

Impact of COVID–19 on Afghan MSMEs

An Assessment Conducted by the Afghanistan Center for Excellence



Preliminary Results

**JUNE
2020**

Impact of COVID-19 on Afghan MSMEs

By the Afghanistan Center for Excellence

Like countries all around the world, the Afghan economy has been severely impacted by the COVID-19 pandemic and related restrictions since the end of March, 2020. Micro, small and medium enterprises (MSMEs) have taken a particular economic hit. However, until recently, there has been no attempt to capture the exact effect of COVID-19 on MSMEs in Afghanistan. In late May, 2020, the Afghanistan Center for Excellence decided to tackle this issue.

We designed a quick, targeted assessment to measure three things:

- The impacts of COVID-19 on Afghan MSMEs
- How Afghan MSMEs have reacted to cope with and adapt to the crisis, and
- What measures would be most helpful for them to be resilient in a post-COVID-19 future

The survey was sent to hundreds of Afghan MSMEs across the country and 105 businesses responded and took the assessment. After cleaning the data, the analysis presented in this article reflects the final responses of:

- 94 businesses, across
- 13 different sectors, including
 - Finance
 - IT, Media, and Communications
 - Management Consulting and Legal
 - Education
 - Logistics and Trade
 - Non-food Manufacturing
 - Construction
 - Restaurants, Tourism and Hospitality
 - Hair and Beauty
 - Agri-food Processing
 - Handicrafts and Clothing
 - Non-profit (NGO) and Humanitarian
 - Fitness and Health, operating in
- Kabul, Mazar, Kandahar, Jalalabad, Herat, and internationally, ranging in size from
- Sole enterprises to businesses with over 100 full-time employees, and ranging in age from
- 1 year in operation to over 10 years in operation.

Furthermore, the ACE team ensured a sufficient amount of data was gathered from both women-owned and non-women-owned MSMEs.

Based on the responses of almost 100 MSMEs across Afghanistan, it is clear that COVID-19 has had a significant effect on all aspects of business. Key takeaways remain:

- Afghan MSMEs are significantly affected by COVID-19, rating the effect as 4 out of 5 on average
- The impact differs by sector:
 - Most affected sectors are:
 - Non-food Manufacturing
 - Handicrafts and Clothing
 - Agri-food Processing
 - Fitness and Health
 - Non-profit (NGO) and Humanitarian
 - Least affected sectors are:
 - Finance;
 - IT, Media, and Communications; and
 - Management Consulting and Legal.
- The impact differs by age, size, and female-ownership:
- Smaller businesses are less affected
- Women-owned businesses are more affected
- Younger businesses are less affected
- The most common response has been temporarily shutting down the business
- After shutting down the business, the most common responses have been to increase business development and promote online sales

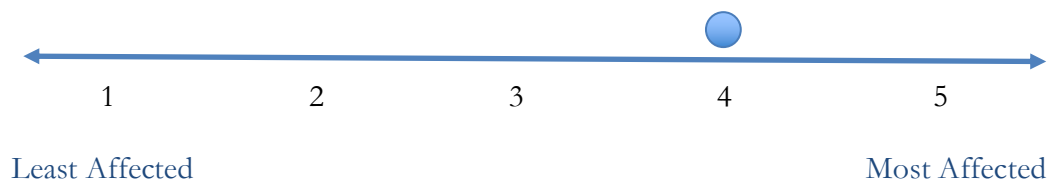
While we here present the limited findings on points 1 and 2 above, the full assessment findings and report are due to be released in July, 2020 and will be available on our website at www.ace.af, social media pages, and in ACE's weekly KHABAR newsletter. To sign up to receive the full report, send us an e-mail at info@ace.af.¹

¹ Note: the findings of this assessment represent correlation, not causation. If we present, for example, a relationship between the stronger impact of COVID-19 and the age of the business, this could be due to other factors not being captured in this assessment. All findings should, therefore, be understood as correlations and understood in the holistic context.

Section 1: The Impact of COVID-19

LESSON 1: Afghan MSMEs are Severely Impacted by COVID-19

When asked to what extent the COVID-19 pandemic and related restrictions have affected business operations, the average score of respondents was 4 out of 5, with 1 being least affected and 5 being most affected.



LESSON 2: The Most Frequented Sources of Information on COVID-19 are the MoPH, WHO, Traditional Media, and Social Media

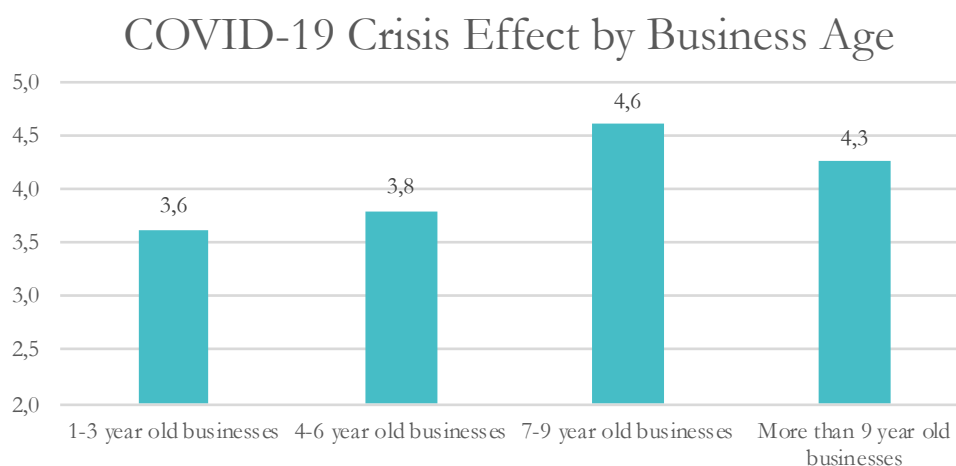
MSMEs get their information about the COVID-19 crisis from a variety of sources ranging from the World Health Organization (WHO) to local Business Membership Organizations (BMOs) or Chambers of Commerce. However, the most frequented sources of information about the crisis were the Afghan Ministry of Public Health (MoPH) (61% of respondents reported consulting this source); traditional media (TV and radio) (48% of respondents reported consulting this source); social media (41% of respondents reported consulting this source); and the World Health Organization (WHO) (40% of respondents reported consulting this source).²

Information Source	% of respondents who consulted this source
Ministry of Public Health (MoPH)	61%
Traditional Media (TV, Radio)	48%
Social Media	41%
World Health Organization (WHO)	40%
Word of Mouth	13%
Local Government	14%
National Government	15%
BMOs or Chambers of Commerce	2%

² This question allowed respondents to check multiple option boxes, therefore the % are not out of 100, but rather represent the % of businesses surveyed who checked that box in addition to other options.

LESSON 3: Younger Businesses are Less Affected

Our assessment demonstrates that the effect of COVID-19 on businesses differs according to age, sector, size, and female representation. The graph below indicates that 1-3-year old businesses rated the impact of COVID-19 on their businesses to be an average of 3.6 out of 5. 7-9 year-old businesses and more than 9-year-old businesses rated the impact to be 4.6 and 4.3 out of 5, respectively.

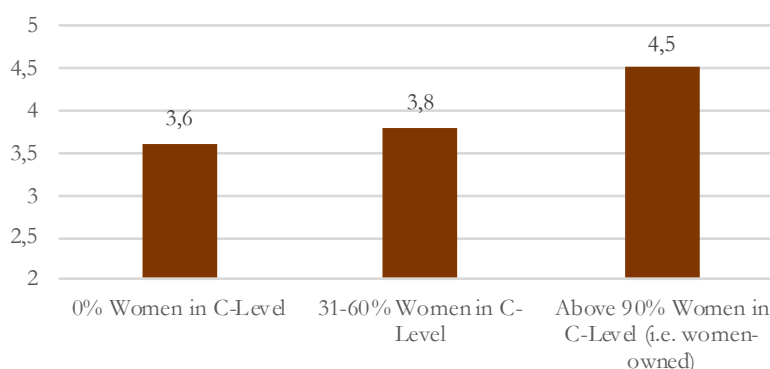


LESSON 4: Women-owned Businesses are More Affected

Like business age, the effect of COVID-19 was also stronger for women-owned businesses than for male-owned businesses.³ The graph below demonstrates that businesses with 0 women in management positions rated the COVID-19 effect on their businesses as 3.5 out of 5 on average, while women-owned businesses rated the COVID-19 effect on their businesses as 4.5 out of 5 on average.

This finding is unlikely to be due to the negative effects of women in management positions of businesses. Rather, it likely demonstrates the fact that women-owned businesses in Afghanistan tend to be smaller, younger, and weaker than male-owned businesses due to myriad cultural and social factors. This then makes them more vulnerable to crises like COVID-19.

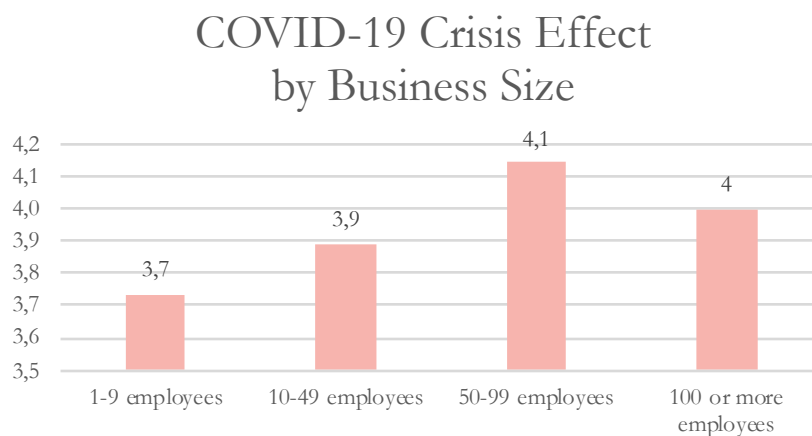
COVID-19 Crisis Effect by % of Women in Senior Management



³ There was not a question on the assessment specifying whether businesses were women-owned or not. However, there was a question about the % of women in senior management (C-level) positions. Businesses who responded that there were more than 90% of women in C-level positions were categorized for the analysis as women-owned.

LESSON 5: Smaller Businesses are Less Affected

Like business age and women in management, the effect of COVID-19 was also weaker for smaller businesses than for larger ones. The graph below demonstrates that businesses with 1-9 employees rated the COVID-19 effect on their business as 3.7 out of 5 on average, while businesses with 50-99 employees and 100 or more employees rated the COVID-19 effect on their business as 4.1 and 4 out of 5 on average, respectively.



LESSON 6: Most Affected Sectors are Non-food Manufacturing, Handicrafts and Clothing, Agri-food Processing, Fitness and Health, and Non-profit (NGO) and Humanitarian

Like the factors presented above, the effect of COVID-19 differed significantly by sector. The graph below demonstrates the average rating of the extent to which COVID-19 has impacted their business by sector and shows that while businesses in the finance sector rated the effect as only 2.8 out of 5 on average, businesses in the fitness and health sector rated the effect 5 out of 5 on average, the strongest possible rating.

This likely relates to the ability of each sector to operate remotely/online. For example, finance, IT, media, and communications; and management consulting and legal, all sectors capable of working remotely to a large extent, report being less affected by COVID-19. Sectors such as agri-food processing; handicrafts and clothing; and fitness and health, all sectors which to a large extent, require working in physical space with clients or products, report being more affected. Below, triangulating data between several questions, we present the most and least affected sectors according to the assessment.

Most Affected Sectors:

- Non-food Manufacturing
- Handicrafts and Clothing
- Agri-food Processing
- Fitness and Health
- Non-profit (NGO) and Humanitarian

Least Affected Sectors:

- Information Technology (IT), Media, and Communications
- Management Consulting and Legal
- Finance and Accounting

COVID-19 Crisis Effect by Sector

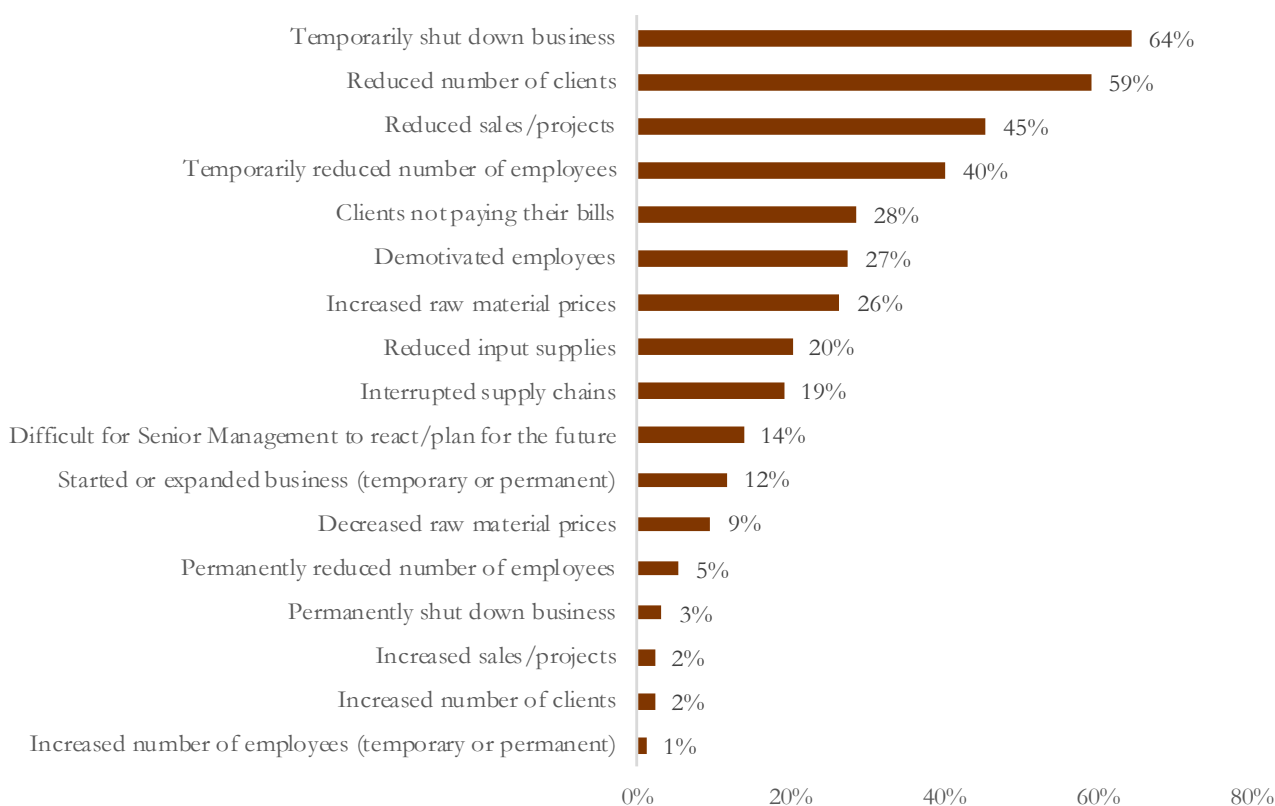


Section 2: The Response to COVID-19

LESSON 7: The Most Common Response Has Been Temporarily Shutting Down Business

While the above findings depicted the strength of the effect COVID-19 has had on MSMEs, the below graph illuminates precisely how COVID-19 has affected businesses. The most common responses to this question were that COVID-19 has forced MSMEs to: temporarily shut down business (64%); reduce the number of clients (59%); reduce sales or projects (45%); and/or temporarily reduce the number of employees (40%).⁴

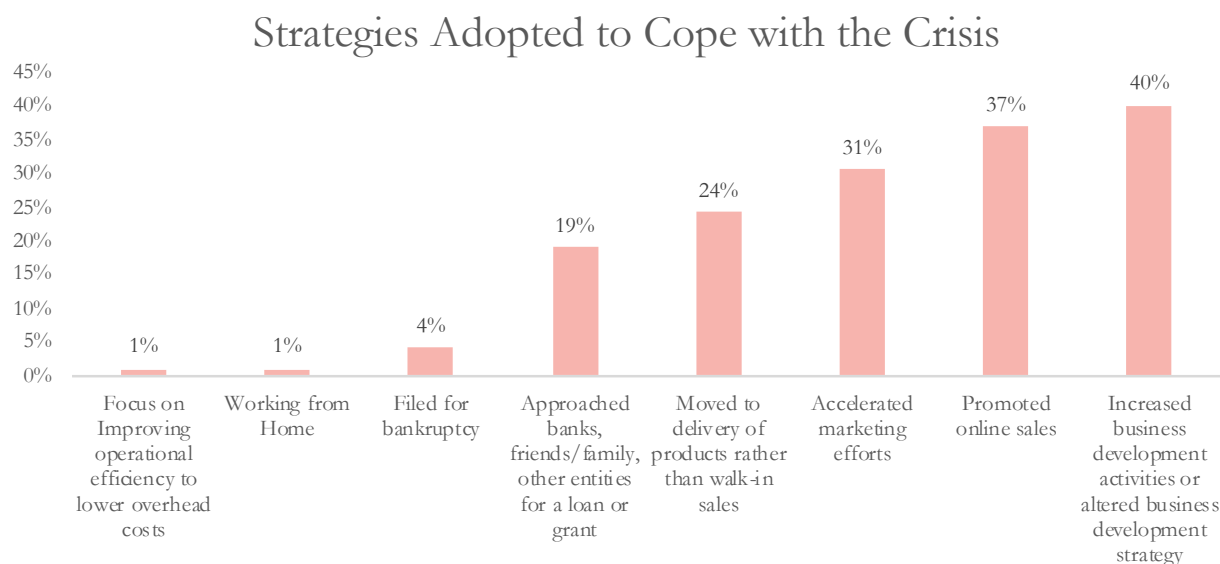
How COVID-19 Has Impacted Businesses



⁴ This question allowed respondents to check multiple option boxes, therefore the % are not out of 100, but rather represent the % of businesses surveyed who checked that box in addition to other options.

LESSON 8: For Businesses Who Remained Open, the Most Common Responses Have Been to Increase Business Development and Promote Online Sales

Businesses who have not temporarily shut down operations have employed several different strategies to respond to and adapt to the COVID-19 crisis. The most common ways that businesses are responding to the crisis (after temporarily shutting down the business) are to increase business development activities or alter their business development strategy (40%) and promote online sales (37%).⁵

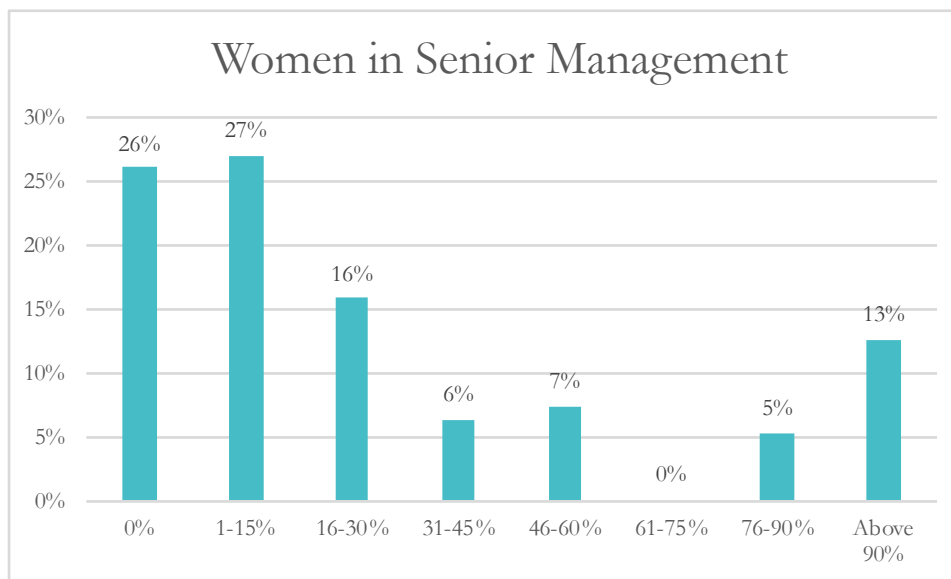


⁵ This question allowed respondents to check multiple option boxes, therefore the % are not out of 100, but rather represent the % of businesses surveyed who checked that box in addition to other options.

Section 3: Gender Lens

LESSON 9: Women Are Significantly Underrepresented in Senior Management Positions

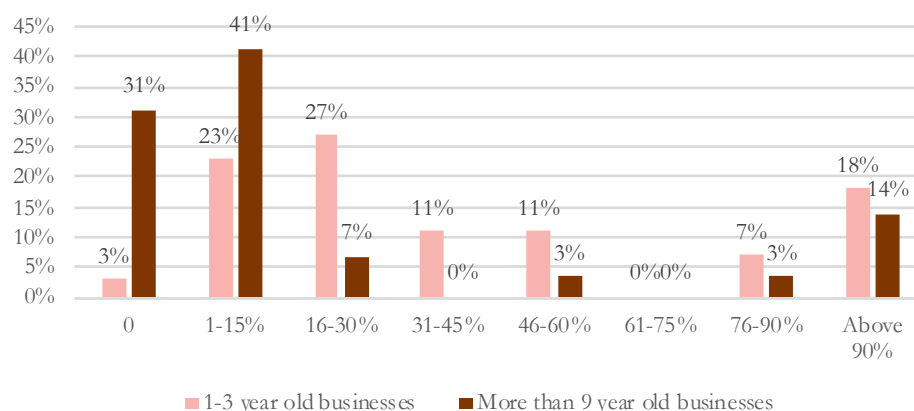
Over 50% of businesses surveyed for this assessment reported having less than 15% of women in senior management positions. With countless reports of the myriad benefits of fully incorporating women in the workplace, including a 2015 report by the McKinsey Global Institute citing that the advancement of women's equality in the workplace has the potential to add \$12 trillion to the world's GDP by 2025 and a 2020 report by the Workplace Gender Equality Agency and the Bankwest Curtin Economics Centre (BCEC) citing that having women in key decision making roles such as on company boards was strongly linked with improved performance, Afghan MSMEs may be missing out on these benefits both to their individual businesses and to the society at large by neglecting to meaningfully involve women in the management of businesses.



LESSON 10: Younger Businesses Tend to Have More Women in Senior Management

While the general trend is that women are significantly underrepresented in the senior management of Afghan MSMEs, our assessment found that younger businesses tend to be more gender- equal than older ones. As seen in the graph below, a staggering 72% of businesses in operation for more than 9 years had less than 15% of women in senior management positions. Contrarily, only 25% of businesses in operation for 3 years or less had such a low representation of women in senior management. On the other side, only 21% of older businesses had 30% or more female representation in their senior management, while 47% of new businesses (3 or less years of operation) had 30% or more female representation in senior management.

Women in Senior Management
by Business Age



Conclusion

Based on the responses of almost 100 MSMEs across Afghanistan, it is clear that COVID-19 has had a significant effect on all aspects of business. Key takeaways remain:

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- The impact differs by sector:
 - Most affected sectors are:
 - fitness and health;
 - non-profit (NGO) and humanitarian;
 - handicrafts and clothing;
 - agri-food processing; and
 - non-food manufacturing
 - Least affected sectors are:
 - finance;
 - IT, media, and communications; and
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- The impact differs by age, size, and female-ownership:
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