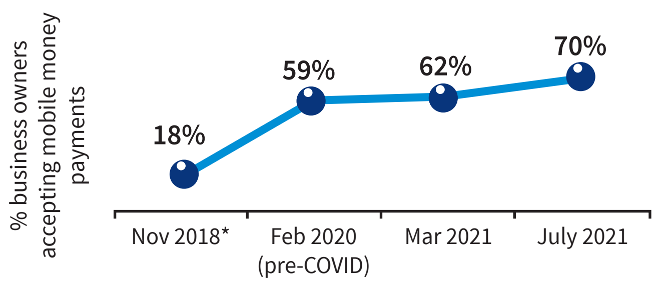
# How has COVID-19 impacted micro firms?

## Looking forward...

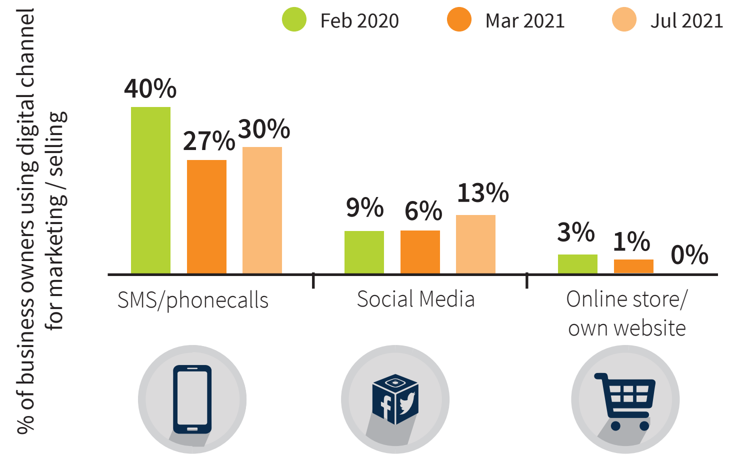
**Digitisation of TraNsactions continues to rise...**




**The main shift to use of mobile money for business transactions happened in pre-COVID,** but adoption is still increasing, thereby improving the visibility of MSEs.

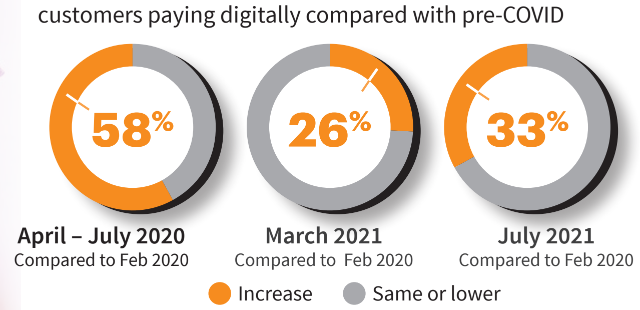
*FinAccess 2019

**But there is still significant opportunity to increase the usage of digital channels to reach customers**




**...and many customers appear to have reverted back to cash after a surge in mobile money payments during the lockdown**

% of businesses reporting increased number of customers paying digitally compared with pre-COVID

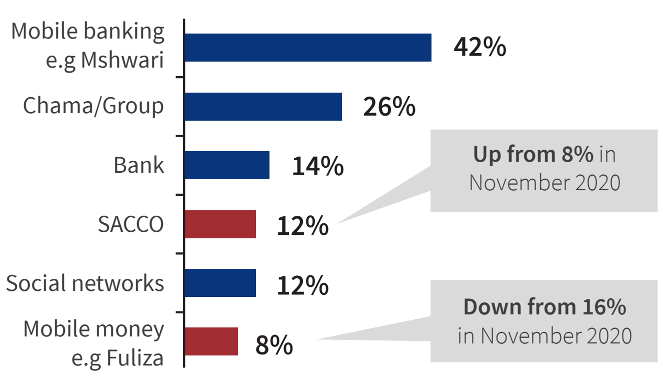



Compared with pre-COVID, 58% of businesses reported increases in the number of customers paying digitally during the 2020 lockdown period (April-July). By contrast, in July 2021, only 33% of businesses reported increases in the number of customers paying digitally. A key factor believed to driving this change is the perception of reduced risk of transmitting COVID-19 through handling cash.

**Uptick in loans, possible indication of improved business opportunities**

**55%** of MSEs had loans in July 2021 up from 43% in March 2021 and 45% in November 2020.

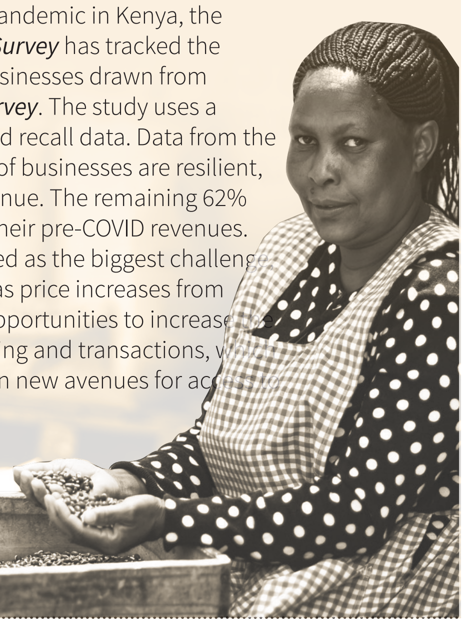
**...Small mobile banking loans still dominate, but SACCOs are re-emerging**





## Summary

Since the onset of the COVID-19 pandemic in Kenya, the *FinAccess MSE COVID-19 Tracker Survey* has tracked the experiences of a sample micro businesses drawn from the *FinAccess 2019 Household Survey*. The study uses a combination of phone surveys and recall data. Data from the wave 3 survey suggests that 38% of businesses are resilient, with full recovery of business revenue. The remaining 62% have not managed to recover to their pre-COVID revenues. Reduced customer demand is cited as the biggest challenge alongside other challenges such as price increases from suppliers. Meanwhile, there are opportunities to increase use of digital channels for marketing and transactions, which could improve efficiency and open new avenues for access to capital and investment.

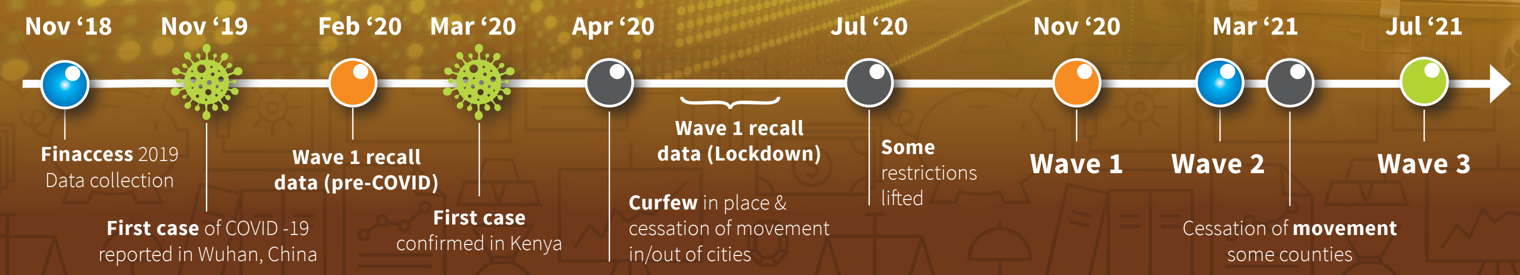
Central Bank of Kenya

KNBS KENYA NATIONAL BUREAU OF STATISTICS

fsd Kenya

# finaccess MSE COVID-19 TRACKER SURVEY

**Wave 1:** Feb - Nov 2020 | **Wave 2:** Dec - March 2021 | **Wave 3:** Apr - July 2021




# How has COVID-19 impacted micro firms?

## 1 Overview

Since February 2020 to July 2021, The Kenya National Bureau of Statistics (KNBS), Central Bank of Kenya (CBK) and Financial Sector Deepening Trust (FSD) Kenya have conducted three waves of the *FinAccess Micro and Small Enterprise (MSE) COVID-19 Tracker Survey*, to better understand the impact of COVID-19 on micro businesses. According to the *2016 KNBS MSME Survey*, micro enterprises (firms with 1 - 9 employees), account for 98% of all businesses in Kenya. The majority operate without a business license (65% unlicensed) and even fewer are registered with the Registrar of Companies (92% not registered). Unlike the formal MSME sector, which includes small and medium-sized enterprises, micro enterprises tend not to exist in Government records, such as business licenses lists and tax register. *The FinAccess COVID-19 MSE Tracker Surveys* attempt to fill some of the knowledge gaps on micro firms, specifically how they responded to and coped during the COVID-19 pandemic.

## 2 Methodology

The MSE Tracker Survey sample was drawn from the 2019 FinAccess household survey sample, which includes data on 1,610 respondents across the 47 counties who indicated that their main source of income in 2019 was from self-employment. Of those, 1,198 respondents had provided their phone numbers and agreed to participate in follow-up surveys. This became the target sample for the MSE COVID-19 Tracker Survey. After screening for business owners that were still active by February 2020 (pre-COVID), the final sample for the tracker consisted of 603 business owners.

The survey was implemented remotely using a Computer-Assisted Telephonic Interviewing (CATI) approach over three waves. Wave 1 was conducted in November 2020 and collected recall data for three periods: February 2020 (pre-COVID), April – July 2020 (lockdown) and November 2020 (limited-lockdown). After attrition (drop-off of respondents over time), the samples for Wave 2 (March 2021) and Wave 3 (July 2021) were 442 and 433 business owners respectively (around 73% of the original sample of business owners that were active pre-COVID).

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

## 3 Key findings

- **Business recovery is uneven:** In July 2021, 38% of micro businesses had recovered, with average revenues at the same level or higher than pre-COVID; but the majority (62%) are still earning less than their pre-COVID revenues. Meanwhile, business closures increased in 2021, with 35% of business owners who had businesses pre-COVID no longer involved in any business activity in July 2021.
- **MSE resilience has reduced:** In July 2021 only 32% of MSEs claimed to have savings, down from 60% in February 2020 (pre-COVID); food insecurity remains high (47% of MSE households missed meals in July 2021 compared to 14% in February 2020 pre-COVID)
- **Challenges:** The biggest challenge cited by MSEs was reduced customer demand (37% of MSEs), followed by inability to meet business expenses (6% of MSEs).
- **Digitisation of business payments continues to rise:** 70% of micro business owners in July 2021 said that they were accepting digital payments, up from 59% in February 2020 (pre-COVID).
- **There is significant opportunity to increase the usage of digital marketing channels:** In July 2021, only 13% of business owners were using social media to reach customers and none were using digital platforms to market goods and services.

***Survey Sample Size***

| | Description | Number |
|---|---|---|
| 1 | **Wave 1 sample:** Business owners with active business in February 2020 (pre-COVID) | 603 |
| 2 | **Wave 2 sample:** Business owners in March 2021 who could be traced, consented and completed the interview | 442 |
| 3 | **Wave 3 sample:** Business owners in July 2021 who could be traced, consented and completed the interview | 433 |
| 4 | Business owners present in all three survey waves | 347 |

For further details please see the report findings overleaf.

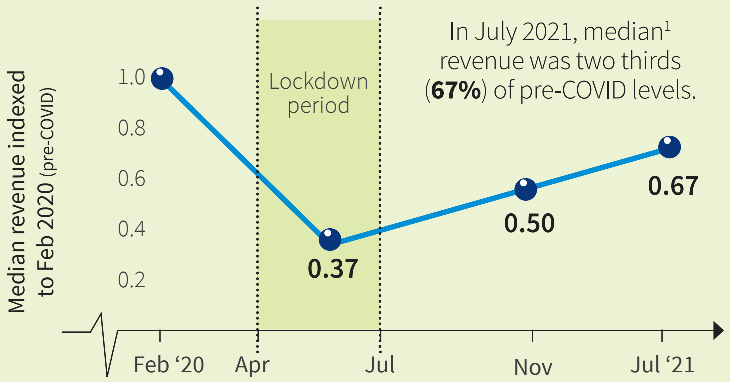
# finaccess MSE COVID-19 TRACKER SURVEY

**Wave 1:** Feb - Nov 2020 | **Wave 2:** Dec - March 2021 | **Wave 3:** Apr - July 2021

## How has COVID-19 impacted micro firms?

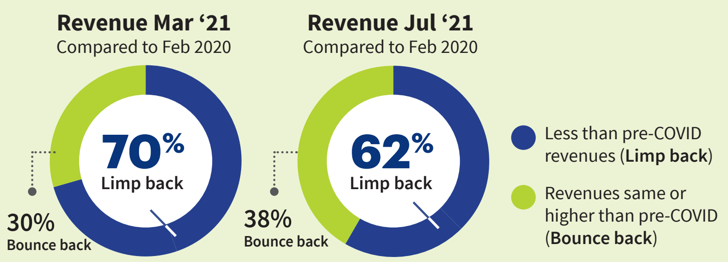
### Divergent recovery

**Business revenue is slowly recovering…**




In July 2021, median[1] revenue was two thirds (**67%**) of pre-COVID levels.

**…but the majority are still earning less than they did pre-COVID**



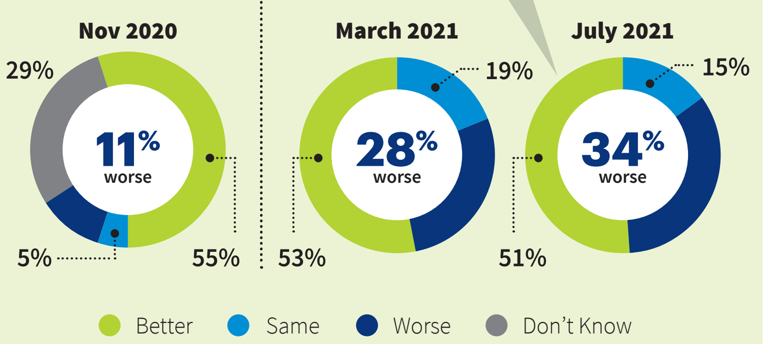

**38%** of businesses[2] have recovered completely but the majority (**62%**) are still earning less than their pre-COVID revenues, indicating divergent recovery.

**Increase in MSE pessimism about the future since November '20**

*How do you think 2021 will be for your business?*

*What do you think of 2021 now?*

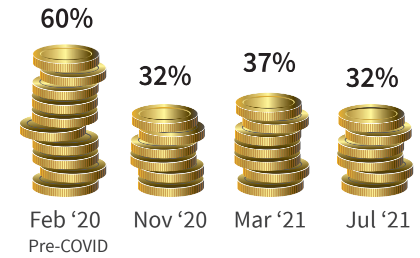
By July 2021, **34%** of MSEs felt that 2021 would be worse for business; compared with only **11%** in November 2020






### Reduced resilience

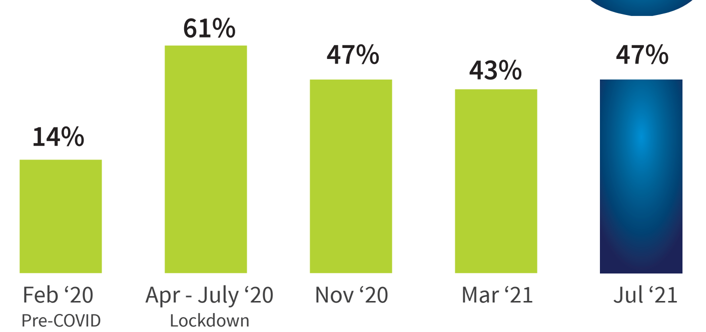
**Business owners with savings has halved…**



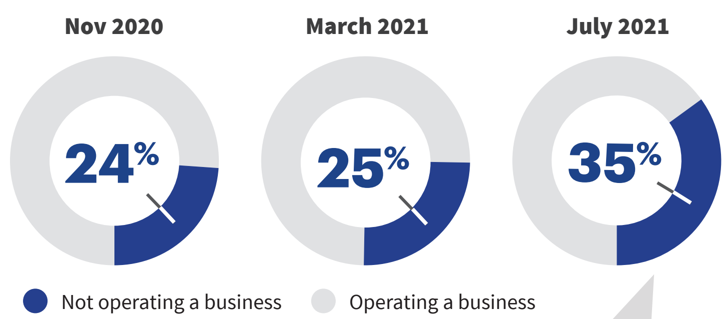

The percentage of businesses with savings halved during the lockdown with little recovery since then.

**Food insecurity remains high**

Food insecurity quadrupled during COVID, and remains substantially higher than pre-COVID levels across MSE households.




**And a rise in business closures in Q3 2021**





There has been a rise in business closures[3] between March 2021 and July 2021. 35% of business owners who had active businesses pre-COVID (February 2020) were no longer operating a business in July 2021.

1. *Median income is used here instead of the mean, because the median represents a typical income while the mean may be skewed by outliers.*
2. *Business owners segments based on reported revenue amounts for the sample of business owners who remained active across the two waves and provided reliable revenue data.*
3. *Based on a sample of 347 business owners who had active businesses in February 2020 and could be tracked across all three survey waves.*

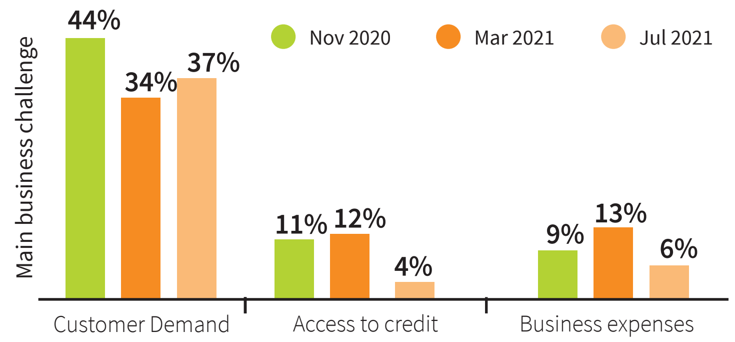

# finaccess MSE COVID-19 TRACKER SURVEY

**Wave 1:** Feb - Nov 2020 | **Wave 2:** Dec - March 2021 | **Wave 3:** Apr - July 2021

## How has COVID-19 impacted micro firms?

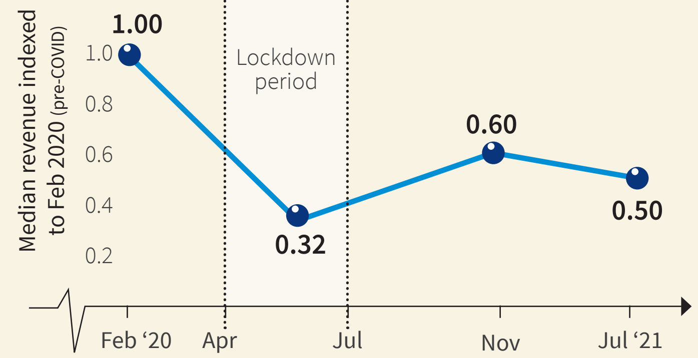

### Challenges facing business owners

**Customer demand remains the biggest challenge…**



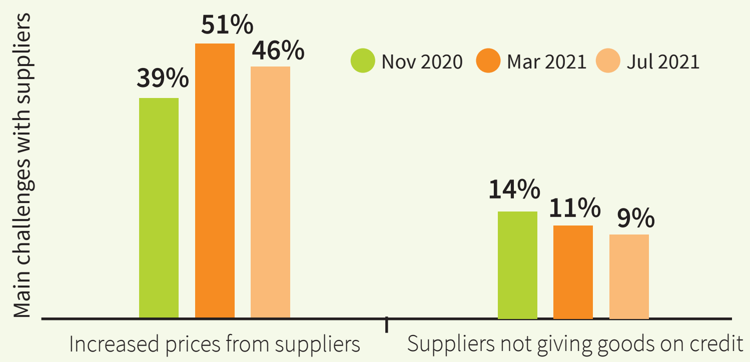

Reduced customer demand is still the biggest challenge facing business owners, however fewer business owners cited this as a challenge in July 2021 compared to Nov 2020.

**Businesses continue to experience a reduced numbers of customers compared with pre-COVID**




In July 2021, the median number of customers reported by business owners **was 50 percent of the customer numbers** they reported in February 2020 (pre-COVID).

**The main challenge with suppliers was increased prices**




**MSEs are squeezed between customers and suppliers…**

In July, **46%** of business owners reported **increased prices** as the top challenge with suppliers.

Despite this, **60%** of business owners reported that their prices for customers **were the same, or lower,** than pre-COVID prices.