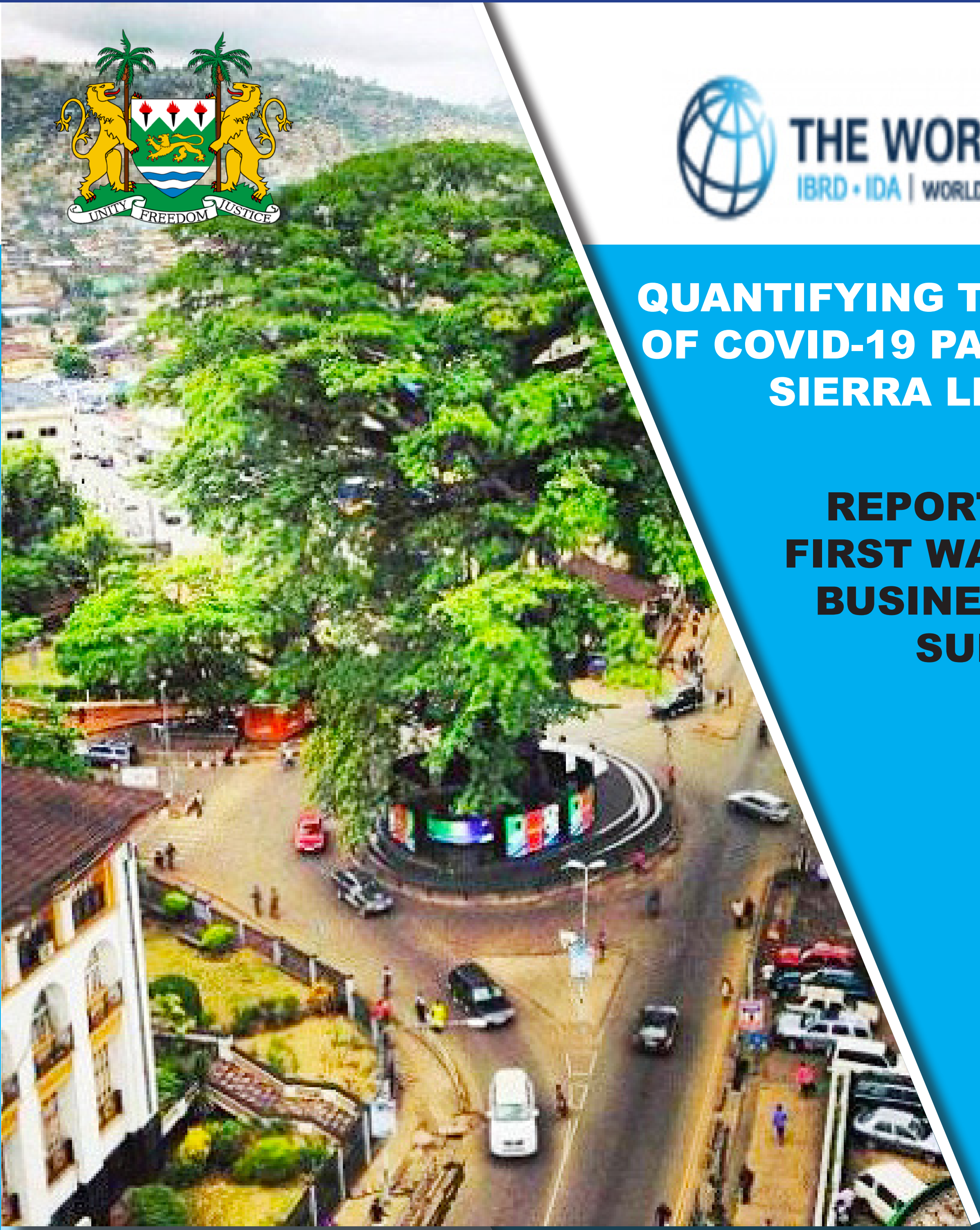

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QUANTIFYING THE IMPACT OF COVID-19 PANDEMIC IN SIERRA LEONE

REPORT ON THE FIRST WAVE OF THE BUSINESS PULSE SURVEY

SLEDP
Sierra Leone Economic Diversification Project
Supporting Economic Transformation

SMEDA
SMALL AND MEDIUM ENTERPRISES DEVELOPMENT AGENCY OF SIERRA LEONE
CONNECT | IMPACT | GROWTH

Contents

EXECUTIVE SUMMARY

COUNTRY CONTEXT:

- Before COVID-19, GDP growth in Sierra Leone was projected to reach 5.4 percent in 2019 – the highest growth since 2016 and one of the highest growth rates among emerging markets globally
- Performance in key global indexes, even prior to COVID, point to a largely uncompetitive business environment making it challenging to attract and retain foreign and domestic investment
- Sierra Leone recorded its first case of COVID-19 on March 30 2020 and the number of infected cases has continued to rise

THE SHOCK:

- Although approximately two-thirds of firms (68%) in Sierra Leone report as fully open as of September 2020, 74% report a reduction in working hours and almost 90% report a decrease in sales, as compared to the same period in 2019
- Firms in Sierra Leone appear to have experienced less sales decline on average as compared to firms in comparator countries , except for large firms employing greater than 100 employees which have experienced a greater sales decline in Sierra Leone than in Guinea, Niger, Togo, and Zimbabwe.
- The estimated average decline in sales among all firms is 37%; larger firms (greater than 100 employees) experienced higher declines than small- to mid-size firms (1 to 99 employees) on average
- Firms in ICT, entertainment and recreation, and transportation and storage sectors experienced the greatest fall in sales, while firms in construction, utilities, health, and agriculture sectors experienced the smallest fall in sales

CHANNELS:

- More than 90% of firms in Sierra Leone reported to face a decrease in cash flow, and the average firm has only 86 days of available cash to maintain existing cash flow obligations (payroll, suppliers, taxes, loan repayment, etc); approximately 50% of all firms had either fallen or expected to fall in arrears on outstanding liabilities at the time of the survey;
- 35% of firms reported to face a decline in the availability of financing; approximately 70% of firms had canceled a planned investment project, suggesting difficulty in accessing finance; the most reported financing difficulties include high interest rates, high repayment risk, and low level of guarantees and/or collateral
- 45% of firms report decrease in the availability of raw materials, with the decrease especially prominent among firms in manufacturing and accommodation sectors, and have tended to impact exporting firms more than non-exporting firms; cost increases appear to be the main driver, however travel restrictions and border closures are also commonly reported reasons for reduced availability of inputs

ADJUSTMENTS:

- Only 26 percent of all firms reported to making adjustments to the terms and conditions (interest rate, tenor, etc) of outstanding loan or credit obligations ;large firms were much more likely than small to mid-size firms to make adjustments in credit/loan repayment terms or schedules
- Most firms are not changing their procurement habits in response to supply reduction of raw materials and inputs, instead choosing to wait the situation out; however, a significant concentration of firms in agriculture and food service sectors are choosing to keep larger inventories on-hand; exporting firms appear to be much more likely to seek out new suppliers of raw materials, as compared to non-exporting firms
- Firms were much more likely to make adjustments to their labor force at the intensive margin (i.e. reducing hours or wages) versus the extensive margin (i.e. firing employees).

- In the month of September 2020, a larger share of firms reported to actually hire new workers (26 percent) compared to the share of firms that laid-off workers (15 percent).
- Firms in Sierra Leone were more likely to lay off employees, as compared to firms in Cote d'Ivoire, Guinea, and Niger; especially among small firms where about one-quarter of firms reported to lay off employees.
- Exporting firms were much more likely to implement adjustments to their labor force (hiring, firing, changing hours and wages), as compared to non-exporting firms.

RESPONSES TO THE SHOCK:

- Almost one-third of businesses in Sierra Leone have either started using or increased their usage of digital technologies in their operation; the main application is for marketing, although a substantial portion of firms are also using digital technologies for business administration and sales
- Exporters were significantly more likely than non-exporters to start using or increase usage of digital technologies, as compared to non-exporters
- Approximately 9% of firm sales in Sierra Leone are processed through digital platforms, apps, or firm websites; firms in accommodation and entertainment sectors process approximately 15-20% of sales through digital channels, and were much more likely to invest in digital platforms, as compared to firms in other sectors
- Approximately 15% of firms in Sierra Leone changed their product or service in response to the pandemic, with about one-third of these firms making adjustments towards health-related products or services

TOURISM SECTOR SPOTLIGHT:

- Firms in tourism-related sectors (accommodation, food preparation, entertainment) tend to book a higher proportion of their sales through digital platforms, as compared to firms in other sectors (e.g. manufacturing, retail, services)
- Firms in entertainment and tourism-related sectors were about twice as likely to change their product or service in response to the pandemic, compared to firms in other sectors;
- Almost half of the tourism survey respondents converted their facilities to assist with crisis operations during the pandemic response

POLICY:

- About 50% of firms reported access to new credits or loans as the policy measure most needed to cope the impacts of the pandemic
- Only 5% of firms report as having received national or local support; the primary reason for not receiving support is that the firms were not aware of available support measures

POLICY TAKEAWAYS

- Market uncertainty. Policies which can protect against market uncertainty (e.g. credit guarantees) may stimulate new lending and encourage firm investment. Market uncertainty has been one of the primary difficulties for firms in access new finance, and more than two-thirds of firms have canceled investment plans due to the pandemic.

- Local suppliers. There appears to be opportunity to develop local supply chains and elevate the involvement of local suppliers. Substantial number of firms have expanded the number of local suppliers they source from in response to reduced supply of key inputs and raw materials, especially among exporters.

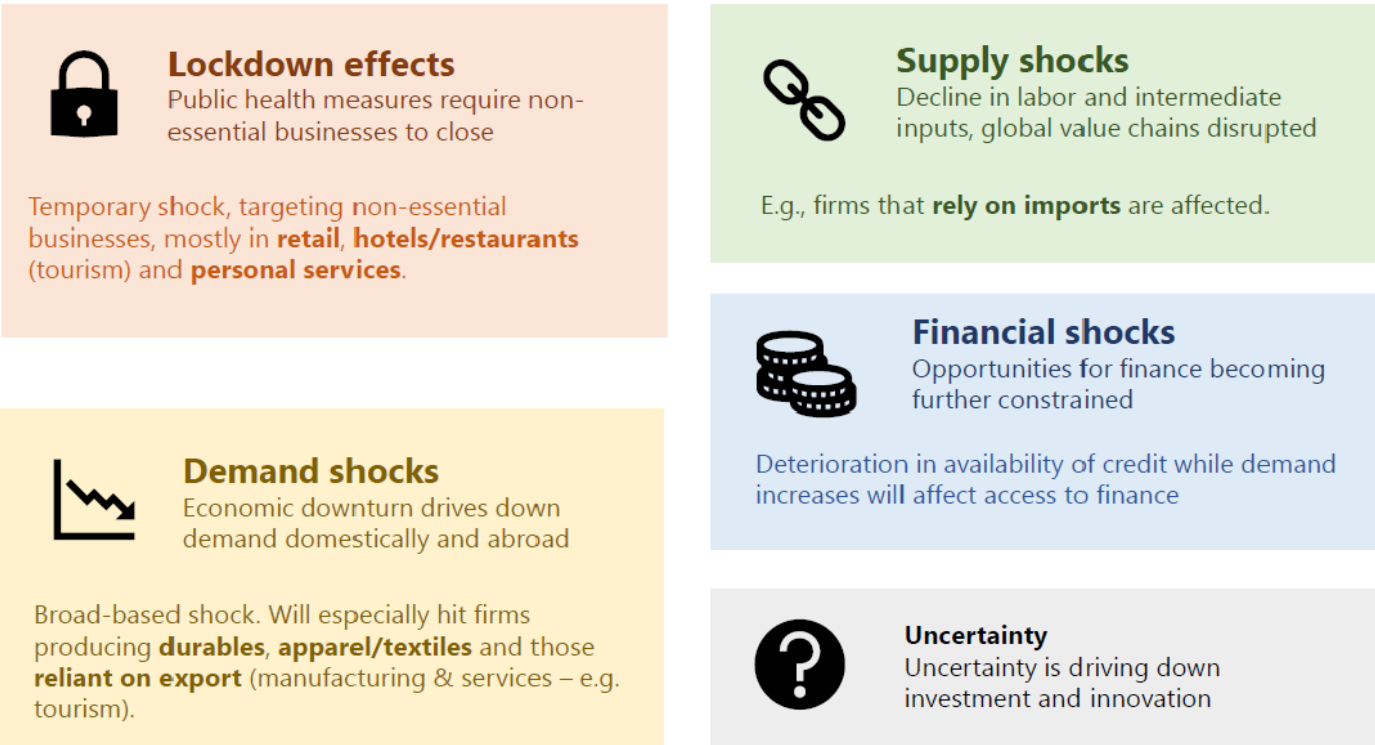
- Policy awareness. With such a small share of firms having received government support, the primary reason is that firms were not aware of available support measures. Greater marketing of government support, perhaps through digital channels which have attracted growing share of firms during the pandemic, may help to expand uptake of government support measures.

- Policy targeting. There is substantial heterogeneity in terms of how firms were impacted by COVID-19, and how firms have responded to COVID-19. Policy design should take careful consideration of the differentiation of impact and response, among firms of different size and sector .

1. INTRODUCTION

The COVID-19 Business Pulse Survey (COV-BPS) aims at providing critical information to help policy makers monitor the effects of the pandemic on businesses. The COVID-19 shocks affect businesses through five distinct channels (Figure 1): (i) Lockdown effects: measures and regulations to control the spread of pandemic affect businesses' ability to operate, and consumers' ability to procure goods; (ii) Demand-side shocks: reduction in demand due to lower consumption of consumers, lower export demand, and lower demand of intermediaries from other businesses; (iii) Supply-side shocks: decline in the availability of labor and intermediate goods as value chains are disrupted; (iv) Financial shocks: deterioration of availability of cash and credit conditions; and (v) Uncertainty shock: surge in uncertainty leads to lower appetite for investments and risks associated with innovation and entrepreneurship.

Figure 1: Shocks to businesses from the COVID-19 pandemic



The BPS was implemented in Sierra Leone in 2020 to obtain information on the population of formal and informal firms. 516 firms were interviewed by an independent research firm in June through September 2020. The sample is representative of the universe of firms in Sierra Leone. The sample is stratified across size, sectors, region and formality status. The Government of Sierra Lone is represented by SMEDA, Ministry of Finance, and Statistics Sierra Leone. The World Bank team provided technical assistance in implementation of the survey.

2. IMPACT OF COVID-19 ON BUSINESSES IN SIERRA LEONE

2.1 ECONOMIC CONTEXT

Before COVID-19, GDP growth in Sierra Leone was projected to reach 5.4 percent in 2019 – the highest growth since 2016. This would have put Sierra Leone among the fastest-growing economies in Sub-Saharan Africa. Demand side growth was expected to be driven by private consumption and investment, while supply side growth was driven by significant production in services (tourism, transport, storage) and agriculture (rice, cassava, fruit).

The private sector is comprised mostly of MSMEs which are informal, with few formal companies.

While the Corporate Affairs Commission and the Office of Administrator and Registrar General (OARG) report 6,000 registered companies, databases across various Ministries, Department and Agencies (MDAs) as well as private sector industry associations point to a much larger number of mainly micro and small-scale businesses of 1-5 employees in the informal sector16, who tend to operate at the survival level.

Performance in key global indexes, even prior to COVID, point to a largely uncompetitive business environment making it challenging to attract and retain foreign and domestic investment: Sierra Leone ranks 134th out of 140 countries in the WEF Global Competitiveness rankings of 2018. The country is underperforming the Sub-Saharan average on every component of the index. In terms of the World Bank's Doing Business ranking, Sierra Leone is ranked 163 out of 190 economies in 2020, which is equal to its ranking in 2019 and a decline from its 2018 rank of 148. Sierra Leone's underperformance is particularly noticeable in areas such as 'dealing with construction permits', 'registering property', 'getting credit' and 'trading across borders'.

From January 2020 to March 2021, there have been 3,948 confirmed cases of COVID-19 with 79 deaths, as reported to the WHO. Since the pandemic began, production has contracted sharply, especially in the services sectors driven by a collapse in travel and tourism as a result of COVID-19 lockdowns and barriers to the international mobility of goods and people. Social distancing and partial lockdowns have affected land preparation and disrupted the cropping calendar, with supply chain disruptions also affecting food production and food availability. There has also been an upward pressure on prices, especially food inflation as supply bottlenecks have driven up food prices. Because the local food production system is so labor-intensive, worker isolation and illness could further push down food production and put upward pressure on local food prices. Disruption of global supply chains and social distancing has also lowered demand for exports, especially from China and Europe, and reduced FDI is expected as global economic activity slows. Higher government spending and reduced government revenues threaten to undo progress in fiscal consolidation efforts.

2.2 THE SHOCK

Operating status. At the time of the survey, approximately one-third (32 percent) of businesses in Sierra Leone were either temporarily closed or only partially open. Although about two-thirds (68 percent) of firms report as fully open, 74 percent report a reduction in working hours, and almost 90 percent report a decrease in sales, as compared to the same period in 2019.

Figure 1: Firm operating status
(% of firms)

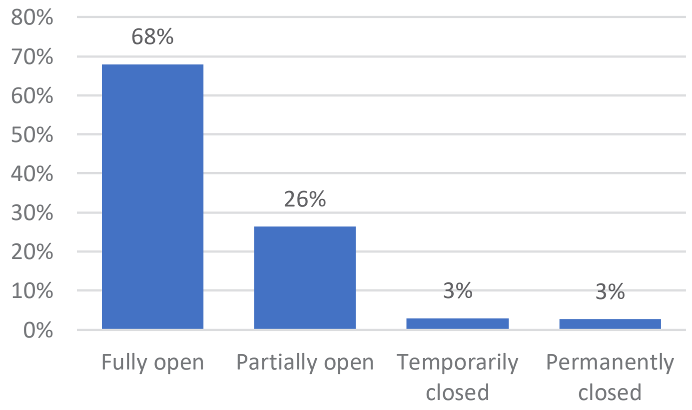


Figure 2: Impact on sales, hours, demand
(% of firms)

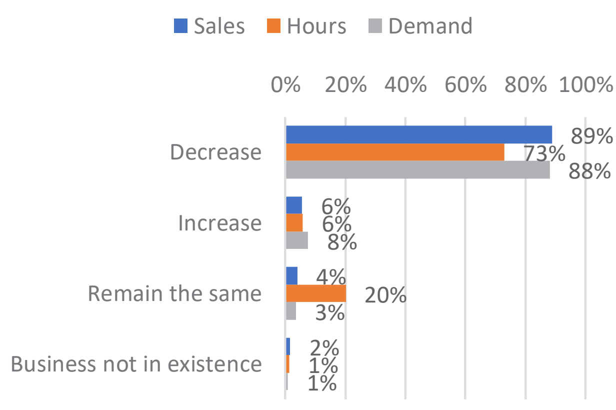


Figure 3: Impact on sales, breakdown by firm sector, size, and trade status

		Avg decline in sales (% change year-over-year)	Share of firms reporting sales decline (% of firms)
Firm Sector	Information and communication	-60%	100%
	Entertainment and recreation	-52%	90%
	Transportation and storage	-41%	91%
	Other services	-38%	89%
	Manufacturing other than food processing	-38%	88%
	Food preparation services	-37%	100%
	Retail or Wholesale	-37%	88%
	Accommodation	-35%	90%
	Food processing	-34%	80%
	Agriculture	-31%	82%
	Construction or utilities	-29%	80%
	Health	-22%	71%
Firm Size	Micro	-38%	90%
	Small	-38%	86%
	Medium	-24%	75%
	Large	-44%	86%
Firm Trade Status	Exporter	-42%	100%
	Non-exporter	-37%	88%

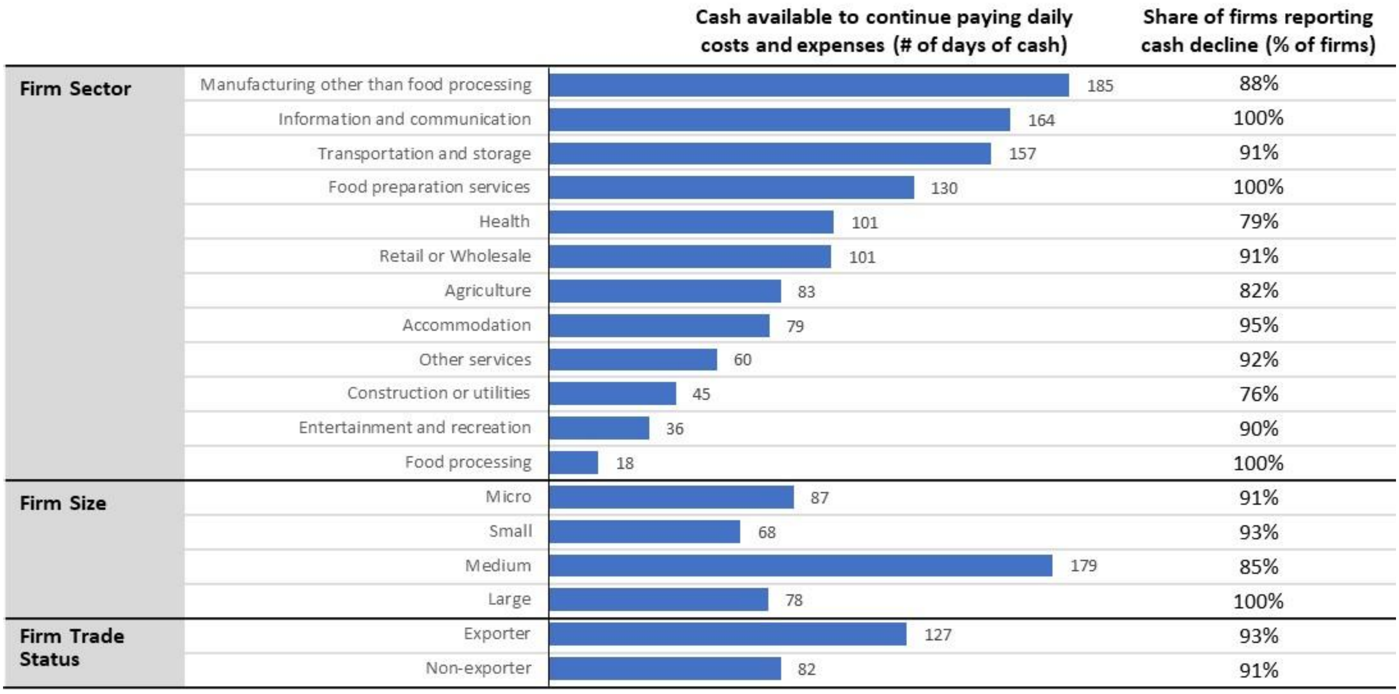
Firms in Sierra Leone appear to have experienced less sales decline on average as compared to firms in comparator countries , except for large firms employing greater than 100 employees which have experienced a greater sales decline in Sierra Leone than in Guinea, Niger, Togo, and Zimbabwe.

2.3 CHANNELS OF TRANSMISSION

Cash flow. More than 90% of firms in Sierra Leone reported to face a decrease in cash flow resulting from the impact of lockdown measures and the demand slowdown. There is a concentration of firms in the construction and utilities sector that appears to have better weathered the impacts of the pandemic: approximately one-fifth of firms in the construction and utilities sector actually experienced an increase in demand and cash flow during September 2020 as compared to the previous year.

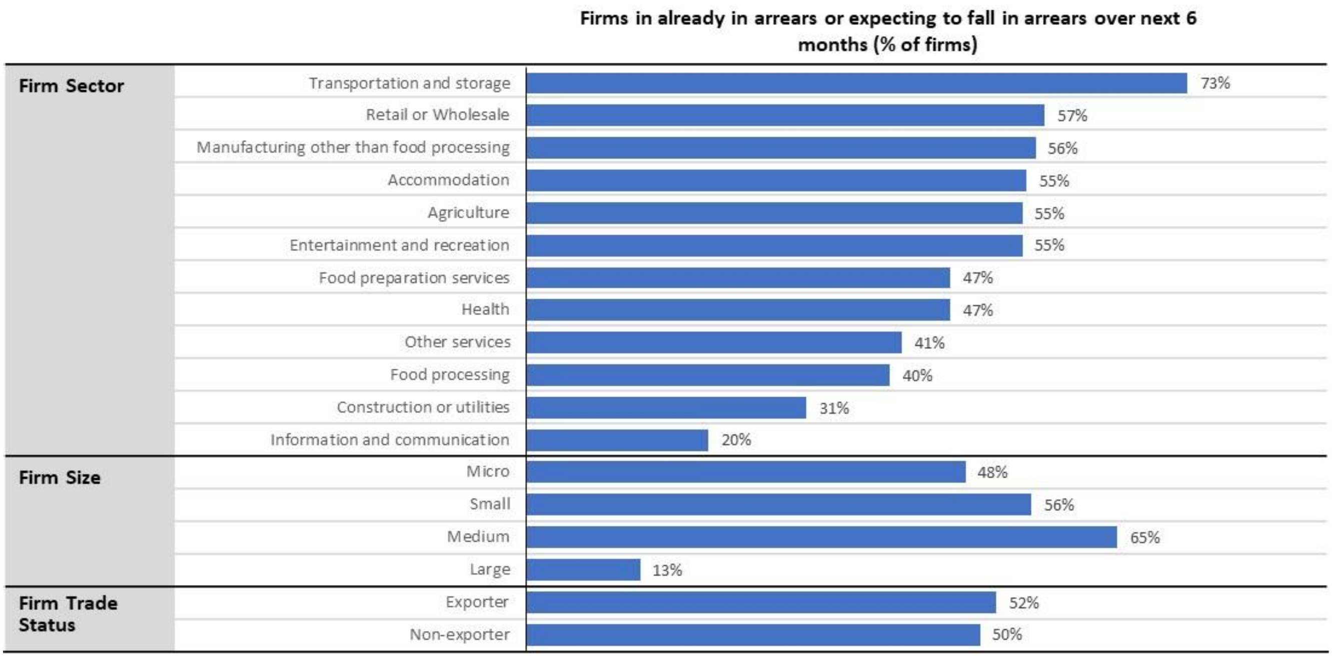
Cash horizon. The average firm in Sierra Leone had only 86 days of available cash to maintain existing cash flow obligations (payroll, suppliers, taxes, loan repayment, etc) at the time of the survey. Firms in manufacturing, ICT, and transport and storage sectors tend to have more cash on hand, as compared to the firms in construction or utilities, entertainment and recreation, or food processing.

Figure 4: Availability of cash flow, breakdown by firm sector, size, and trade status



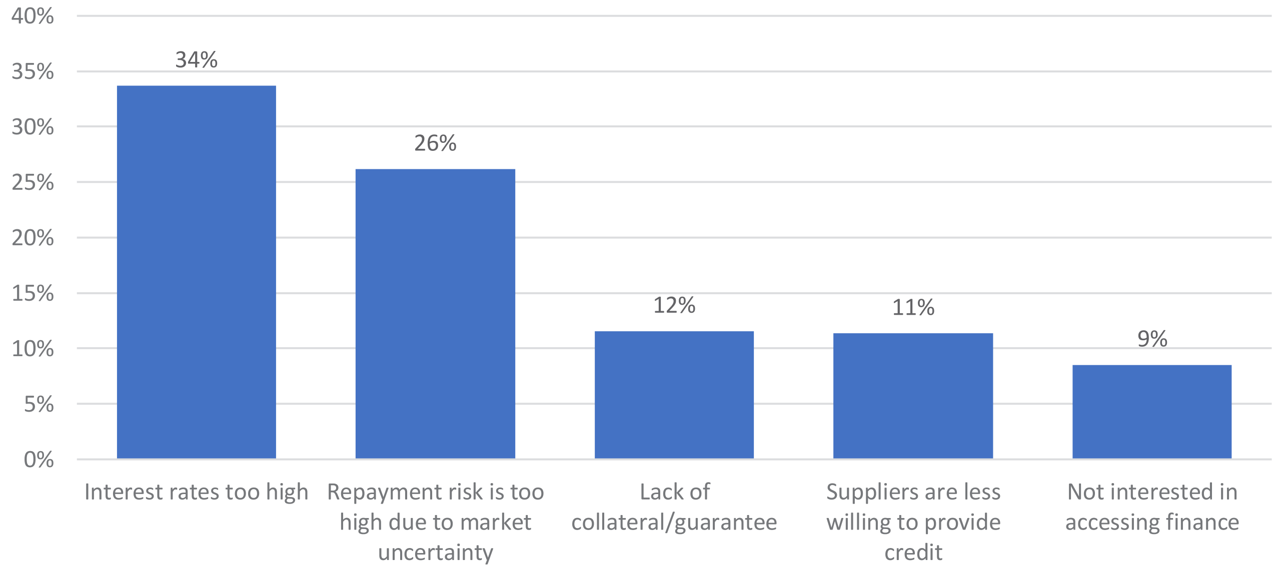
Arrears. The liquidity crunch has impacted firms ability to stay current on their loan or credit payments: while only 26 percent of all firms in Sierra Leone had already fallen in arrears on outstanding liabilities at the time of the survey, an additional 23 percent were expected to soon fall in arrears. Large firms were much less prone to falling in arrears as compared with small to mid-size firms, while construction and utilities firms were much less prone to arrears as compared with firms in other sectors.

Figure 5: Firm arrears status, breakdown by firm sector, size, and trade status



Availability of financing. 35 percent of firms reporting reduced availability of finance since the onset of the pandemic. Among the difficulties reported in access finance, firms reported high interest rates as the main difficulty, while high repayment risk and low level of guarantees and/or collateral also reported. There are no major differences across firm sector, firm size or firm trade status.

Figure 6: Main difficulties reported in accessing finance (% of firms)



Supply chain disruptions. Supply chain disruptions have made it more difficult for firms to access inputs and raw materials for their operation, in Sierra Leone this has been especially prominent among firms in manufacturing and accommodation sectors. 59% of firms in manufacturing sectors and 57% of firms in accommodation and food service sectors reported a decrease in the availability of raw materials. There appear to be no major differences among firms of different sizes, however exporting firms appear to have been more likely to face disruption in accessing raw materials, as compared to non-exporting firms. Among the reasons for reduced availability, cost increases appear to be the major driver, while travel restrictions and border closures are also commonly reported reasons for difficulties in procuring raw materials.

Figure 7: Impact on supply, breakdown by firm size, sector and trade status

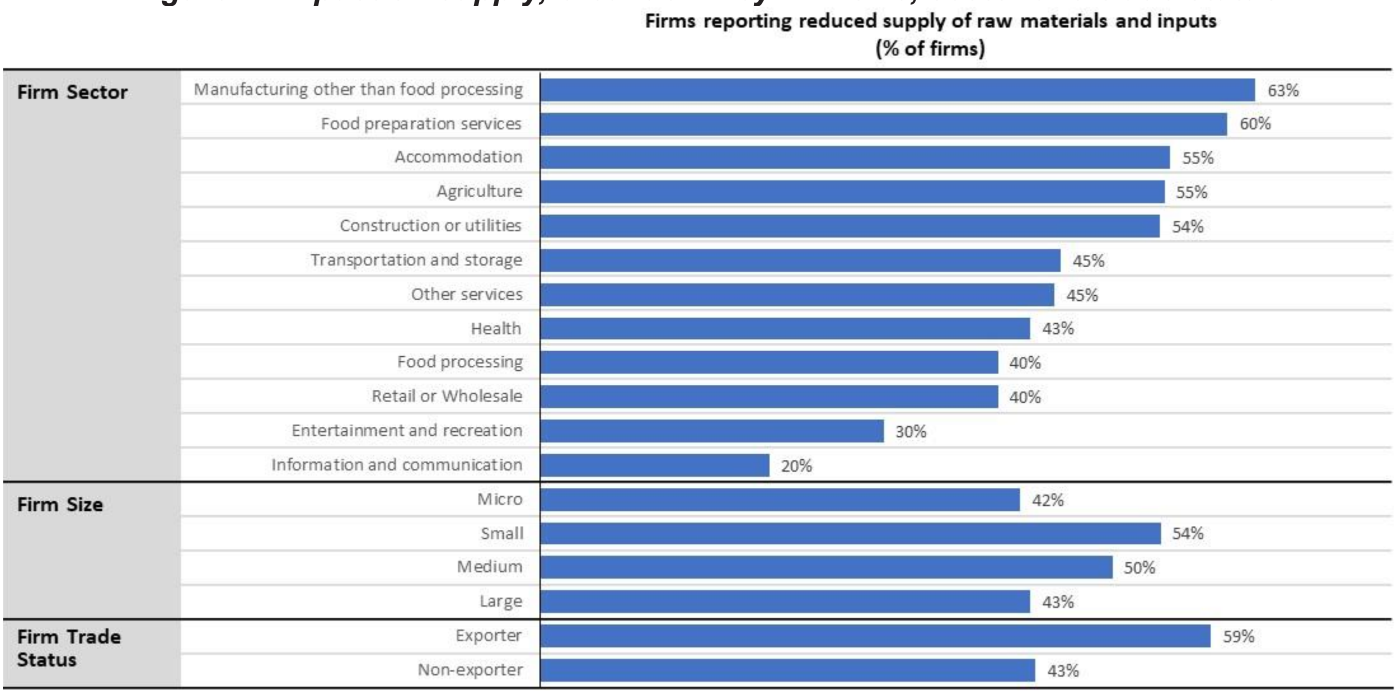
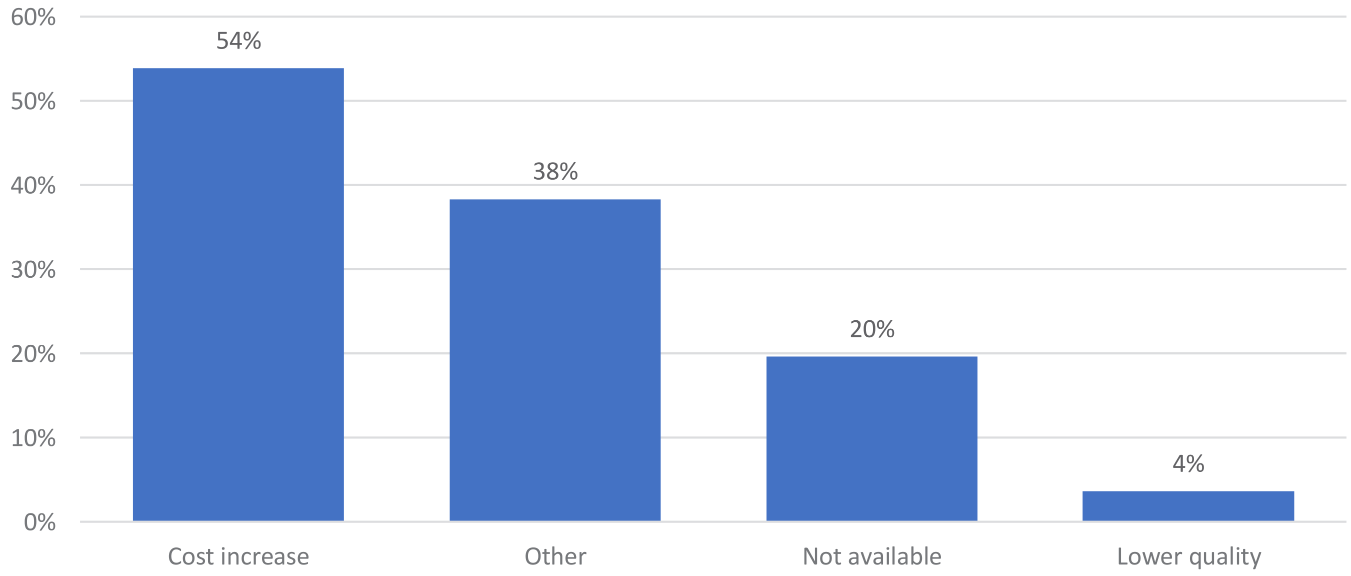


Figure 8: Main reasons for reduction in supply of inputs and raw materials, (% of firms)



3. FIRM RESPONSE IN SIERRA LEONE

3.1 BUSINESS OPERATION ADJUSTMENTS

Financing adjustments. One mechanism for dealing with cash flow challenges is to make adjustments to the terms and conditions (interest rate, tenor, etc) of outstanding loan or credit obligations. Only 26 percent of all firms reported to making such an adjustment. A significant portion of manufacturing firms (43 percent) have made an adjustment, with large firms much more likely than small or mid-size firms to make this adjustment. 63 percent of large firms have made adjustments to credit terms, versus just 33 percent of small firms and 30 percent of mid-size firms.

Figure 9: Firms making credit/loan adjustment
(% of firms)

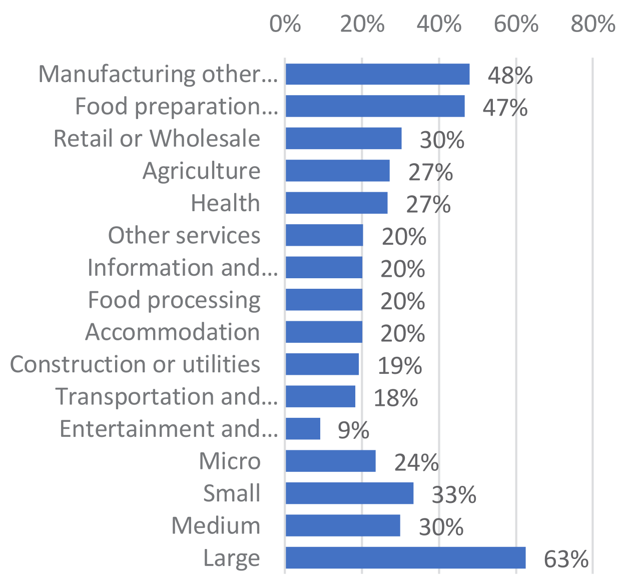
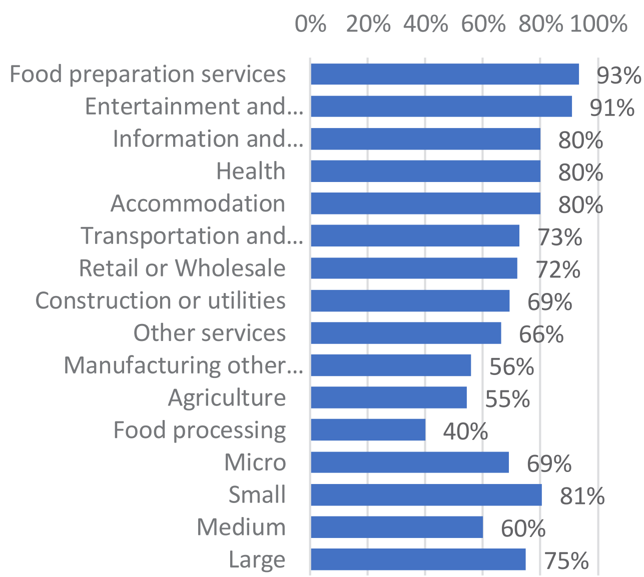
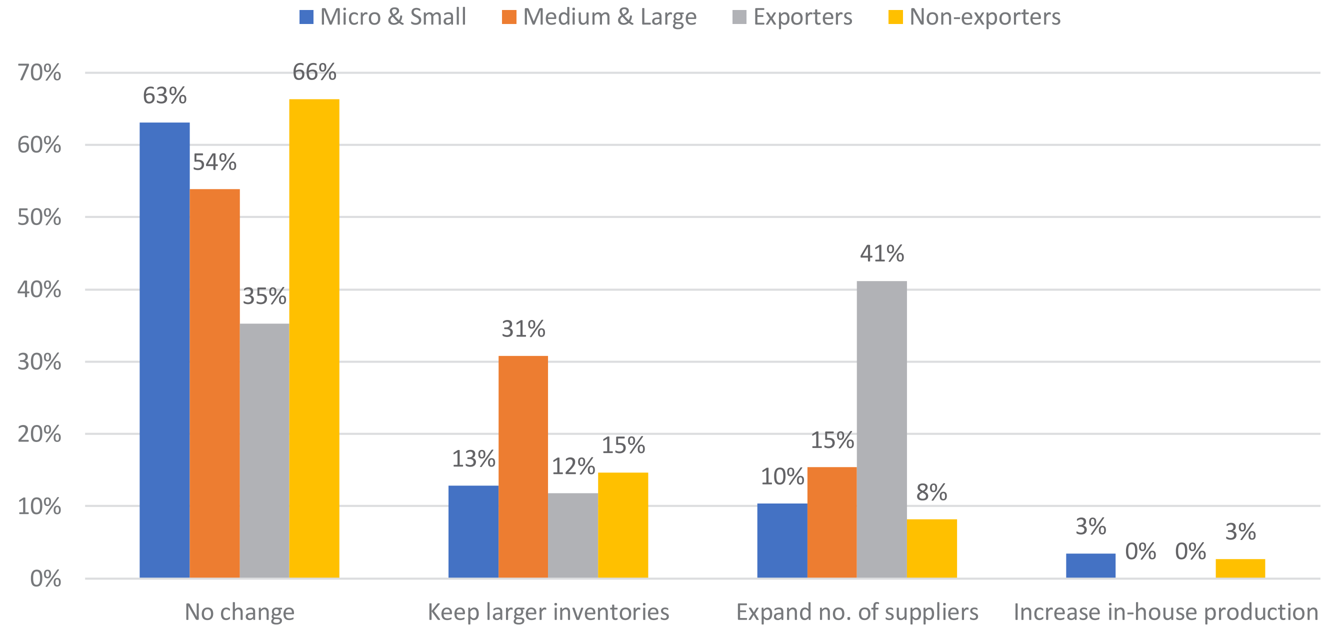


Figure 10: Firms canceling investment projects
(% of firms)



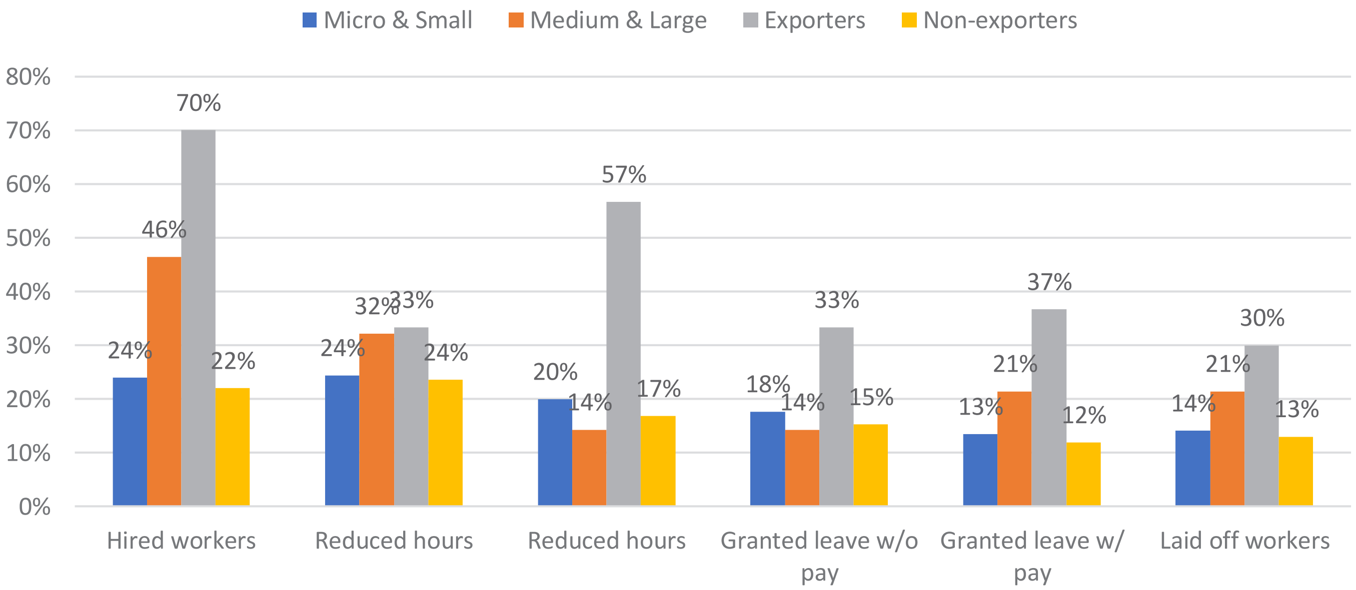
Procurement adjustments. Despite the impact of various supply chain disruptions, most firms are not changing their procurement behaviors, instead choosing to wait the situation out. 60 percent of firms report no change in their procurement operations. However, a significant concentration of firms in agriculture sectors (50 percent) and entertainment sectors (30 percent) have chosen to keep larger inventories on-hand to respond to difficulties in accessing raw materials. Further, exporting firms appear to be much more likely to seek out new suppliers of raw materials, as compared to non-exporting firms.

Figure 11: Firm procurement adjustments, % of firms



Labor adjustments. Firms were much more likely to make adjustments to their labor force at the intensive margin (i.e. reducing hours or wages) versus the extensive margin (i.e. firing employees). In the month of September 2020, a larger share of firms reported to actually hire new workers (26 percent) compared to the share of firms that laid-off workers (15 percent). However, firms in Sierra Leone were more likely to lay off employees, as compared to firms in Cote d'Ivoire, Guinea, and Niger; especially among small firms where about one-quarter of firms reported to lay off employees. Exporting firms were much more likely to implement adjustments to their labor force (hiring, firing, changing hours and wages), as compared to non-exporting firms.

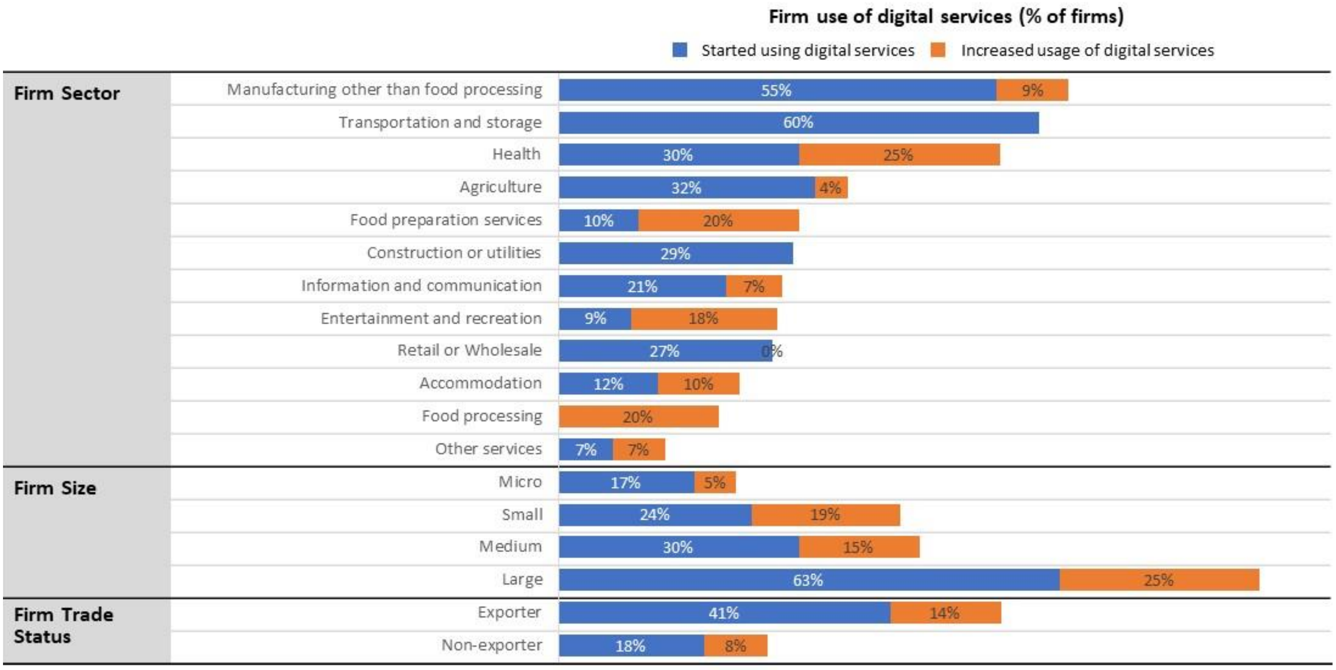
Figure 12: Labor adjustments, % of firms



3.2 BUSINESS PRACTICE ADJUSTMENTS

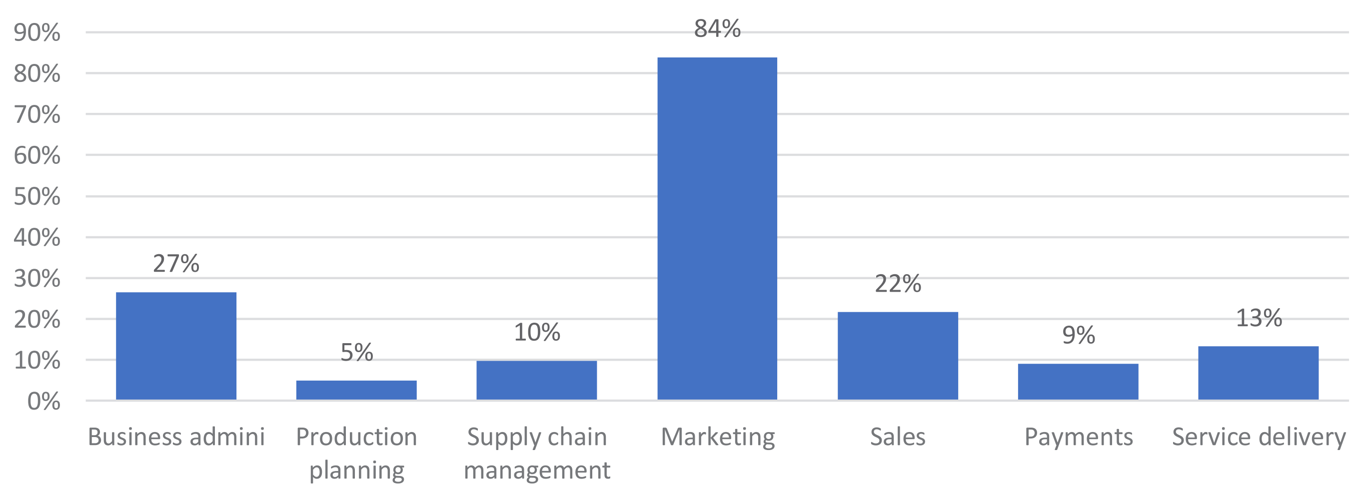
Digital platforms. Almost one-third of businesses in Sierra Leone have either started using or increased their usage of digital technologies since the onset of the pandemic. 41 percent of exporters began using digital technologies, compared to just 18 percent of non-exporters; while 14 percent of exporters increased their usage, compared to just 8 percent of non-exporters. The main application of digital technologies among firms is for marketing, although a substantial portion of firms are also using digital technologies for business administration and sales.

Figure 13: Firm usage of digital services, breakdown by firm sector, size and trade status



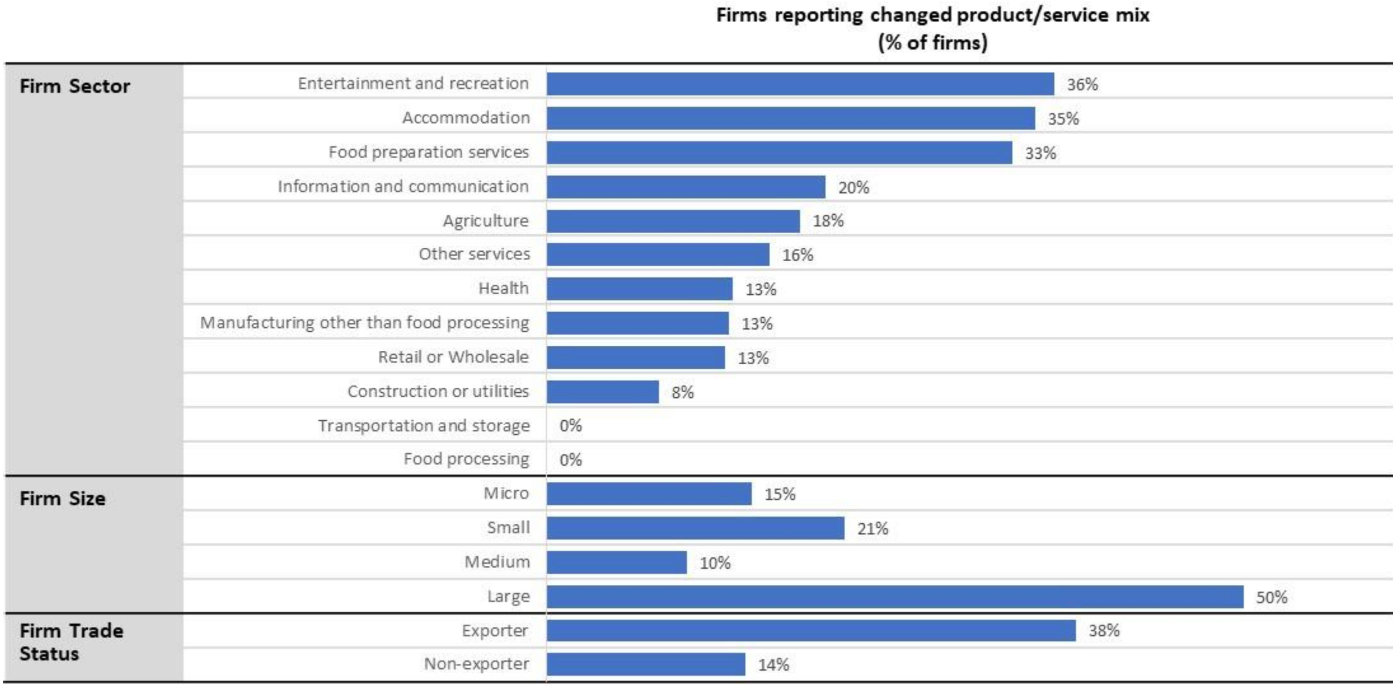
Digital sales. Only a small portion of firm sales in Sierra Leone are booked through online platforms, approximately 9 percent on average. Firms in tourism-related sectors (accommodation, food preparation, entertainment) tend to book a higher proportion of their sales through digital platforms, as compared to firms in other sectors (e.g. manufacturing, retail, services).

Figure 14: Application of digital services, % of firms



New products and services. Approximately 15% of firms in Sierra Leone changed their product or service in response to the pandemic, with about one-third of these firms making adjustments towards health-related products or services. Firms in entertainment and tourism-related sectors were about twice as likely to change their product or service in response to the pandemic, compared to firms in other sectors. For example, almost half of the tourism respondents reported to convert their facilities to assist with crisis operations during the pandemic response.

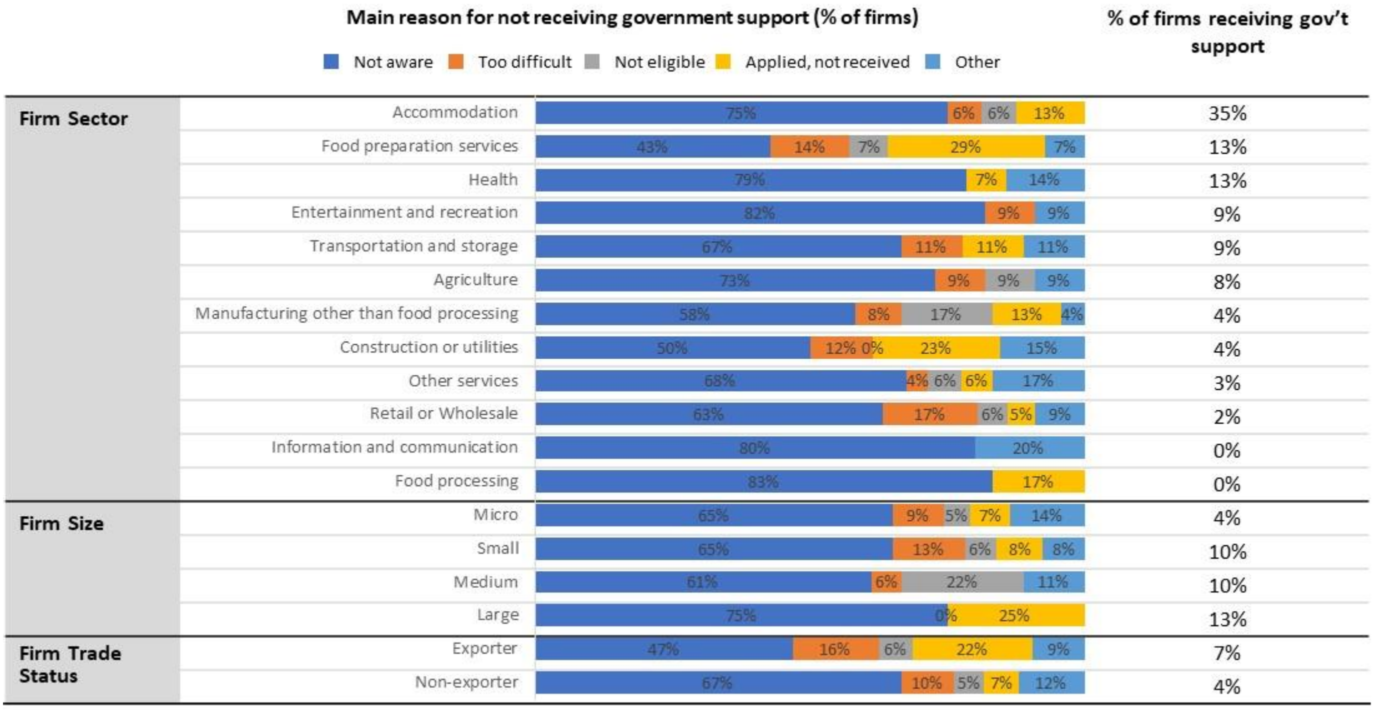
Figure 15: Introduction of new product/service mix, breakdown by firm sector, size and trade status



4. POLICIES AND GOV'T SUPPORT

Government support. Only 5 percent of firms in Sierra Leone report to have received national or local government response during the pandemic. The only sector where a substantial concentration of firms have received support is the accommodation sector where 34 percent of firms report as having received support. Most firms report not being aware of any government support measures, as the main reason for not having accessed support. However, there are also concentrations of firms who have not received support because they believe they are not eligible, or have applied for support but not received it: 22 percent of medium-sized firms report that they have not received support because they are not eligible; 22 percent of exporters have applied for support but not received it; 29 percent of firms in entertainment and tourism-related sectors have also applied for support but not received it.

Figure 16: Government support during COVID, breakdown by firm sector, size and trade status



Desired polices. Monetary (grant) transfer is the most desired policy measure in Sierra Leone, especially among micro and small firms where 48 percent and 44 percent, respectively, of these firms indicated monetary transfer as the most needed policy to mitigate the impact of the pandemic. Large firms were more likely access to new, subsidized credit, with 60 percent of large firms indicating this as the most needed policy measure. Exporters also tended to be most interested in access to new, subsidized credit or loans. Deferral of tax, rent and other operational expenses also attracted the attention of a substantial number of all types of firms. The least desired policy measures are wage subsidies and fiscal exemptions.

Figure 17: Desired policies by firms during COVID, % of firms