Number of operational years</td>
<td>0.00537*** (-0.000563)</td>
<td>0.00619*** (-0.000417)</td>
</tr>
<tr>
<td>Number of workers</td>
<td>0.0711*** (-0.00623)</td>
<td>0.0626*** (-0.0023)</td>
</tr>
<tr>
<td>Southern province Vs Kigali</td>
<td>-0.216*** (-0.00713)</td>
<td>-0.113*** (-0.00407)</td>
</tr>
<tr>
<td>Western province Vs Kigali</td>
<td>-0.0214*** (-0.0081)</td>
<td>-0.0443*** (-0.00453)</td>
</tr>
<tr>
<td>Northern province Vs Kigali</td>
<td>-0.168*** (-0.0078)</td>
<td>-0.126*** (-0.00403)</td>
</tr>
<tr>
<td>Eastern province Vs Kigali</td>
<td>-0.0827*** (-0.00791)</td>
<td>-0.0192*** (-0.00466)</td>
</tr>
</tbody>
</table>
Why female-owned MSMEs may be more affected by COVID-19 - less access to credit
Why female-owned MSMEs may be more affected by COVID-19 - work fewer hours
COVID-19 and lockdown in Rwanda

- March 14, 2020: First case found
- March 21 to April 2, 2020; first lockdown
- April 2-19, 2020: Extension of lockdown
- April 19-30, 2020: Further extension of lockdown
- May 4, 2020: Partial relaxation of lockdown
- May 14, 2020: 287 cases, 168 recoveries, 0 deaths
- Declining trend due to government effort and people’s vigilance
Potential impacts of COVID-19 and lockdown on MSMEs

- Hike in operational costs e.g. transport
- Production below capacity due to low consumer demand
- Increasing liquidity constraints
- Disruption of input supplies, marketing and distribution channels
- Reduced exports and disrupted regional & international value chains
- Reduced productivity - revenue and turnover per worker
Firms will be affected differently

- Female-owned firms may suffer greater impact
- Micro and small enterprises with limited markets and capital may experience greater burden
- Firms in informal sector will have more challenges accessing recovery credit
- The loss will be greater for firms operating in vulnerable sectors e.g. tourism and hospitality
How firms are likely to respond to COVID-19 and lockdown

- Suspending some operations definitely or indefinitely
- Resizing the work force/laying off workers
- Reducing salaries and wages for workers
- Closing business completely
- Changing product lines or market outlets
- Embracing E-commerce and digital payments
What this means for the economy

- The outlook is majorly negative

  - Un(under) employment due to laying off workers will be critical as MSMEs account for over 40% of non-farm employment

  - Reduction in the tax base as some MSMEs will close while others will reduce operations

  - GDP growth will decline in the short to medium term

- Some opportunities may emerge from the crisis

  - E-commerce and cashless payments may experience a positive trend
Policy and business options to avert the crisis

- Low-interest loans targeting the most affected firms and sectors
- Tax policy adjustments
- Social protection policy to address job loss
- Credit holidays from commercial banks
- Training and information access - SME response clinic
Conclusions and Policy Implications

- The structure of MSMEs in Rwanda makes them vulnerable to shocks.
- COVID-19 and the associated lockdown could affect firm survival and performance in the short and medium term.
- The adverse effects pose serious consequences for employment and economic growth.
- Small, female-owned and informal sector MSMEs are likely to be more affected.
- Policy, regulatory and business solutions that increase access to information and credit could provide relief.
Stay home, stay safe...

How to wear a mask correctly?

Note: The part with the metal strip should be above the mask.

Distinguish the front and back of the mask and up and down, then wash your hands.

After wearing the mask, squeeze the metal strips on both sides of the bridge of the nose.

Then stretch the mask down to cover the nose and mouth so that the mask does not leave wrinkles.