

# Small Business and Their Challenges During COVID-19 Pandemic in Developing Countries; in Case of Ethiopia

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## Research Article

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# Abstract

*The main objective of this study was to demonstrate the challenges of small businesses during corona virus pandemic in developing countries specifically in Ethiopia. Methodologically, the study deployed secondary data analysis followed descriptive research design. Also, this study was conducted through both qualitative and quantitative research approach. The secondary data analysis result shows that many small and large businesses are suffering challenges and this unprecedented coronavirus crisis has caused destruction for many businesses in the globe and it is challenging to survive with reduced revenue, jobs lost and life slowing down and weak marketing performance even difficult to keep a calm head and their business alive. To support these businesses the government should use different mechanisms by cooperating with wealthy peoples and other non-governmental organizations. Besides, the small business owners should manage expectations and communicate with staff, suppliers, banks, and customers throughout this coronavirus frightening. Reduce expenses, be open to their employees about their finances and keep marketing, use different alternatives to deliver their product and recover from the crisis.*

## 1. Introduction

COVID-19 is shuddering the world economy and it is a pandemic making giant distraction to lives and livelihoods as well as social and economic systems in the world. Based on different reports it is the most horrible global crisis since WW II. This virus is highly transmittable and has spread with inconsistent progress in every corner of the world without any variance. COVID-19 is a massive health crisis BUT also much more. It is a systemic shock with profound implications, both in the short- and medium- to long-term. This virus has triggered substantial short-term economic contraction, shuttered many firms whether big or small, thrown tens of millions out of work and has other effects on business activities. To prevent unemployment, poverty, and food insecurity rates from further skyrocketing during any time, small and medium enterprises around the globe can and should play a crucial role.

Small businesses are the backbone of any economy, and with the ripple effect of COVID-19 on economies all over the world, their protection has become important more than ever. Since the first case of pandemic surfaced in Ethiopia, the government has been taken various sweeping health and economic measures to mitigate its impact. Recognized by the government as a driver for economic growth and job creation, small businesses, or more commonly referred here as small and micro enterprises as lexicon goes, the sector has been growing steadily for the past decade or so. But, facing the wrath of the coronavirus pandemic, most of these firms face difficulty surviving in the current climate for even above five months Ethiopian press agency (2020).

According to ONE UN Ethiopia (2020) assessment report, Sub-Saharan Africa (SSA), including Ethiopia, are unlikely to escape the direct and indirect effects of the pandemic and attendant global crisis. While

the trajectory of COVID-19 is still at its initial stages in the region, the repercussions of developments elsewhere are already being felt strongly. In these circumstances, it is vital to understand the scale, nature and depth of social and economic impacts in order to design an appropriate and effective policy and programmatic response, whether at country, regional or global levels. Ethiopian small business also faced some major challenges as it was struck by COVID-19. The macroeconomic and development situation was challenging, evident in slowing but still high growth, the risk of debt distress, low levels of domestic resource mobilization, high inflation, high unemployment, not least among youth trying to find opportunities in an economy with elevated levels of informality, low forex reserves and significant pressure on the exchange rate of the Birr. Social unrest, triggered by longstanding issues that could now be aired in a more open civic and political environment, had led to conflict, the loss of lives and property and, at the last count, 1.7 million internally displaced persons (IDPs). MSMEs not only play a vital role in providing employment opportunities but also contribute to the socio-economic development of the country, notably in their role as facilitators for the transition to an industrial society. Amongst the several things this pandemic has taught us, is the need to modernize the economy, including surveying the small business sector and identifying both the formal and informal sector at sub-city level in the country and also the small businesses themselves have also a part to play. While some businesses are taking steps to safeguard their business or are pausing their plans to grow, others are pivoting to other branches by gauging local demand even as an opportunity, like those that have switched to producing sanitizers, facemasks and other preventive materials.

## **2. Study Objective**

The main objective of this study was to investigate the small business challenges during corona virus pandemic in Ethiopia.

## **3. Study Significance**

This study contributes to the existing literature in crisis management and identifies survival and resilience strategies of small businesses during a long-lasting crisis and challenges. I also provide recommendations for small businesses on how to remain flexible or competitive through resilience and renewal strategies and the researcher also given relevant recommendations for policymakers and other concerned bodies.

## **4. Methodologies**

This study used descriptive research design and employed mixed approach that means the study was conducted through both qualitative and quantitative research approach. The target population of the study were small business firms operating in Ethiopia during the corona virus pandemic starting from January 2011- up to September 2020 period. The data analysis technique used under the study was descriptive analysis method, because the researcher used secondary data analysis relating to the challenges of these businesses during covid-19 crisis.

## 5. Secondary Data Analysis And Literature Reviews

Based on the WHO's report, the Covid-19 crisis established in China in December 2019 and soon after became a global difficult pandemic. As of September 24, 2020, 213 countries and territories around the world were affecting, a total of 32,298,738 people infected, 984,974 deaths, and 23,820,147 patients recovered. From these 7,493,617 are active cases or currently infected patients (Worldometers, 2020).

Crises can be highly damaging for business as they erode trust, destroy company value, threaten business goals, exert pressure on management by providing limited time for management to respond, and may even lead to business failure (Hermann, 1963; Penrose, 2000; Lerbinger, 2012). Existing literature suggests that small firms may be more vulnerable to crisis events due to lower levels of preparedness, resource constraints, relatively weak market positions, and higher dependence on government and local agencies (Runyan, 2006; Herbane, 2013; Hong & Jeong, 2006). SMEs usually suffer from financial loss, reduced sales volume, incapability of meeting contract terms, cash flow difficulty, reduction in staff number, and even close down of the business during or after crises events. Crises events may also bring emotional and psychological stress to victims and the managers of SMEs (Leung et al., 2005; Doern, 2016; Ferris et al., 2007).

During challenging times, new startup firms have a high chance of surviving during crisis periods than during the growth period, likely due to the lack of job opportunities. Entrepreneurship activities could offset the negative impacts of crises by maintaining the flow of goods and services and restoring public confidence of other business owners and the community at large and entrepreneurs pursued new opportunities and established new directions for their firms during crises (Herbane, 2010).

Post-crisis organizational learning capability is also critical to recovery. SMEs with strong dynamic and innovative capabilities and are willing to learn from crises events recover quickly (Boin, 2008, Saunders et al., 2014). Similar findings were obtained by Bullough & Renko (2018), who stated that entrepreneurs should engage in business development training and seek networking events or special lectures to learn by modeling others who have survived through challenging times.

Ethiopia can be considered as a high-risk country based on the societal structure and socioeconomic basis. There are strong social ties and attachments with frequent physical interactions that have been developed for centuries as a beneficial means of integrity, which are now considered to be risk factors for COVID-19 transmission. In urban cities such as Addis Ababa, institutions that provide public services are inadequate, such that crowding is common in hotels, cafes, restaurants, public transportation, market places, hospitals, and other social institutions. These may find it difficult to maintain physical/social distancing as means of infection prevention strategy, thus may facilitate swift spread of coronavirus disease and run business activities.

### 5.1 Covid-19 in Ethiopia

Based on the above two figures, Covid-19 is spreading in a fast way on the country starting from April up to present. This pandemic's spread has created a great challenge on different small businesses performance and people's day to day activities, this will affect the country's economy as well as individual life of the society.

As indicated by different researchers MSMEs are viewed as seedbeds for the growth of big enterprises. The socio-economic impacts being felt across Ethiopia already are wide-ranging and serious, with the potential to become severe, depending on the combination of the pandemic's trajectory, the effects of counter-measures and fundamental and structural factors. These impacts are summarized below.

## **5.2 Most Impacted Groups, Sectors and Geographic Areas by Covid-19 in Ethiopia**

In the country, specially, employees working in micro, small and medium-size enterprises (MSMEs) in the urban and rural sectors including (manufacturing, construction, trading, retail, hospitality and tourism), Predominantly helpless children and adolescents like street children, workers in industrial parks who are already laid off or in danger of losing their jobs, frontline health care professionals, Children of school-going age who are from poor, food insecure households, groups with specific vulnerabilities (persons living with HIV/AIDS, persons with disabilities, older persons, the homeless), migrants, returnees/relocates and returning migrants, Developing regional states (DRS), MSMEs in supply chains in construction, manufacturing, agro-industry, hospitality, tourism, and retail, MSMEs in supply chains for agricultural and horticultural exports as well as production + marketing of critical food crops and soon.

## **5.3 Key issues and covid-19 impacts**

*(United Nations Economic Commission for Africa) (UNECA 2020):*

### **MSMEs**

30%+ of Ethiopia's MSMEs could be in jeopardy, mostly in urban areas and those embedded in small-scale manufacturing, export, construction and service industry supply chains.

### **Jobs**

A 10-15% loss of employment/livelihoods leading to a cumulative loss of perhaps 1.6 - 2.4 million jobs/livelihoods depending on the severity and duration of the crisis, mostly in urban areas. In the worst-case, 3.2 -4 million could lose their jobs/livelihoods. Knock-on effects on small businesses/enterprises and self- as well as wage employment in both the formal and informal sectors, especially in the services sector, affecting larger urban centers most sharply, with business closures and rising unemployment or loss of livelihoods and loss of productivity in the case of widespread illness in the workforce.

## **5.4. Sectorial / Sub Sectorial Impacts**

### **5.4.1 Agriculture:**

Production might drop by 30% if producers revert to the extensive production system for cash crops. Significant income losses in specific sectors e.g. livestock, horticulture and supply chain disruptions are an increasing possibility. Start-up of agro-industrial parks will be delayed and broader negative impacts on food availability, access and utilization.

#### **5.4.2. Construction:**

Under severe pressure, likely to be one of the most impacted sectors.

#### **5.4.3 Manufacturing:**

Total shutdown or sharp drop in production capacity and reduced employment in industrial parks, sub-sectors such as textiles and garment (T&G) and leather and leather products will be hit hard, the flower industry faces catastrophic losses and agro-food processing but beverages sub-sector will be relatively less impacted.

#### **5.4.4. Services (tourism, hospitality, aviation, trading, retail):**

High likelihood of closure of businesses and large-scale loss of jobs/livelihoods, in both the formal and informal sectors, especially in urban areas, women, who are disproportionately represented in the informal sector, will be impacted seriously and significant and prolonged forex losses from tourism are very likely.

#### **5.4.5. Education**

- The COVID-19 pandemic has resulted in school closures across the world. It is estimated that learning for 89% of the world's student population has been disrupted. In Ethiopia, schools have been closed since 16 March 2020 and this is likely to remain the case until the end of the academic calendar. This means that over 26 million children are currently not in school of which approximately 77% are primary school pupils. These children are neither learning nor benefitting from other school-based support mechanisms such as protection, health, and school feeding. In short, children's well-being is at risk. Key education indices which were already dismal before the COVID-19 pandemic, are at risk of worsening in the current crisis

## **6. Estimations Of Impact Of Corona Virus**

*(Based on ONE UN Assessment of Socio-Economic Impact of COVID-19 in Ethiopia, 2020)*

Response and recovery will also have a higher likelihood of success if they:

Promote measures that put people at the center and protect them and their rights whilst also conserving vital economic and financial assets and systems;

Recognize and target those sectors and groups that are most severely impacted and are either already or likely to be left behind;

Avoid distortions in policy and investments that turn temporary measures into permanent 'giveaways' unless deliberately designed as incentives connected to longer-term development objectives; and

Seize the opportunity to boost longer-term goals tied to the Short term goals that foster a fairer and more resilient, productive, greener and sustainable future for Ethiopia.

As clearly shown in the above figure 3, in Ethiopia there is no income support for workers and small business firms who lost their job because of different economical and other reasons, but this is not an impossible task because Ethiopia already has several of the policy instruments, tools, institutions and programs needed to act now and act effectively. There are a policy options that can be designed and delivered in Ethiopia as part of its own home-grown answer to the need for immediate response and accelerated recovery. Funding can also be found, partially if not fully, from some adjustments in budgetary allocations and incentives, regulatory changes, and substantial though still insufficient additional inflows of resources from development partners in the form of budget support.

As Ethiopia designs and implements its home-grown socio-economic policy response to COVID-19, it may wish to consider some key implications of the crisis that could shape the policy space available to it in the short- to medium-term:

It will take longer to delivery as response and recovery substantially complicate and delay previously planned trajectories and targets across the board. Opportunities will also emerge, however, to accelerate a return to trend, for instance, by using repurposing to boost MSMEs in the manufacturing sector through production of health equipment, sanitizers, masks and supplies or to take a significant step forward in the digitalization of services in the public and private sectors.

## **7. Opportunities Of Covid-19 For Some Sectors**

Beyond its innumerable challenges and crisis Corona virus have some advantages and opportunities for some sectors in the country. From these many firms are trying digital activities for the first time, opportunities will also emerge, however, to accelerate a return to trend, for instance, by using repurposing to boost MSMEs in the manufacturing sector through production of health equipment and supplies or to take a significant step forward in the digitalization of services in the public and private sectors and greatly initiating innovations.

## **8. Conclusions**

This paper demonstrates small business and their challenges during corona virus pandemic in developing countries, specifically in Ethiopia. By using different empirical reviews, WHO and other organizations reports/assessments, magazines, small business experiences and other related secondary

data analyses, the researcher tried to interpret analyze and make reasonable conclusions about each small business challenges in the current crisis time. this study finds that doing business in this COVID-19 pandemic time is very challenging and has dangerous impact on small businesses, workers life as well as the country's overall economy. This study has some limitations including it used only secondary data because it is difficult to get empirical/primary evidence directly from firms in this pandemic time; so it was better to include primary data. Also because of COVID-19 is the recent pandemic it was difficult to get more related literatures for review.

While this research generates diversified important insights, future studies can conduct extensive surveys in line with the findings of the article to have a comprehensive understanding on different problems/challenges of small business-owners in patriarchal developing nations with the widespread coronavirus and other pandemics. Besides, as the secondary data analysis the study was conducted within five months of the identification of corona case in Ethiopia, future researchers can concentrate on gendered experiences at the later phase of the pandemic to investigate certain changes of small businesses experiences.

## **9. Recommendations**

This research's finding recommend that the government of the country should make risk analysis and business steadiness planning in all critical federal and regional institutions, explore opportunities for cross-border digital trade and cooperate with domestic small business firms, support medium- and long-term business investments that lead to resilient supply chains for critical goods and services under the market, accelerate development of e-commerce/e-marketing systems including digital marketing, digital banking, digital payments mechanisms, e-financial services (e.g. microcredit and micro insurance), a national ID system, and robust digital communications systems within government and other office activities overall the country.

COVID-19 outbreak widely impacts SMEs in the country and most studies shows that there is a lack of flexible work strategies, formal documentation mechanisms and comprehensive crisis management and aftershock strategies for new micro enterprises with little previous crisis experience. We recommend that small businesses owners of small business should consider long-term and adoptive crisis management strategies, not only focusing on financial factors but also fully taking non-financial factors into account, owners, top management, as well as different levels of personnel, should be involved in developing crisis management mechanisms according to their needs. All should work in exploring new markets and incorporating technology into their future growth, produce different sanitary materials up to end of the pandemic and make their marketing flexible based on situations, which is another sign of active learning and improvement from the crisis. In the long run, the urge to grow and expand market share may be a strong driving force for small business to strengthen their resilience and renewal strategies.

## **Abbreviations**

WHO: World Health Organization

MSEs: Micro and Small Enterprises

UNICEF: United Nations Children's Fund

UNECA: United Nations Economic Commission for Africa

## Declarations

**Availability of Meta data:** Not Applicable

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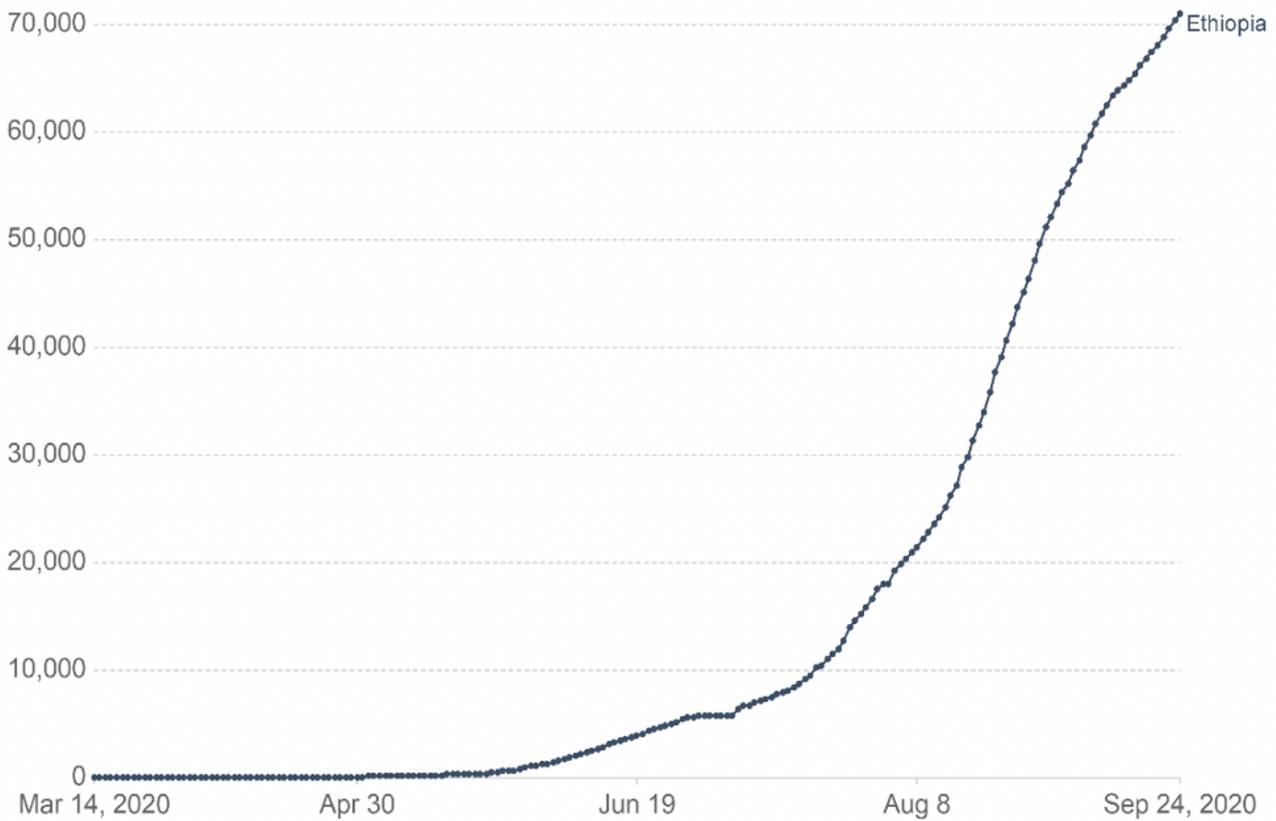
WHO online report, 2020

Worldometers, 2020

## Figures

# Cumulative confirmed COVID-19 cases

The number of confirmed cases is lower than the number of actual cases; the main reason for that is limited testing.



Source: European CDC – Situation Update Worldwide – Last updated 24 September, 10:05 (London time)

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**Figure 1**

Cumulative confirmed cases of covid-19 in Ethiopia, up to Sep 24, 2020

# Daily new confirmed COVID-19 cases

The number of confirmed cases is lower than the number of actual cases; the main reason for that is limited testing.



Source: European CDC – Situation Update Worldwide – Last updated 24 September, 10:05 (London time)

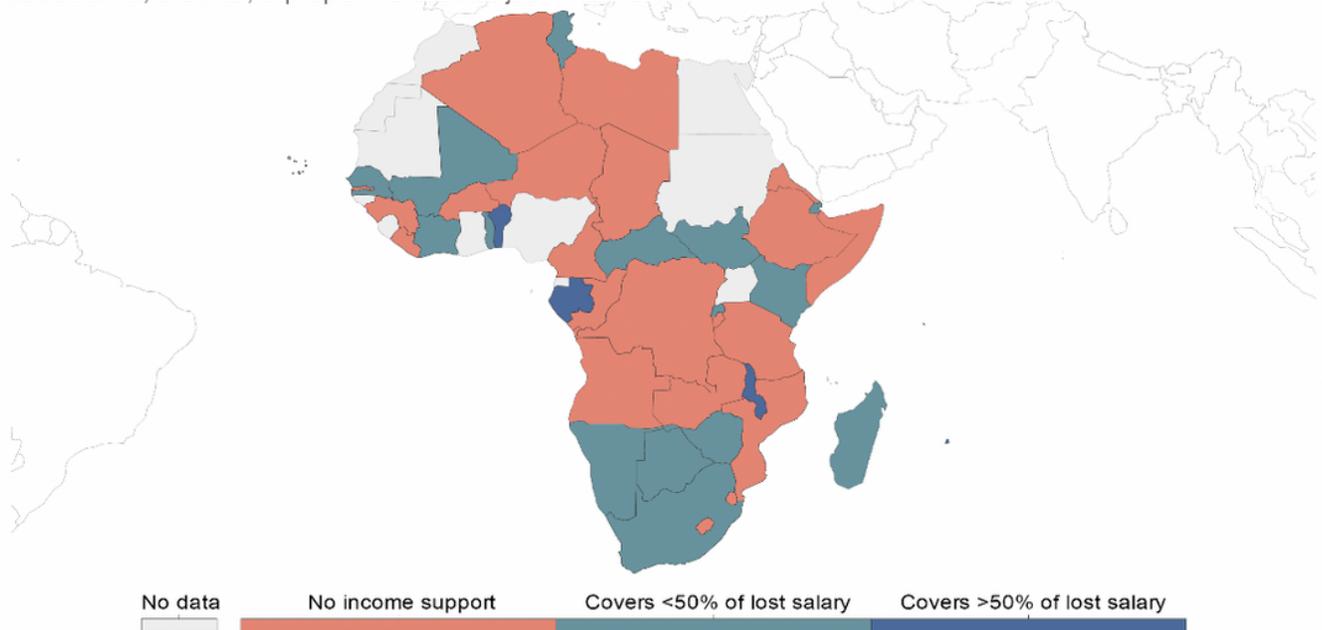
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**Figure 2**

Cumulative confirmed cases of covid-19 in Ethiopia, up to Sep 24, 2020

## Income support during the COVID-19 pandemic, Sep 24, 2020

Income support captures if the government is covering the salaries or providing direct cash payments, universal basic income, or similar, of people who lose their jobs or cannot work.



Source: Hale, Webster, Petherick, Phillips, and Kira (2020). Oxford COVID-19 Government Response Tracker – Last updated 24 September, 12:30 (London time)

Note: This income support may not apply to workers in all sectors, and may vary at the sub-national level.  
OurWorldInData.org/coronavirus • CC BY

**Figure 3**

Income support during COVID-19 Note: The designations employed and the presentation of the material on this map do not imply the expression of any opinion whatsoever on the part of Research Square concerning the legal status of any country, territory, city or area or of its authorities, or concerning the delimitation of its frontiers or boundaries. This map has been provided by the authors.

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