



# finaccess

## MSE COVID-19 TRACKER SURVEY

In November 2020, **Kenya National Bureau of Statistics, The Central Bank of Kenya and FSD Kenya** ran the first wave of the Micro and Small Enterprise (MSE) COVID-19 Tracker Survey to better understand the impact of COVID-19 on micro businesses.

Without relevant data on how these businesses have fared during COVID-19, it is

difficult for policy makers to respond to their needs effectively. The FinAccess MSE COVID-19 tracker survey aims to contribute in filling this gap.

**Tracker Sample: Wave 1:** 603 business owners drawn from the FinAccess 2019 sampling frame who had active businesses pre-COVID-19 in February 2020. **Wave 2:** 430

# How has COVID-19 impacted micro firms?

## Overview

**M**icro enterprises, firms with 1 - 9 employees, account for 98% of all businesses in Kenya (2016 MSME Survey). The majority operate without a business license (65% unlicensed<sup>1</sup>) and even fewer are registered with the national Registrar of Companies (92% not registered<sup>2</sup>). The 'off-record' nature of these businesses makes them inherently difficult to sample for research surveys. Unlike the broader MSME sector, which includes small and medium-sized enterprises, micro enterprises tend not to exist in Government administrative data, such as business licenses lists. This has created a dearth of recent and reliable data on micro firms. The FinAccess COVID-19 MSE Tracker Survey attempts to fill some of these knowledge gaps, specifically by providing data on how micro firms have responded to and coped during the COVID-19 pandemic. The survey was conducted by the Financial Sector Deepening Trust (FSD) Kenya in collaboration with the Kenya National Bureau of Statistics (KNBS) and Central Bank of Kenya (CBK).

## Methodology

The MSE Tracker Survey sample was drawn from the 2019 FinAccess household survey sampling frame. The FinAccess survey includes data on 1,610 respondents across 47 counties who indicated that their main source of income was from their own business or self-employment. Of those, 1,198 respondents had provided their phone numbers and agreed to participate in the follow-up surveys. This became the target sample for the MSE COVID-19 Tracker Survey.

The phone-based data collection exercise was administered through a Computer Assisted Telephone Interview (CATI) instrument over 2 waves: November 30 – December 14, 2020 and; March 15 – 26, 2021. The Wave 1 survey was conducted in November 2020 and collected recall data for three periods: February 2020 (pre-COVID), April – July (lockdown<sup>3</sup>) and November

2020 (post-lockdown). In Wave 1, 753 business owners agreed to an interview and, of those, 603 (80%) were still operating an active business in February 2020 (pre-COVID). The remainder had ceased business operations between 2018 and February 2020 and therefore were not surveyed further.

To track the progress of businesses in the sample, the Wave 2 survey went back to the 603 businesses owners that were active in February 2020 and attempted to reinterview them in March 2021. In Wave 2 only 492 businesses could be traced from the original wave 1 sample of 603, and 442 business owners agreed to participate and completed the interview. Wave 3, the final wave, will take place in July 2021.

While this sample is not representative of all MSEs in Kenya, it provides valuable insight into the experiences of MSEs over the past year and makes a strong contribution to our understanding of the impacts of COVID-19 on micro firms.

## Survey Sample Size

	Description	Number
1	Number of Counties	47
2	Households with Business (FinAccess 2019 QB3A = 4)	1,610
3	Consenting individuals with Business	1,198
4	Business owners who agreed to an interview and had a cluster number	753
5	<b>Wave 1 sample:</b> Business owners with active business in February 2020 (pre-COVID)	603
6	<b>Wave 2 sample:</b> Business owners in March 2021 who could be traced, consented and completed the interview	442

1 FinAccess 2019.

2 Ibid.

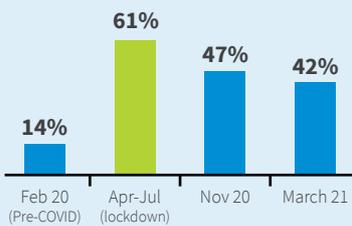
3 Restriction of movement and economic activity within the country for a defined period.



# How has COVID-19 impacted micro firms?

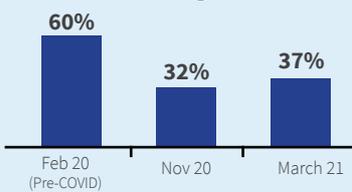
## Lockdown impacts (April-July 2020)

### Food insecurity



Percentage of MSE households who missed meals quadrupled during COVID-19, and remains substantially higher than pre-COVID levels across all MSE households.

### Reduced savings



The percentage of MSEs with savings halved by November 2020, with minimal recovery by March 2021, indicating that MSE resilience is a key concern.

### Business closures

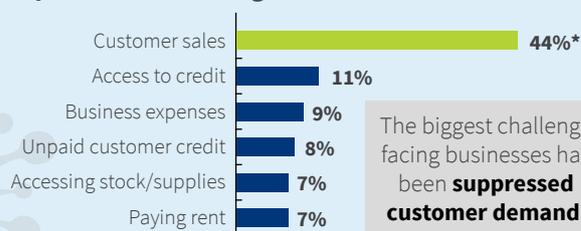


Firms cite the need of additional capital to reopen (Median KSh18,000).

**11%** had closed by November 2020 mainly due to reduced demand and government containment measures

**9%** closed between November 2020 and March 2021, having survived the lockdown period.

### Top business challenges



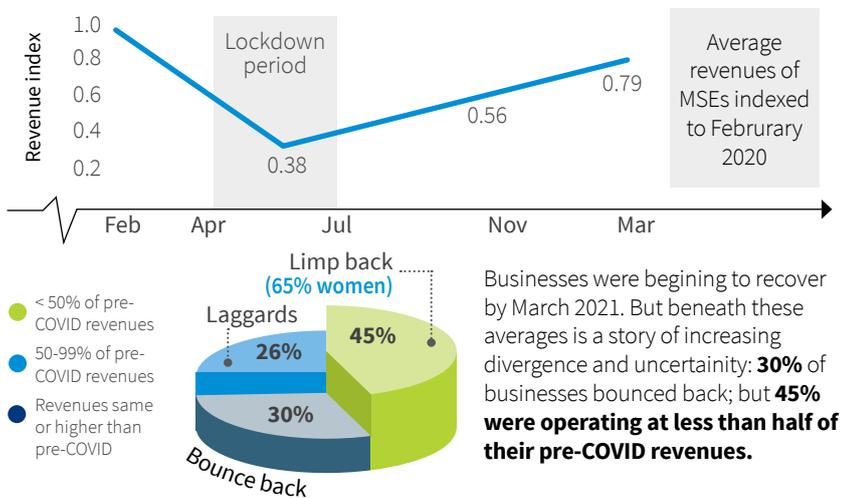
The biggest challenge facing businesses has been **suppressed customer demand**.

\* By March 2021, 34% of businesses cited reduced customer sales as their main business challenge.

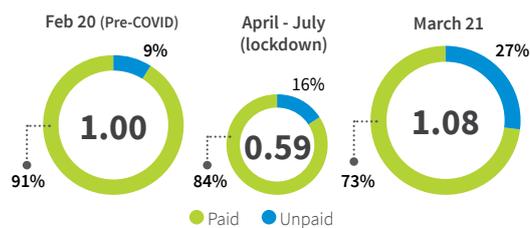
## Survivor businesses

**77%** of businesses survived through lockdown period in 2020

### The hit to business revenues from COVID-19



### Staff employment index (paid and unpaid)



By March 2021, staff employment had recovered to pre-COVID levels after a **41% drop** during the 2020 lockdown period; but a larger share of employment was unpaid, indicating a reduction in the quality of jobs.

### The squeeze on businesses during the 2020 lockdown period

**40%** of businesses cited increased cost of supplies as their biggest challenge.



**63%** of businesses did NOT increase their prices for customers. In addition, they shouldered a 15% increase in credit outstanding.

### Micro firms comprise:



4.4 million business owners\*



### Main activity of business

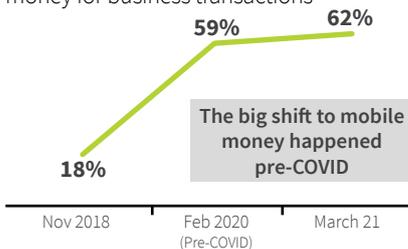
- 57% Wholesale/retail
- 8% Manufacturing
- 8% Personal services
- 6% Food & acc
- 7% Transport
- 14% Other



# How has COVID-19 impacted micro firms?

### Shift to mobile money

Percentage of MSEs using mobile money for business transactions



In lockdown period (2020):

**58%** of MSEs reported an increase in customers paying digitally compares with pre-COVID.

By March 2021:

**26%** of MSEs reported an increase in customers paying digitally compared with pre-COVID, a significant reduction.

### Shift to digital channels to reach customers during lockdown



**34%**  
SMS/  
phonecalls



**7%**  
Social  
media



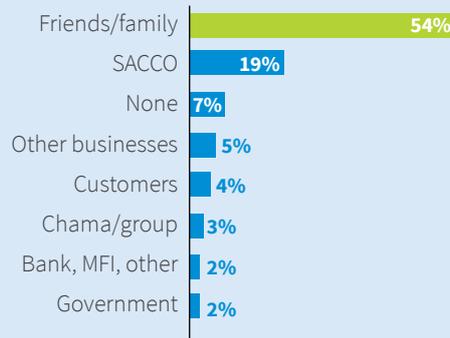
**2%**  
Online  
stores

A third of businesses increased their use of SMS/Phonecalls during lockdown to reach customers; but very few businesses started using new digital channels (social media, etc.).



### Sources of support

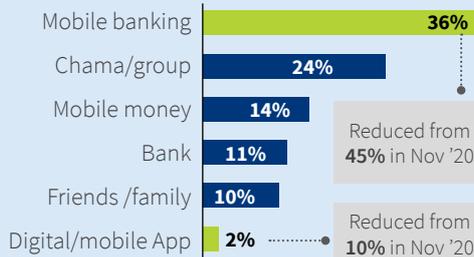
#### Main sources of support during the 2020 lockdown period



The main source of support for business owners during the 2020 lockdown was their **social networks** (friends and family), followed by SACCOs, a key source of finance for MSEs.

**65%** said **cash assistance** would have enabled them to weather the lockdown, with government cited as the key source.

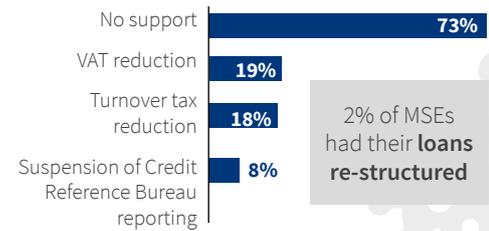
#### Percentage of MSE borrowers by loan source (March 2021)



**43%** of MSE had loans in March 2021; dropping slightly from **45%** in 2020.

There was a **significant drop in digital borrowing** between November 2020 and March 2021, *except* for digital overdraft facilities e.g Fuliza.

### Government measures during the 2020 lockdown

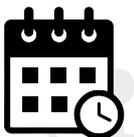


- **19%** of businesses benefited from VAT reductions and **18%** benefited from reductions in turnover tax.
- **73%** mentioned that their businesses had not benefitted from any direct government interventions.



### Business optimism

**55%** of businesses were optimistic that things would get better in 2021.



**63%** of businesses who closed by November hoped to reopen. By March 2021, **only 28% had reopened.**

The [MSE] sector accounts for 24% of GDP, over 90% of private sector enterprises and 93% of total labour force in the economy. Development of this sector is therefore central to realization of national development goals anchored in the Kenya Vision 2030 and the Big Four Agenda.

– State Department of Industrialization Sessional Paper No. 05 of 2020, Kenya Micro and Small Enterprises Policy for Promoting Micro and Small Enterprises (MSEs) for Wealth and Employment Creation

# How has COVID-19 impacted micro firms?

## Key findings

- **By March 2021, about 20 percent of businesses had closed**, of which 11 percent closed during the 2020 lockdown period, while 9 percent closed between November 2020 and March 2021, citing reduced sales and lack of operating capital. Only 27 percent of businesses, which closed during lockdown in 2020, had reopened by March 2021.
- On a positive note, **30 percent of businesses which had survived the lockdown, have reported their revenues at or above pre-COVID levels by March 2021**. At the same time, 45% of businesses are earning less than half of pre-COVID revenues, highlighting growing divergence within this segment; resilient businesses are continuing to prosper, but the majority struggling to survive.
- **There was marked increase in digital transactions**, with 58 percent of businesses that accepted mobile money payments prior to COVID-19, reporting a sharp increase in digital usage during lockdown. However, this declined to 26 percent by March 2021, partly reflecting reversal in mobile money waivers. Youth-owned businesses relied more on digital platforms to reach their customers.
- **Most business owners received support from friends and family members, followed by SACCOs**. About 73 percent of businesses indicated that they did not receive any direct government support. This may be due to the fact that these businesses are too micro and informal to benefit from government support, which mainly targeted more formal and relatively large businesses.
- **A large proportion of businesses depleted their savings during the lockdown period**. By March 2021, only 37 percent of businesses reported to have some savings compared to 60 percent during the pre-COVID-19 period, implying increased risks to business resilience. Depleted resilience has rebounded on business households as well, with food insecurity rising from 14 percent to 61 percent during the 2020 lockdown.
- **About 45 percent of businesses had loans outstanding in November 2020, mainly from mobile banks and Chamas**. A majority of businesses, did not benefit from the loan restructuring since they do not rely on bank loans. Only 2 percent reported restructuring their loans. By March 2021, there was significant decline in digital loans, with only 36 percent of borrowers having mobile banking loans in March 2021, down from 45 percent in November 2020, while 2 percent of respondents had a digital app loans down from 10 percent during the pre-COVID-19 period.
- **Businesses optimism improved in November 2020, with 55 percent of the respondents anticipating better economic outlook in 2021**.

## Conclusion

The COVID-19 pandemic has had far reaching impacts on micro firms in Kenya. The data from the first two rounds of the FinAccess COVID-19 tracker survey indicate that firms have suffered from reduced demand across the economy, compromising their revenue and undermining their resilience. During the lockdown, the government put in place a number of measures to support MSMEs including provisions for bank loan restructuring, waivers on VAT and turnover tax and suspension of credit bureau reporting. Recognizing the role that the financial sector can play in providing solutions, the Government established the MSME Credit Guarantee Scheme (CGS) to support access to finance for MSMEs impacted by the pandemic<sup>4</sup>. However, micro firms are largely outside the purview of these measures due to their informality and size. While the Government recognizes the importance of micro firms as a distinct business segment, the difficulty of capturing data on these firms makes it challenging to put in place alternative measures that will help them to recover and rebuild. Data from this and [other studies](#) can play a valuable role in informing

4 The CGS has entered into a risk-sharing agreement with Participating Financial Institutions (PFIs) to cover 50% of potential losses associated with MSME loans with a maximum exposure of 25% of the original loan amount. The Scheme aims to stabilize the market and protect jobs, maintaining current access to finance for MSMEs that have been disproportionately impacted by the pandemic.



Central Bank of Kenya

