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EFFECT OF COVID-19 ON MICRO, SMALL AND MEDIUM ENTERPRISES (MSMEs) IN RWANDA

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ABSTRACT

Economic disruptions from COVID-19 have left Micro, Small and Medium-Sized Enterprises MSMEs in Rwanda struggling to survive. Many Micro, Small, and Medium Enterprises (MSMEs) in Rwanda saw their incomes disappear overnight because of COVID-19. The impact of the pandemic on the business operations, supply chains, as well as the household income and expenditure of MSMEs was greatly affected by the outbreak of coronavirus pandemic (COVID-19) which severely affected the global and Rwandan economy at large. It delved deeper into the coping strategies these enterprises adopted to mitigate the effects of this disruption among MSMEs in Rwanda. To control and contain the pandemic; Rwanda implemented a range of containment measures including border closure, suspension of domestic travel, cancellation of public gatherings, institutions teleworking, and closure of schools, places of worship, and non-essential businesses. These measures worked well for Rwanda to contain the pandemic, as of 21st December 2020, Rwanda reported 7,402 cases of COVID-19 infection. However, these measures negatively affected the livelihoods of many Rwandans, especially those who earn their living on daily basis. Furthermore, the measures also considerably affected the Microfinance sector which serves the majority of the Micro, Small, and Medium Enterprises (MSME and SMEs). The target population was the Rwandan microfinance sector that consists of 460 institutions, of which three are microfinance banks, 19 limited liability companies, 416 Umurenge SACCOs, and 22 non-Umurenge SACCOs. The microfinance sector serves nearly four million micro, medium, and small entrepreneurs (MSMEs and SMEs) in Rwanda, as per the Association of Microfinance Rwanda (AMIR). The article adopted an exploratory methodology with comprehensively reviewing the available literature, including policy documents, research papers, and reports in the relevant field. Combination of quantitative and qualitative methods was used to analyze data, while questionnaires and interviews were used to collect data. Further, to add empirical evidence, the study collected data from 110 MSMEs registered in Kigali province by administering an online questionnaire. The data were analyzed through descriptive statistics. The results indicated that most of the participating enterprises had been severely affected and they were facing several issues such as financial, supply chain disruption, decrease in demand, reduction in sales and profit, among others. The study estimated a large increase in the failure rate of MSMEs under COVID-19 of nearly 9 percentage points, absent government support. Accommodation & Food Services, Arts, Entertainment & Recreation, Education, and Other Services are among the most affected sectors. The jobs at risk due to COVID-19 related MSMEs business failures represented 3.1 percent of private sector employment. Despite the large impact on business failures and employment, we estimated only moderate effects on the financial sector: the share of Non-Performing Loans on bank balance sheets would increase by up to 11 *percentage points, representing 0.3 percent of banks' assets and resulting in a 0.75 percentage point decline in the common equity Tier-1 capital ratio. The results had important implications for the severity of the COVID-19 recession, the design of policies, and the speed of the recovery.*

Keywords: *COVID-19, MSMEs, Rwanda, Crisis, Policy Recommendations, MSMEs Survival*

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INTRODUCTION

As of December 21st 2020, Rwanda had reported 7,402 cases of COVID-19 with 65 deaths, 6,100 recovered cases and 1,237 active cases since the first case on March 11, 2020. The World Health Organization (WHO) mentioned some of the challenges for many countries in dealing with COVID-19 including struggling with a lack of capacity, resources, and lack of resolve (WHO, 2020). Preparedness and response to COVID-19 differed among East African countries. Rwanda had drawn on its experience with Ebola virus Disease (EVD) in collaboration with the WHO in the use of ThermoScan checks for every person entering the country and availability of hand washing stations.

In a bid to mitigate the spread of COVID-19, the government imposed considerable public health restrictions. Movement outside the home was permitted only for essential purposes (health care, food shopping and banking). Places of worship, educational institutions, bars, restaurants and cafes (other than for takeaway services) and shops and markets, with the exception of those selling food, and other essential items were closed. Aside from essential workers, all employees (public and private) were instructed to work from home. Travel between cities and districts were not permitted until further notice.

Globally, the outbreak of coronavirus pandemic - 2019 (COVID-19) severely affected not only the way people lived but national and global economies (UNCTAD, 2020). Already some socio-economic impacts were observed globally as well as in specific countries (Huang, et al., 2020). Various enterprises were facing different issues with a certain degree of losses. Particularly, enterprises were facing a variety of problems such as a decrease in demand, supply chain disruptions, cancelation of export orders, raw material shortage, and transportation disruptions, among others (Ayittey, *et al.,* 2020). Nevertheless, it was quite clear that enterprises around the globe were experiencing the significant impact of COVID-19 outbreak on their businesses (Rob, Will, & Laborde, 2020). Consistent with McKibben and Fernando (2020), even a constrained outbreak significantly impacted the global economy in the short run, more negative effects were expected. They continued to argue for possible measures to halt the outbreak, including support of central banks and treasures to ensure the continued functioning of disrupted economies, more monetary, fiscal and health policy responses, and wide dissemination of good hygiene practices, and more investment in the health systems going forward.

The spread of the virus made it impossible to physically survey the SMEs. One way to circumvent this challenge was to conduct online surveys. Right after the outbreak of COVID-19 in China, a few online surveys (Zhu, Liu, & Wei, 2020) were conducted to measure the impact of the novel coronavirus on Chinese firms. Online surveys possess a key advantage in quickly gathering data. However, these surveys are subject to two selection problems (Wang et al., 2020). The first is that the representativeness of the sample is largely unknown and sometimes skewed. It is common for researchers, for instance, to spread the word about online surveys through their own networks, such as university alumni associations. In this case, the respondents were naturally more educated than a typical owner of a SME. The second selection problem with online surveys is that they tend to appeal to certain sectors. In this case, that sector included those entrepreneurs who really suffered from the negative shock of COVID-19 and hence were more likely to spend time answering the online survey questionnaires than those who fared better. Therefore, online surveys tend to report more pessimistic views.

According to the International Labour Organization (ILO), (2020) the COVID-19 pandemic has caused unprecedented shocks to labour markets - the world recorded biggest employment declines since World War II as a consequence. The major victims of COVID-19 outbreak are the micro, small & medium-sized enterprises (MSMEs) because MSMEs, in comparison to large enterprises, usually do not possess sufficient resources, especially financial and managerial, and are not prepared for such disruptions likely to go longer than expected (United Nations Development Programme, 2020).

On the demand side, a dramatic and sudden loss of demand and revenue for Small and Medium Enterprises (MSMEs) 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, MSMEs are likely to be more vulnerable to 'social distancing' than other companies.

At this point, it is not immediately clear whether the region will be among the worst affected in the world. What are usually considered to be structural weaknesses - low levels of urbanization, a continued high dependence on the agricultural sector, and limited financial and trade links with the global economy – may actually turn out to be sources of resilience at the current juncture. Forecasts recently produced by the IMF report that whereas for Sub-Saharan Africa, there will be a contraction of -1.6 percent in 2020, for the East African Community member states, their economies will continue to expand (by an average of 2.0 percent), despite the harsh economic context. Rwanda's estimated growth will drop from double-digit growth in 2019, but will still be in positive territory in 2020, and with a significant bounce-back in 2021. Under the current circumstances, this is not cause for celebration - and the forecasts are, in any case, highly dependent on how the global economy starts to move out of the current economic lockdown. But it is a reminder that East Africa, and Rwanda in particular, may be well placed to recover from this crisis if the right domestic policies and the necessary external support are provided.

Table 1: GDP Growth Rates Forecasts, 2017 – 2021 (in percentage)

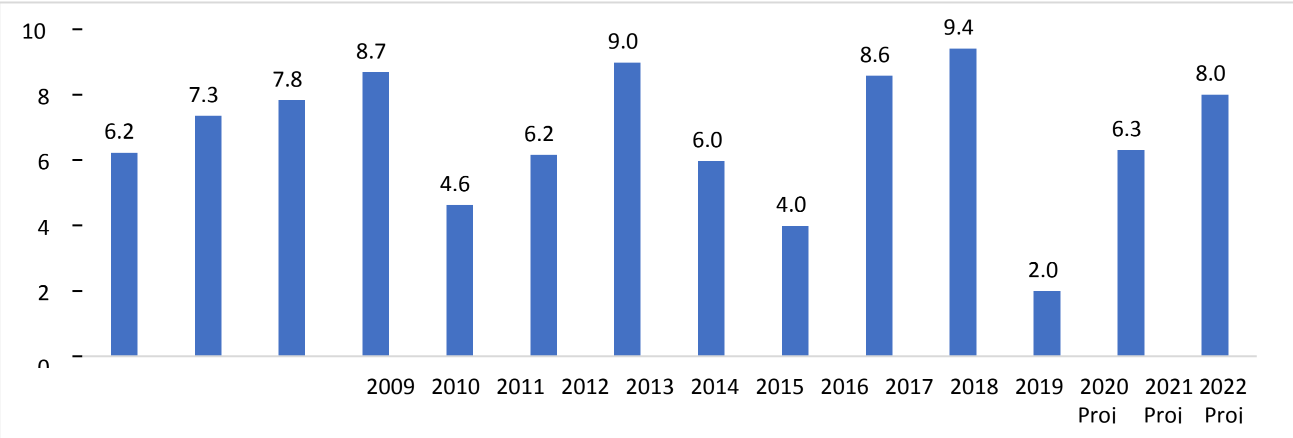
	2010-2016	2017	2018	2019	2020	2021
Rwanda	7.1	6.1	8.6	10.1	2.0	6.7
Burundi	2.8	0.5	1.6	1.8	-5.5	4.2
Kenya	6.0	4.9	6.3	5.6	1.0	6.1
South Sudan	-7.4	-5.5	-1.1	11.3	4.9	3.2
Tanzania	6.6	6.8	7.0	6.3	2.0	4.6
Uganda	4.9	5.0	6.3	4.9	3.5	4.3
SSA	4.5	3.0	3.3	3.1	-1.6	4.1
EAC-5	5.9	5.6	6.6	5.9	2.0	5.2

Source: IMF (2020) and MINECOFIN (2020)

Rwanda is a fast-growing low-income economy. Before the onset of the COVID-19 pandemic, Rwanda was among the ten fastest-growing economies in the world. In the past decade, GDP growth was consistently higher than most countries in Africa, averaging 8 percent over this period (Figure 1). In 2019, Rwanda's economy grew by 9.4 percent, above the 8.6 percent recorded in 2018. Although growth was broad-based across main economic sectors, the growth was mainly driven by a double-digit growth in the industrial sector, as construction activities rebounded in 2019 supported by stronger investment.

Both disruption and diversion can limit factors of productivity. Periods of crisis also tend to create temporary uncertainties, creating a premium for liquid assets over fixed ones. It is expected that GDP may fall in the short term due to disruption and diversion, but also in the long term due to depletion of savings, lack of investor confidence and reductions in production, or firm-level contraction. Firm-level contraction can happen through a variety of channels. First, in internal adjustments, firms adjust employment or output at existing facilities, while continuing to use them. Second contracting firms may reduce their production lines or divisions, while expanding ones may decide to open new ones (investments/disinvestments). Third, larger firms tend to use volatile markets to establish or sell control, by buying or selling parts of their operations (mergers and acquisitions)

Figure 1: Real GDP growth Forecast (percent) 2009 – 2019



Source: NISR, 2020, MINECOFIN, 2020

The COVID-19 containment measures that were undertaken by the Government of Rwanda came with difficult economic trade-offs. In particular, the heightened uncertainty and pressure on the exchange rate translate into tightening financial conditions. Using the Composite Index of Economic Activity (CIEA) developed by the National Bank of Rwanda (BNR) and jointly updated by BNR and the Ministry of Finance and Economic Planning (MINECOFIN), the index showed a drastic drop since the imposition of lockdown. In the first week after lockdown, the Real CIEA dropped by some percent compared to the same week of the previous year. MINECOFIN also reports that weekly transactions declined by 75 percent compared to the same week in the previous year, reflecting a massive downturn in business activity.

Official statistics showed that inflation picked up in late 2019 while the Rwandan franc continued to depreciate throughout 2019 and in the first 4 months of 2020. The average headline inflation is estimated at 2.4 percent in 2019 compared to 1.3 percent in 2018, as a result of an increase in food prices. As of December 2019, food inflation stood at 14.9 percent up from 1.1 percent in June 2019. After peaking at about 20 percent in February 2020, food inflation has started easing, but it remains in double-digits, at 15.8 percent in April 2020. In April 2020, inflation stood at 8.0 percent while core

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inflation that excludes food and energy to capture underlying inflation trends, was 4.6 percent. In 2019, the Rwandan franc depreciated by 4.9 percent against the US dollar. By the end of April 2020, the depreciation of the Rwanda franc was 4.7 percent year-on-year. In real terms, the depreciation of the currency against the US dollar has been more marked, reflecting Rwanda's higher inflation rate than many of its major trading partners.

Although the COVID-19 pandemic has had devastating repercussions on African economies, it also presents an opportunity for African countries to appreciate, on the one hand, the importance of the newly established African Continental Free Trade Area (AfCFTA) for the movement of goods and services, especially in a time of crisis, as well as for the development of regional value chains and supply chains; and to reflect, on the other hand, on the potential role MSMEs could play in the post COVID-19 economic recovery of the continent in order to build Africa's economic and social resilience and ultimately achieve "the Africa we want". Indeed, the pandemic has accentuated the need to enhance African countries' productive capacity and diversify their export baskets as most African economies were severely affected by external shocks due to their dependence on primary commodities and their reliance on international suppliers.

MSMEs are the backbone of many economies worldwide that provide income and employment generation to a large number of people around the globe. In Rwanda Micro Small and Medium Enterprises (MSMEs) play a crucial role for economic development since they drive growth, create employment especially among youth and spearhead innovation. MSMEs have the potential to become tomorrow's large corporations that the continent needs to continue on its path to growth and prosperity. However, many studies reveal that MSMEs growth in Rwanda are constrained among others by lack of financial support, poor management, corruption, lack of training and experience, poor infrastructure, and insufficient profits. They are currently highly exposed to the negative impact of the Coronavirus pandemic (COVID-19). So, clearly, supporting their survival is crucial for mitigating the economic systemic impact, but also to sustain employment and to create the conditions needed for future growth, once the pandemic is over.

There are key factors which make MSMES highly vulnerable to the impact of COVID-19. Firstly, they are more labor-intensive than other companies and therefore more exposed to disruption, especially when workforces are in quarantine, as is happening in several countries. Secondly, they have thinner liquidity reserves, meaning, they have limited financial alternatives, and mostly rely on support from local banks. In the majority of cases, they lack assets that can be disposed of, or that can be used as collateral for new credit lines. These factors make them more vulnerable and exposed to liquidity squeeze, and this results from the fact that MSMEs cannot produce and thus cannot sell their own products as desired to their end markets due to the pandemic. However, they still have to pay all their fixed costs, such as the rent, the salaries, taxes, and their suppliers as well.

In a multiplicity of economies, micro, small and medium-scale enterprises (MSMEs) play an imperative role in keeping economies in proliferation. They create employment for the masses and facilitate equitable income distribution, thereby contributing to holistic national growth. As confirmed in a report by Microsave (2017), MSMEs account for approximately 97% of the businesses, contribute to 55% of the total of GDP, employing around 41% of Rwanda's population.

The disruption of economic activity country-wide will most likely increase food insecurity, among the heightening of other vulnerabilities. The restrictions of movement, transport, and market operations will negatively impact agricultural households that rely on market sales and the households that do not have a harvest in stock to survive on. Food insecurity could increase the vulnerability of

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households and increase overall insecurity. Additionally, pregnant women and those with pre-existing or chronic medical conditions will experience reduced access to proper nutrition and basic health services. Impacts for vulnerable households range from loss of food security and nutritional issues to job and income loss and heightened probability of falling into poverty or chronic poverty. Those employed in tourism and hospitality, and the conference industry, will likely be furloughed or lose jobs as a result of the massive decline in tourist arrivals and subsequent decline in activity in the sector, such as reduced restaurant and hotel spending and RDB gorilla or hiking permit purchases or cancellation of big conferences or meetings or exhibitions.

The important role that MSMEs could play in the structural transformation and economic development of the continent is accepted. In fact, investing in MSMEs is considered a “long-term and smart strategy” (International Trade Centre (ITC), 2018) whose spillover effect extend beyond economic considerations and bring about social benefits that improve the lives of the African people. From a trade perspective, intra-African trade is not likely to improve if factors that inhibit the participation of MSMEs are not addressed (UNCTAD, 2013). This then begged the following questions:

- What factors inhibit the ability of MSMEs to actively participate in Rwandan economies?
- What challenges do MSMEs encounter during the COVID-19 pandemic and what lessons can be learnt to further strengthen MSMEs resilience in Rwanda?

Statement of the problem

Rwanda was in the middle of an economic boom prior to the COVID-19 pandemic with a real economic growth of 9.4 percent in 2019, driven mostly by large public investments for implementation of the National Strategy of Transformation. With the advent of COVID-19, international flows of goods and services were seriously disrupted with significant spill over to the global economy. The services sector which accounts for over half of Rwanda’s gross domestic product took a strong hit amid disruption in international trade and travel. Conservative estimates for 2020 reduced economic growth by about 7 percentage points to between 2 and 3.5 percent, signaling the acute impact already on Rwanda. At least 57.5 per cent of small and medium sized enterprises (SMEs) operating across different industries closed operations between March and April due to Covid-19 impact, a new study by Business Professionals Network (BPN) and the University of Rwanda shows. The result, they say, 42.5 per cent of entrepreneurs were found to be running operations, partially or fulltime, but only 35.8 per cent were selling, while 57.5 per cent were not operating at all. But even those that were operating were faced with logistical and transportation challenges, constraints in acquiring raw materials due to the disruption of supply chains. The study showed that 64.2 per cent of entrepreneurs were not selling any products or services due to the lockdown measures that stopped movement of people, and affected consumer demand. It also highlighted that only 26.1 per cent of entrepreneurs were producing new products in the same period, while 68.7 per cent were not producing new products, and 5.2 per cent had only been producing for a few days.

A Rwandan shoe merchant was unable to resume her work, despite lockdown being lifted. She had previously rented a small space downtown at about Rwf200, 000 per month, but once lockdown, hit she could no longer afford the rent, she recalls prioritizing her savings to feed her family. A reluctant decision many have had to make. An events host and DJ from Kigali no longer had a venue to unleash his craft, or the customers happy to pay to experience it. Another businesswoman had just launched her own travel company, expecting to tap into the lucrative foreign tourism market. She remained with an expired website and the memories of the sums of money she had projected to make. There were millions of similar stories from around the world and they can become lost in their numbers.

Besides, the unavailability of labors, slowdown of productions, shortage of raw materials, and transportation restrictions will have major ramifications on these businesses. This, in turn, had a significant impact on the national economy as a whole. Hence, a robust policy response was also essential to offset the negative effects of the outbreak. Till the conclusion of this study, no study had been conducted to examine the global outbreak's impact on MSMEs operating in Rwanda. Thus, this research aimed to investigate the impact of the COVID-19 outbreak on Rwanda MSMEs. Our study also aimed to assist policymakers and practitioners in identifying strategies required to respond to the impact of the ongoing pandemic on MSMEs. Mainly, this study emphasized to pay more attention to the huge risks brought by external environmental uncertainty to MSMEs and help these enterprises in predicting risks in the early stage of business decision-making, planning, and specify countermeasures.

LITERATURE REVIEW

COVID-19 global perspective

Employer business applications as measured by the U.S. Census weekly Business Formation Statistics fell in the five weeks from mid-March to md-April by over 27 percent relative to the previous year (Wilmoth 2020). Estimates from the U.S. Census Small Business Pulse Survey indicate that roughly 50 percent of businesses report having a large negative effect from the COVID-19 pandemic and that only 15-20 percent of businesses have enough cash on hand to cover 3 months of operations (U.S. Census Bureau 2020; Bohn, Mejia and Lafortune 2020). Alexander et al. (2020) conducted a survey in late March of nearly 6,000 small businesses that were members of the Align able business network. They found out that 43 percent of businesses are temporarily closed, large reductions in employees, and the majority of businesses have less than one month of cash on hand. The Stanford Latino Entrepreneurship Initiative (2020) surveyed 224 high-revenue Latinx-owned businesses and found that 86% of respondents reported immediate negative effects such as delayed projects and closure from the pandemic

According to a recent report of the United Nations Conference on Trade and Development (UNCTAD) (2020), Africa would be hardest-hit by the global pandemic of COVID-19. Additionally, the ongoing pandemic crisis will severely hamper the operations of these businesses because MSMEs are highly dependent on the cash economy, which has been adversely affected by the pandemic (William & Schafer, 2013).

Globally, MSME plays a significant role to accelerate the growth of any country's economy. But the position of MSME will be very unimaginable and unpredictable after this epidemic. Rwanda economy that desperately needs immediate assistance, it is Micro, Small and Medium enterprises to survive. The Rwandan MSME will be impacted significantly due to the outbreak of Covid-19 in near future. Visualization of future existence of Rwandan MSME is completely impossible and uncertain at this moment. To contain Covid19 spread the government of Rwanda had to declare 21 days complete lockdown in each state which may be extend according to the situation. Normal business activities are being completely stopped for all type of business organization. This standstill for couple of months will be a very crucial for Rwandan MSME.

However, if the pandemic proliferates and prolonged lockdown would exacerbate economic trouble. India's growth may fall below 3% in financial year 2021 under this scenario (KPMG report). Coronavirus outbreak is having a stark effect on small business businesses as the situation drags on (National Federation of Independent Business). There will be unemployment situation rises around 8000 to 10000 in the coming couple of months, since people displaced from their jobs for maintaining social distancing guidelines. But for some businesses the impact may be positive. Those businesses which deal with essential items which is required for livelihood experiencing stronger sales due to Sharpe rise in demand for product. Consumers are buying essential commodity more than necessary which ultimately leads to exponential growth in sales. The stutter buying in huge quantity of essential commodity leads to increase the price of commodity due to lower supply and high demand. For packaged food business this critical situation has some opportunity to expand their business. Every family have been quarantined in their home. They are not allowed to move from one place to another. In this time business who deals with packaged food can grab the opportunity by making home delivery and create a healthy relationship with society. MSMEs who deal with export, there will be slow down of export business. Service sector is also slowing down since more people opting social isolation like salon shop. MSMEs sector in India will face the problem like low liquidity or cash flow and lack of workforce since daily-wagers have gone to their villages. Lack of workforce will have to be a negative impact on production. Lower production means lower supply and lower supply will create the inflation environment. But government has started taking some initiative to keep the MSMEs segment afloat.

Due to this crisis small businesses will try to adopt digital practices in its business. There are chances to arise the problem of liquidity crunch and without adequate liquidity the small business might be close down in coming future. As a result, workers will face layoff and unemployment in near future. Workers are moving towards native house from work place. There is a very fragile situation for workers during this time. 19% to 43% of the MSMEs may disappear if epidemic persist 4 or 8 weeks. Due to lockdown, movement of goods from one country to another country has been stopped. One of the positive things due to this crisis is that those enterprises who deal with import and export business, they can be self-reliant and will try to produce goods within India instead of import which will improve balance of payment situation to some extent.

This will be crucial for keeping the supply chain of food grains alive. The major concern for MSMEs will be liquidity crunch due to the covid-19 outbreak. Lack of liquidity will disrupt supply chain and labour availability. Many units have paid their workers' wages for March in full and are prepared for April payment while there is no revenue now. In addition, there are bills like electricity bill, water bill that also have to be paid but without revenue or substantial government support, there is no way they can carry on in May and beyond. Major big concern of MSMEs units is delay in launch of new product, inability to meet demand from essential industries, tough social distancing.

There are rare cases discussing the COVID-19's consequences to Micro small and medium enterprises (MSMEs) in Africa. But the available ones already tend to agree all that MSMEs will be among the economic sub-sectors to be affected by the pandemic. Ozil (2020) contends that the survival of about 50,000 MSMEs in Africa is crucial, and those with the highest exposure to the global supply chain and have China as the main source of primary and intermediate inputs are the most to be affected. But the eventual economic impact will be different. The World Bank scholars have estimated a global GDP decline of 3.9%, and developing countries hit the hardest with an average of 4% to 6.5% GDP decline (Maliszewska et al., 2020). Since these SMEs contribute in many ways to the national GDP, the latter is also to suffer the additional shock affecting them. The MSMEs in Rwanda contributed 20.5% to the national aggregated income and 60% to employment in 2011 (IBES, 2018).

Thus, anticipated COVID-19 consequences on MSMEs are related to the disruption in domestic supply chains, especially for African economies where the economy is less digitalized and depend more on people-to-people interaction, bankruptcies, labour layoffs, reduced working hours and hence the labour productivity. Policy measures taken by Rwanda as it is in some other African countries to contain the spread of the pandemic like the restriction of unnecessary movements and visits outside, barn of some business-related activities such as bar and restaurants, working from home for both public and private workers, travel restriction between different cities, and other considered as nonessential (e.g., food and health-related); all will certainly affect related small and medium enterprises.

COVID-19 on Trade in East Africa Partner States

In recent years, Rwanda has recorded positive development in export performance and a modest degree of diversification (World Bank, 2019:7.) Rwanda has also had considerable success in promoting service sector exports, and indeed since 2018, the country became a net exporter of services. This growth is being led by tourism, transport, ICT, construction, and finance (MINECOFIN/World Bank, 2019:98). However, the country's trading performance has been exposed to significant disruptions caused by the decline in global trade, and particularly, how services like air transport and tourism have ground to a dramatic halt. Besides, for traded goods, Rwanda's merchandise imports are typically about three times larger in value terms than exports, leading to a large and persistent trade deficit which requires financing.

The current crisis is estimated by the WTO (2020) to result in merchandise trade to plummet by between 13 and 32 percent in 2020 due to the COVID-19 pandemic. The situation regarding services trade will be even more serious. Through the imposition of transport and travel restrictions and the closure of many retail and hospitality establishments, there is likely to be a serious contraction of many service sector activities. For a country like Rwanda that has expressly made service-led development part and parcel of its development strategy, this represents quite a serious blow. Services are also highly interconnected. For instance, air transport enables an ecosystem of other cultural, sporting, and recreational activities. So, a downturn in one area can lead to a precipitous decline in other sub-sectors. There may also be negative knock-on effects on the agriculture sector, on which 70 percent of the population is still dependent. A decline in domestic and export consumption of agricultural produce will significantly impact segments of the rural economy and, with it, some of the most vulnerable communities.

According to the aforementioned IMF analysis, the channels of vulnerability vary for the different EAC economies, and for Rwanda, the key risks from the COVID-19 are associated with the high level of dependency on tourism, and the ability of the health system to cope. Neither trade linkages with China and Europe, nor changes in the terms of trade, are considered as major vulnerabilities. In this document, however, we would like to dissent from this assessment and insist that, as a small, landlocked economy sustaining a large current account deficit, the trade channel does constitute a major area of vulnerabilities – vulnerabilities that will need addressing through the adoption of the appropriate policies.

Table 2: Channels of Vulnerability of EAC Partner States to COVID-19 Shock

	Global financial conditions	Trade linkages with China and Europe	Change in terms of trade	Tourism dependent	Health system quality	LIC-DSA debt rating
Burundi	Low vulnerability	Low vulnerability	Low vulnerability	Low vulnerability	High vulnerability	High vulnerability
Kenya	High vulnerability	Low vulnerability	Low vulnerability	Medium Vulnerability	Medium Vulnerability	Medium Vulnerability
Rwanda	Low vulnerability	Low vulnerability	Low vulnerability	Medium Vulnerability	Medium Vulnerability	Low vulnerability
South Sudan	Low vulnerability	High vulnerability	No data	Low vulnerability	High vulnerability	High vulnerability
Tanzania	Low vulnerability	Low vulnerability	Low vulnerability	Medium Vulnerability	Medium Vulnerability	Low vulnerability
Uganda	Low vulnerability	Low vulnerability	Low vulnerability	Medium Vulnerability	Medium Vulnerability	Low vulnerability

High vulnerability | Medium Vulnerability | Low vulnerability | No data

Source: IMF Regional Economic Outlook (2020)

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COVID-19 on Rwanda's public finances

Over the past ten years, the Government budget recorded about a three-fold nominal increase from FRW 948.0 billion in 2010/2011 to FRW 2,876.9 billion in 2019/20. Annually the total national budget increased by 13 percent on average, while the average GDP growth rate for the past ten years was 8 percent. However, the national budget has been kept around 30 percent of GDP, as it was 28.8 percent in 2010/11 and registered a slight increase up to 31.8 percent in 2019/20.

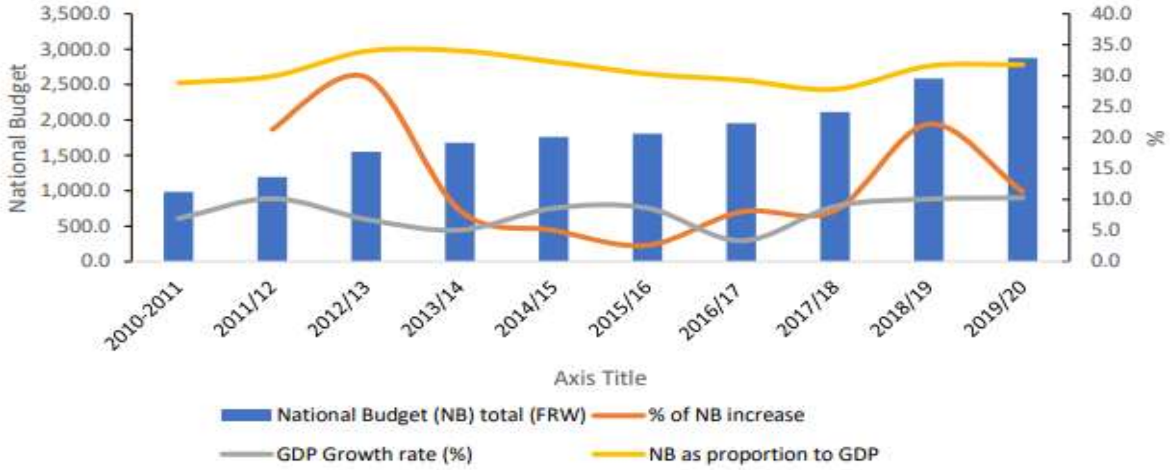

Figure 2: Overview of Rwanda public finance 2010 - 2019
Source: MINECONFIN - National budget and macroeconomic-framework data

The domestic revenues as a share of total budget have also increased from 56.1 percent in 2010/11 to 68.5 percent in 2019/20. The increase of domestic revenue as a share of the national budget translates into a positive trajectory of Rwanda's economy and public finance resilience. External grants declined from 37.5 percent in 2010/11 to 14.2 percent in 2019/20, while the external borrowing has also been depicting an increasing trend.

With respect to social spending, Rwanda's commitment to quality social service delivery has been bold. Government investments in social sectors have increased as a way of translating the higher commitment into actions and consolidating the social transformation development agenda. As a result, per capita spending for social sectors recorded a steady nominal increase from FRW 40,937 in 2012/13 to FRW 58,213 in 2019/20, which reflects an increase of 42.2 percent for the period under discussion.

The impact of the coronavirus on public finance was significantly evident and was evaluated through the following channels.

Channel 1: Additional pressure on public sector spending

- Increased public spending through monetary stimuli is needed to avoid economic depression or recession
- Cash transfers and food assistance to affected households as income and other economic opportunities are depressed.
- Health-related spending for prevention, treatment, medical supplies, and virus containment.

Channel 2: Decreased domestic and other revenues

- The shutdown of the main tax base other than business activities classified under essential services.
- Reduced private consumption due to income uncertainty and limited options.
- Fall in import duties and export earnings due to price shocks.

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- Loss of corporate profits and capital gains
- Fall in an overall level of investments and employment opportunities
- Fall in tourism revenue

Channel 3: Inflationary and exchange rate effects

Disrupted supply chains and demand might create countercyclical aspects of the exchange rate and inflation/deflation pressure on several products and services. This could potentially further affect the monetary and fiscal components of public finance. The African Union5 (2020) identified the following broad areas of economic disruption due to COVID-19: (i) the decline in remittances from African Diaspora; (ii) a fall in Foreign Direct Investment, (iii) decline in Official Development Assistance (ODA); (iv) illicit financing flows and (vi) domestic financial market tightening. The Government of Rwanda continues to access external loans from different international financial institutions. The external debt as a share of total national budget has almost quadrupled from just 6.4 percent in 2011/12 to 17.3 percent in 2019/20. The external debt6 acquired by the central Government amounted to 42.1 percent of GDP in 2019 up from 14.9 percent in 2011. When the private-owned external loans are inclusive, the debt loads increase by up to 50.6 percent (Table 3). The increasing capacity to access external loans has been supporting the domestic fiscal space to finance Government development priorities. However, it is important to point out that the Government has some space to access more loans to finance emergency and other development needs during the pandemic period.

Table 3: Rwanda map of international financing instruments and flow for COVID-19 Response

Instrument	Country eligibility	Amount	Terms	Purpose	Rwanda Assistance
International Monetary Fund (IMF)					
Rapid Credit Facility (RCF)	Low income facing balance of payments crisis	100% of a country's quota ($10 billion total for COVID-19)	One-off disbursement at 0% interest, with a grace period of 5.5 years and 10-year maturity	Provide rapid financial assistance to LICs facing balance of payments need, without ex-post conditionality	USD 109.4 million already approved & 109 in pipeline pending board approval
Rapid Financing Instrument (RFI)	Emerging market facing balance of payments crisis	100% of a country's quota ($40 billion total for COVID-19)	One-off disbursement at the same rate as PLL or SBA to be repaid in 3.5-5 years	Provide rapid financial assistance to all member countries facing balance of payments need	-
Catastrophe Containment window	Low income or with <1.5m population and a per capita income <US$2,330 experiencing a public health or natural disaster	Based on debt service obligations ($200 million, but trying to get $1 billion for COVID-19)	NA as government receives grants to pay off upcoming debt service to the IMF	Provide debt flow relief for two years after a country is hit by the disaster	-

Standby Credit Facility (SCF)	Low income that experiences episodic, short-term financing needs, including	100% of a country's quota up to a cumulative of 300%; can be increased to 133% and 400% in	12-36 months of lending at a 0% interest with a grace period of 4 years and 8-year maturity period	Supports economic programs aimed at achieving, maintaining or restoring a stable and sustainable macroeconomic	-

Source: https://www.imf.org/en/About/FAQ/imf-response-to-covid-19

While Rwandans' public finance system has been performing well over the past years, both in terms of resource mobilization and efficiency in resource spending as indicated by the high rate of budget execution, the COVID-19 shock will take a toll on the government's budget and spending for priority sectors including for children. Therefore, the Government will need to take necessary and integrated measures aiming at lessening the economic tolls, protecting poor households including those with children and other vulnerable members, and securing financing to ensure continued access to key social services. Specifically, the following interventions need to be given priority:

- Strengthen community health financing to ensure adequate capacity and tools to deal with COVID- 19 at the local level.
- Prioritize rapid and emergency financing for social protection, including cash transfers by increasing the number of social assistance beneficiaries and topping up the size of benefits to the poorest households, increase the installation of adequate handwashing and sanitation facilities in all schools and public spaces to ensure adequate sanitation.
- Design and implement timebound subsidies to support emerging need to social assistance for affected households, small business holders in urban areas who were affected by the lockdown, and mostly fall beyond the mainstream social protection programmes,
- Design and implement an integrated fiscal and monetary stimuli package to support small and medium-sized businesses, for quick recovery such that they do not fall into bankruptcy and create further unemployment and poverty.
- Prioritize highly concessional loans and grants types of external financing, while mobilizing more resources for the COVID response to avoid short term public debt distress.
- Continue strengthening fiscal and financial transparency and accountability during and after the COVID-19 emergency to avoid public funds leakages or any other form of spending inefficiency.

While the situation was changing on a near-daily basis and estimates were subject to change, in late March, the MINECOFIN had already recorded a reduction in turnovers and overall performance of key sectors. As of early mid-March, mining, manufacturing; trade; and transport sectors experienced negative growth relative to 2019.

MINECOFIN estimated the following potential impacts:

- ***Mining:*** following the drop in mineral prices, mineral production, and export will also reduce, leading to negative growth in mining.
- ***Manufacturing:*** the difficulty of accessing raw materials and equipment could lead to lower growth in the sector.
- ***Construction:*** the difficulty importing capital or intermediate goods will have a negative impact on construction, delaying projects, and leading

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to much lower growth of the sector compared to 2019.

- ***Trade and transport services***: the difficulty to import, as well as the decline in the expected growth of Rwandair activities, could lead to slower growth of the sector.
- ***Tourism and hospitality***: the negative impact on tourism is already being felt, with the Rwanda Development Board's (RDB) temporary suspension of gorilla and hiking permits, and temporary closure of borders, the international airport, and bars and restaurants.

Factors responsible for affecting the MSMEs due to COVID-19 in Rwanda

- **Shortage of Manpower**: Organizations across the State have experienced unprecedented workforce disruption. Virtually all companies are still determining how they will work in the short- and long-term, as shortage of manpower exists, which has affected the MSMEs to a greater extent.
- **Market Demand:** Consumer demand patterns have shifted; supply chains are disrupted and have been under pressure, due to a stagnating economy and reduction in market demand. With the COVID-19 crisis, fundamental changes in consumer behavior and routes to market have knocked MSMEs off balance in the State.
- **Shortage of supplies/input materials:** Small industries in the State have faced a shortage of raw material due to the ongoing nationwide lockdown. As a result, there was a halt in the production which ultimately affected the entire supply chain. So, shortage of raw material has been a factor which adversely affected the MSMEs during the pandemic.
- **Logistics:** Due to lockdown, the supply chain has virtually come to a standstill. As a result, shipments lie pending as factories and warehouses were shut in a prompt response to the global health emergency. The crisis has severely affected transport services, both in terms of supply and demand. And because freight transport operations, logistics, and the production of goods were so tightly synchronized, these disruptions have quickly had a ripple effect on commerce, exposing the fragility of the entire supply chain.
- **Export Issues**: Merchandise exports have collapsed by over 60% and imports contracted only slightly less. The trade collapse was not surprising as the spate of regional, national as well as lockdowns around the world have not only dented demand and investment, but also severely disrupted supply chains and shipping routes.
- **Shortage of Funds:** The MSMEs stare at a lack of capital. Small enterprises are hit by zero cash flow due to the national lockdown. As there was a halt in the production and slump in demand, MSMEs are unable to pay their creditors. While the revenue generation remains on hold, there are several expenses that the MSMEs can't get their hands off such as salaries of employees, tax deposit, rent of warehouses and office spaces, among many others.
- **Temporary Shutdown** Workplace shutdown has been a major factor in hitting MSMEs hard during the COVID crisis as operations get ceased due to unavailability of raw materials and leave the enterprises at a high risk of insolvency. So, it is indicative that the slowdown or the temporary shutdown is one of the major factors that have affected the MSMEs in Kigali.
- **Shortage of Market Credit:** The nation-wide lockdown has badly hit business sustainability for the MSME segment due to the lack of cash-flows to meet their fixed cost. Business credits were first hit by the sudden stop in economic activities, affecting the industries disproportionately.

Survival of MSMEs in Rwanda during post COVID-19 pandemic

The business environment during post pandemic will be totally different from today's business environment specially MSMEs. The following changes we can expect in field of MSMEs sector.

- Digital practice: Rwandan small and micro businesses comprise **97.8**% of the private sector and account for 36% of private sector employment. There are over 72,000 MSMEs operating in Rwanda. Rwandan medium sized enterprises are well-established businesses that are individually or jointly owned. The untapped portion of MSMEs must change their strategy and digitize their business processes to survive in long run. To adopt digital practice is really difficult for some MSMEs but without adopting digital practice it will be very difficult to survive during post epidemic as people will continue to avoid meeting and social gathering.
- High credit support and available of working capital.
- Adopting more sustainability practice which leads to environment conscious.
- MSMEs should be given more emphasis on innovation. Of course, innovation in MSMEs business is amazed but innovation will be indispensable for MSMEs after this epidemic, other they cannot exist.
- Cross train staff practice will be helpful to some extent in the business premises, so that they will be able to perform variety of roles in business.
- Giving more emphasis on working capital management. Quick collection from receivable will be helpful to meet wage and salary expenses.

METHODOLOGY

Both Primary and Secondary sources of data were collected. A survey of MSMEs in Kigali was conducted. The primary sources of data were collected over telephone, via e-mail and by visiting the enterprises. The secondary source of data was collected from Ministry of Finance, Health and Agriculture and from various relevant articles, journals, magazines etc. The target population was the Rwandan microfinance sector that consisted of 460 institutions, of which three were microfinance banks, 19 limited liability companies, 416 Umurenge SACCOs, and 22 non-Umurenge SACCOs. The microfinance sector served nearly four million micro, medium, and small entrepreneurs (MSMEs and SMEs) in Rwanda, as per the Association of Microfinance Rwanda (AMIR). The article adopted an exploratory methodology with comprehensively reviewing the available literature, including policy documents, research papers, and reports in the relevant field. Combination of quantitative and qualitative methods was used to analyze data, and questionnaires and interviews were used to collect data. Further, to add empirical evidence, the study collected data from 110 MSMEs registered in Kigali province by administering an online questionnaire. The data were analyzed through descriptive statistics. The results indicated that most of the participating enterprises had been severely affected and they were facing several issues such as financial, supply chain disruption, decrease in demand, reduction in sales and profit, among others.

Data Analysis and Interpretation

The data analysis was conducted by getting information from the survey, which was done by administering questionnaires among the MSMEs. Companies surveyed expressed a range of business impacts due to COVID-19. Most (85 percent) were fully open at the time of the survey; however, five percent were still temporarily closed and ten percent were open but with some restrictions. The high number of companies reporting that they were open likely reflected the fact that at the time of the survey the nation-wide curfew had ended and the economy had largely re-opened, coupled with the nature of the businesses that were surveyed – as clients of financial institutions.

Analysis of MSMEs by Sector

Profile

MSMEs Profile in this research presents data and information on business actors in general in Rwanda. MSMEs in Rwanda according to data as of December 2019 amounted to 4000 with the composition as in Figure 3.

MSMEs sector profile

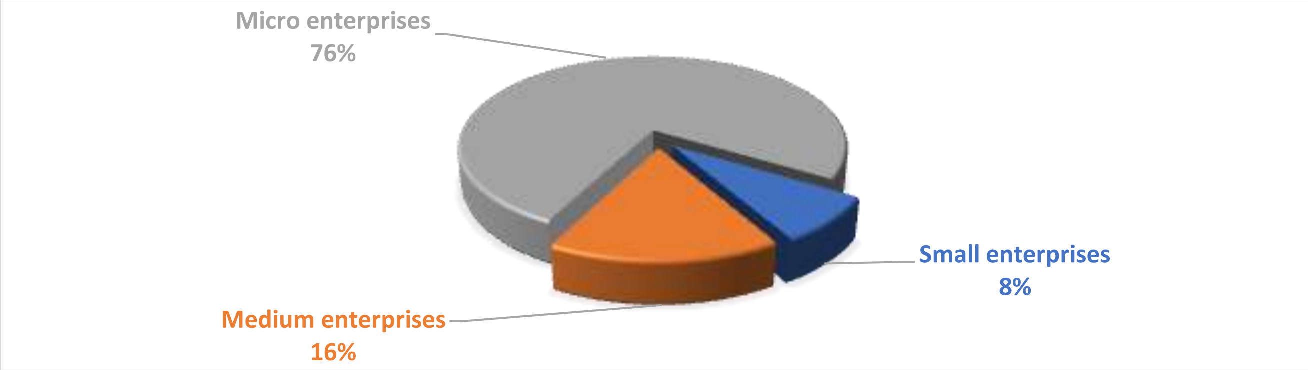

Figure 3: MSMEs sector profile

Source: Primary data, 2020

A majority of the participating MSMEs said that the coronavirus pandemic has had an adverse impact on their business. Out of the total sample size, around 6% of the respondents said that their businesses have not been impacted due to the pandemic outbreak. However, since the outbreak the following was witnessed.

All-Sector Highlight

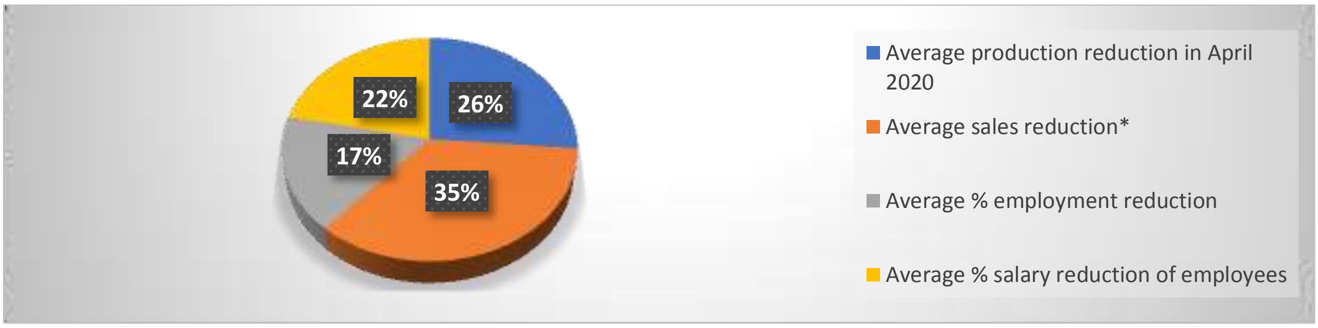

Figure 4: All-Sector Highlight

Source: Primary data, 2020

The majority of MSMEs surveyed belong to the construction and manufacturing sector (30%), closely followed by food and agriculture (28%). The remaining MSMEs belong to the wholesale and retail (24%) and service (18%) sectors. Within these, MSMEs fell under the subsectors of hospitality, services, metal, construction, general trade, food, carpentry, plastic, and agriculture.

Breakdown of MSMEs Surveyed by Sector

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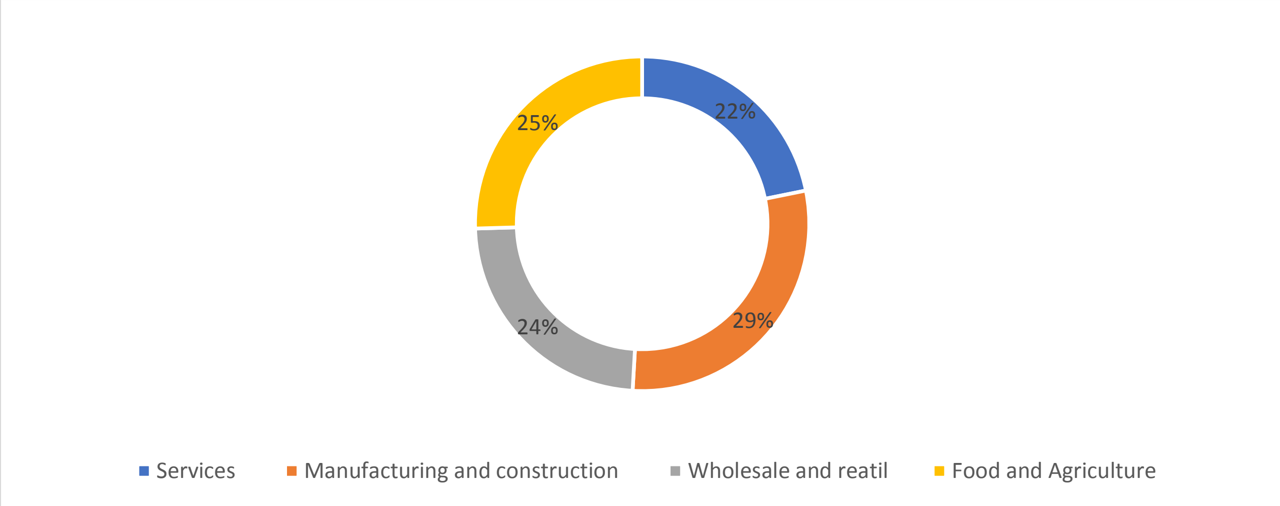

Figure 5: Breakdown of MSMEs Surveyed by Sector

Source: Primary data, 2020

On average across enterprises prior to COVID-19, 69 per cent require raw materials or inputs. MSMEs are divided as to whether these raw materials/inputs have been accessible, with 54 per cent claiming at least some materials have been impossible to purchase in the period 24 March to 21 April.

However, of the enterprises that did not have trouble finding materials, 42 per cent reported the number of suppliers had changed during the same reporting period. A vast majority of that group reported the number of suppliers decreased (97%). Effects on the supply chain may have also been more significant across geographic locations than across sectors. When analyzing the likelihood to report changes in the number of suppliers available to businesses over the previous four weeks, there were weak significant results between being located in Kigali, and experiencing a lower or higher number of suppliers in the previous month, as well as with being a female company owner in any governorate and experiencing a lower or higher number of suppliers in the previous month. Modelling did not find significant variance between sectors regarding the likelihood to report more or fewer suppliers in the last four weeks.

Only a small number of MSMEs (18%) reported that inventory, stock or raw materials had expired. For those who claimed losses, these amounted to an average of 5,400 United States dollars (USD). Very few MSMEs were able to purchase materials on credit in the period 24 March to 21 April (7%).

COVID-19 has had a significant impact overall on sales for MSMEs. Nearly all (94%) reported that sales had been affected by an average of 71 per cent in the period 24 March to 21 April. In terms of production, overall businesses have witnessed a reduction of 52 per cent. Of those 43 per cent of MSMEs that produce or manufacture goods, a majority (86%) expected future production to be affected by the current month, and to last for three months.

Impact of Covid-19 on MSMEs revenues in Rwanda

Average weekly revenue typically experienced at this time of the year before COVID-19 across all MSMEs is USD 2,764. Comparatively, respondents estimated that in the period 24 March to 21 April weekly revenue has been USD 535. On average, weekly revenue declined by 79 per cent.10 An average SME in this study would be worth USD 154,520 and would typically make USD 80,207 in net revenue in a year. However, MSMEs anticipate that they will lose about USD 18,540 in revenue if movement restrictions continue until June.

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COVID-19 on Surveyed MSMEs revenues

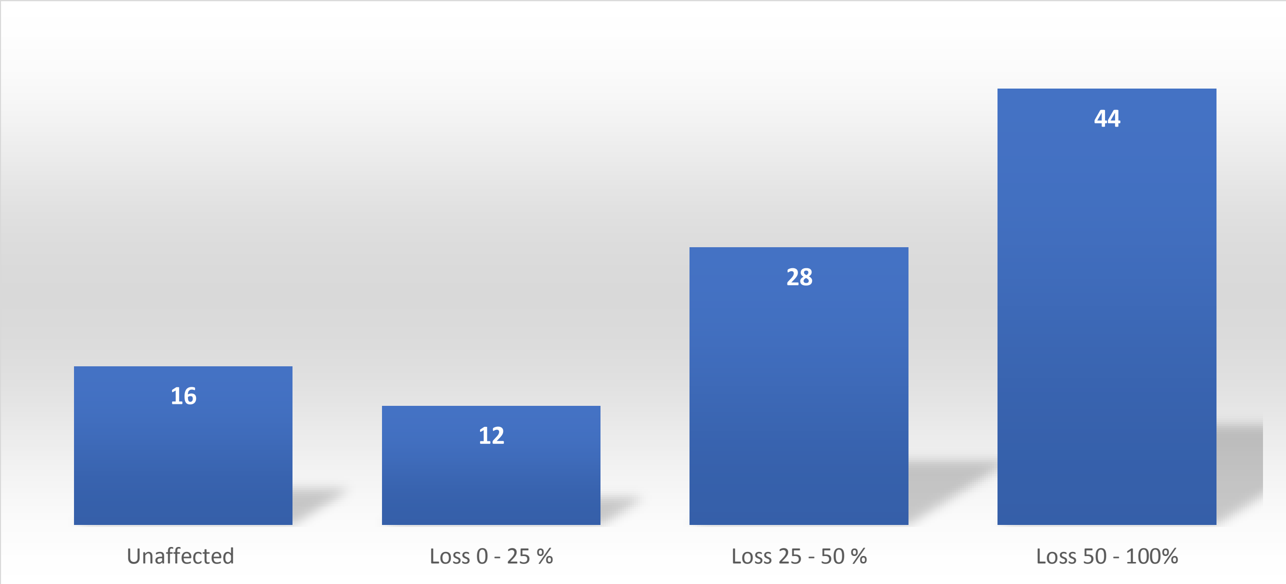

Figure 6: Impact of COVID-19 on Surveyed MSMEs revenues

Source: Primary data, 2020

Nearly 16% of the respondents reported that their revenues were not affected, around 12% reported that they bore a revenue loss in the range (0%-25%), nearly 28% of the respondents said that they suffered a loss of revenues in the range (25%-50%) and around 44% of the respondents reported a loss of revenues in the range (50%-100%).

Over the past ten years, the Government budget recorded about a three-fold nominal increase from FRW 948.0 billion in 2010/2011 to FRW 2,876.9 billion in 2019/20. Annually the total national budget increased by 13 percent on average, while the average GDP growth rate for the past ten years was 8 percent. However, the national budget has been kept around 30 percent of GDP, as it was 28.8 percent in 2010/11 and registered a slight increase up to 31.8 percent in 2019/20 (Figure 6).

No significant differences in estimated losses to annual revenue by sector or location were observed, although there is a weak significant relationship between estimated revenue losses and being located in Basra. Significant predictors in explaining variance in estimated annual revenue losses include the net worth of the firm (positively correlated to estimate of annual revenue losses) and the number of employees working within the businesses (also positively correlated with estimates of annual revenue losses).

Weekly revenues have been mostly negatively (yet not significantly) affected in the previous four weeks within the hospitality and construction industries, women-owned businesses, and in Kicukiro, Gasabo and Nyarugenge. Contrarily, general trade and food businesses are significantly associated with better weekly revenues compared to weekly revenues during a typical week.

Impact on Employees' Absence (Job loss) in Rwanda

The typical workforce for MSMEs in this study is about five employees, and across all sectors 86 per cent are, on average, full time. As a result of COVID-19, in the period 24 March to 21 April the average number of paid employees was 2.8. Across companies of all sizes, the number of paid employees was reduced, on average, by 40 per cent.

MSMEs Surveyed by job loss

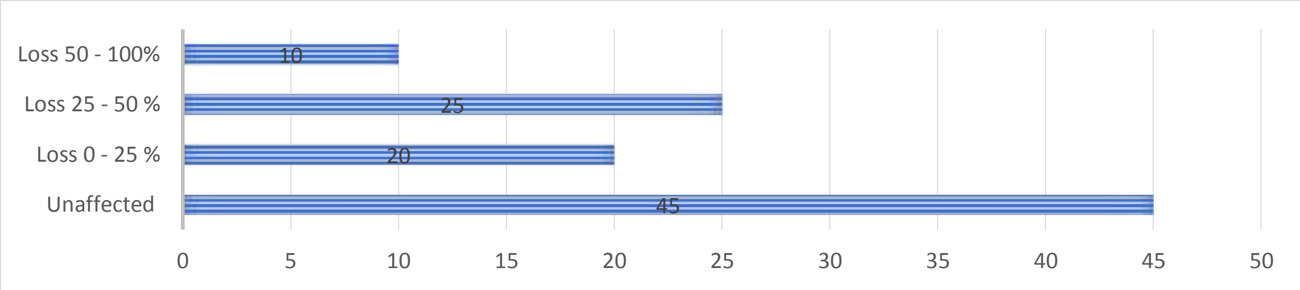

Figure 7: Breakdown MSMEs Surveyed by job loss

Source: Primary data, 2020

Nearly 45% of the respondents reported that there was no employee absence during the pandemic, around 20% said that there was employee absence in the range (0%-25%), 25% of the respondents reported employee absence in the range (25%-50%), and nearly 10% said that there was employee absence in the range (50%-100%).

Respondents reported having on average two employees consistently working in the last month. Overall, only 37 per cent of enterprises reported having employees consistently working during the period 24 March to 21 April, while the remaining introduced different measures, such as reduced working hours. Specifically, for those staff who remain employed, about 14 per cent of SMEs claim they have staff with reduced hours or days – about three staff on average. In terms of SME employee numbers, this means that 60 per cent of employees have reduced working hours/days. Slightly more SMEs reported that they have employees with reduced salaries: 17 per cent. Salary reductions averaged to about 36 per cent.

Table 4: Average Job Loss by Sector

	Average % employees who lost their jobs	Average % employees with reduced hours or days	Average % employees at home with full salary
Services	-52	65	86
Manufacturing and construction	-45	50	62
Wholesale and retail	-39	90	67
Food and Agriculture	-21	51	82
All Sectors combined	-40	60	77

Source: Primary data, 2020

Comparatively, 23 per cent of businesses state that they are paying full salaries to employees who have been asked to stay at home. Changes in employee numbers indicate that about 77 per cent of employees on average across MSMEs are home with full salaries. Laying off employees has been minimal at the time of surveying: an average of 9 per cent according to MSMEs.

Overall, 96 per cent of MSMEs reported that, if able to open in the week following the survey, they would be able to bring back all full-time staff to work. The hospitality industry, on average, expects to bring back two workers fewer compared to other sectors, and thus has been the most significantly affected in terms of expected job losses.

Impact by age of business

Revenue reductions are most significant for MSMEs established less than six months ago (29%), closely followed by MSMEs of more than six years (26%). Given that the newest MSMEs are facing multiple challenges, it is logical that they are the most likely to borrow money informally (32%). Businesses of more than six years are the next likely (27%), followed by those established 5–6 years ago (26%).

The oldest MSMEs were more likely to note cost increases (74% for MSMEs of 5–6 years and 62% for SMEs of more than six years). Moderately old SMEs of 5–6 years and 3–4 years witnessed the largest contractions in employment and job loss (59% and 46%, respectively).

The study further investigated the capacity to borrow of the MSMEs basing on their age.

MSMEs are very unlikely to have borrowed formally for their businesses in the period 24 March to 21 April (96% said they had not). However, about a quarter have borrowed informally (26%) an average of USD 5,000. Both of these findings may represent a steep increase in both formal and informal borrowing, as a survey run by PSF with 256 similar MSMEs in the third week of March 2020 (before movement restrictions were applied), found that only 6 per cent had borrowed from a relative or individual, and only 0.3 per cent had borrowed from a formal source. Over half of MSMEs also claimed they had provided financial assistance to others in the community in the last month (56%), compared to 44 per cent who claimed they had not.

Impact on Needs

Half of the interviewed MSMEs (51%) consider that they would not be able to cover their rent cost for the month during which data collection took place (April 2020), and 61 per cent said at least one cost had increased in the current month due to COVID-19 restrictions. The highest recurring expenses included: rent (83%), electricity (60%), salaries (58%), materials (30%), water (26%) and transportation (9%). The most critical type of support requested for businesses to survive at the time of data collection (April 2020) were financial support (62%) and lifting the curfew (16%). In terms of future support six months from now, MSMEs also cited financial support (59%) and compensation for losses (8%) as the most important support for businesses to recover.

MSMEs securing expenses by Sectors

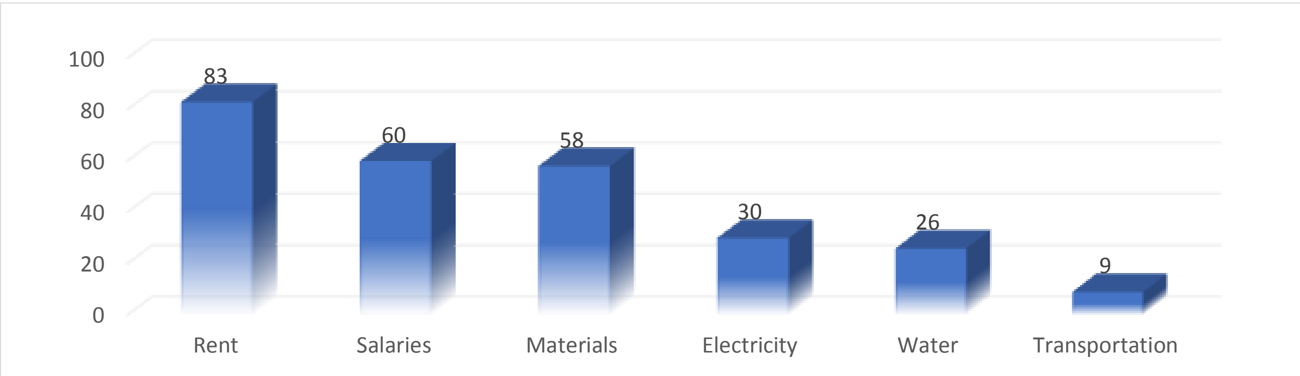

Figure 8: Highest MSMEs recurring expenses by Sectors
Source: Primary data, 2020

To adapt to changing circumstances, 20 per cent of MSMEs have changed their business model or production lines. Of those who made adjustments, 76 per cent reduced working or business hours and 21 per cent changed delivery mechanisms for goods or services.

At the subsector level, general trade and agricultural businesses may not have reduced production, and modelling suggests that production may have even relatively increased in these industries when controlling for other factors. Meanwhile, although not significantly, metal and carpentry businesses, followed by hospitality ones, have been the most likely to reduce production.

Factors Affecting MSMEs due to COVID-19

It's interesting to get insight of what is affecting the industry and its associated variables.

Different factors affecting MSMEs by Sectors

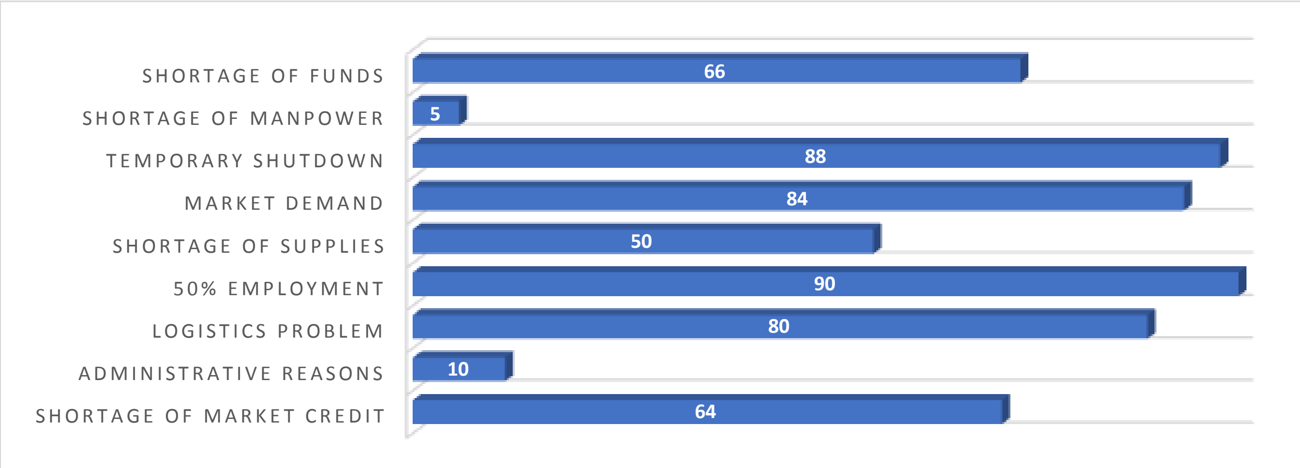

Figure 9: Factors affecting MSMEs by Sectors

Source: Primary data, 2020

Despite Rwanda government schemes, it is reported that 64% of the respondents are facing problem of access to credit market. 5% of the respondents are facing unavailability of skilled manpower at their workplaces to resume their businesses. It could be due to mix of reasons – migration of unskilled workers or reluctance of people to resume the work. Due to COVID-19 forced reasons where transport sector has hit a greater toll due to lockdown, around 50% respondents faced shortage of supplies and shortage of funds, this is verified further when the 80% respondent's reported logistics issues in ferrying either supplies or finished goods. While unlocking is slowly swinging the business gearing back to normalcy, around 88% respondents reported that their businesses were on pause. There is silver lining of remaining 16% who were still up and on without facing situation of temporary shutdown. Due to the lockdown where end customers or interim customers were in shutdown stage, around 66% respondents faced poor demand from market. This is further tightened by dismal responses on export which is reported by around 10% respondents. It's worth to highlight a supportive regulation where merely 2% of the respondents reported any administrative issues during COVID-19. Lockdown has obvious impact on jobs, around 29% respondents reported cut in one third of employment during the business dismal performance resulted by COVID-19 shutdown.

MSMEs risking for permanent closure

Risk for permanent closure of business in Rwanda

Despite the odd business challenges and unfavorable market triggers resulted by COVID-19, the business community doesn't seem to lose its focus from the sight and appears even more confident of not just unlocking, resuming but to the turn this pandemic into a business opportunity.

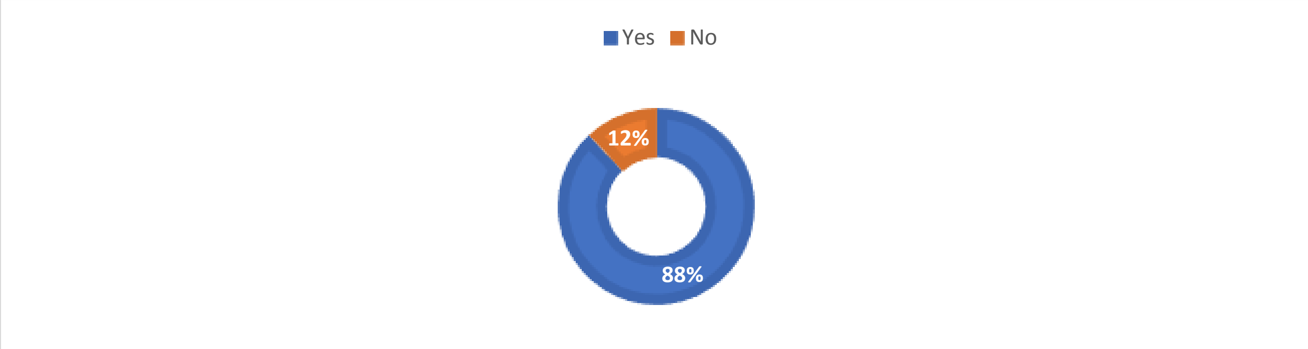

Figure 10: Risk for permanent closure of business
Source: Primary data, 2020

Around 88% respondents stood tall against the challenges and are unmoved by COVID-19. These 12% respondents asserted no threat and risk of shutting the businesses due to COVID-19. The global economy has been brought almost to its knees from the severe, wide and deep impacts of the COVID-19 pandemic—placing all past development gains at risk. The COVID-19 pandemic has caused disruption to businesses, job losses and household livelihoods, resulting in increased poverty—with the poorest and vulnerable suffering the most. In addition, the resultant illness has overwhelmed health systems and social safety net responses, with the burden being proportionately higher for Africa's weaker economies. The total impact is yet to be accurately determined through more in-depth analyses.

CONCLUSION AND RECOMMENDATIONS

The COVID-19 pandemic had caused the Micro-Small and Medium Enterprises (MSMEs) sector to face unusual challenges since this sector had much lower reserves of liquidity and less access to credit. The nationwide one month lock down was therefore, certainly bound to break the back of MSME sector. But as per the survey report we concluded that the MSMEs sector of Rwanda proved to be resilient enough and stood tall against the challenges faced by the pandemic and was affected to a lesser extent as majority of the participants did not have the risk of permanent closure of their business. The major factor that had affected the business of the MSMEs sector was temporary shutdown of their enterprises, ultimately affecting the revenues. Many enterprises had put their business expansion and growth plan on hold to better strategize and many had found innovative methods of diversifying into new business activities to cope with the crisis. A large number of respondents were hopeful that reducing the production of goods and services as their current action plan would help them to overcome the crisis. Though the Government had taken various initiatives to help the MSMEs to cope with the crisis it was found that almost half of the respondents were not aware of it and majority of the participants had not yet availed the schemes.

As COVID-19 was largely under control in Rwanda, resuming production had become high on the country's policy agenda. Understanding the challenges of reopening was essential for designing appropriate policies to help MSMEs find solutions to the issues that hamper them and navigate this tough time. From March to August, 2020, major challenges facing firms had shifted from the supply side to the demand side. Lack of demand had become the most critical challenge, in particular for export firms. Thus, supporting policies that targeted consumers, particularly low-income and vulnerable consumers, would indirectly benefit MSMEs through the channel of rising domestic demand.

This study recommended as follows;

- Continue to monitor changes through repeated observations of either the same group or a similar group of respondents to capture longer-

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term effects on output and employment, especially within manufacturing related and hospitality businesses;

- Conduct an analysis of the supporting ongoing legal and regulatory efforts by the government of Rwanda, including goods exempted from movement restrictions, imposed tariffs and the effective dates of regulations, and incorporate these in ongoing analysis to provide feedback on whether regulatory efforts are effective or not;
- Support initiatives for business transformation to mitigate the effects of movement and gathering restrictions, such as the development of applications for restaurants to do home delivery, online shopping platforms for furniture businesses, virtual tour options for construction supervisors, or other solutions that can be supported in Rwanda;
- Advocate for freedom of movement for hospitality and food businesses, in addition to farmers and agricultural workers, to prevent the unnecessary expiration of perishable materials;
- Support the formalization of informal industries to the extent possible, through facilitated exchanges between business owners and local Chambers of Commerce to ensure that informal workers have access to social safety nets, as much as possible, in the case of internal adjustments to employment.

Policy implications and recommendations

The results of this rapid scenario analysis demonstrate that the Government of Rwanda could negate many of the negative impacts of the COVID-19 response on poverty by scaling up efforts to distribute food and essential needs to Rwandans, even outside of Kigali. This assessment, therefore, recommends the following:

- Comprehensive coordinated fiscal response, including a health sector response to mitigate and contain the outbreak, is required as soon as possible. This is already ongoing with very encouraging results. Acting now and fast will help reduce the impact on medium- and long-term on households, including poverty dynamics, employment, hunger, health, and inequality. Specific actions include:
- Government should increase spending for immediate health-related expenditures such as supplies including masks, gloves, other personal productive equipment, in addition to ICU beds
- Mass testing is necessary to address the pandemic and treat the sick. Without this being done, the economic and social impact is going to be prolonged and compound the problem. Innovative approaches could be used, such as applications of artificial intelligence in high risk/high traffic sites to enhance COVID- 19 detection efficiency while protecting medical staff and the general public from cross-infections.
- Ensure that some of this health sector spending is also earmarked to support non-coronavirus health concerns, from basic to emergency healthcare
- Scale-up social protection programmes to respond to COVID-19- Improve targeting of existing food and essential needs distributions. Scale-up existing social protection programmes and re-purpose them to protect the most vulnerable such as the elderly, youth, poor, women, people with HIV/AIDS. These protection measures should be guided by existing protocols to enable rapid scaling and re-purposing. Mapping of social protection should be complemented with rapid assessment by Local Government to identify the most vulnerable using the Ubudehe categorization.

In the immediate term:

- VUP Direct could be used concurrently with Food and necessities support for most vulnerable could be targeted using a combination of Ubudehe category, poverty category, primary sector of income, and district of residence.

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- Household income support using mobile money transfer. In some instances, cash transfer should be considered to allow market forces to rebound and operate as normal.
- The Government plans to use SACCOs with automated systems. # of them meet the requirement. However, the support should be to increase the digital capacity and automation of those not meeting requirements.
- Paid leave support for households who are working in the formal sector.
- Decreasing interest rates and increasing access to loans and financial services.
- Enact measures to prevent price gauging for food and necessities.

In the medium-term social protection measures, which could be implemented for the COVID-19 response to support vulnerable Rwandans could include:

- Scale-up Direct Supports for VUP beneficiaries guided by the above targeting approach;
- Scale-up Girinka, supporting agricultural households who may have difficulties as a result of price fluctuations and drastic reductions in sales;
- Expand VUP Financial Supports and Public Works to support those left unemployed by COVID-19 once containment measures are lifted.
- Digitalize food supply chains and work with the private sector to promote industrialization. This should start with the staple foods to avoid an increase in food prices arising from the disruption in movement. Food security in East African countries has already been negatively affected due to the outbreak of the locusts. Complementing the social protection measures, the Government should explore the potential of supporting digitalizing supply chains as physical markets are increasingly under pressure due to the lockdown measures that are institutionalized to combat the spread of the virus. While there are no indications regarding the timeline for the lockdown, which largely depends on success in controlling the spread of the virus, the lockdown period could be prolonged, or reimposed after relaxation if there is another outbreak of the virus

Specific actions included:

- Work with the private sector to ensure the country has an adequate food supply. Coordination with the East African countries is key in ensuring the adequacy of food supply.
- Work with East African Ministry and commission, to ensure the smooth flow of goods and services especially food.
- Specifically, mapping of the supply chain actors within specific areas should be done, and it will be necessary to link these actors via digital platforms such as mobile.
- Support selected key industries that have significant potential for import substitution through made in Rwanda context.
- Work with the private sector involved in service delivery, including companies such as Jumia, Kasha Rwanda, and other HeHe-owned platforms to ensure that Rwandans have access to market products.
- Protect basic service delivery. Support the respective ministries, agencies, and private sector to ensure Rwandans continue to have access to basic social services, including water, electricity, and health services in this difficult time.
- Government should work with utility companies to reduce the burden of the households in paying bills while getting to work is increasingly difficult, particularly for those in the informal sector. A long-term payment scheme should be identified for households that could utilize mobile systems as advance credit for households to continue to have access to basic social services.
- Prioritize the most important government agencies and ministries to provide electricity, water, etc., to benefit from e-governance platforms.

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- Support other governance activities to ensure adherence to the rule of law and best governance practices during a time of unprecedented pressure on police and law enforcement.
- Work with the private sector on innovative ways to ensure basic services to cater to the poorest and vulnerable, for example, as a public-private partnership (PPP).
- Finalize and implement a recovery plan by working with all the Development partners including UN, bilateral and International Financial Institutions to avoid spillover effects of the COVID-19 response to the wider economy, including through financial sector transmission channels. The COVID-19 crisis is truly unprecedented and requires unprecedented action. The response, as described in this brief, has the potential to create complex challenges into the medium and long term. The above policy recommendations have the potential to mitigate, at the household level, some of the future negative effects and spillover effects of the actions that must be taken now. However, maintaining macroeconomic and financial sector stability is key. In this regard, immediate support, both technical and financial, to the authorities is needed to combat these effects.

Specifically, the following are key activities to take forward:

- To help ensure that the fiscal response plan is effective, a multisectoral team should be established and work with the whole of government to respond to direct health impacts and indirect but severe economic impacts.
- In addition to the health sector, the most directly affected sectors, such as tourism and trade, should be provided priority to receive a fiscal stimulus to protect employment within those sectors. The supply chains should be mapped to link with the appropriate Government response plan.
- Private sector support should consider the needs of the SMEs that form a large segment of the private sector and bedrock of the Rwandan economy and government own drive under the Made in Rwanda. The Micro-enterprises should also be included in the response.

Government of Rwanda

Government is undoubtedly a key player in the MSMEs ecosystem. Its role can be viewed through two lenses: as an enabler of MSMEs growth, and through the delivery of targeted support, especially to high growth businesses. The following are four key areas where government support could be critical:

- Encourage research and development as requisites for innovation and growth.
- Provide targeted and sector-specific support for MSMEs now and post crisis. Here, there is a significant opportunity for governments to work with entities created to support MSMEs to provide nuanced, sector-specific interventions to help them get back on their feet postcrisis.
- Enhance the national entrepreneurial culture by promoting programs that prioritize MSMEs as preferred suppliers. Government can identify and bridge gaps that hinder MSME growth and also focus on raising awareness among MSMEs on the kind of support—financial or otherwise— available to them;
- To ensure that entrepreneurs are supported with the skills and capabilities they need to rebuild and grow after the crisis. For example, most would benefit from additional training, in business scenario planning or managing scarce financial resources. This would be particularly relevant where relief funding is provided. In this effort, government could also work with industries and sectors that are most under threat from COVID-19 to develop resilience strategies and to help them reimagine their business models going forward;
- Provide targeted and sector-specific support for SMEs now and post crisis. Here, there is a significant opportunity for governments to work

with entities created to support SMEs to provide nuanced, sector-specific interventions to help them get back on their feet postcrisis.

East African Partner States

The community should:

- Pursue strategies to support their success, as related to accessing new markets, and customers; a stable supply chain; strong customer engagement; a healthy workforce; and a robust post-crisis strategy.
- Utilize digital and new technologies to enhance their reach and efficiency at lower costs, thus overcoming their scale disadvantage relative to larger players. MSMEs can focus on key areas of competitiveness in their value chain, product, and/or operations and identify the best technology levers to enhance competitiveness.
- Develop team skills and capabilities and empower leadership.

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