Assessment of Corona Virus Pandemic practice on Micro and Small Enterprises: The Case of Arsi Zone Selected Towns.

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Abstract

Outbreak of Corona pandemic is the critically challenges to sustain economic growth generally in the world particularly in Ethiopia. Identifying practice of Corona pandemic was help in making better decision and resource allocation. This study aimed to investigate the practice of corona pandemic outbreak on business activity of Small and micro enterprise in Arsi Zones selected five towns which undertake relatively high business activity and potentially vulnerable to Covid. Cross-sectional data collected from micro and small enterprises owners or representative persons, information regarding demand and supply side situation in the market by comparing before and after outbreak of COVID -19 and its spillover effect to other sectors. Multi stage sampling technique was employed. Initially Arsi Zone purposively selected, next five towns hold largest number Small selected enterprise and lastly randomly selected sampling unit from five Towns. For this study cross-sectional research design and mixed research approach employed and semi-structured questionnaire were the main data collection

tools. The data will be analyzed through quantitative and qualitative methods. Descriptive statistics employed to analyze the effect of COVID-19. SPSS 25 Software package was used to run the analysis. Finding of the study reveal that outbreak of corona pandemic reduce the availability of raw material, working hour, sales, number of working day per week, revenue and profitability small and micro enterprises. Among total enterprises (83%) are currently facing problems associated with selling their products and services. Most enterprises (79%) have withdrawn from their iqubmemberships because they are unable to make due payments on time and regularly. Government should have to take policy measurement such as tax relief, subsidies, reduction of interest rate and technically support on managing crises face by small and microenterprises during this pandemic.

Key word: Arsi Zone, SMEs, COVID-19, Practice, Supply side, Demand

1. Introduction

The coronavirus pandemic is causing large-scale loss of life and economic catastrophe across the globe. It is the largest public health crisis in living memory, which has also generated a major economic crisis, with a halt in production in affected countries, a collapse in consumption and confidence, and stock exchanges responding negatively to heightened uncertainty (OECD, 2020). The COVID-19 pandemic has spread with alarming speed, infecting millions and bringing economic activity to a near-standstill as countries imposed tight restrictions on movement to halt the spread of the virus. As the health and human toll grows, the economic damage is already evident and represents the largest economic shock the world has experienced in decades. (World Bank, 2020). In june 2020 Global Economic Prospects describes both the immediate and near-term outlook for the impact of the pandemic and the long-term damage it has dealt to prospects for growth. The

baseline forecast envisions a 5.2 percent shrinkage in global GDP in 2020, using market exchange rate weights the deepest global recession in decades, despite the extraordinary efforts of governments to counter the downturn with fiscal and monetary policy support. Over the longer horizon, the deep recessions triggered by the pandemic are expected to leave lasting scars through lower investment, an erosion of human capital through lost work and schooling, and fragmentation of global trade and supply linkages. (World Bank, 2020). The United Nations Economic Commission for Africa has estimated that the continent will observe a 1.4 percentage point; GDP decline equivalent to $29 billion (i.e., from $66 Billion in 2019 to $37 Billion in 2020). It is estimated that COVID-19 will shave 2.9 percentage points off this fiscal year's economic growth in Ethiopia. (UNECA, 2020). According to the recent study of the Ethiopian Economic Association, the pandemic triggers a number of shocks simultaneously including health, supply, demand and financial shocks Efforts by governments to control the COVID-19 pandemic through partial and full business closures unavoidably leads to general decline in economic activities domestically and globally (Ethiopian, 2020)

Several banks and institutes have also made strong negative adjustments to their GDP growth forecasts of 2020. With few exceptions, so far limited empirical evidence is available on how the situation affects Micro or Small enterprises (SMEs) across countries. Some first evidence is emerging from surveys, which suggested severe disruptions and mounting concerns among small businesses. According to the surveys, more than half of Small and Medium Enterprises (SMEs) now already face severe losses in revenues, with many having only a few months reserves to withstand the crisis (OECD, 2020). The available evidence indicates that smaller firms are much more vulnerable to the economic catastrophes of the pandemic. Generally in

developing country and specifically in Ethiopia outbreak of pandemic extremely affect business activity of small and micro enterprises. SMEs establishment are infant and extremely depend on imported raw material and final good and service. As result of lock down and international flight ban business of SMEs as are shocked.

1.1. Statement of Problem

Nowdays Outbreak of COVID- 19 extremely challenging the global community health. The spread of the novel coronavirus not limited to health crisis further affect global economy. The crisis has had strange and serious impacts on all aspects of how people interact, work, produce, trade, consume and live. The economic consequences of the pandemic quickly became sever, small and medium sized enterprises (SMEs) have been on the front lines. With workers and customers staying indoors, and supply chains tested by shutdowns, the small companies that provide 70% of jobs in countries around the world and about half of economic activity have been put under stress. (ITC, 2020)

To the best knowledge of investigator there is no well-organized investigation on the effect of corona virus pandemic on Ethiopian economy specifically on small and micro enterprise business due to shortage of time, shallow characterization of virus and its effect. But there are some empirical studies have been conducted regarding the effect of COVID-19 on small and micro enterprise.

According to Evidence investigated on the COVID-19 crisis impacts on SMEs from business surveys indicates severe disruptions and concerns among small businesses. Outcome of 41 SME surveys identified world-wide on the impact of COVID-19 on SMEs shows that more than half of SMEs face severe losses in revenues. One third of SMEs fear to be out of business

without further support within 1 month, and up to 50% within three months. (OECD, 2020)

The study conducted by ITC revealed that COVID-19 Business Impact Survey gathered evidence on how the pandemic affected 4,467 companies in 132 countries. Analysis of this data, collected from 21 April–2 June 2020, shows that the pandemic has strongly affected 55% of respondents. Nearly two-thirds of micro and small firms reported that the crisis strongly affected their business operations, compared with about 40% of large companies. One-fifth of SMEs said they risked shutting down permanently within three months. In Africa, two out of three businesses said they had been strongly affected by COVID-19, mostly involving reduced sales (75%) and/or difficulty accessing inputs (54%). (ITC, 2020)

However there is no study conducted on the effect of COVID 19 on small and micro enterprise business in Ethiopia. Therefore this study aims and make investigation to fill this gap by assessing effect of pandemic out break on small and micro enterprise business.

1.2.Objectives of the Study

1.2.1 General Objective

The overall objective of the research is to identify the economic impacts of the corona virus pandemic on Micro and Small Scale Enterprises in Arsi Zone.

1.2.2.Specific Objectives

1. Assessing the supply-side practice of corona virus pandemic on SMEs.
2. Assessing the demand-side practice of corona virus pandemic on SME.
3. Assessing spillover effects of corona virus pandemic on SMEs.

1.3.Research questions

1.What are the supply-side practice on SMEs business activities?
2. What are the demand-side practice on SMEs business activities?
3. What are the spillover practice of corona virus pandemic on SMEs?

1. Literature Review

In the past the definition of Micro and Small Enterprises was based on paid up capital only. An enterprise is categorized as micro if it's paid up capital is less than or equal to Birr 20,000. Similarly, an enterprise is considered small when its paid up capital is less than or equal to Birr 500,000.However, this does not provide information on the size of jobs or number of employees in the MSE. It also did not tell the size of the total asset for the MSE and did not differentiate between manufacturing (industry) and services. Current definition considers human capital and asset as the main measures of micro and small enterprise to addresses the limitations of the old definition. (FMSEA, 2011)

2.1 Conceptual framework of supply and demand side of COVID-19 effect on SMEs

There are several ways the coronavirus pandemic affects the economy, especially SMEs, on both the supply and demand sides. On the supply side, companies experience a reduction in the supply of labor, as workers are unwell or need to look after children or other dependents while schools are closed and movements of people are restricted. Measures to contain the disease by lockdowns and quarantines lead to further and more severe drops in capacity utilization. Furthermore, supply chains are interrupted leading to shortages of parts and intermediate goods.

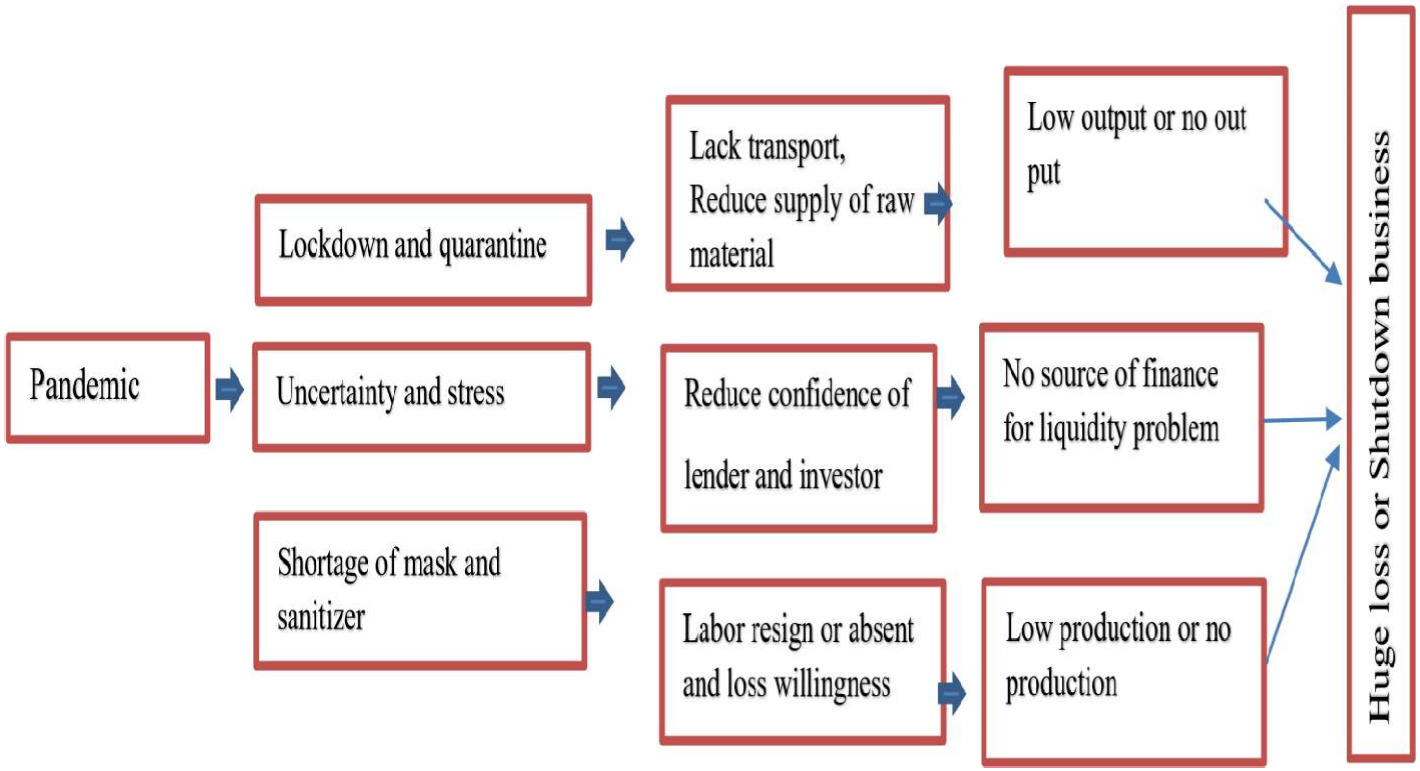

Figure 1: Supply side effect conceptual framework

2.2.Demand side effect conceptual framework

On the demand side, a dramatic and sudden loss of demand and revenue for SMEs severely affects their ability to function, and/or causes severe liquidity shortages. Furthermore, consumers experience loss of income, fear of contagion and heightened uncertainty, which in turn reduces spending and consumption. These effects are compounded because workers are laid off and firms are not able to pay salaries. Some sectors, such as tourism and transportation, are particularly affected, also contributing to reduced business and consumer confidence. More generally, SMEs are likely to be more vulnerable to 'social distancing' than other companies.

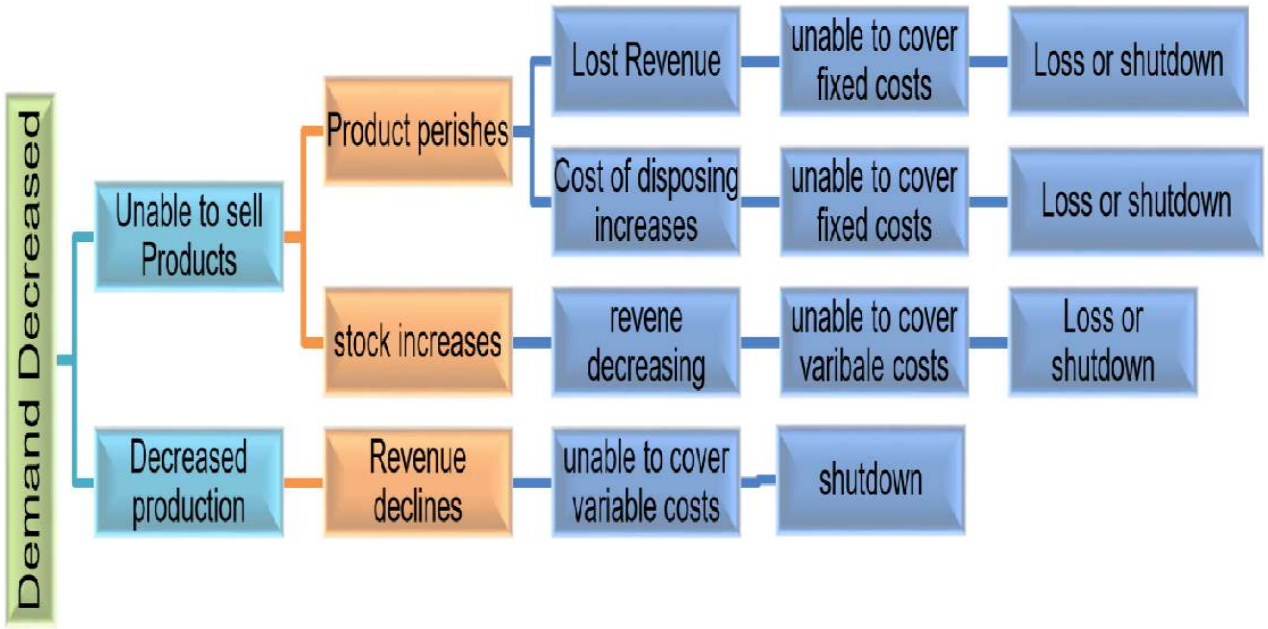

Figure 2: Demand side effect conceptual framework

2.3.Overall Conceptual Framework

The impact of the virus could have potential spill-overs into financial markets, with further reduced confidence and a reduction of credit. These various impacts are affecting both larger and smaller firms. However, the effect on SMEs is especially severe, particularly because of higher levels of vulnerability and lower resilience related to their size

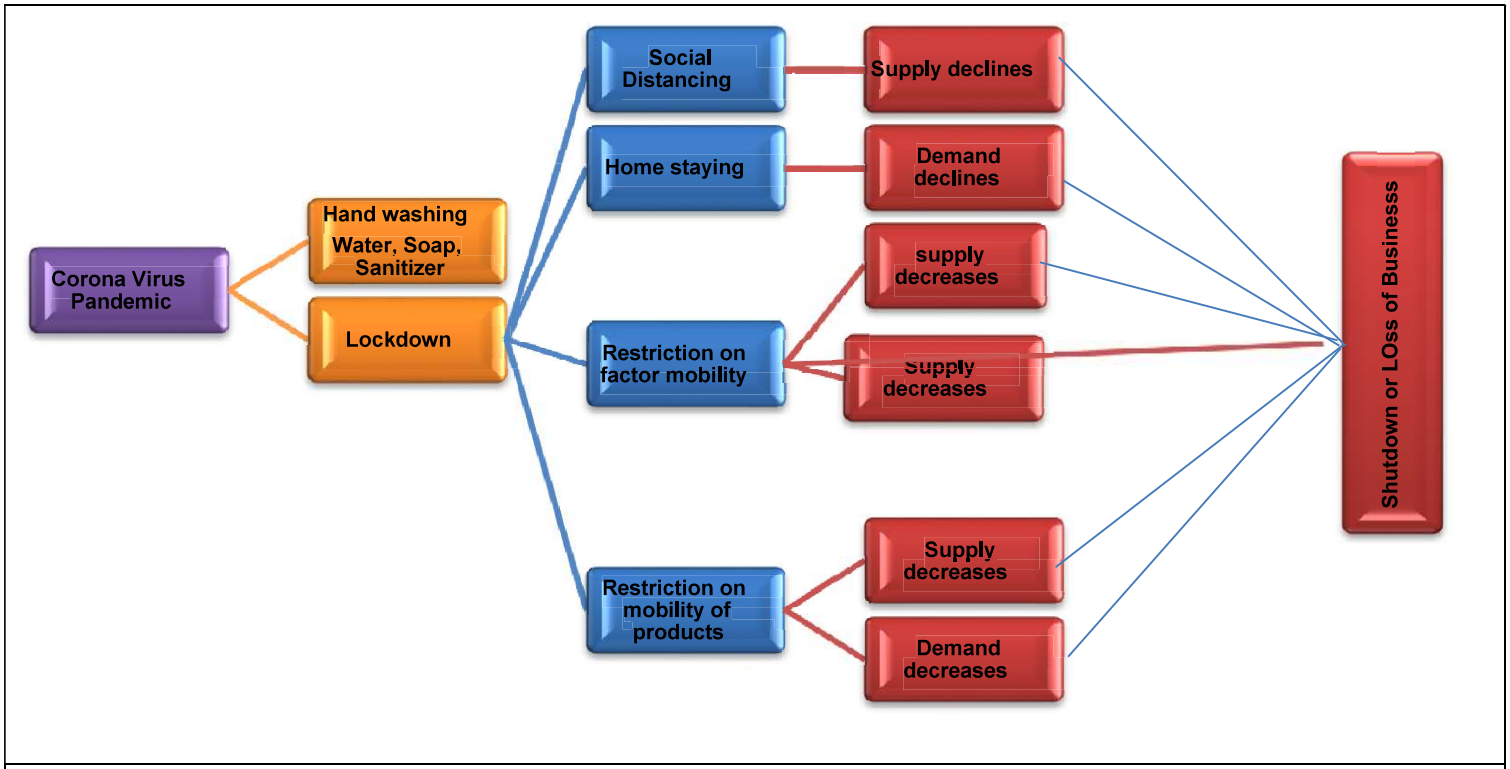

Figure 3: Overall Conceptual Framework

3.Materials and Methods

3.1.Data Sources and Data Types

The study used both primary and secondary data sources, the primary data sources of the study were of Micros and Small enterprises found in Arsi Zone selected districts operate in Manufacturing, Whole and Retail Trade, Transportation and Storage, Accommodation and Food Service, Administrative and Support Services and Services sector. On the other hand the study used documents related to SMEs of the administrative office as secondary data sources of the study area. In addition the study used related areas sources of documents such as, related studies, journals, articles and so forth.

3.2.Tools of data collection

Structured questionnaire: Guided by conceptual framework and objectives of the research; pre-tested structured questionnaire prepared and filled up by enumerators through face to face interview with close supervision of researchers. With this method information regarding the demographic and socio-economic background of pandemic on business activity SMEs, supply raw material availability, transportation service, working hour, employee's willingness to work and lateness, credit availability, price situation and revenue before and during pandemic data were generated.

3.3. Sampling techniques and Sample Size

Target population of the study area composed of SMEs Operators in the Arsi Zone selected district. Enterprises run their business in construction, agricultural, food and Beverage, manufacturing, hotel and tourism addressed. The study focused on all of the enterprise by selecting 5 districts. Out of total enterprise 9753, buy applying multistage sampling technique 58 sample were selected.

3.4.Sample Techniques of the study

To select a sample for the study, sampling frame is required for selection of different sampling units. Since one of the characteristics of SMEs Sectors are having registration and the exact number of operators is somehow known. The researcher followed Multistage sampling technique, initially Arsi Zone purposively selected, next five towns hold largest number Small selected enterprise and lastly randomly selected sampling unit from five Towns (Assela, Bokoji, Eteya, Dodota and Munessa.

3.5. Sample size

One of the most significant issues investigators had consider when designing a project concerns the type and number of the respondents who would be included in the study. Sampling enables the researcher to study a relatively small number of units in place of the target population, and to obtain data that are representative of the whole target population (Sarandakos, 1997). An important decision that has to be taken while adopting a sampling technique is about the size of the sample. Appropriate sample size depends on various factors relating to the subject under investigation like the time aspect, the cost aspect, the degree of accuracy desired, etc.

With tight schedule, challenges of state of emergency and lock down challenged almost all business even if the extent is vary. By take the above reason into consideration the study decide take 58 sample it believed it represent the entire population.

3.5. Data analysis

The collected data coded and entered into SPSS Version 25 computer software package for analysis. Response of SME owner or administrator and different governing institution would be analyzed using descriptive statistics

like mean, variance, standard deviation, frequency distributions, ratios, percentage, graphical and tabular which explain the situation of socio-economic situations of the SME regarding effect of Covid 19.

4. Result

4.1. Description of Study Participants and Study Areas

The study was carried out based on information collected from a random sample of 58 Micro and Small Scale Enterprises found in four Woredas of Arsi Zone. The data collection was carried out for 3 days; it started on May 20, 2012 and was finished on May 25, 2012 according to Ethiopian calendar. Most of the enterprises surveyed (94.8%) are sole proprietorships and are distributed among major subsectors as shown in the following table.

Table 1.Distribution of Study Participant Enterprises

Distribution of Study Participant Enterprises		Count	Column N %
Woreda	Asella	20	34.5%
	Dodota	11	19.0%
	Hetosa	8	13.8%
	Lemu	19	32.8%
Town	Asella	20	34.5%
	Bekoji	19	32.8%
	Dera	11	19.0%
	Eteya	8	13.8%
Ownership form of business	Sole Proprietorship	55	94.8%
	Partnership	3	5.2%
	Corporation	0	0
	Others	0	0
Major Industrial Groups	Manufacturing	6	10.3%
	Whole and Retail Trade	26	44.8%
	Transportation and Storage	4	6.9%
	Accommodation and Food Service	11	19.0%
	Administrative and Support Services	7	12.1%
	Services	4	6.9%

Grouping enterprises into different industrial sectors was made relying on the type of their business license and on the International Standard Industrial Classification (ISIC Revision 4). A significant portion of the enterprises (44.8%) surveyed produce various goods and services which fall under the wholesale and retail trade classification of ISIC Revision 4.

The choice of the sectors and business enterprises is to a significant extent random and to some extent convenience. Out attempt to include as many product groups, industrial sectors and business size and ownership style as possible was constrained by time and resources.

4.2.Supply Side Effects

4.2.1.Access and Availability of raw materials

Survey collected from 58 respondents indicates availability of raw material on the market for the input of production or service provision before pandemic is good. Sector wise all sector can access raw material on market before pandemic except frequent raw material supply interruption observed in transport and service sector specifically petrol.

Table 2 . Availability of raw material before pandemic

Major Industrial Groups	Availability of Raw Material in the Market Before Pandemic		
	Not Available	Available	Total
Manufacturing	0	6	6
Whole and Retail Trade	0	26	26
Transportation and Storage	1	3	4
Accommodation and Food ervice	0	11	11
Administrative and Supportservices	0	7	7
Services	0	4	4
Total	1	57	58

Sector wise following outbreak of corona virus was about fifty percent of raw material used by different sector not sufficiently supplied on the market. Out of total raw material requested by different sector only 43.63% supplied on the market, the rest 56.37 % raw material demanded by producer and service provider not supplied During Pandemic.

Table 3. Availability of raw material during pandemic

		Availability of Raw Material in the Market During Pandemic		
		Not Available	**Available**	**Total**
Major Industrial Groups	Manufacturing	2	4	6
	Whole and Retail Trade	14	11	25
	Transportation and Storage	2	1	3
	Accommodation and Food Service	5	5	10
	Administrative and Support Services	4	3	7
	Services	4	0	4
Total		31	24	55
Percent		56.36%	43.63%	100%

4.2.2. Labor Supply: Changes in work hours and working days

Daily working hours of SMEs of the sample respondents ranged from 4 up to 18.5 hours per day before pandemic, with an average working hour of 11.44 and a standard deviation of 2.44. From the above result we generalize that SMEs spend around 12 hours per day on running their business. This indicates before pandemic, SMEs allocated larger proportion of their time to theirs business activity. But During Pandemic daily working hours of SMEs of the sample; respondents ranged from 1 up to 15 hours per day, with an average working hour of 8.44 and a standard deviation of 3.54. From the

above result we understand that SMEs spend around 8 hours per day on running their business. As compare to before pandemic reduce their working hours by 30% in average. Outbreak of corona virus was strongly influence SMEs to reduce working hour.

Regarding working days in the week before pandemic of the sample respondents ranged from 3 up to 7 days per week, with an average of 6.46 and a standard deviation of 0.788. During Pandemic working days vary from 1 to 7 days per week with 5.8 mean and 1.63 standard deviation. When we compare the working day before and after number of working day decreases and not consistent among different sector as we observed from standard deviation.

Table 4. Working hour of SMEs before and During Pandemic

Period		Minimum	Maximum	Mean	Std. Deviation	Variance
Before Pandemic	Daily Working Hours	4.00	18.50	11.4397	2.46569	6.080
	Weekly Working Days	3.00	7.00	6.4655	.78841	.622
During Pandemic	Daily Working Hours	1	15.00	8.4741	3.54102	12.539
	Weekly Working Days	1	7.00	5.8103	1.63789	2.683

4.2.3.Changes in Price of Raw Material

Most of raw material price show fluctuation following outbreak of pandemic. Out of 58 interviewed respondents 56.9 respond as raw material price increase, 36.2 of respondent responds raw material price remain constant and 5.2 the don't have an information about raw material price duet to lockdown.

Based on the above survey result its possible to conclude as majority of raw material price increased.

Table 4. Changes in Price of Raw Material

		Frequency	Percent
Valid	Decrease	1	1.7
	No Change	21	36.2
	Increase	33	56.9
	Don't Know	3	5.2
	Total	58	100.0

4.2.4.Employment Allocation

It is defined as the number of Employees the respondent firms hire as permanently and temporarily until the survey was conducted. It is a continuous variable measured by numbers. According to survey collected from 58 firms Number of employment of the sample respondent's employees in enterprise ranged from1 up to 21 persons, with an average employee's size of 3.569 and a standard deviation of 3.97. Total number of employee in all sample enterprise 207 before pandemic.

Table 5. Employment Allocation

	N	Minimum	Maximum	Sum	Mean	SD
Number of Total Employees Before Pandemic	58	1.00	21.00	207.00	3.5690	3.97409
Number of Total Employees During Pandemic	58	1.00	21.00	176.00	3.0345	3.69905

During Pandemic total number of employees are 176, with 3.05 mean and 3.69 standard deviation. As we observed on the above survey result around 31 employees reduced or 17.4 percent duet pandemic effect on their business. Even the number may beyond this figure, but state of emergency saved the rest since it declared by government.

4.2.5.Demand Side Effects

The lockdown has restricted the economic activity of firms and households and the resulting income generation and circulation process. Restrictions placed on movement of individuals or households directly translate to restrictions on economic activity of firms, on transportation services and restrictions on the movement of goods and services. We attempted to show by how much business activity was affected in Arsi Zone.

4.2.6.Challenges Encountered

We asked respondents to select among multiple challenges the critical challenges their business encountered in the face of the Coronavirus Epidemic. The results are shown in the following table.

Table 6. Challenges Enterprises Encountered Before and Onset of the Pandemic

		Before		After	
Challenges Encountered		**Row Count**	**Row %**	**Row Count**	**Row %**
Lack of Transportation Facilities	No	58	100	23	39.7
	Yes	0	0.0	35	60.3
Problem Getting Credit from Formal Sources	No	53	91.4	37	63.8
	Yes	5	8.6	21	36.2
Problem Getting Credit from Informal Sources	No	55	94.8	39	67.2
	Yes	3	5.2	19	32.8
Frequent Employee Lateness and Absenteeism	No	57	98.3	48	82.8
	Yes	1	1.7	10	17.2
Employee Voluntary Turnover Problem	No	58	100	50	86.2
	Yes	0	0.0	8	13.8
Unable to Sell Products or Find Buyers	No	58	100	10	17.2
	Yes	0	0.0	48	82.8
Unsold Product Become Spoiled or Perished	No	57	98.3	42	72.4
	Yes	1	1.7	16	27.6

Unable to Pay *Iqub* on due date	No	57	98.3	12	20.7
	Yes	1	1.7	46	79.3

The widespread challenge facing enterprises is associated with reduction or decrease in demand for products and services. About 83% of enterprises reported that they are unable to sell or find buyers for their products. The second significant challenge is inability to make iqub payments on due date. About 79% of all enterprises reported that they are not making payments for Iqub. Furthermore, about 18% of enterprises reported that lateness, absenteeism and voluntarily turnover have increased (from their pre-pandemic level of about 2%). *The Iqub is a kind of informal financial system where a group of individuals make regular installments*

Though not paying iqub obligations may arise from the need to avoid public gather (social distancing), it is more likely that it is a result of reduced income (revenue) generation capacity of enterprises

- ✓ Lack of Transportation Facilities
- ✓ Problem Getting Credit from Formal Sources
- ✓ Problem Getting Credit from Informal Sources
- ✓ Frequent Employee Lateness and Absenteeism

4.2.7.Profitability Analysis

About 74.1% of all enterprises reported that they are not generating revenue sufficient enough to cover expenses.

Table: 7. Profit and Loss analysis

Percentage Loss Reports (Revenue not enough to cover Costs)			
		Frequency	**Percent**
Are you able to cover all costs with current	No	43	74.1
	Yes	15	25.9

revenue	Total	58	100.0

Enterprises which are unable to cover expenses are found in all sectors considered in the survey as shown in the table below. It is important to note that a higher percentage of enterprises are found in the wholesale and retail trade category and this represents only the fact that we have had a higher survey participant from this category.

Major Industrial Groups		Are you able to cover all costs with current revenue	
		Yes	No
Manufacturing	Count	1	5
	% of all sectors	6.7%	11.6%
Whole and Retail Trade	Count	6	20
	% of all sectors	40.0%	46.5%
Transportation and Storage	Count	1	3
	% of all sectors	6.7%	7.0%
Accommodation and Food Service	Count	6	5
	% of all sectors	40.0%	11.6%
Administrative and Support Services	Count	1	6
	% of all sectors	6.7%	14.0%
Services	Count	0	4
	% of all sectors	0.0%	9.3%
Total	Count	15	43
	% of all sectors	25.9%	74.1%

The portion of enterprises reporting loss is significant in all sectors. It is the highest in Services, followed by Administrative and Support Services and Manufacturing Sector.

Table 8: The sectorial distribution of loss .

Major Industrial Groups	Are you able to cover all

		costs with current revenue	
		Yes	No
Manufacturing	Count	1	5
	% of row sector	16.7%	83.3%
Whole and Retail Trade	Count	6	20
	% of row sector	23.1%	76.9%
Transportation and Storage	Count	1	3
	% of row sector	25.0%	75.0%
Accommodation and Food Service	Count	6	5
	% of row sector	54.5%	45.5%
Administrative and Support Services	Count	1	6
	% of row sector	14.3%	85.7%
Services	Count	0	4
	% of row sector	0.0%	100.0%

3.1.1 Analysis on Revenue

Revenues of enterprises have declined sharply as shown in the following table. There has been about a 57% decline in gross revenue of enterprises surveyed.

Table 9. Gross Revenue before the Epidemic and at Present Time

Descriptive Statistics on Gross Revenue Before the Epidemic and at Present Time					
	N	Minimum	Maximum	Mean	Std. Deviation
Enterprise Revenue Before Pandemic	58	210.00	1676000.00	48993.27	221820.81
Enterprise Revenue During Pandemic	58	5.00	1095000.00	29767.8	146890.08
Percentage Change in Gross Revenue	58	-.9981	1.3178	-.568572	.3728012

The largest decline in percentage terms is observed in the Services sector, 78.1%, followed by Administrative and Support Services, Manufacturing and Accommodation and Food Services, in that particular order.

Major Industrial Groups	Average Percentage Change in Gross Revenue
Manufacturing	-0.6722

Whole and Retail Trade	-0.4897
Transportation and Storage	-0.3193
Accommodation and Food Service	-0.6206
Administrative and Support Services	-0.7124
Services	-0.7806
Average Total	-0.5686

4. Conclusion

Outbreak of corona virus pandemic affect every sectors performance and disrupted interaction of business actors. Global economy contracted as a result of this pandemic outbreak. Even though COVID pandemic hit global economy nature and extent vary across region and sector. This study tried to assess the effect of corona virus outbreak on small and micro enterprises in a sample of Arsi zone districts on their business activities.

The study revealed that SMEs in every business sector are affected by the outbreak of the pandemic and the associated containment measures. The effects are observed both demand and supply side of the market. Before outbreak of the pandemic there was no shortage of raw material except for petrol. On the supply side, following the containment measures, 46% of respondents reported shortage of raw materials. Furthermore, fear and social distancing contributed for reduction of daily working hour and weekly working days.

Most enterprises (83%) are currently facing problems associated with selling their products and services. Most enterprises (79%) have withdrawn from their *iqub* memberships because they are unable to make due payments on time and regularly. Enterprises are beginning to face shortage of labor supply.

5. Recommendations

It is recommended that any intervention to support SMEs must take into account the differential impact of the pandemic across sectors and across segments of the market such as supply or demand segment. Potential measures to be taken include tax relief, extending debt repayment and provision of credit services at a favorable terms. Administrative bodies should refrain from exacerbating the problem by taking into account the following points

- The results revealed that most of the enterprises reduced their sales and produced below their capacity. To reduce layoff and shutdowns, it would be better if the government provided subsidies to the most affected business. Alternatively, these business should get the highest cuts in taxes or debt extensions.
- The assessment investigate that all most all of the SMEs unable to pay their Ikub and monthly rental payment. The support given should focus on relieving fixed cost payments and addressing liquidity problem.

6. Limitations and Cautions on interpretation and use of findings

- The pre pandemic period is assumed to be the period before 1st of December, 2012 E.C.
- The data pertains to the period on or before June, 2012 E.C. Any developments in demand and supply side factors may make the findings outdated.

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