

MEASURES TO SUPPORT SMALL AND GROWING BUSINESSES TO RECOVER FROM IMPACT OF COVID-19

A STUDY BASED ON TURKANA AND KWALE

FOUNDSMALLATION



JUNE 1, 2021

INVEST IN AFRICA - KENYA

CONTENTS

Glossary.....	3
List of Figures	4
Acknowledgements.....	5
Introduction	6
Background of the Study.....	6
Objectives of the study	7
Methodology.....	7
Introduction.....	7
Research Purpose	7
Research Methods	8
Sampling Strategies	9
Ethical Considerations	9
Problems and Limitations	9
Significance of the study	9
Key Messages.....	11
The Findings	12
The impact of Covid-19.....	12
The Nature of the Impacts of Covid-19 in Turkana and Kwale.....	12
Pivoting and Repurposing as a Coping Strategy for SGB Sustainability.....	15
Pivoting and Repurposing Needs	18
Constraints to Pivoting and Repurposing	20
Limited Access to Credit.....	21
Limited Digital Access.....	21
Information Asymmetry	23
Recommendations	26
Key Interventions for Pivoting/Repurposing During Covid-19 That Can Be Achieved Short Term.....	26
Development of an SGB Focused Policy Framework That Supports Risk Resilience and Disaster Preparedness	26
Enhanced Capacity with A Focus on Disaster Risk Resilience for SGB Risk Resilience	26
Short-Term Policy Measures Crucial for Supporting SGBs Pivoting and Repurposing to Manufacturing.....	27
Enhance Private Sector Participation, From Both Large Companies and SGBs FOR RECOVERY INITIATIVES	28
Enhancing Proactive Public Awareness in Access to Finance.....	29
Conclusion	29

1. **AfCFTA** – Africa Continental Free Trade Area
 2. **CATI** – Computer Aided Telephone Interview
 3. **CEO** – Chief Executive Officer
 4. **Covid-19** – Coronavirus
 5. **CRA** – Commission of Revenue Allocation
 6. **EABC** – East African Community Business Council
 7. **EABC** – East African Community Business Council
 8. **GDP** - Gross Domestic Product
 9. **GoK** – Government OF Kenya
 10. **IFC** – International Finance Corporation
 11. **IIA** – Invest in Africa
 12. **ILO** – International Labour Organization
 13. **Joint SGBs** – SGBs that have a mixed ownership 50:50 structure where shares are equally distributed among men and women shareholders.
 14. **KEPROBA** – Kenya Export Promotion and Branding Agency
 15. **KIE** – Kenya Industrial Estates
 16. **KIRDI** – Kenya Industrial Research and Development Institute
 17. **McK** – McKinsey and Company
 18. **MSC** – Microsave Consulting
 19. **MSEA** – Micro and Small Enterprises Authority
 20. **Non-WSGBs** – SGBs that are led by men
 21. **SCBF** – Swiss Capacity Building Facility
 22. **SGBs** – Small and Growing Businesses
 23. **SMEs** – Small and Medium sized Enterprises
 24. **WSGBs** – Women Owned and Led SGBs where one or more women own more than 51% of shares or a woman is in a leadership role such as CEO or Managing Director
-

LIST OF FIGURES

- 1) Figure 1: The Operational Status of SGBs in Turkana and Kwale Counties
 - 2) Figure 2: The Coping Strategies Used by SMEs to Remain Operational
 - 3) Figure 3: Sectors Pivoting Representation – Most Affected Sectors to Least Affected Sectors
 - 4) Figure 4: Representation of Sectors Willing to Pivot/Repurpose
 - 5) Figure 5 & 6: Hospitality, Travel, and Transport SGB Pivot Options
 - 6) Figure 7 & 8: Mining & Natural Resources and Construction Pivot Options
 - 7) Figure 9 & 10: Business Needs for Successful Pivoting and Financing
 - 8) Figure 11 & 12: Business Needs for Successful Pivoting and Financing
 - 9) Figure 13: Sources of external financing sought by SGBs
 - 10) Figure 14: Online Sector Representation of SMEs
 - 11) Figure 15: Reasons for Lack of Online Presence
 - 12) Figure 16: Perceptions and Attitudes on Recent Measures by Various Stakeholders to Support SGBs
 - 13) Figure 17: Trusted Sources of Information for SGBs in the Study
 - 14) Figure 18: Reliability of Proposed Sources of Information
-

ACKNOWLEDGEMENTS

We are grateful to Small Foundation for their support, guidance contributions and excellent engagement throughout.

We also thank the International Finance Corporation (IFC), The County Government of Turkana, Base Titanium Ltd, The Chamber of Commerce (Turkana County), and The Umma Initiative.

We further thank the many stakeholders – including SGBs and their representatives – whom we interviewed for this study.

Finally, we thank participants at the final review workshop held virtually in 2020, which included officials from the IFC, the County Government of Turkana, the Chamber of Commerce, and related organisations. We are very grateful for the detailed policy suggestions received in which are reflected herein.

INTRODUCTION

In Kenya, Small and Growing Businesses (SGBs) employ eighty per cent (80%) of the population and contribute approximately forty per cent (40%) to the country's Gross Domestic Product (GDP) making them a vital component to the economy. In consequence, from the onset of the pandemic, ecosystem actors including the Government of Kenya (GoK) have responded to their struggle to remain afloat with urgency by designing interventions that would prevent further closure of small businesses.

Few measures have been taken by the SGBs themselves to cushion against the risks posed by the pandemic but due to lack of policy frameworks, inadequate disaster risk preparedness, lack of awareness, limited financial resources, and limited availability of advisory and support services, the sustainability of their efforts must be called to question. The private sector, for instance, must view the protection of investments against the impacts of hazards such as COVID-19 as a key challenge that must be effectively tackled to achieve sustainable development. Especially where it involves rural-based SGBs.

Invest in Africa (IIA) seeks to respond to the urgent need to promote rural enterprises through research that informs the type of interventions required in supporting them to recover and build back stronger. This is believed to be a force for economic change that must take place if many rural communities are to survive.

BACKGROUND OF THE STUDY

The study focused on two rural counties - Turkana and Kwale - due to their high number of rural SGBs across various sectors. Communities in these counties fall within the low socio-economic class and depend on SGBs to sustain their livelihoods.

Turkana County, located in the Northern part of Kenya, is considered the poorest of the forty-seven counties in Kenya. Statistics from the Commission of Revenue Allocation (CRA) indicate that nearly ninety-two per cent (92%) of the population is living below the poverty line, earning less than two US dollars per day. What this means is the negative impact of Covid-19 on the rural SGBs in Turkana would have a devastating effect on livelihoods if not addressed in good time.

Kwale County is in the coastal region of Kenya and is also considered to be among the poorest in the country. Like Turkana County, most livelihoods are sustained through SGBs.

Both counties have received significant investments in the mining and extractives sector and SGBs have tapped into these activities to support livelihoods and sustain the supply chain. These SGBs have diversified into business activities other than those solely related to agriculture such as catering, travel and tourism, value addition, wholesaling, retailing, general supplies, construction, professional services, among others.

Some of these rural SGBs have been expanding their activities and markets to find new markets for their products and services beyond the county boundaries.

This study sought to explore the impact of Covid-19 on SGBs and to generate robust solutions for enhancing their development by harnessing the local content laws and policies for the accelerated development of the two counties. The study also sought to explore the pivoting and repurpose needs of the SGBs and mobility within the fields and sectors of operation.

OBJECTIVES OF THE STUDY

The overall objective of the study was to identify the needs and capacity of SGBs with the potential to repurpose and pivot as a business survival strategy during and post the Covid-19 phase.

More specifically, the study sought to:

- Understand the real time impacts of Covid-19.
- Assess the business health of the studied SGBs and establish the need for repurposing/pivoting.
- Prepare the findings to inform dialogue and gain consensus among key stakeholders on priority actions for recovery.
- Identify specific support interventions required to enable repurpose/pivot models for SGBs.
- Promote the interest and commitment of the SGB ecosystem players in designing and participating in the development of strategies for supporting business recovery and survival.

METHODOLOGY

INTRODUCTION

The purpose of this chapter is to explain in detail the research methods and the methodology implemented for this study. The chapter will explain the research approach and design as well as the advantages and disadvantages of the research tools chosen. This will be followed by a discussion on their ability to produce valid results, meeting the aims and objectives set by this study. The chapter then goes on to discuss the sample size and the sampling strategy applied by the researchers and the data analysis methods which have been used. It concludes with a brief discussion on the ethical considerations and limitations posed by the research methodology including the problems encountered during the research.

RESEARCH PURPOSE

This study makes use of both quantitative and qualitative research strategies, where a mixed approach of both positivism and interpretivism have been used to help the researchers draw a more wholistic picture.

The researchers chose to use this approach because amidst the quantifiable approaches, there were non-quantifiable variables between which different and complex connections were found to exist.

RESEARCH METHODS

For the purposes of this study, the researchers decided to use a combination of two of the classic social sciences tools – questionnaires and interviews. The questionnaires were used to conduct focused interviews with the business owners of SGBs in both Turkana and Kwale counties. As a complementary method, the researchers conducted interviews with an equal number of representatives of each group. The advantages and disadvantages of each method are discussed below.

Questionnaires

Questionnaires were chosen for this research because they are a reliable and quick method to collect information from multiple respondents in an efficient and timely manner. This is especially important when it comes to large projects, with several complex objectives, where time is one of the major constraints. This study was no exception and questionnaires were a quick and effective way for the researchers to reach multiple respondents within several weeks.

A general disadvantage of the questionnaire method, however, is their fixed and strict format which eliminates the possibility for more in-depth or abstract observation. Again, this study was not an exception from this rule, as the questionnaires provided linear and clear results, but many elements from the research were left uncovered.

Interviews

The questionnaires were used to conduct the research through Computer Aided Telephone Interviews (CATI). Interviews were used as a complementary research method because of three key reasons. First, the Covid-19 pandemic prevented any physical contact between people to minimize spread of the virus. Next, the rural nature of the study posed concerns over the respondents' ability to fully self-fill online questionnaires due to network connectivity issues and limited access to internet connected business centres. Finally, the length of the tool suggested expected low response rates.

The interviewers were required to follow a script provided by a software and resist engaging the respondents beyond clarifying the meaning behind a question, repeating a question, or sometimes translating the question to Swahili to prevent biased results. This method was critical to the study as it allowed for more cooperation from interviewees, fast data collection, and enhanced accuracy. All of which were crucial to the validity and reliability of the responses recorded.

SAMPLING STRATEGIES

For the purposes of this study, the writer had to examine two separate groups of participants. A method of stratified sampling has been used as the relationships between different sub-groups had to be observed. The participants were selected based on specific criteria, such as the sector of operation. The first group of participants was from Turkana County and consisted of the SGB business owners. A total of 620 business owners were interviewed. The second group of participants was from Kwale County. Business owners were interviewed and accounted for 155 of the total sample. A full sample of 775 business owners were interviewed for this study. The researchers tried to create as diverse a sample as possible, making sure there was an equal number of men and women represented, and more importantly that there were representatives from various sectors.

ETHICAL CONSIDERATIONS

There were several types of ethical issues that the researchers had to take into consideration for this project. The most important one was consent from the participants. All the participants were informed in advance of the purpose of the study and gave their consent to participate. Their identity as well as the names of the organisations they belong to has been kept confidential meeting the requirements of the code of ethics of the research consortium. Finally, all the information collected during this study has been used only for the purposes of the study.

PROBLEMS AND LIMITATIONS

The researchers faced a few problems while conducting the study. The first challenge was recruiting enough participants in Kwale County. The creation of the initial database of prospective counties took time. Thus, access to the participants and obtaining permission for the research was a major challenge. Approaching SGB representatives did, however, help push the needle. Secondly the researcher was restricted by time and cost, which determined the choice of a more efficient method, such as the questionnaire, instead of the more time-consuming focus groups or participant observation.

SIGNIFICANCE OF THE STUDY

Rural entrepreneurship is an important building block and a force of economic change that must take place if many rural communities are to survive. This study was aimed at uncovering the needs and the capacity of SGBs to pivot/repurpose.

The findings will be critical to informing the shaping of relevant and practical interventions to support the survival of rural SGBs as they recover from the disruption caused by the pandemic. It analyses pathways for

integrating SGBs into new value chains and strengthening them as they repurpose. The study develops a baseline of SGB capabilities, constraints and pathways of participation using primary data. The findings will also be relevant to informing key policy measures crucial for supporting SGBs by creating an enabling environment at both the national and county level. These findings will ensure policies and programmes are targeted more specifically at the development of SGBs and will highlight practical steps forward.

Finally, they will ensure risk informed investments for private sector players in the ecosystem who are seeking to respond with measures supporting the sustainability and resilience of their supply chains.

- 1) Even though over 90% of the rural SGBs are negatively impacted by COVID 19, over 70% of businesses interviewed were not considering shutting down. This demonstrates the fortitude of the SGBs in the face of a crisis that threatens their survival and existence. However, entrepreneurship demands an enabling environment to move them from survival to thriving.
 - 2) During the lock down and beyond, the women owned and led SGBs have borne a disproportionate burden of the economic and social costs of the COVID-19 crisis through job losses and reduced working hours. The strain has often been particularly acute for mothers, who, due to entrenched gender and cultural norms in rural areas also had to cope with additional childcare demands because of school and childcare facility closures during the containment phase of the crisis. This implies that the Covid-19 crisis risks eroding some of the gains in gender equality that have been achieved locally over the last few years.
 - 3) There is existence of barriers and constraints to SGBs attempting to repurpose such as access to information on risk mitigation, support systems, and finance. The constraints specific to value chains include availability of raw products and technology, lack of local capacity and skills to perform higher value-added work and an uneven playing field that supports the growth of large players while simultaneously disadvantaging SGBs participation in primary value addition in manufacturing.
 - 4) Few of the SGBs have pivoted while others have repurposed due to the barriers. Some SGBs have pivoted into manufacturing though generally in low value-addition. They need support in developing business models to enable them to strategically pivot and effectively respond to new opportunities to ensure long term survival and sustainability.
 - 5) There is generally insufficient coordination across the governmental departments and the deployment of a top- down approach to development and implementation. This reduces the scope for involvement of county governments and local knowledge diffusion.
-

THE FINDINGS

THE IMPACT OF COVID-19

While the health impacts of Covid-19 were mostly felt in the urban areas of Kenya, the economic impacts spread beyond urban to rural areas threatening to reverse the valuable progress made in recent years in parts of rural Kenya.

The study's particular focus on Kwale and Turkana counties is motivated in part by the threat of diminishing the progress that has been recorded given the robust growth prospects, strong private sector participation, and wealth of investment opportunities across various priority sectors in these two counties including infrastructure development, manufacturing, power generation and natural resource extraction.

THE NATURE OF THE IMPACTS OF COVID-19 IN TURKANA AND KWALE

The nature of the impacts experienced in rural SGBs bares similarities with those experienced in urban areas

Majority of the Small and Growing Businesses (SGBs) in our study recorded negative impacts in the face Covid-19 compared to those who stated that they did not experience any negative effects from the pandemic (94.2% vs 5.9%).

For the SGBs that recorded experiencing a negative effect, the top three types of effects were grouped as follows in order of severity:

1) The Decrease Demand for Goods and Services Offered by the SGBs

In the study resulted in a reduction in sales revenue achieved by businesses. This is consistent with findings from other studies. The study conducted by Swiss Capacity Building Facility (SCBF) indicates that factors contributing to these effects range from decrease in working hours to supply chain disruptions (SCBF & MSC, 2020).

2) Limited Logistical Support Due to Affected Transportation Services Across Borders

The Covid-19 pandemic necessitated in county and cross county lockdown measures that severely affected the logistics sector. According to the East African Community Business Council (EABC), the logistics sector recorded a 75% decrease in revenue making it one of the most affected sectors in the country (EABC, 2020). Most businesses located in Turkana and Kwale counties rely on supply chains that are beyond their county borders. The county border lockdown measures instituted to prevent further spreading of the virus affected both inbound and outbound logistic support for small business

owners. First, the transport requirements increased leading to a strained supply of trucks. This reduced availability of transport mechanisms interfered with business operations and caused ripple effects such as increased costs and inventory loss. Also, the strict medical guidelines put in place that required a fourteen-day self-isolation period for drivers meant that there was reduced manpower amid difficulties retaining staff (EABC, 2020).

3) Increase In Cost of Doing Business

The pandemic has marked a period of loss for both small and large business owners across the country. Bottlenecks identified on different points of the supply chain point to supply and demand irregularities that have increased the overall cost of operating a business. For businesses in Turkana and Kwale counties, their positioning in the supply chain places them at a disadvantage because of their reliance on small scale production. Small scale production measures necessitate a steady flowing supply and demand dynamic where raw materials can be readily acquired when needed and a ready market identified for the products. In such a situation, when the budget is not well planned and cash generation does not match the forecast, the company faces financial problems.

4) Impact on Jobs and Livelihoods

The impact of the Covid-19 crisis has been particularly severe for rural SGB workers, for whom staying home means losing their jobs and their livelihood (IFC, 2020). SGB employees work in sectors characterized by relatively low wages. This includes production and food processing workers, janitors and maintenance workers, agricultural workers, delivery workers, and truck drivers. Rural SGB workers are also more likely to be working in sectors affected by lockdowns and are more likely to have suffered job or earnings loss. Women have borne a disproportionate burden of the economic and social costs of the COVID-19 crisis. Being heavily engaged in frontline occupations in the agricultural sector, they have suffered disproportionately from job loss and reduced hours and face a heavy workload at home. Consequently, the COVID-19 crisis risks eroding some of the gains in gender equality that have been achieved locally over the last few years.

Some sectors have been more affected than others affecting the viability of SGBs operating in them

The impact of Covid-19 has been widespread and cuts across various sectors. However, data beyond our study reveals that specific sectors have been affected more than others (ILO, 2020-2021).

Turkana & Kwale County SGBs operating in the hospitality and building & construction sectors indicated that they were considering shutting down their businesses or had already shut down marking the most affected sectors within our study sample.

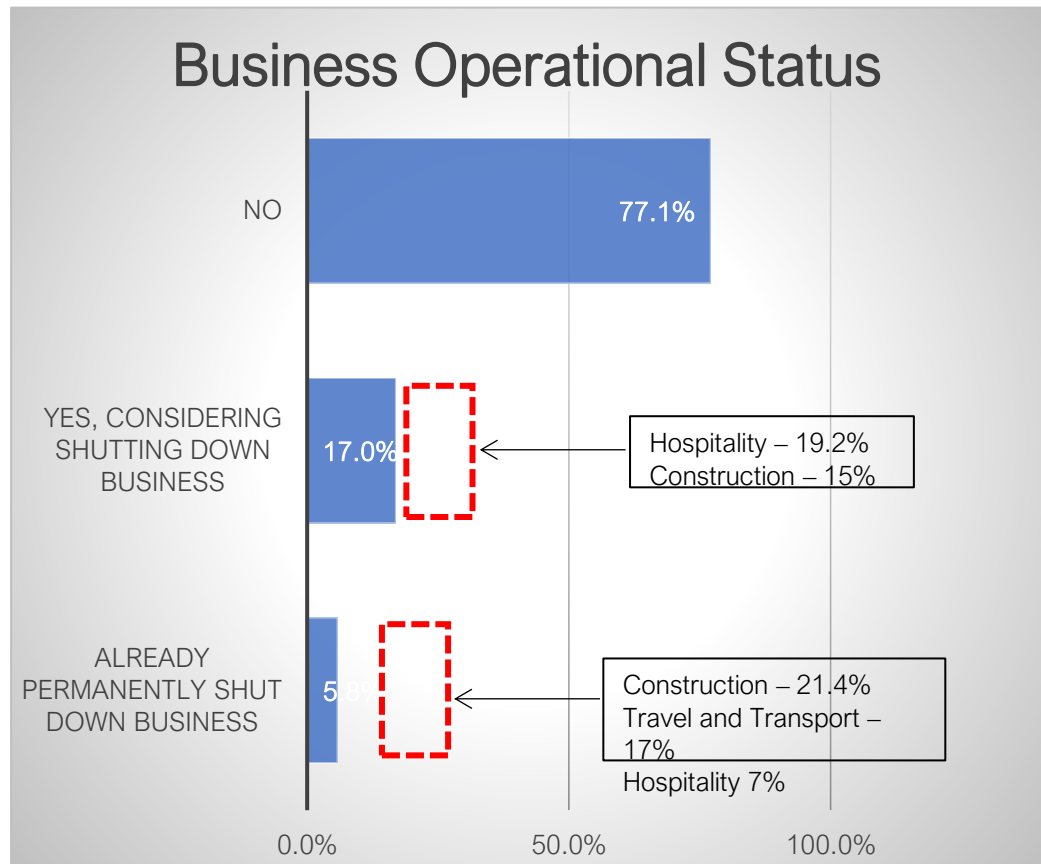


Figure 1: The Operational Status of SGBs in Turkana and Kwale Counties

Notwithstanding, a majority (77.1%) of SGBs in our study showed resilience by embracing various short-term coping mechanisms that would allow their businesses to remain operational.

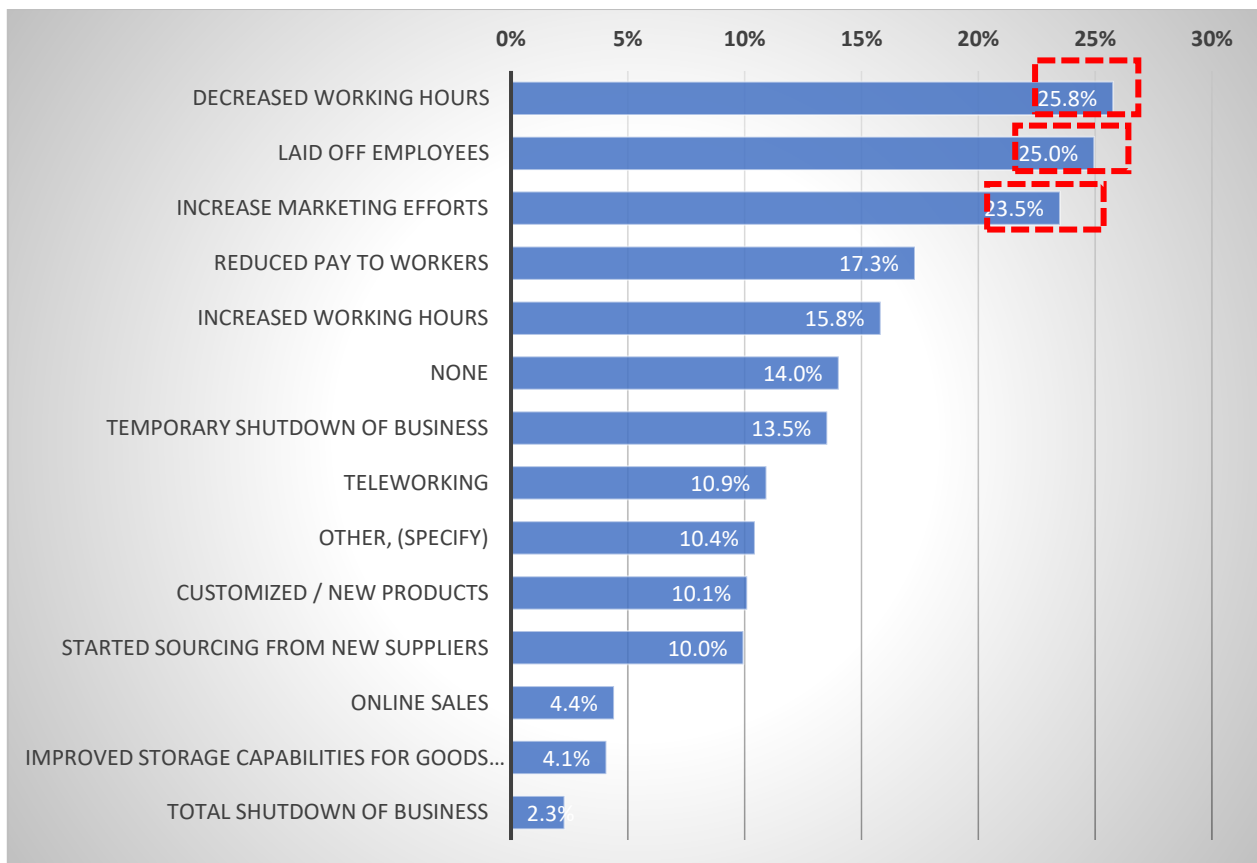


Figure 2: The Coping Strategies Used by SMEs to Remain Operational

The coping strategies adopted by the SGBs led to a mix of both positive and negative outcomes for businesses as well as the livelihoods of those who rely on them. Decisions made to keep businesses afloat included laying off employees, institution of pay cuts, adoption of teleworking modes, sourcing from alternate suppliers, and the move to e-commerce. The most extreme measures adopted were the temporary shutdown of business and the complete shutdown of business.

This report focuses on the use of pivot/repurpose strategies to counter the effects of the pandemic.

PIVOTING AND REPURPOSING AS A COPING STRATEGY FOR SGB SUSTAINABILITY

Pivoting and Repurposing of businesses could support majority of rural based SGBs to remain afloat

The use of pivoting and repurposing as a strategy to cope with the effects of the pandemic has been addressed in several studies. Businesses have pivoted or repurposed for various reasons including but not limited to meeting new needs for goods and services borne out of the crisis and sustainability. This is consistent with what we have seen in our sample.

SGBs in sectors that recorded the highest impact due to the pandemic (see Fig. 4 below) were also the highest to record the intention to repurpose or pivot their businesses to the least affected sectors as an alternative coping strategy should the effects of the pandemic endure beyond their ability to remain afloat.

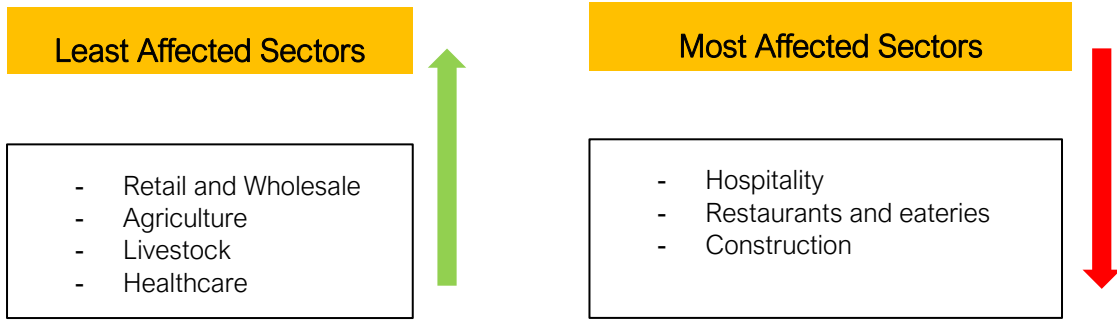


Figure 3: Sectors Pivoting Representation – Most Affected Sectors to Least Affected Sectors

Hospitality sector had the highest number of respondents who indicated that they were willing to repurpose / pivot to another line of business at 23% , Bars and Entertainment came in second at 19% with Travel and Transport coming in third.

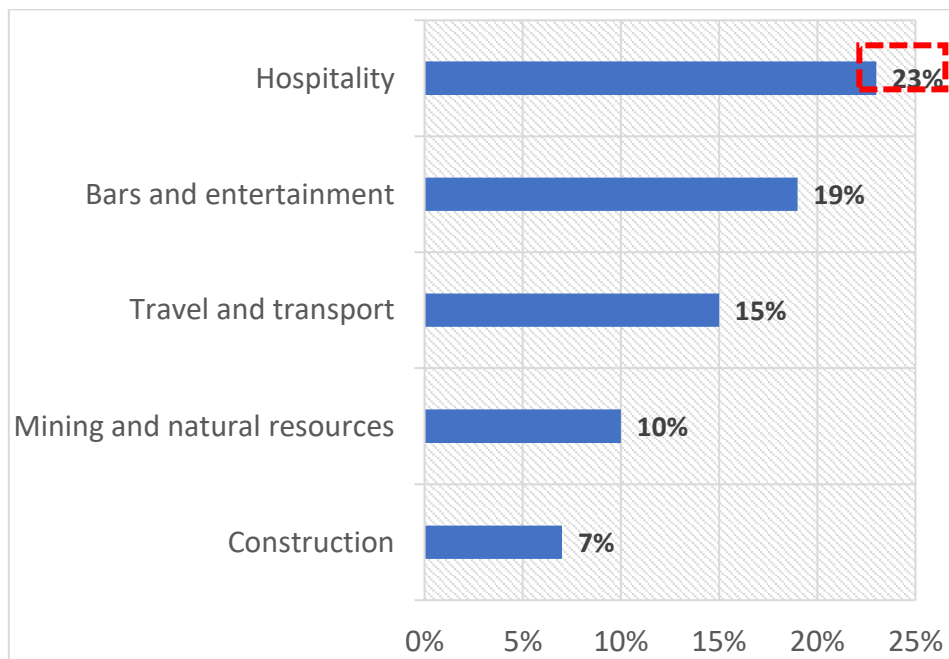


Figure 4: Representation of Sectors Willing to Pivot/Repurpose

Of those in Hospitality that indicated they were willing to pivot, 13% indicated that they would venture into livestock trade , a similar percentage indicated that they would venture into healthcare. 37% indicated that they were not decided where they would pivot/repurpose to. For those in transport sector, 31% indicated that they were willing to venture in livestock and trade whereas 33% were undecided.

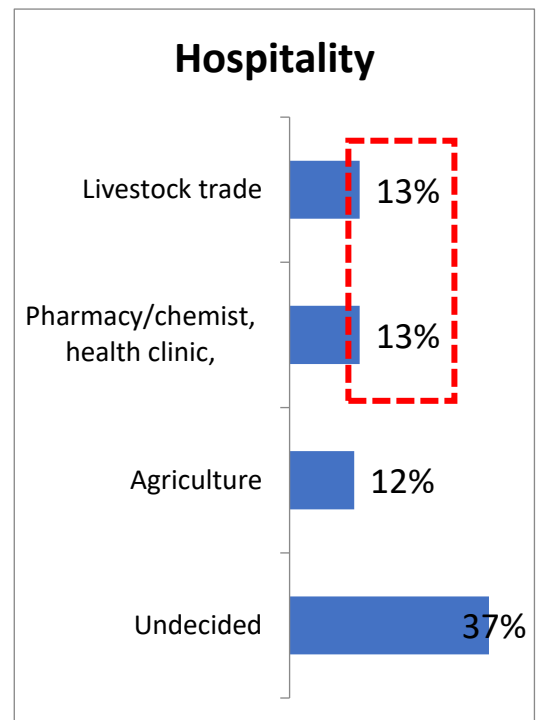
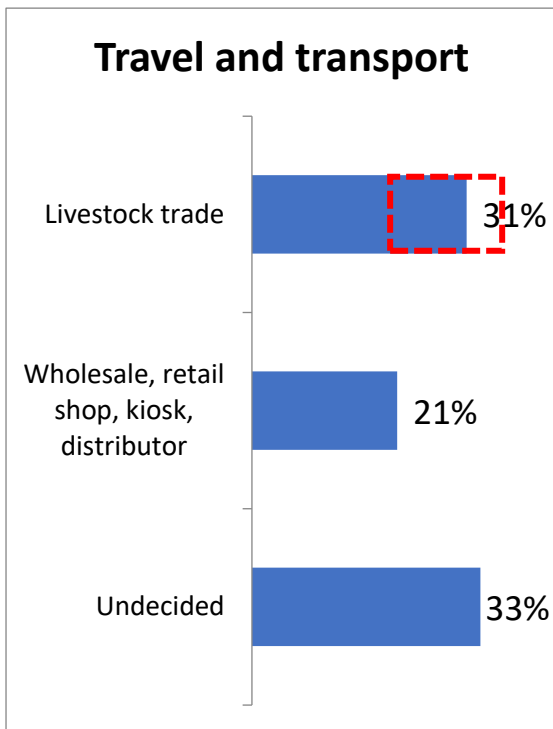


Figure 5 & 6: Hospitality, Travel, and Transport SGB Pivot Options

Within the segment of business in mining and natural resources that indicated they were willing to pivot, 23% indicated that they would venture into livestock trade, further, 15% indicated that they would venture into agriculture. 44% indicated that they were not decided yet. For those in construction, 33% indicated that they were willing to venture in agriculture whereas 28% were undecided.

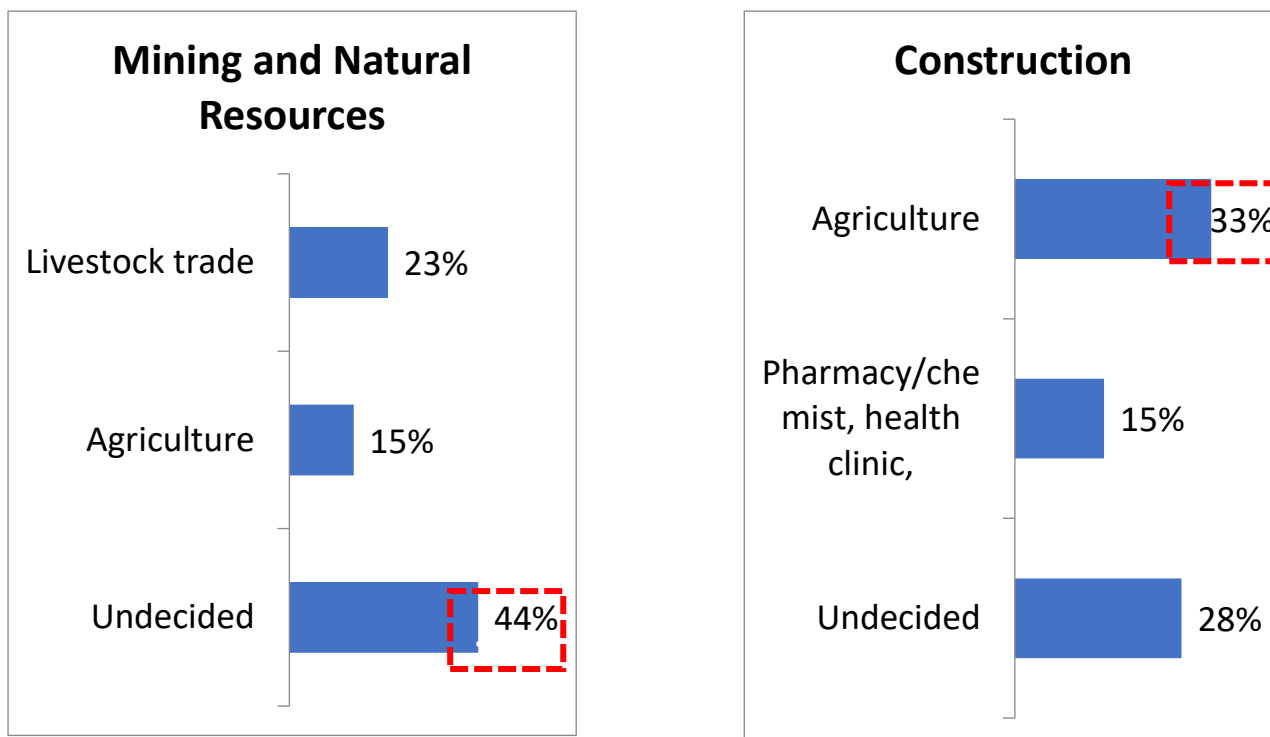


Figure 7 & 8: Mining & Natural Resources and Construction Pivot Options

The impacts of the pandemic are expected to persist with newer variants of the virus being recorded and the national government's decision to reinstitute second county border lockdowns to curb further spread of the virus.

Economic projections made in a report by the Joint Research Centre ⁿ show a poor performing economy. Therefore, we are likely to see an increase in the number of SGBs making the decision to shut down their businesses or pivot.

It is a matter of significant urgency to showcase ways to support SGBs to pivot and repurpose to prevent further economic shocks as SGBs are responsible for dash employment, contribute a significant amount to overall county and country GDPs and are the main source of livelihood for rural occupants (find sources).

PIVOTING AND REPURPOSING NEEDS

SGBs are considering pivoting and repurposing but face constraints that have prevented them from achieving this.

We found that SGBs in Turkana and Kwale have shown resilience despite the myriad challenges they have faced to keep their businesses operational. Our study identified three key areas of need that will support SGBs to either temporarily pivot or repurpose their businesses to ensure they remain resilient.

BUSINESS FINANCING

The top recorded need was access to finance opportunities

The decrease in economic activities has led to reduced turnover projections due to the weakened profitability of SGBs. This weakened financial position, amidst a deteriorating macroeconomic environment impedes the ability of SGBs to obtain external finance.

Within our study sample, an average of 52.3% indicated that they had already sought some form of additional financing to help them cope with the effects of the pandemic and will continue to rely on external credit to keep their businesses going.

Within the segment of business that expressed interest in joining the livestock sector, 66% indicated that they would need financial assistance, 32% marketing, 36% access to buyers and 37% access to raw materials. For those who indicated that they were willing to venture in pharmacy / chemist/Healthcare, 71% indicated they needed financing to successfully pivot, 28% access to raw materials and 33% market intelligence.

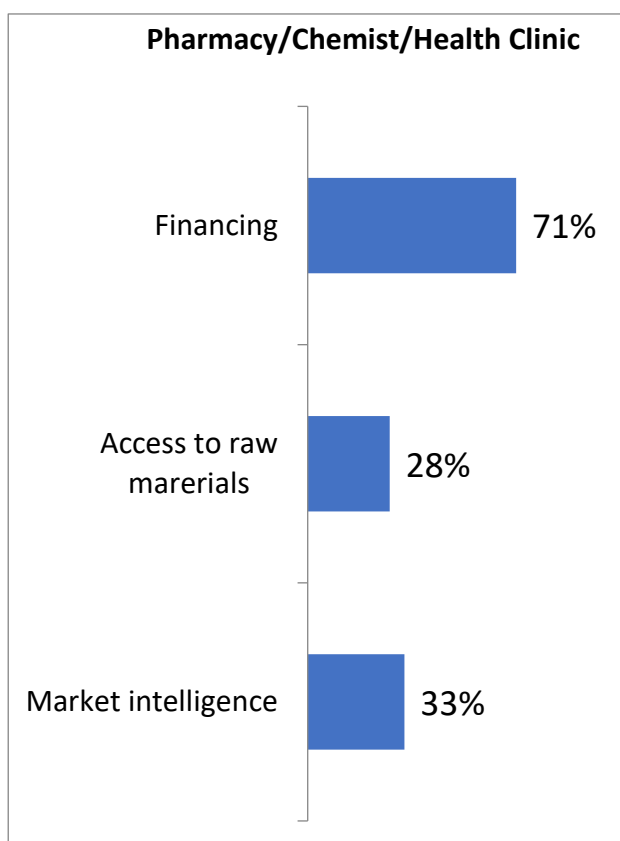
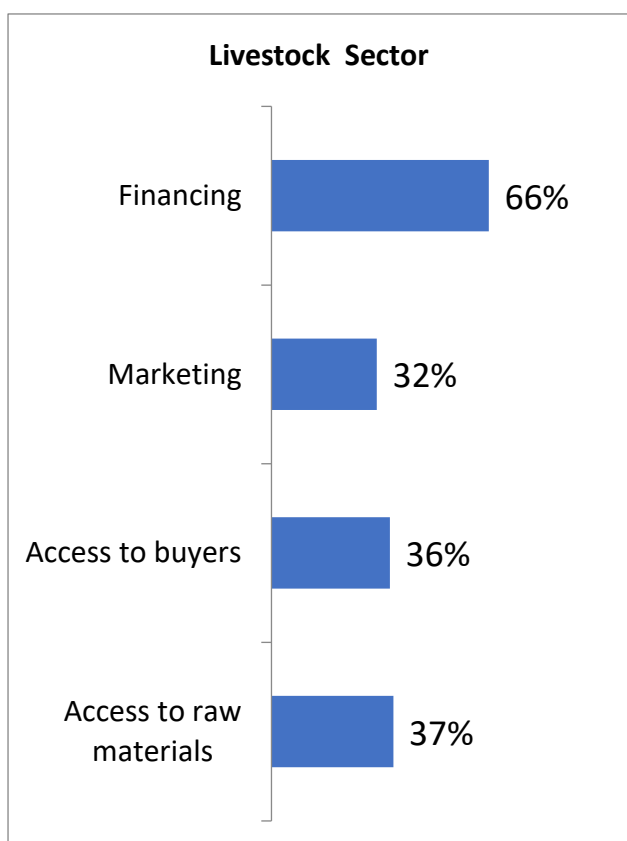


Figure 9 & 10: Business Needs for Successful Pivoting and Financing

Within the segment of business that expressed interest in joining the agriculture sector, 75% indicated that they would need financial assistance, 43% marketing, and 31% access to buyers. For those who indicated that they were willing to venture in wholesale/retail, 67% indicated they needed financial support to successfully pivot, 54% access to raw materials and 36% marketing assistance.

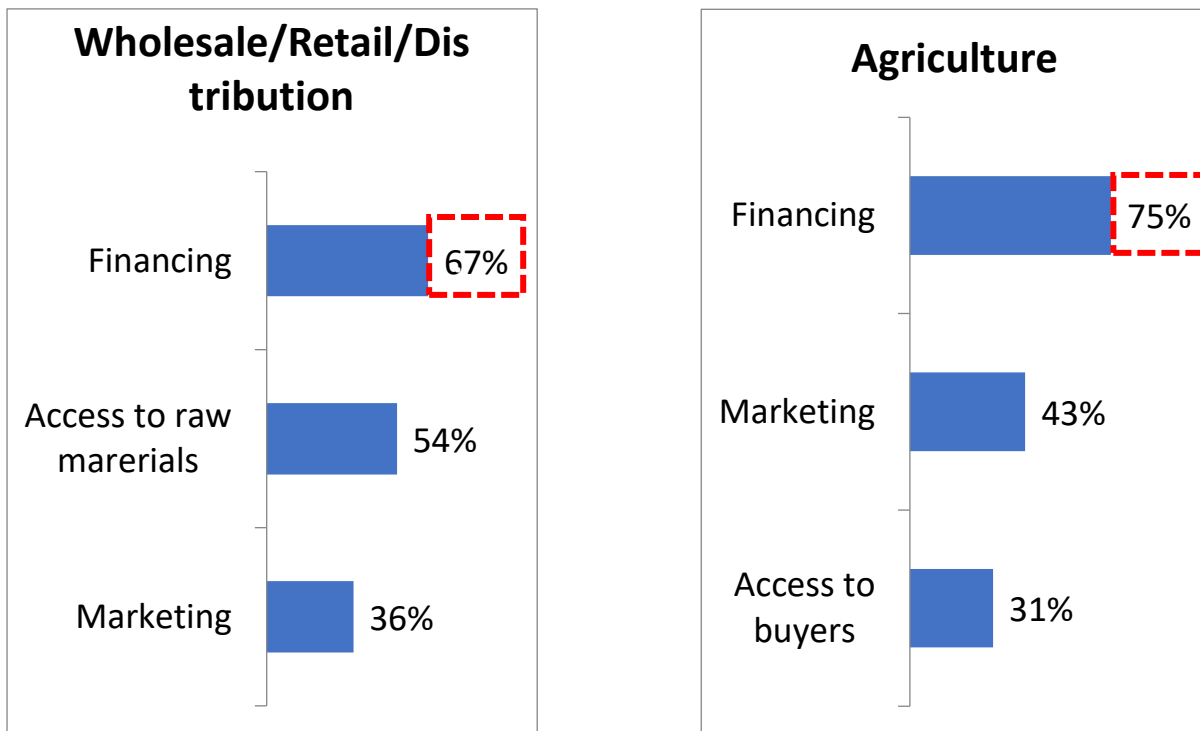


Figure 11 & 12: Business Needs for Successful Pivoting and Financing

PROVISION OF BUSINESS DEVELOPMENT SERVICES (COUNTY BUDGET TO TRAIN SGBS)

The role of business development in supporting rural SGBs during the crisis cannot be discounted. Shrinking consumer goods consumption, supply chain disruption, and border lockdowns have necessitated the need to revamp the usual ways of doing business. SGBs in our sample stated that the business development support they would need to pivot/repurpose is sourcing raw materials for their new businesses, identification of suppliers, and marketing. They also indicated the need for reskilling for the employees and business owners to cushion against the economic and labour shocks caused by the pandemic.

Another aspect of business development that was requested for was support in instituting hybrid business models¹.

CONSTRAINTS TO PIVOTING AND REPURPOSING

¹ Hybrid business models are those that combine more than one business model to deliver goods and services. In the context of this study, hybrid business models are those that combine digital models with traditional brick and mortar models.

LIMITED ACCESS TO CREDIT

With so much commerce disrupted by Covid-19, having flexible credit to fall back on can be crucial. However, the pandemic has affected lines of credit-based products such as loans. Banks and lenders have taken steps to respond to the negative impact of the pandemic by adjusting their lending policies to help small business owners to weather the storm.

Repayments have been deferred and credit limits raised, among other modifications. However, some groups, such as women in business, do not have access to these facilities and are therefore not benefitting from the measures put in place by lenders.

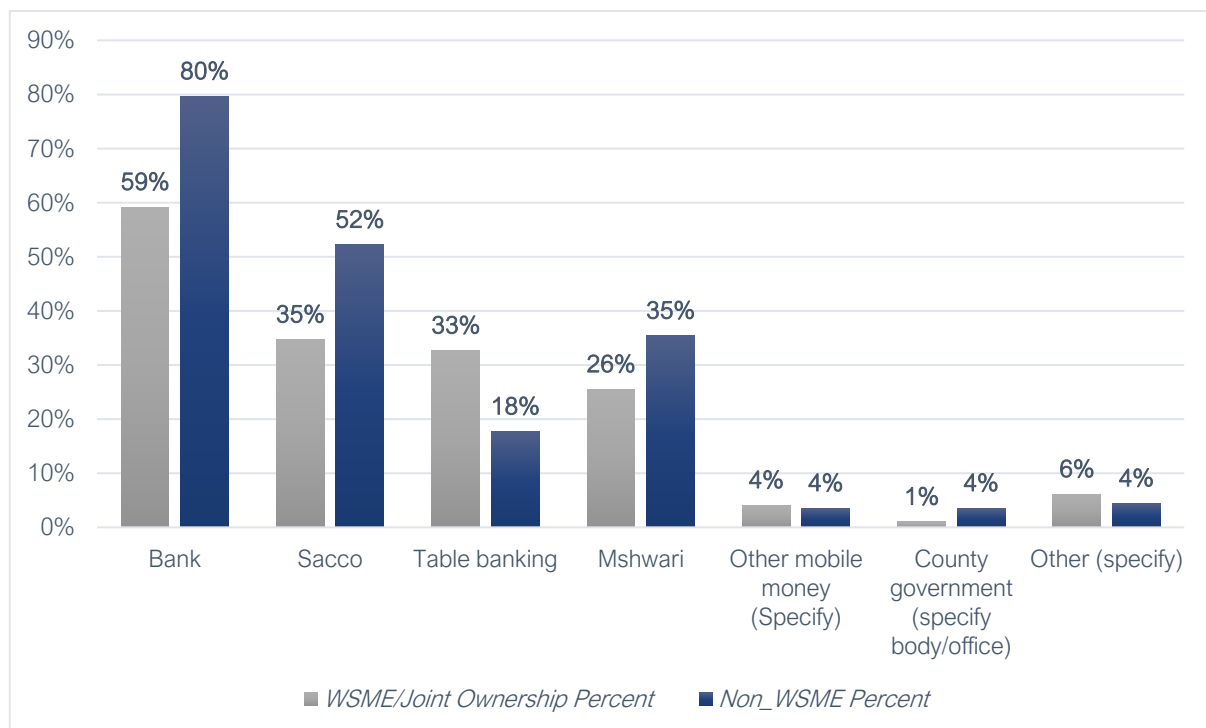


Figure 13: Sources of external financing sought by SGBs

Male led businesses have higher access to credit facilities from banks (80%) and SACCOs (52%). On the hand, women led businesses (WSMEs) get credit from table banking (33%) and mobile based credit options such as Safaricom PLC's M-Shwari.

LIMITED DIGITAL ACCESS

The pandemic revealed the importance of digital accessibility for individuals and businesses alike. Business owners have taken advantage of digital tools to protect their employees as well as serve customers they cannot reach due to lockdown measures put in place. A study by McKinsey & Company (McK, 2020) states that the recovery of Covid-19 is states that the recovery from Covid-19 is likely to be influenced by the access to digital tools.

In our sample, the sectors that respondents were intending to pivot/repurpose to had low online presence. This indicates opportunity to support these businesses to set up the use of online platforms as they repurposed.

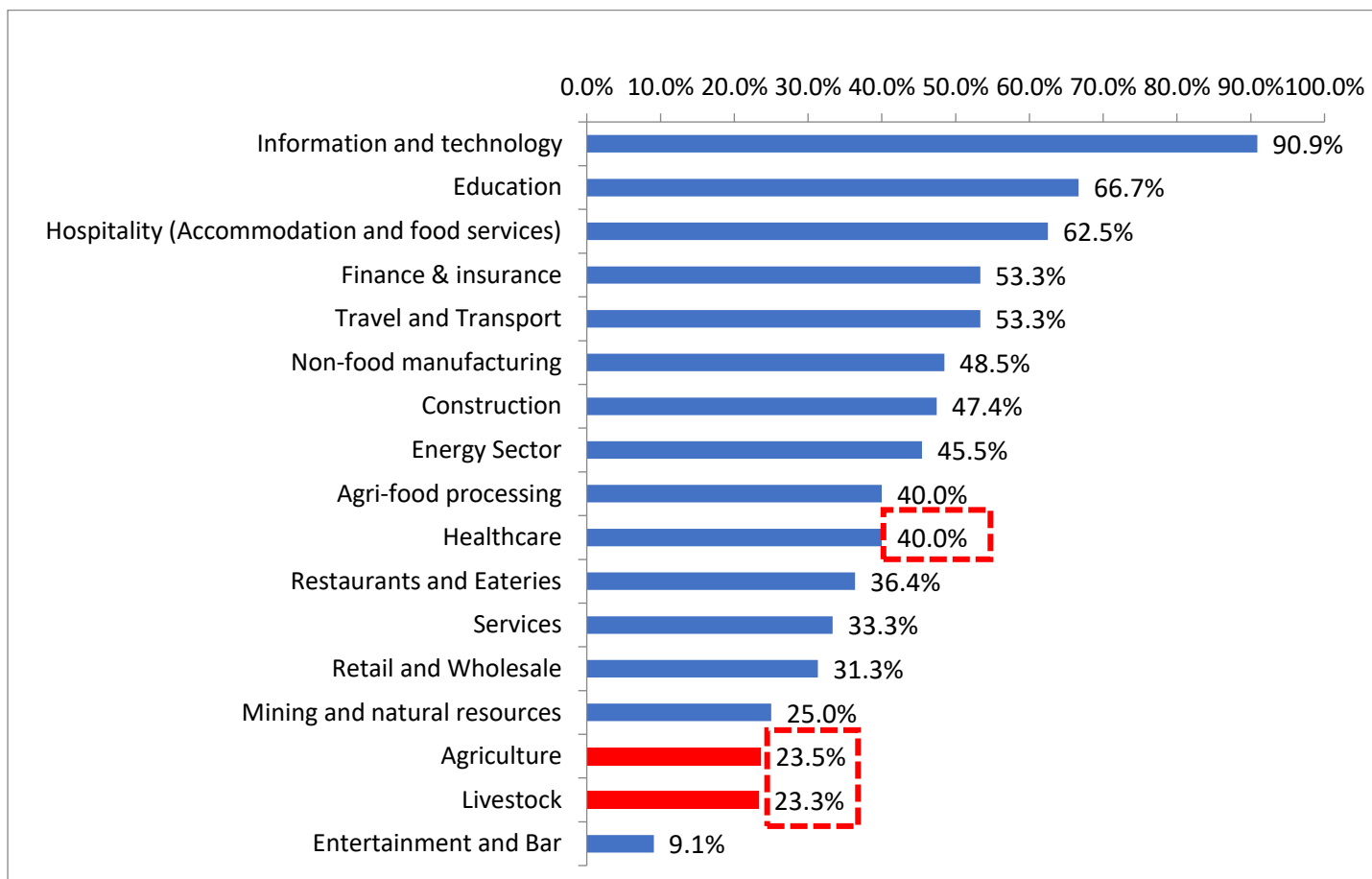


Figure 14: Online Sector Representation of SMEs

Expectedly, businesses in the IT sector have a higher online presence at 90% with education 66.7% and hospitality 62.5% coming a distant second and third, respectively. Mining, Agriculture and Livestock were among the sectors that had low online presence at 23.5% and 23% respectively.

When asked the reasons for low online presence, the following responses were recorded in order of prominence.

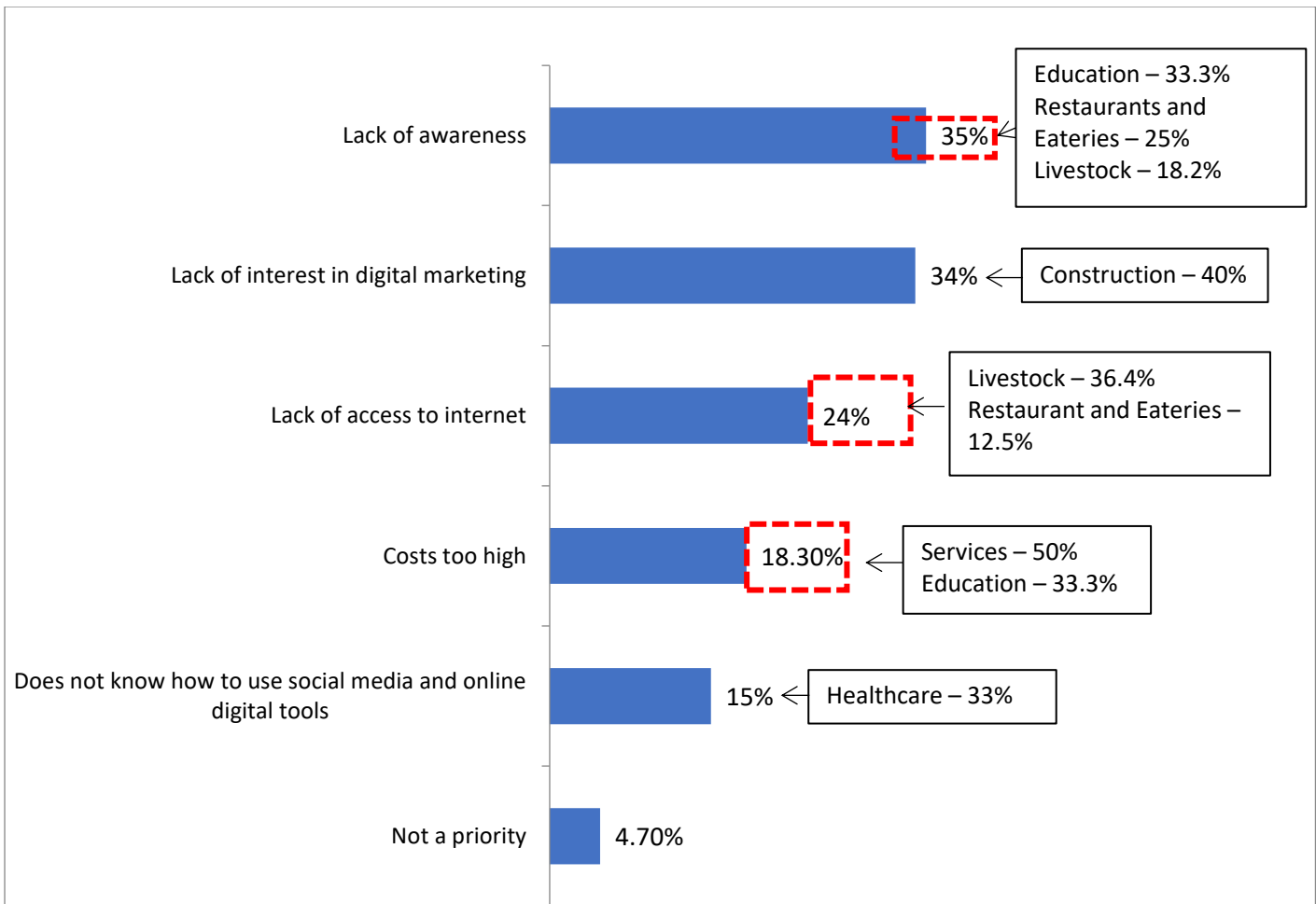


Figure 15: Reasons for Lack of Online Presence

More than one third of respondents indicated that they had no awareness of how they would get their products/services online, a further 34% indicated that they had no interest in digital marketing. There is a huge opportunity for internet use as a significant proportion of businesses indicated that they either were not aware of digital presence opportunities, lack access to internet or indicated that internet cost was high.

INFORMATION ASYMMETRY

During times that are as uncertain as the Covid-19 period, access to accurate information is very beneficial to business owners of large and small businesses. Reliable information enables entrepreneurs to know what opportunities there are in their space of operation, how to take advantage of it and in what space of time. Getting to know something after its benefit has elapsed can be a very disappointing experience. Reliable information can also increase the competitiveness of a business.

Within our sample, we observed that accessibility to the right information on a timely basis was a challenge. County and National governments put in place various measures that would have cushioned businesses against the impacts of the pandemic but some businesses were not able to take advantage of these relief opportunities.

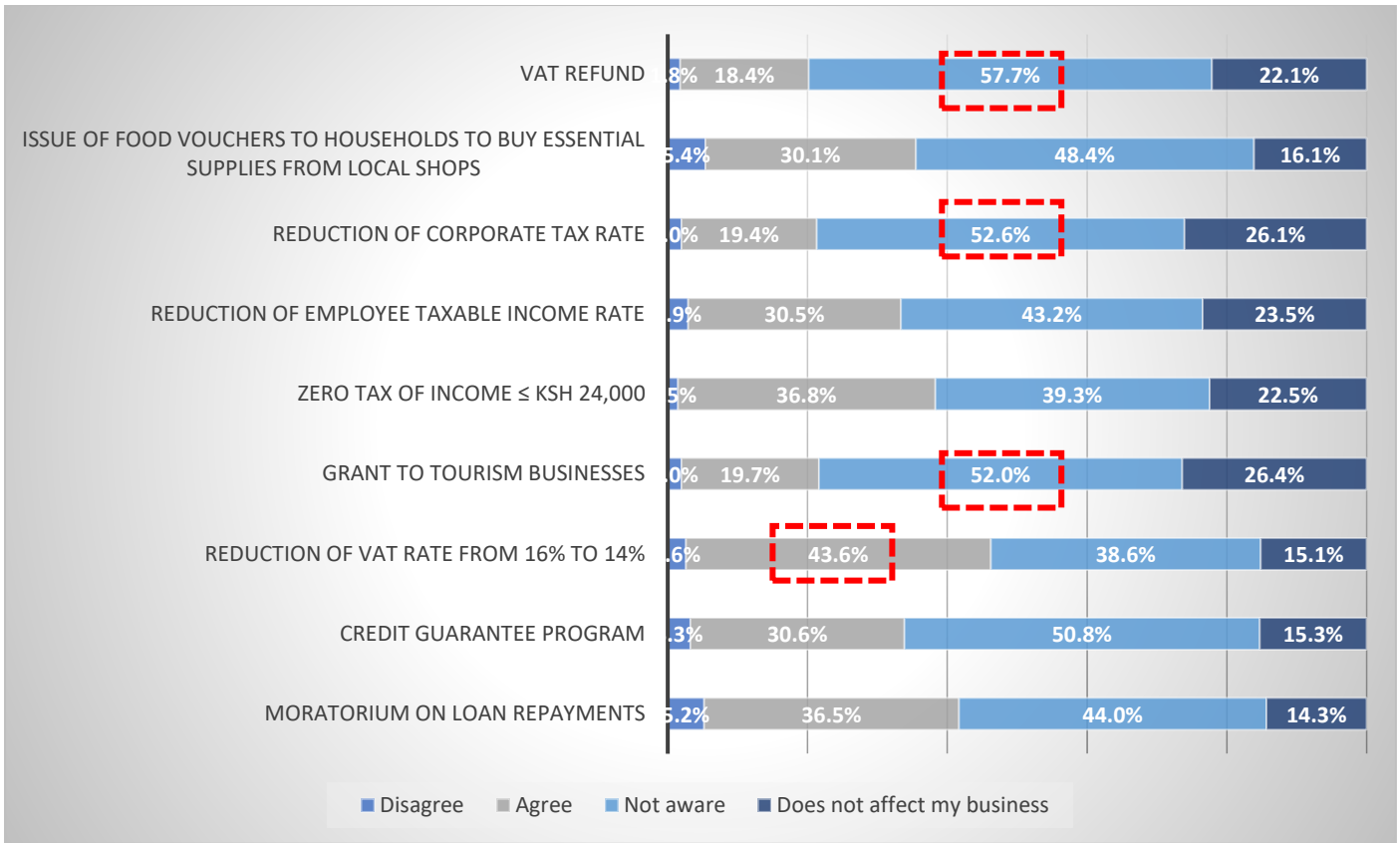


Figure 16: Perceptions and Attitudes on Recent Measures by Various Stakeholders to Support SGBs

On a scale of 1-10, awareness level on measures by various stakeholders to support SGBS is at 4.7 (47%). Reduction of VAT from 16% to 14% most underutilized relief measure.

Further analysis showed that there are specific media sources that were used as a source of business news.

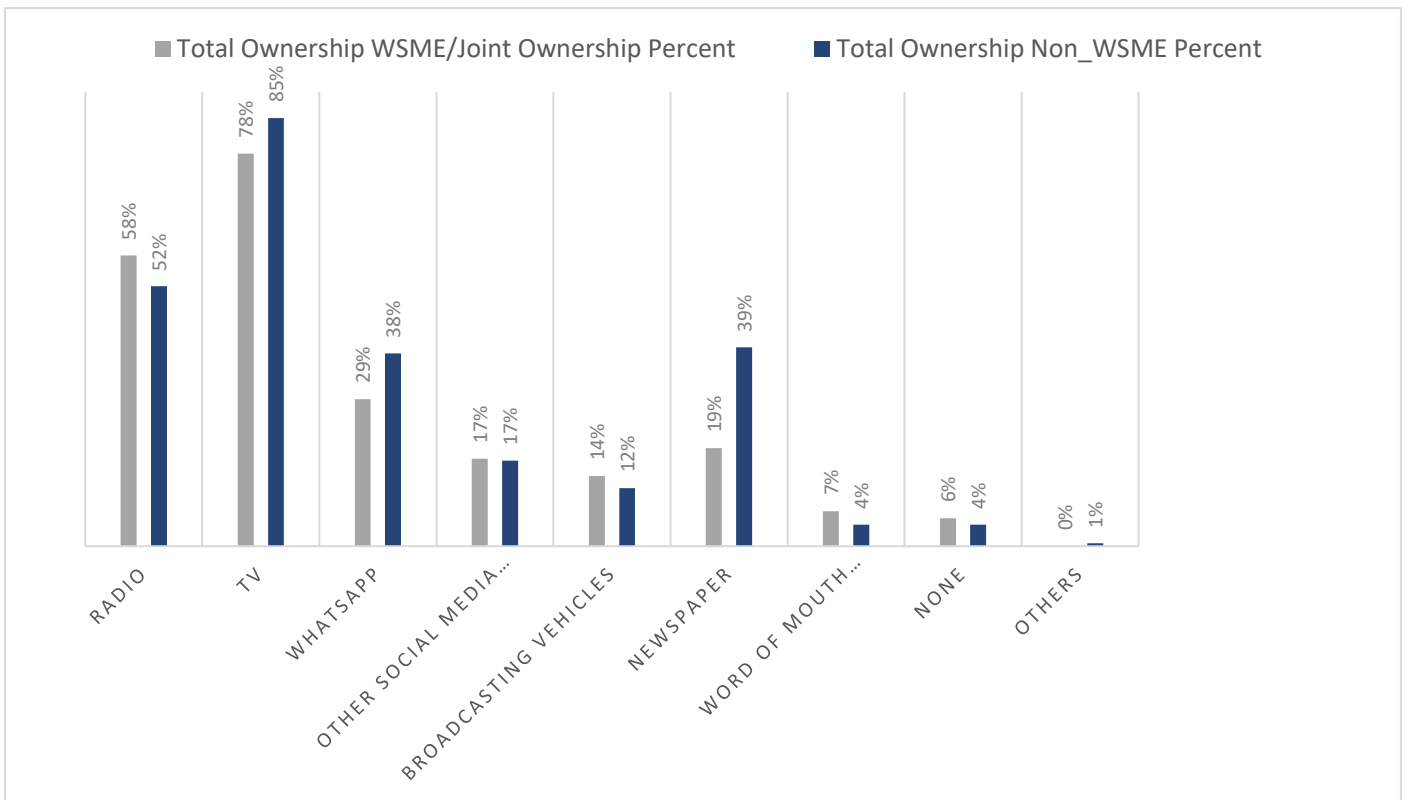


Figure 17: Trusted Sources of Information for SGBs in the Study

TV and Radio are the most trusted source of information 81% and 55% for women owned businesses and non-women owned SGBs, respectively. The use of new media emerged significantly low, a characteristic of Rural SGB. This trend is largely driven by connectivity issues in rural Kenya.

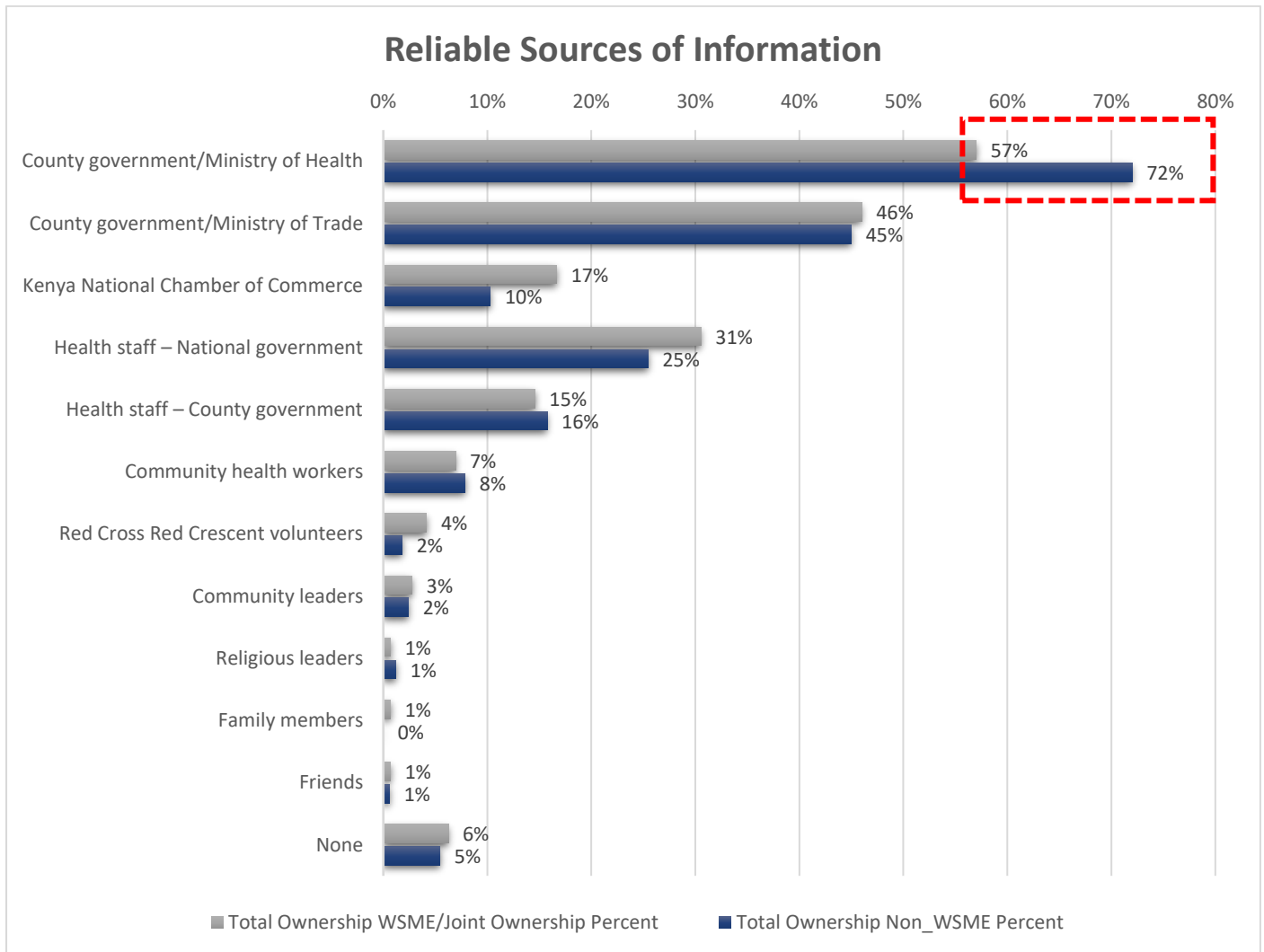


Figure 18: Reliability of Proposed Sources of Information

When exploring reliability as a factor, County government/Ministry of Health emerged as the most trusted source of information at 64.5% followed by the county government ministry of trade at 45.5%. Notably, a higher percentage of male owned SGBs had more trust with the ministry of health (72%) compared to women owned and led SGBs (57%). Respondents stated that they did not rely on community leaders, religious leaders, or friends for reliable business information.

RECOMMENDATIONS

KEY INTERVENTIONS FOR PIVOTING/REPURPOSING DURING COVID-19 THAT CAN BE ACHIEVED SHORT TERM

DEVELOPMENT OF AN SGB FOCUSED POLICY FRAMEWORK THAT SUPPORTS RISK RESILIENCE AND DISASTER PREPAREDNESS

SGBs are making attempts to pivot and repurpose to survive. To sustain their efforts, a resilience framework for action by pivotal stakeholders needs to be formulated and implemented as Covid-19 is now proven to be a disaster. Whilst all private sector entities are affected, rural SGBs are particularly vulnerable to disasters due to a lack of investments in risk management. In addition to the Covid-19 pandemic, Kenya has experienced adverse events which have presented additional shocks for the already struggling SGB sector including extreme weather conditions through flooding, famine, and locust invasion. The focus of the work and the allocation of resilience building resources at the national level is concentrated on disaster management and emergency response, leaving risk reduction, mitigation, and management itself, both corrective and prospective, in second place. This requires an all-of-society approach. Such a framework will include:

- 1) A proactive approach to developing awareness campaigns among SGBs to increase the level of knowledge on risk identification and mitigation.
- 2) Data and knowledge management as fundamental for the understanding and monitoring of risks to increase the resilience of SGBs.
- 3) Embedding of disaster risk resilience systems and learning programs, as well as technological alternatives to increase resilience among SGBs.
- 4) Development of relevant SGB focused products: Insurance products, alternative schemes, accessible loan schemes, adapted to SGBs for the funding of the necessary innovations.

ENHANCED CAPACITY WITH A FOCUS ON DISASTER RISK RESILIENCE FOR SGB RISK RESILIENCE

Ecosystem actors must take on the responsibility and equip themselves with solid capacity to reach and influence a sufficient critical mass of SGBs. They should drive the paradigm change from the current reactive culture – focused on emergency response – towards a prevention culture that allows increasing the allocation of private and public resources for risk reduction and resilience increase tasks. Risk

resilience must not only focus on the current COVID-19 pandemic but needs to be based on an understanding of disaster risk in all its dimensions.

A robust SGB focused capacity building program that is designed to enhance capacity and resilience of SGBs and addresses the challenges of lack of timely information and technology on disasters, business continuity planning, digital skills and risks needs prioritization. This will require collaboration with academia, science, and technology institutions among others to co-create the design and approach that will ensure effective and efficient implementation and lead to better disaster preparedness and mitigation through adoption of best practice at rural level. Such a program will also incorporate more and better dedicated incubator and accelerator programmes for SGBs to bridge the gaps highlighted herein.

SHORT-TERM POLICY MEASURES CRUCIAL FOR SUPPORTING SGBS PIVOTING AND REPURPOSING TO MANUFACTURING

The study findings reveal that some SGBs, as a survival response to Covid-19, have pivoted or repurposed their businesses into manufacturing. The shift is generally towards low value-addition which requires low and semi-skilled technical capabilities, low levels of mechanisation, and not complex tasks. The pivot/repurpose into manufacturing for these SGBs necessitates the need to create and promote more and better linkages for sustainability. The range of policies that can help SGBs integrate into manufacturing value chains in the short term can be summarised as follows:

- 1) Improving access to finance, technology, business management skills and technical skills and encouraging partnerships with incubator and accelerator programmes that better integrate them into value chains.
 - 2) Better provision of information among the value chain (business advisory, hands on mentorship and knowledge management support) to support them thrive in the new areas.
 - 3) Provision of economic fundamentals such as digital infrastructure, targeted finance, access to supply linkages, skills in strategic planning management (through incubator and accelerator services), development of local linkages (market access enhancement) across counties and international markets through private and public support of existing dedicated institutions such as KIE. There is need to ring fence opportunities for rural based SGBs within private and public sector in specific procurement categories to enhance inclusivity.
 - 4) Better coordination of mechanisms between the national and county governments for a range of actions with implementing partners and agencies who support intervention
-

programs for rural SGBs to leverage including MSEA, KEPROBA, KIRDI, and partnering banks implementing the GoK credit guarantee scheme.

- 5) We suggest that county governments remain responsible for the implementation of the policy suggestions and strong partnerships established with private sector to implement cross cutting interventions in SGB development, including supporting to avoid duplication of roles and enhance collaboration.

The range of policies that can help support SGBs in the medium to short-term can be summarised as follows:

- 1) Facilitation and strengthening the institutional frameworks established by the GoK to support SGBs.
- 2) Fast tracking operationalisation of the relevant legal frameworks to conclude regulations and operationalisation for example the pending bill on Disaster Risk Resilience.
- 3) Alignment between SGB development priorities and budget allocation. Some of the actions to strengthen SGBs include:
 - a. Continuous policy reviews and reforms to promote inclusivity of SGBs and creation of a level playing field for rural based SGBs.
 - b. Establishment of a digital portal for the SGBs to enhance information awareness and visibility of opportunities. Further, the portal could aggregate SGB data and profiling to create a trust platform for credit rating to de-risk lending and improve access to finance.
 - c. Under devolution, county governments have their own initiatives targeting SGBs which complement efforts by national government. To harness their capabilities more effectively towards SGB development, better engagement by both county governments in providing marketing opportunities such as SGB focused trade fairs and exhibitions. A key opportunity would be leveraging partnership on IIA's Annual Business Exchange Forum and Expo that is private sector led and focused on creating linkages for SGBs.

ENHANCE PRIVATE SECTOR PARTICIPATION, FROM BOTH LARGE COMPANIES AND SGBS FOR RECOVERY INITIATIVES

In the wake of the Africa Continental Free Trade Agreement (ACFTA), SGBs need to be sensitised and prepared to meet the compliance and trade requirements. They need information and awareness on the

opportunities and standards that they will be required to meet to participate effectively and reap the gains.

ENHANCING PROACTIVE PUBLIC AWARENESS IN ACCESS TO FINANCE

There is need to enhance proactive public awareness when addressing the challenge of access to finance at the county level. This will enhance visibility and better leverage of opportunities for SGBs such as the emergency initiatives, the current credit Guarantee Scheme by the national government that is being operationalised, the interest free loans for SGBs, among others. There is need for creation of a rural SGB financing toolkits that assesses SGB readiness for financing from mainstream banking and this can be run through a centralised county based digital platform.

CONCLUSION

The study has generated insights into support areas and structures that IIA, their partners, and other stakeholders within their network of supporting SGBs could immediately adopt in addressing the survival needs and risk mitigation for SGBs as they pivot/repurpose their businesses. The need to develop an SGB focused resilience framework for action cannot be overemphasised. However, this requires an all-of-society approach on the back of robust public- private partnership across the board to drive collaborating initiatives. IIA will work with partners in relevant SGB associations, county governments, and the private sector to develop a policy framework/strategy on SGB resilience.

Further, there is need to embed disaster management practice in the SGBs as part of their strategy and make this a culture that ensures they are ready for tomorrow's pandemics or other crises that ensures they can stand resilient in adverse times. This study also highlights the important role of the county government in central coordination, but also lays emphasis on the need to step up engagement with national government and private sector actors to ensure effective leverage of existing opportunities.

Finally, policy needs to be mainstreamed as a driver to SGB development in the twin counties and this becomes even more crucial in supporting SGBs in building back better. County governments will need to focus on the sector specific nuances and needs to ensure they have better-skilled, productive, and profitable SGBs.
