



GHANAIAN MSME RESILIENCE IN THE FACE OF COVID-19

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GLOSSARY

AGI	ASSOCIATION OF GHANA INDUSTRIES
APDF	AFRICA PROJECT DEVELOPMENT FACILITY
ASSI	ASSOCIATION OF SMALL-SCALE INDUSTRIES
BOG	BANK OF GHANA
CAP	CORONAVIRUS ALLEVIATION PROGRAMME
COVID-19	CORONAVIRUS 19
DRM	DISASTER RISK MANAGEMENT
EMPRETEC	EMPRESAS TECNOLOGICAS
EFT	ELECTRONIC FUNDS TRANSFER
FAGE	FEDERATION OF ASSOCIATION GHANAIAN EXPORTERS
FGD	FOCUS GROUP DISCUSSION
FSPS	FINANCIAL SERVICE PROVIDERS
GDP	GROSS DOMESTIC PRODUCT
GEA	GHANA ENTERPRISE AGENCY (FORMERLY THE NATIONAL BOARD OF SMALL-SCALE INDUSTRIES (NBSSI))
GHC	GHANA CEDI (GHANA CURRENCY)
GIA	GHANA INSURANCE ASSOCIATION
GIRSAL	GHANA INCENTIVE-BASED RISK-SHARING SYSTEM FOR AGRICULTURAL LENDING
GNCCI	GHANA NATIONAL CHAMBER OF COMMERCE AND INDUSTRY
GRATIS	GHANA REGIONAL APPROPRIATE TECHNOLOGY INDUSTRIAL SERVICES
ICDRM	INTEGRATED CLIMATE DISASTER RISK MANAGEMENT
IDI	IN-DEPTH-INTERVIEW
KII	KEY INFORMANT INTERVIEW
KYC	KNOW-YOUR-CUSTOMER
MOF	MINISTRY OF FINANCE
MOTI	MINISTRY OF TRADE AND INDUSTRY
MSMES	MICRO-, SMALL AND MEDIUM-SIZED ENTERPRISES
NIC	NATIONAL INSURANCE COMMISSION
PED	PRIVATE ENTERPRISES FOUNDATION
PPE	PERSONAL PROTECTIVE EQUIPMENT
PSED	PROGRAMME FOR SUSTAINABLE ECONOMIC DEVELOPMENT
PSME	PROMOTION OF SMALL AND MICRO-ENTERPRISES
SACCOS	SAVINGS AND CREDIT COOPERATIVE SOCIETIES
SSA	SUB-SAHARAN AFRICA
TIN	TAX IDENTIFICATION NUMBER
USSD	UNSTRUCTURED SUPPLEMENTARY SERVICE DATA

EXECUTIVE SUMMARY

MSMEs are one of the most important, yet vulnerable, drivers of development in sub-Saharan Africa (SSA). This stems from the fact that, while micro-, small and medium-sized enterprises (MSMEs) are known to support over 50% of all livelihoods on the continent (both formal and informal), these firms often face a plethora of heterogeneous risks that regularly put their survival and continuous operations in jeopardy¹. These risks can range from those faced uniquely at a firm level (such as credit, crime and infrastructural risks) to those endured at a much larger, systemic scale (such as climate disasters or the ongoing COVID-19 pandemic). To avoid succumbing to these risks and sustainably contributing towards inclusive economic development, the resilience of firms is key.

The shockwaves from COVID-19 on business resilience has been unprecedented. In SSA, and across the globe, the COVID-19 pandemic has produced one of the largest systemic shocks to businesses and economic systems in recent history. Due to national efforts to curtail the virus in 2020, over 90% of MSMEs in SSA experienced significant profit losses due to reduced sales, value chain disruption and indebtedness, among many other risks². Economic players similarly struggled to cope amid highly constrained internal resources³, growing debt⁴ and poorly digitised systems⁵ that left them ill-equipped to effectively support those impacted by COVID-19. The widespread impacts of the pandemic illustrated that, while the ability of firms to mitigate, manage and withstand risks is crucial to their longevity and adaptability to shocks, this resilience is also intricately linked to the fortitude of economic systems themselves.

Study objective. To better understand MSME resilience in light of COVID-19 in SSA, GIZ implemented a global project on “Developing Risk Management Approaches for Climate and Health Risks” in collaboration with the Programme for Sustainable Economic Development (PSED) in Ghana. As part of this, they have commissioned this report to assess the perceived and experienced risks faced by MSMEs⁶ in Ghana amid the pandemic and to evaluate the extent to which MSMEs and the Ghanaian ecosystem have remained resilient⁷. The ultimate objective of this study is to enable GIZ to target capacity development activities within the region and to generate a better understanding of MSMEs’ needs in terms of insurance, current level of resilience and ability to recover and adapt to both known and unknown risks.

1 60% of all employment in Africa ([International Trade Centre, 2018](#))

2 [IFC, 2021](#)

3 The [World Bank \(2020\)](#) estimated that growth in sub-Saharan Africa fell by 3% in 2020 and that the pandemic will cost SSA between USD37 billion and USD79 billion in output losses for 2020. In addition, SSA countries face increasing financing constraints due to falling tax revenues, foreign exchange distortions, and limited access to international capital markets ([Daniel and Sacchetto, 2020](#)). Investors have pulled out a total of USD90 billion from emerging markets since the beginning of the crisis (KPMG, 2020).

4 Various countries across SSA were struggling with their debt burdens prior to COVID-19, which has now been exacerbated by the pandemic ([Coulibaly, 2021](#)). For example, Mozambique’s debt-to-GDP ratio, which was 100% in 2018, rose to 130% in 2020 ([Sallent, 2020](#)). Similarly, Zambia is facing possible default after missing a payment of USD40 million in 2020 and the IMF estimated that African states need almost USD 166 billion to pay off foreign debts by 2023 ([Pelz, 2020](#)).

5 Africa is still the least connected region compared to other regions of the world with about 28% internet coverage and 34% mobile broadband coverage. Few citizens have digital IDs, businesses adopting digital technologies remain the exception rather than the norm, and few governments are investing strategically in developing digital infrastructure, services, skills, and entrepreneurship ([Songwe, 2020](#)).

6 The main focus of the research is on larger enterprises (including small and medium sized enterprises) with a lesser focus on micro-enterprises as they are typically less integrated into formal value chains, have limited multiplier impacts (with limited employees) and are less easy to reach for formal service providers.

7 This study complements a similar project currently underway in Morocco on behalf of GIZ and Allianz to analyse MSMEs’ resilience to different risks in the context of COVID-19. The aim is to understand the extent to which the pandemic has changed the risk perception of MSMEs and to identify the different mechanisms, including digital solutions, that MSMEs are and/or could use in future to better counteract risks. Unlike the project in Morocco, this study is not affiliated with any private insurer but is rather being undertaken under a framework of a larger public-private partnership targeting integrated disaster risk management across the two countries.

Sample overview. This study targeted a nationally representative sample of 425 MSMEs across the services and industry sectors (85% and 15% of MSMEs, respectively) in urban areas in Ghana (the Greater Accra Metropolitan Area, Ashanti, Ahafo, Bono, Bono East and Western regions) through a quantitative survey, focus group discussions (FGDs) and in-depth-interviews (IDIs). In Ghana, MSMEs operate predominantly in the services sector, are largely informal, and over 80% of MSMEs are comprised of micro-firms⁸.

Key findings

COVID-19 hit firms hard. Most sampled MSMEs in Ghana were negatively impacted by COVID-19 (see Figure 1), with both micro- and small firms 13% more likely to report being worse off than medium-sized firms. Noticeably, however, while both small and medium-sized enterprises reported reduced sales and disrupted supply chains as the most severe or common impact, medium-sized firms appear to have felt these challenges to a greater extent. Though this may be the result of sampling bias, it is likely that larger firms with more exposure to international value chains have made them more susceptible to the effects of closed borders and lockdowns.

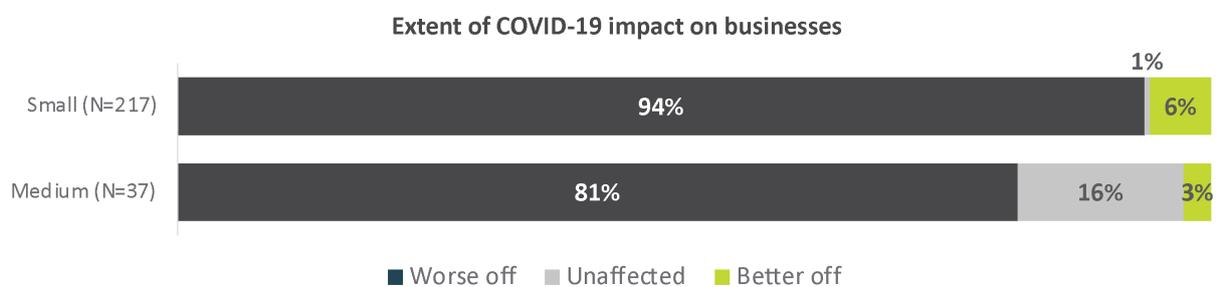


Figure 1: Impact of COVID-19 on MSMEs

Source: quantitative survey with MSMEs

Risk profiles exacerbated as firms struggle to cope. While the pandemic has presented novel risks to MSMEs in Ghana, its predominant effect has been to exacerbate those pre-dating the virus. For both small and medium-sized firms, these pre-existing risks include payment-related risks (late/delayed/no payment), access to financing and business interruption (i.e. challenges pertaining to continuous operations) (see Figure 2). Interestingly, risks frequently mentioned by firms prior to COVID-19, such as fires and theft, were no longer mentioned as risks experienced during the pandemic. These findings suggest that the pandemic has significantly altered businesses' perceptions of risk, as well as the fact that Ghanaian firms struggle to accurately assess the array of risks they experience at any point in time. Challenges to identify risks may explain why many MSMEs reported not implementing any coping mechanism to mitigate or respond to risks, with others primarily dependent on drawing down from finite business incomes and savings to survive (see Figure 3).

⁸ GSS (2015), GSS (2010), KMA (n/d), World Bank (2016), Kim et al. (2013).

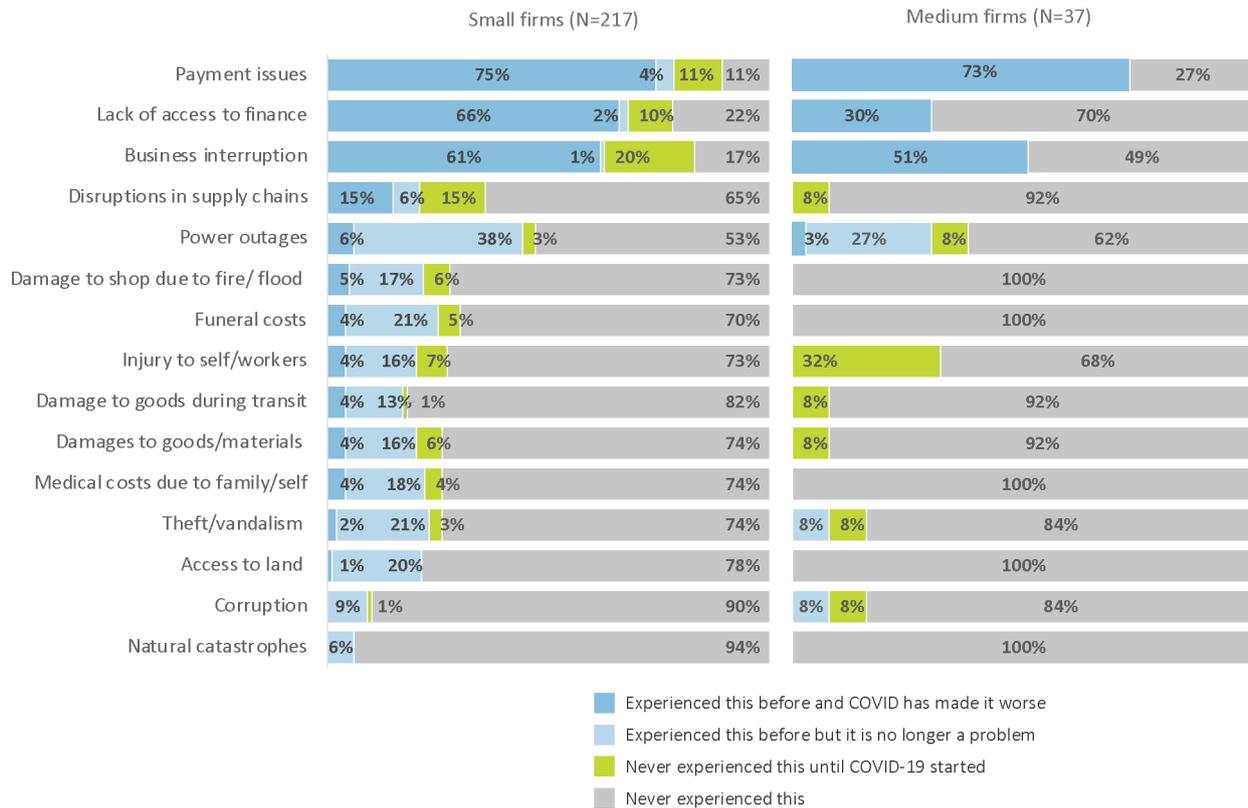


Figure 2: Risk experience of MSMEs amid COVID-19

Source: quantitative survey among MSMEs

Use of credit and insurance to manage risks was limited during COVID-19. The use of credit to manage risks and cope with the COVID-19 shocks has not been common, with only mobile money loans or digital credit (11%) being used by small firms and proving to be the most beneficial form of credit to them (see Figure 3). Credit relief offered by the policymaker and FSPs has also not been taken up by sampled MSMEs, many of whom were informal and lacked both awareness and the necessary documentation to qualify for loans. Furthermore, the overwhelming majority of both small and medium-sized businesses did not use insurance as a coping mechanism during COVID-19 (see Section 3.3.1 for more information). Only 1% of small firms reported using personal insurance and found it effective, with 3% claiming to have tried using business insurance, but they struggled to access or use it. On the other hand, at least 24% of medium-sized firms reported using personal insurance during the pandemic but found it ineffective at helping them cope. Use of business insurance among medium firms was more effective, with 16% finding it useful. However, a further 16% of medium firms indicated that business insurance was not useful in helping them cope (see Section 3.3.1 for more information). This suggests that insurance was not accessible, nor were existing policies fit for purpose for MSMEs.

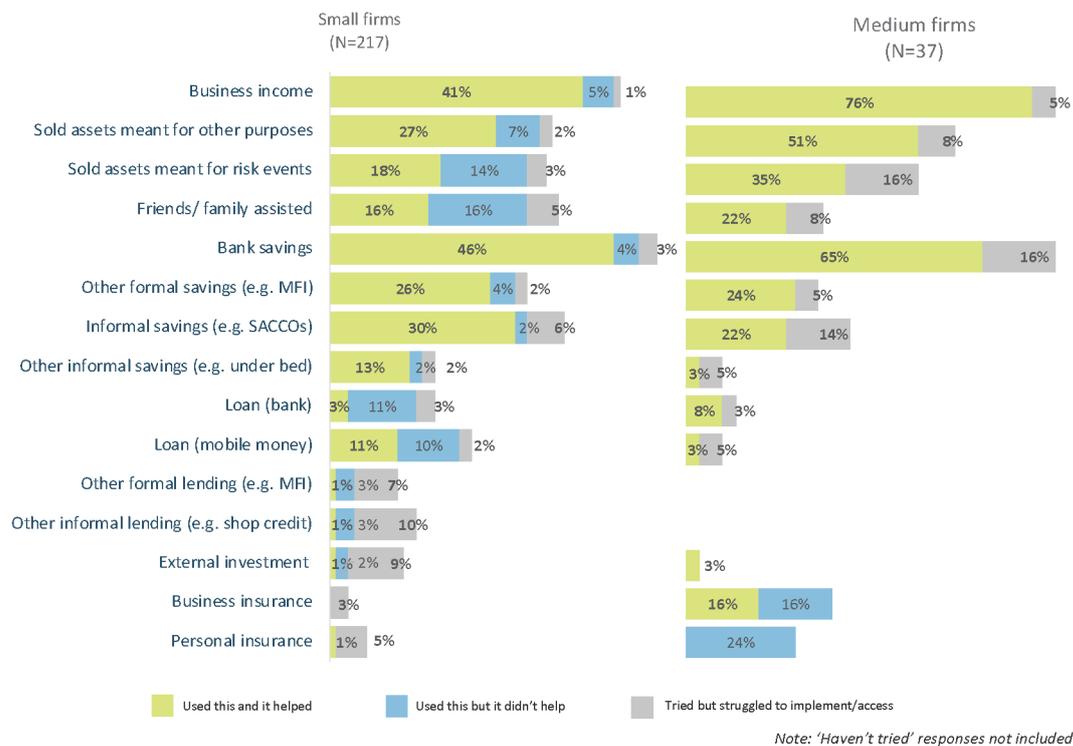


Figure 3: Coping mechanisms used by MSMEs

Source: Quantitative survey with MSMEs

Ghana economic support broad but missed the MSME target. The Ghanaian Government and its regulators were quick to respond to the shock of the pandemic by offering an array of both financial and non-financial support. Yet, in terms of effectiveness, the majority of small businesses did not engage with any form of support offered by government, FSPs or associations. Although medium-sized firms were more likely to engage with support offered by FSPs and associations, most MSMEs struggled to effectively access or implement it. Overall, reduced mobile money fees were found most helpful by 17% of small firms and 8% of medium-sized firms. Key challenges to leverage support from economic players included limited MSME understanding of business risks and interest in available support, informality, low digitalisation, low institutional trust, low awareness and difficulties accessing funds.

COVID-19 highlights weakness in ecosystem resilience, with little emphasis on recovery and adaptation. Though highly responsive to intervene during the pandemic, ecosystem stakeholders faced significant strain to effectively deliver support and continue operations. In addition to liquidity concerns faced by FSPs, many stakeholders from across the Government and the financial sector reported numerous challenges they faced during the pandemic. These included difficulties in balancing service delivery with reduced workforces, digitalisation and notable financial constraints, among others. Players were also hampered by ecosystem-level challenges such as poor coordination. Furthermore, the focus of these players thus far has been primarily towards developing interventions aimed at the short-term response to COVID-19, with limited focus on longer-term MSME recovery and adaptation.

Greater digitalisation and training support needed for MSMEs to build back better. Although more than 50% of sampled medium-sized firms report high digitalisation of most processes, especially payments, marketing and distribution, most small firms continue to struggle to fully digitalise their operations (see Figure 4). Assisting MSMEs to adapt in this way will be key to enabling their recovery. Additionally, business training and access to effective risk management tools, such as risk assessment framework and early warning sensors for the future detection of natural perils were identified as key opportunities by MSMEs to support their long-term recovery.

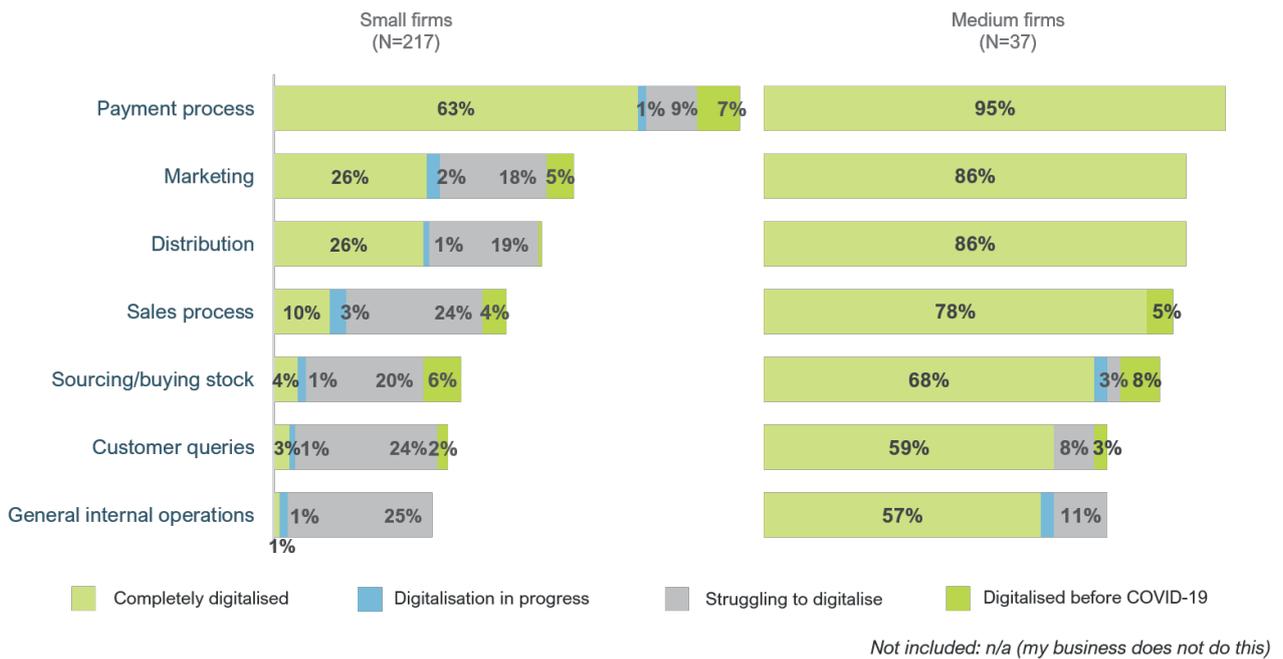


Figure 4: Digitalisation of business functions among MSMEs

Using the GIZ's Integrated Climate/Disaster Risk Management (ICDRM) framework, this study identifies a number of key opportunities and interventions that can assist FSPs and development partners to start thinking about resilience more holistically. Applying these opportunities will enable governments to better prepare and proactively manage risks, as well as inform insurers, and other FSPs, on how they can provide greater value to MSMEs through the provision of holistic risk solutions. MSME Resilience Framework highlights these opportunities in terms of prevention, retention and risk transfer, preparedness, response and recovery.

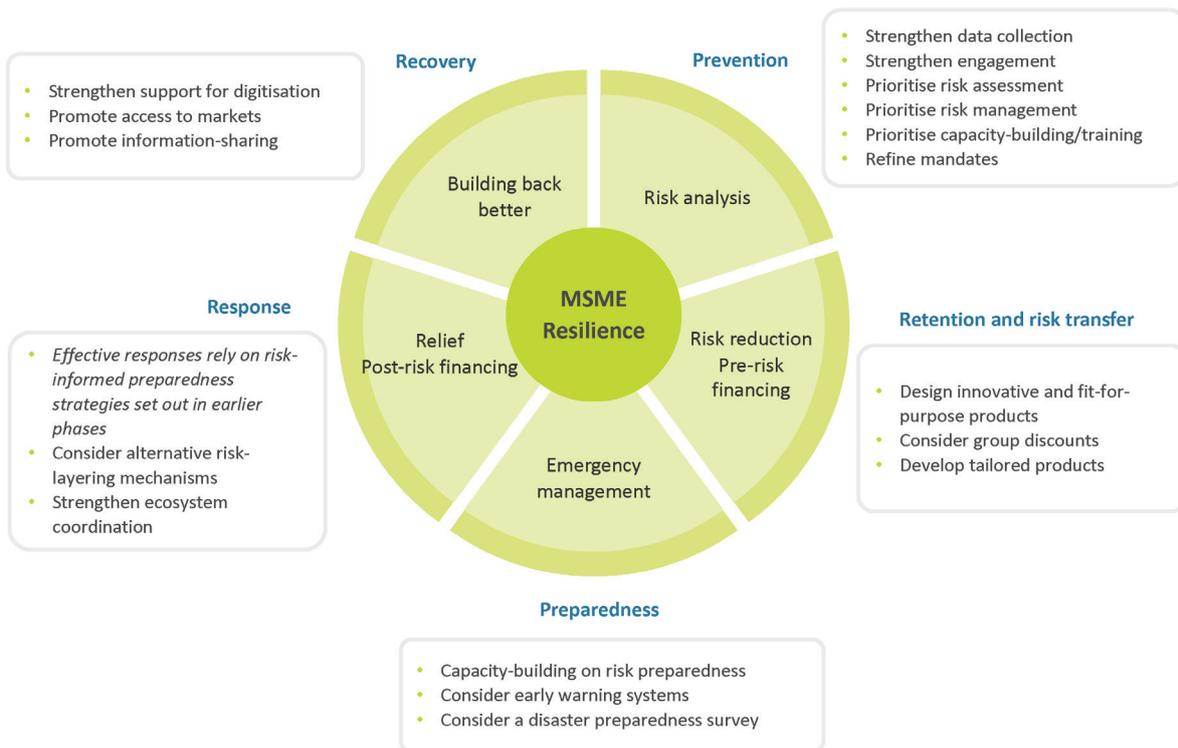


Figure 5: MSME Resilience Framework

Source: adapted from GIZ ICDRM framework (2019)

Key cross-cutting interventions:

1. **Strengthen training and risk assessment initiatives for MSMEs to better understand and prepare for risk:** Study findings indicate that a majority of Ghanaian MSMEs display limited capabilities to effectively identify and adequately prepare for risks. To enable MSMEs to better prepare and prevent possible risk events in the future, ecosystem stakeholders, such as insurers, government and associations, should enhance the provision of business and risk management programmes and risk assessment training for firms. Such training should incorporate financial capabilities development to inform and create awareness among firms on how to adequately leverage financial sector solutions for risk management, and how to proactively identify future potential risks using tools such as the MSME Risk Evaluation Framework in the appendix. The provision of this training may require ecosystems players to undergo training to develop their own expertise to better provide support to MSMEs.
2. **Support and strengthen the use of technology for early warning and real-time risk management and mitigation:** The ability of MSMEs to respond to future risks effectively and appropriately is linked to how well they are able to identify and prepare for them today. Towards this, a number of technology-driven innovative solutions currently exist that can support MSMEs to accurately identify, monitor and proactively manage their risks, including fire sensor detection and cargo tracking. Coupled with training to improve management of identified risks, insurers and other ecosystem stakeholders should therefore aim to enhance the provision and wide-spread adoption of these solutions by MSMEs as part of new and existing MSME financial service products and tailored programmes.
3. **Design fit-for-purpose insurance solutions for MSMEs:** Retention and transfer of risk among MSMEs have been poor due to the lack of tailored products in the market that match the needs of MSMEs. To foster the uptake of greater business insurance or other, more appropriate resilience-based financial products, insurers and other FSPs need to consider the development of

fit-for-purpose solutions that account for the specific contexts and sectors in which MSMEs operate, their informality and resilience needs. Designing products with MSME needs at the centre will require greater investment by FSPs to improve data collection, research of MSMEs along various value chains, to explore alternative distribution mechanisms, as well as to consider unique methods to deliver affordably priced financial services, as well as bundle insurance with other relevant offerings.

4. **Improve ecosystem coordination:** Coordination between and within ecosystem stakeholders was low before and amid COVID-19. To ensure that approaches towards MSME resilience are coordinated and that players leverage existing knowledge and resources to improve their preparedness and responses to future shocks, greater engagement and coordination between ecosystem stakeholders need to be promoted. Examples of improved and deeper coordination can include the establishment of more regular stakeholder consultations between associations and MSMEs, and an MSME task force to link and drive initiatives between government associations, regulators and FSPs across various financial sectors.

5. **Support digitalisation and broader aspects of recovery to build back better:** The ability of MSMEs to digitalise their business has become a determinant for their agility and survival in a “new normal” economy amid COVID-19. Digitalisation is therefore important, not only in terms of the recovery of firms, but also their adaption and ability to build back better following the event of a shock, such as a pandemic. Ecosystem stakeholders have a responsibility to better enable firms to engage with the process of digitalisation through a number of interventions, including:

- Promoting more enabling regulation towards digital innovations and technology
- Incorporating digital literacy training and capacity-building into initiatives delivered by associations to MSMEs
- Digitalising coordination and MSME engagement channels through platforms for enhanced communication
- Removing barriers to broader internet penetration by government

This report is structured as follows:

- **Section 1** introduces the study and the problem statement, and it provides an overview of the research methodology.
- **Section 2** contextualises MSME risks in Ghana, as well as the nature of MSME support provided by the ecosystem prior to COVID-19.
- **Section 3** investigates the impact of COVID-19 on both MSME resilience in terms of challenges faced, coping mechanisms or economic support used, and adaption, as well as ecosystem resilience in terms of effective service delivery, day-to day operations and meeting MSME resilience needs.
- **Section 4** explores various opportunities and key interventions to strengthen the resilience of the Ghana ecosystem and its MSMEs using the GIZ Integrated Disaster Risk Management (ICDRM) framework for holistic resilience.
- **Section 5** concludes the report.

1. INTRODUCTION

1.1. Problem statement and objective

MSMEs are critical drivers of economic development. MSMEs are also a vital source of livelihood for vulnerable and marginalised populations. They represent more than 90% of business across Africa and employ about 60% of workers, many of whom are women and young individuals⁹. In Ghana, MSMEs represent about 85% of businesses, contribute around 70% to GDP and account for just over half of formal employment¹⁰.

The contribution MSMEs make to development is threatened by their high exposure to risks. Despite their importance in many African economies, MSMEs are inherently prone to failure and face considerable rates of attrition. This attrition stems from the variety of risks MSMEs face daily to survive and operate sustainably. These risks include business interruption, limited access to finance, limited skills and management expertise, theft, fire, floods and other natural perils and high levels (more than 70%) of informality¹¹, all of which differ notably by business size and sector of operation.

Resilience is central to the longevity of MSMEs. The significant vulnerability MSMEs face to risks and challenges implies that the key to their ongoing contribution to economic development critically depends on their ability to remain resilient in the face of shocks. The better an MSME is at managing and mitigating risks, the lower the likelihood of income shocks that negatively impact household livelihoods. In addition, the better equipped an MSME is to not only withstand shocks through effective coping strategies, but to also recover and adapt post shock, the greater the longevity of MSMEs and their income sustainability amid shifting consumer and supply contexts.

MSME resilience also depends on the fortitude of the ecosystem. Resilience is not only defined as the ability to withstand and respond to shocks, but to also recover and adapt to different circumstances using various coping mechanisms and strategies¹². It encompasses the ability of both enterprises, and enterprise ecosystems¹³, to adapt and to recover from shocks, both of which are highly interconnected. While the resilience of firms is critical to ensuring longevity and continued contribution to development, their ability to access effective coping mechanisms and programmes to support risk management depends on the ability of ecosystem stakeholders to proactively provide these services. Firm resilience also depends on the ability of ecosystems as a whole, as well as ecosystem stakeholders individually, to withstand systemic shocks and sustainably nurture their own risk management capabilities ahead and amid risks. The coping mechanisms used by MSMEs will be rendered useless should the greater ecosystem fail (e.g., if critical transport or trade networks collapse or if key coordinating infrastructure fails). A more holistic understanding of resilience of each level, and how they relate to each other, is thus required to gain insight into MSME resilience and to inform intervention design that can unlock change at key leverage points for maximum impact.

9 [International Trade Centre, 2018](#)

10 [Alliances for Action, 2016](#)

11 [Muriithi, 2017; Finscope Swaziland, 2017; Finscope Lesotho, 2016; Finscope South Africa, 2010 and Finscope Malawi, 2019](#)

12 [MEFIN and GIZ, 2020](#)

13 For this study, enterprise ecosystems refer to all the players involved in promoting MSME development (policymakers, regulators, FSPs and associations), how those players build the environment within which MSMEs operate and how those players engage with and support MSMEs.

COVID-19 has tested the resilience of MSMEs and the ecosystem alike. The COVID-19 pandemic has provided one of the largest shocks to MSMEs, enterprise ecosystems and economies in recent history. COVID-19 has created new direct and indirect risks to the income sustainability of firms through, for example, health risks for business owners and staff and disrupted cross-border trading, while also exacerbated exposure to existing risks and vulnerabilities faced by firms, such as digital exclusion and liquidity management challenges. In Ghana, the COVID-19 pandemic has been one of the largest systemic shocks to the economy and has tested the resilience of both MSMEs and the ecosystem alike. As such, it provides a useful case study to explore the holistic resilience of MSMEs and enterprise ecosystems in Ghana and the connections between the two.

Study objective. In light of the widespread impacts of COVID-19, GIZ implemented a global project on “Developing Risk Management Approaches for Climate and Health Risks” in collaboration with the Programme for Sustainable Economic Development (PSED) in Ghana. This study was commissioned by GIZ and PSED and aims to understand the real and perceived risks experienced by MSMEs in Ghana, evaluates the extent to which MSMEs and the Ghanaian ecosystem are, and have remained, resilient, amid the systemic shock of the pandemic. It also identifies opportunities to build greater resilience against future risks and shocks. A similar study is being conducted in Morocco, by the Strategic Alliance (STA) (GIZ– Allianz – BIMA)¹⁴, with a focus on agri-business, automotive and tourism sectors to evaluate the impact of COVID-19 on MSMEs, their resilience during the crisis and how their perception to risks has changed, as well as support SMEs of these sectors in strengthening their risk management plans and identifying preventive and adaptive measures to reduce their residual risks¹⁵.

1.2. Methodology

1.2.1. Research approaches

Research approach. To understand how MSMEs and the MSME ecosystem have been affected by, and has responded to COVID-19, a combination of desktop research, qualitative interviews with MSMEs and key stakeholders¹⁶, and a quantitative survey with selected MSMEs, was applied in collaboration with CDC Consult Limited¹⁷ (see Overview of research approaches). A wide array of research activities were used to gain a holistic understanding of how COVID-19 affected MSMEs and their perception of risks, how they responded to COVID-19 in the short term, how they plan to come out of the crisis in the medium and long term and how they plan to manage risks in the future. In addition, the stakeholder interviews helped to develop a deeper understanding of the MSME ecosystem.

14 A collaboration between the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH, Allianz SE/Allianz Climate Solutions (ACS) and BIMA MILVIK.

15 The project encapsulates 3 components and is currently being implemented in Morocco, India/ Pakistan and Ghana, developing integrated solutions that incorporate insurance products for climate and health risks and additionally, enhancing financial and insurance literacy among stakeholders.

16 Please refer to Table 2 in section 6.1 in the appendix for an overview of stakeholders interviewed.

17 CDC Consult (a member of the CDC Group) is a management advisory and development consulting firm in Ghana, conducting research and evaluation studies for their clients, among other services. They were contracted by GIZ to conduct research among MSMEs and ecosystem stakeholders in Ghana to support the objectives of this study.

Responsibilities. Cenfri was commissioned by GIZ to conduct the background research, design the inputs for consumer research with MSMEs (focus group discussion [FGD] surveys and in-depth-interviews [IDIs]) and key informant interviews (KIIs) with ecosystem stakeholders. In addition, Cenfri analysed and synthesised insights and drafted the final report. CDC Consult Limited conducted the in-country data collection by coordinating and conducting consumer research on behalf of Cenfri and GIZ.

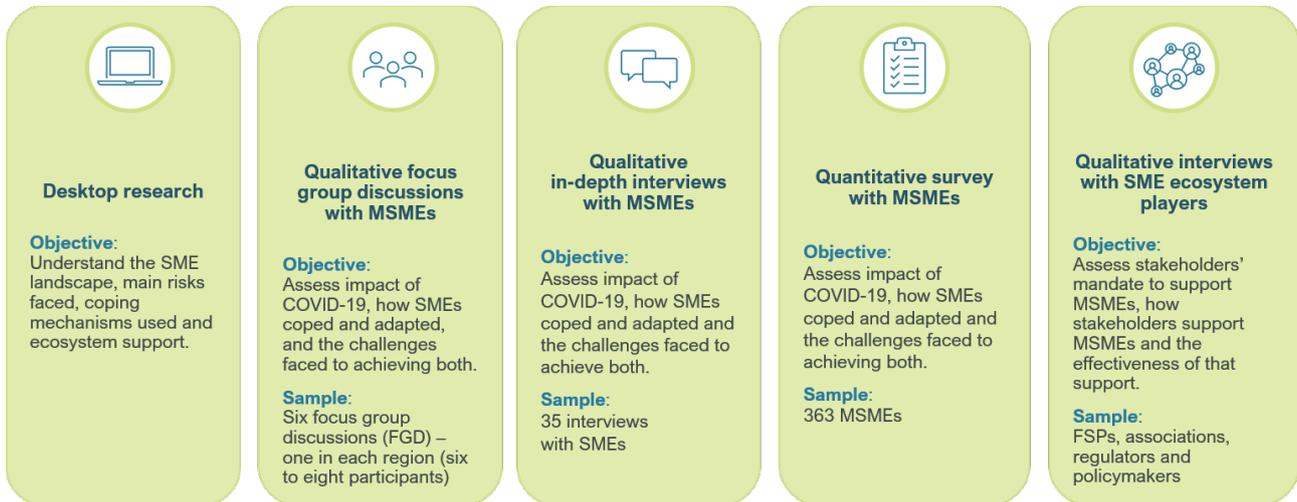


Figure 6: Overview of research approaches

Source: Authors' own

1.2.2. Sample overview

Definition of MSMEs. The definition of MSMEs applied in this study is taken from the Ghana Enterprise Agency (GEA), formerly the National Board for Small-scale Industries (NBSSI). According to this definition, micro-enterprises are those that employ five or fewer people, small enterprises employing between six and twenty-nine individuals, medium enterprises employing 30 to 99 employees and large enterprises employing 100 and more individuals¹⁸.

Geographic scope. The sample of MSMEs selected for this study is drawn from urban communities, as per the request of GIZ, in the following regions:

- Greater Accra Metropolitan Area
- Ashanti Region
- Bono Region
- Ahafo Region
- Bono East Region
- Western Region

Targeted firm size. Small and medium-sized enterprises form the predominant focus of this study with micro- or “nano” enterprises considered to a minor extent. The motivation behind this narrowed scope is that while micro-enterprises comprise over 80% of businesses at a national level in Ghana¹⁹, these businesses tend to be less integrated into formal value chains, employ fewer staff members and often have the ambition to simply survive day to day on limited revenue rather than aspiring to become a larger, more successful corporation. From the perspective of development partners and formal FSPs, aspirational SMEs are more likely to be interested in managing risks and adopting resilience-based financial services and support and are therefore the primary target for interventions identified in this study.

Sample breakdown. Overview of MSME sample qualitative and quantitative interviews with MSMEs provides an overview of the MSME sample per region and is nationally representative. In Ghana, MSMEs operate predominantly in the services sector and are largely informal. In addition, micro-firms dominate, with over 80% of MSMEs in each region being comprised of micro-firms^{20 21}.

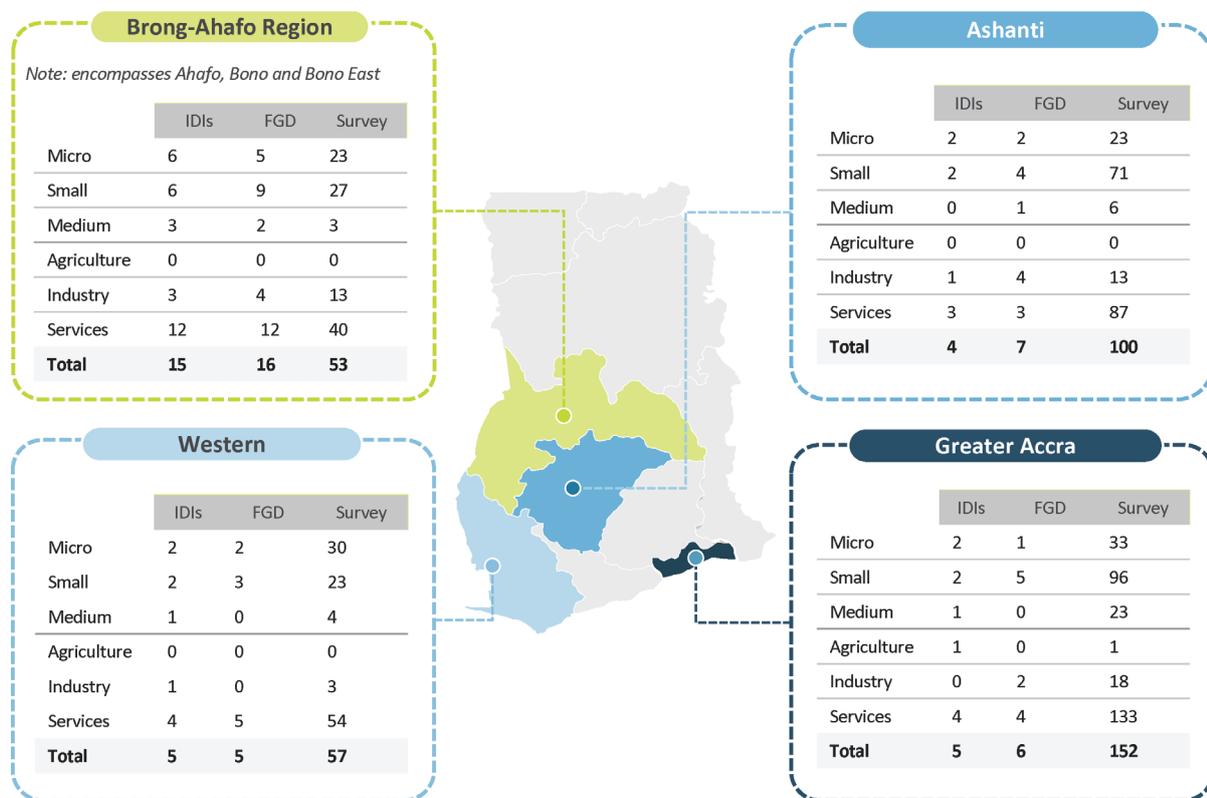


Figure 7: Overview of MSME sample

Source: qualitative and quantitative interviews with MSMEs

19 Ghana Statistical Services, 2016

20 GSS (2015), GSS (2010), KMA (n/d), World Bank (2016), Kim et al. (2013)

21 Our sample is under-representative of micro-firms, due to the fact that the scope of the study requested that micro-firms be focused on to a lesser extent.

Snapshot of MSMEs in Ghana²²

MSMEs are distinct in terms of their activities. Across the sample, medium firms were found to be predominately male-owned and in operation longer than small firms, as shown by Figure 8. Regarding types of work, Years of operation and gender split among SME sample Quantitative survey with MSMEs shows that the sampled small firms tended to operate in the services sector, while medium firms were more diverse in terms of their operations.

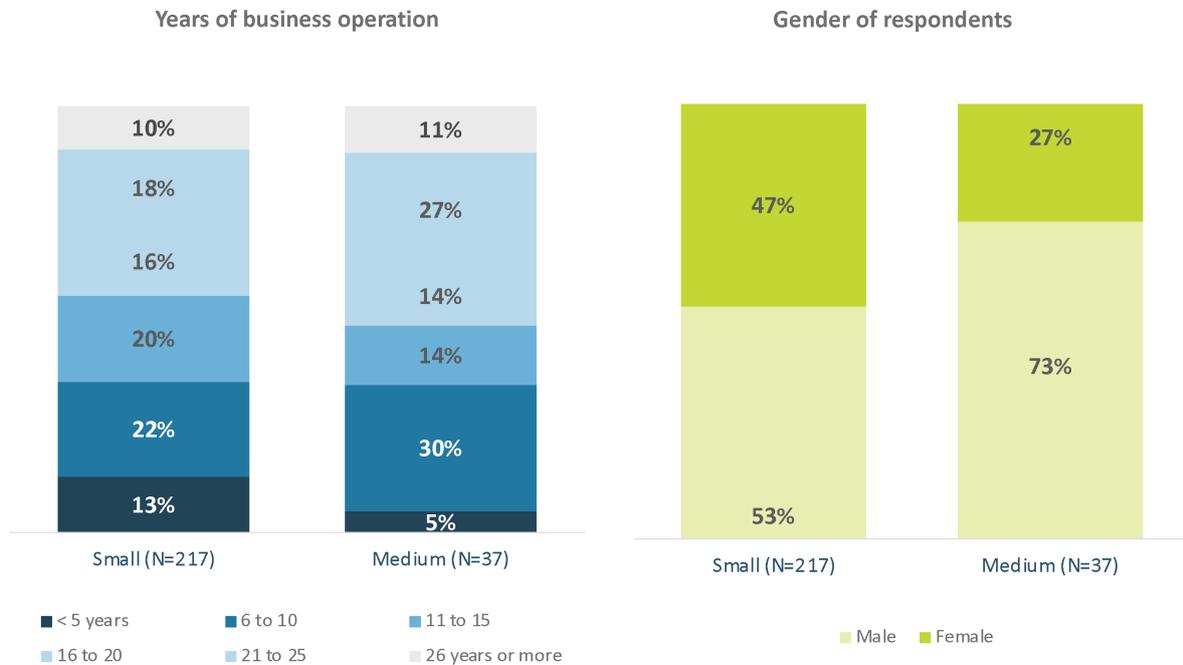


Figure 8: Years of operation and gender split among SME sample

Source: Quantitative survey with MSMEs

22 For an overview of micro-firms that were surveyed, see Section 6.2 in the appendix

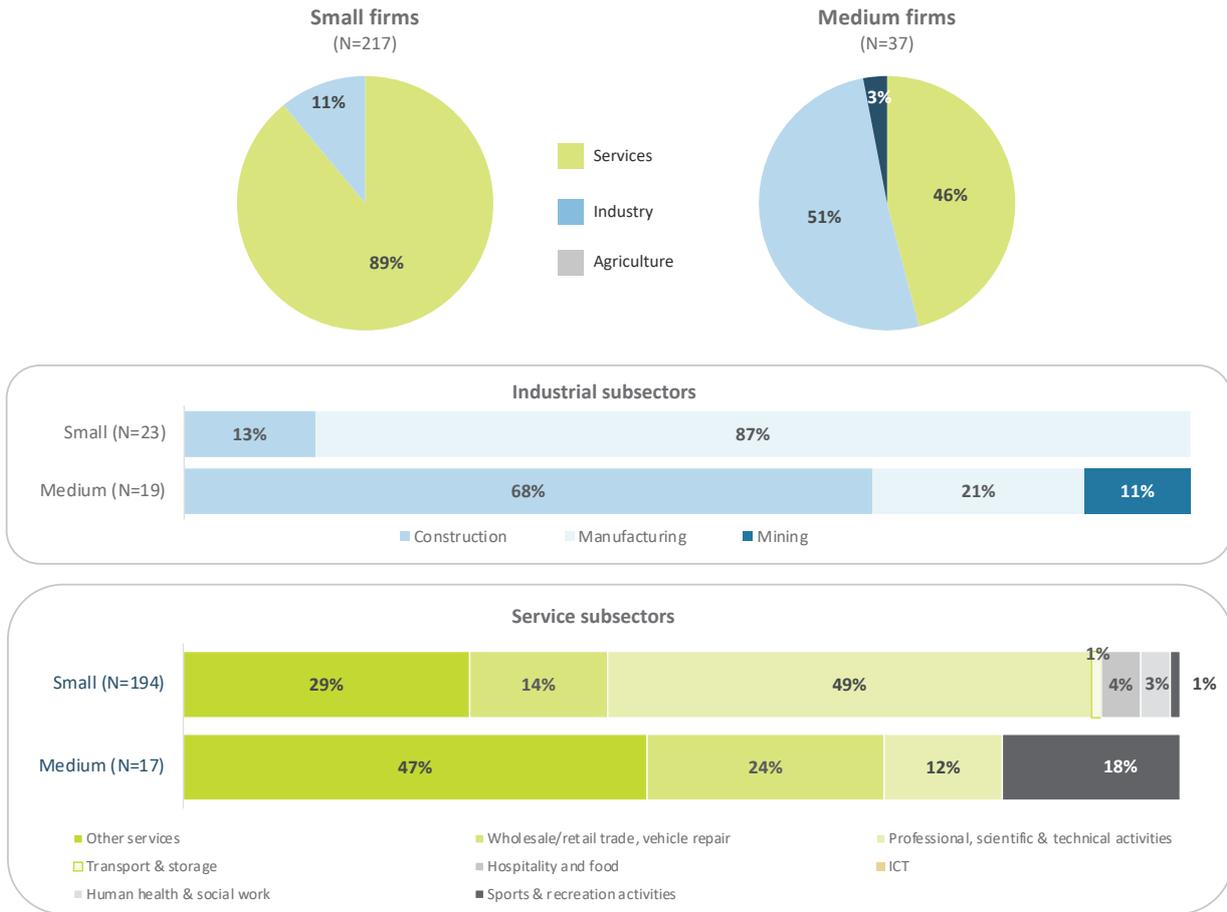


Figure 9: Sector and sub-sector breakdown among SME sample

Source: Quantitative survey with MSMEs

Positive relationship between business size and level of formality. Figure 10 provides a breakdown of MSMEs, whether they are registered and how they tend to keep records. It is evident that smaller firms tend to be more informal, with only 47% being registered and just over 60% not keeping any records. In contrast, medium firms are predominantly registered and tend to keep records digitally.

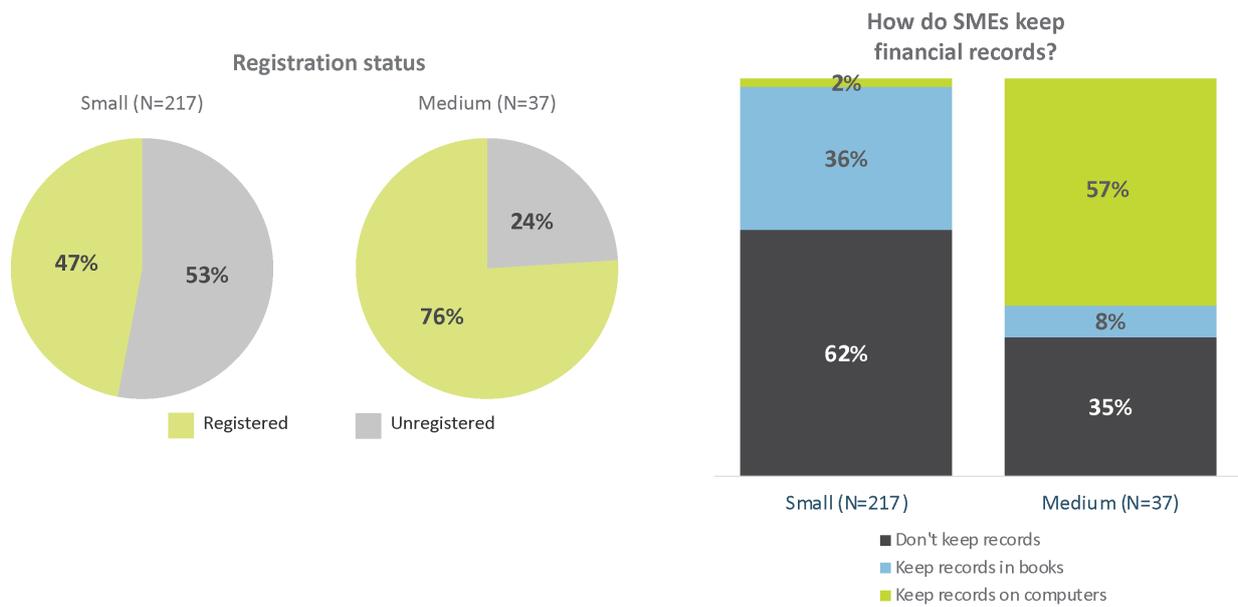


Figure 10: Registration levels and method of keeping financial records among SMEs

Source: Quantitative survey with MSMEs

MSME context is an important consideration with thinking about resilience. It is evident that small and medium-sized businesses are diverse in terms of the nature of their operations and level of formality. Thus, when thinking about gaps and opportunities around their resilience, it is important to keep this context in mind.

2. UNDERSTANDING THE RESILIENCE OF THE MSME ENVIRONMENT PRIOR TO COVID-19

To better understand the extent to which MSMEs and the Ghanaian ecosystem were able to withstand the impacts of COVID-19, it is important to understand their levels of resilience before the pandemic. The purpose of this section is therefore to provide an overview of the day-to-day risks previously faced by MSMEs, under normal circumstances, how they coped with these risks and how resilient and supportive the MSME ecosystem was prior to COVID-19. Doing so provides insight into the range of risks MSMEs will likely continue to face in the medium term as the direct impacts of the pandemic ease, and a combination of new and pre-existing risks become the new normal threats to business resilience.

2.1. Resilience of MSMEs

2.1.1. Risks

Ghanaian MSMEs faced high levels of risks, most of which were insurable. Common risks faced by MSMEs included poor access to finance, business interruption due to perils and poor infrastructure, and a range of specialised risks, as shown by Figure 11. The most significant risk mentioned by MSMEs in Ghana was a lack of access to finance²³. The second-most significant risks mentioned was fires and similar perils, which resulted in over USD1.5 million's worth of damage between 2016 and 2017²⁴. Power outages and poor infrastructure have also served to continuously interrupt MSMEs operations, having affected 89% and 33% of firms, respectively²⁵. MSMEs also experienced a range of specialised risks, including damage to goods in transit, with manufacturing firms losing 2% to breakage or spoilage during domestic shipping, as well as other niche risks related to industries²⁶.

23 In 2013, only 8% of small and 15% of medium firms received working capital loans from banks, and only 23% of firms had a bank loan or line of credit, below the global average at 34% ([World Bank, 2013](#))

24 [Thom et al, 2018](#)

25 [World Bank, 2013](#); [Oppong \(2014\)](#)

26 [Thom et al, 2018](#)

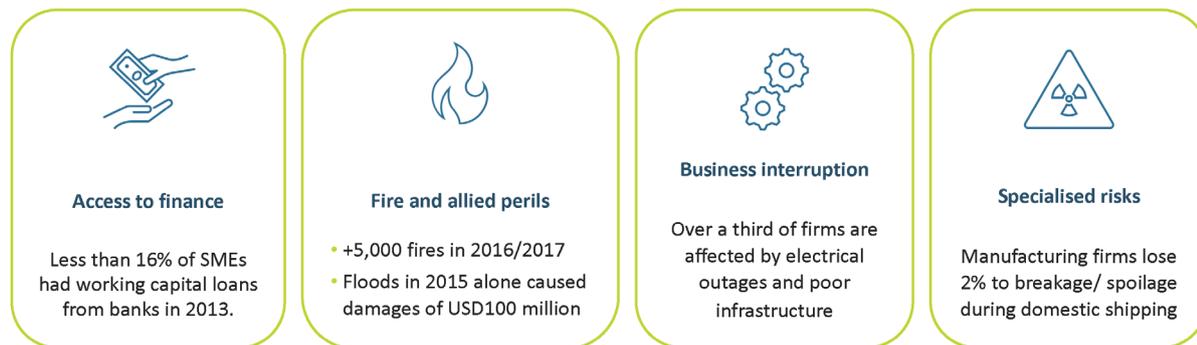


Figure 11: Common risks facing MSMEs in Ghana

Source: Hallegatte and Erman, 2018; World Bank, 2013; Oppong (2014); Thom et al, 2018

2.1.2. Coping mechanisms

Little is known on how MSMEs coped with risks prior to COVID-19. Information on what type of coping mechanisms MSMEs used to respond to risks prior to the pandemic is scarce. This is predominately due to a poor data collection on MSMEs. The World Bank Findex (2017) database provides an overview of the types of mechanisms individuals use to cope during emergencies. This can be used to get a sense of the ways in which MSMEs tend to cope. Given that a high proportion of firms in Ghana are micro- and informal in nature, coping mechanisms used by individuals can serve as a useful proxy for coping mechanisms used by firms in Ghana. According to this database, coping mechanisms tend to be informal and short-term in nature, with 34% relying on family or friends, 32% using their savings and 27% using money from working²⁷.

Formal coping mechanisms designed specifically for risks were underutilised. Few MSMEs proactively planned for risk occurrences, used formal financial coping mechanisms or those specifically designed for risks. Although there is little information on insurance take-up among MSMEs in Ghana, data on self-employed individuals shows that only 4% had insurance in 2017²⁸. Recent literature also finds that less than 37% of MSMEs were aware of the mandatory fire and liability insurance Act 724 enacted in 2006²⁹. These findings suggest that MSMEs did not consider insurance as a primary option to help them manage their risks, despite the fact that the most common risks faced are insurable. As such, insurance has traditionally not taken off in Ghana for MSMEs who have tended to rely on informal mechanisms more suitable to responding to, rather than planning for or mitigating against, risks.

Longevity of Ghanaian MSMEs was low prior to COVID-19. On average, prior to the COVID-19 pandemic, only 40% of MSMEs in Ghana survived beyond five years³⁰. The low success rate of MSMEs, together with their weak preparedness for risks in the form of insurance products or dedicated savings, suggests that MSMEs in Ghana were highly vulnerable to shocks and unprepared to manage risks. While firms may have been able to use informal channels to respond and recover from incidental risks, MSMEs were highly vulnerable to larger or systemic risks that could jeopardise these informal channels.

²⁷ Findex, 2017

²⁸ Thom et al., 2018

²⁹ Amoako (2019) conducted a survey among 105 MSMEs in Kumasi, Ghana.

³⁰ Dankwa, 2020

2.2. Resilience of the MSME ecosystem

2.2.1. Financial sector support

Insurance and credit as resilience tools. Resilience entails the ability to deal with, and recover from, unexpected risk events. This goes beyond short-term liquidity management to avoiding falling into poverty or reducing living standards due to the impact of shocks. Financial services most appropriate for supporting resilience are those that generate safety nets and provide security in the event of shocks, either by pooling and transferring risks (i.e. insurance) or by enabling access to a large-enough pool of resources to draw on (i.e. through credit or savings). The following sections explore the extent to which MSMEs can, and have, made use of these tools to enhance their resilience³¹.

2.2.1.1 Snapshot of Ghanaian insurance industry prior to COVID-19

Insurance sector under-developed and dominated by compulsory products. In 2019³², the insurance penetration rate in Ghana was 1%³³. In addition, the non-life/general insurance industry is dominated by compulsory products, with motor (37%) and fire, theft and property (23%) constituting the largest share of business-relevant premiums. The take-up of property and vehicle insurance was most common among MSMEs, suggesting that demand for insurance by MSMEs in Ghana has been driven by legal compliance and not by choice or the perceived value of insurance to meet their needs³⁴.

Limited products available to MSMEs. Few non-life insurers in Ghana provided business policies specifically for MSMEs, with the exception of Allianz³⁵. Furthermore, microinsurance MSME products mostly target smallholder farmers. Esoko Ghana launched a life insurance product bundled with weather information, market prices and agricultural tips for farmers³⁶, while SEED Labs partnered with Microinsurance Without Borders to provide a mobile-enabled crop-loss insurance with technical assistance for climate-resilient agriculture and financial literacy training for farmers³⁷. These limited offerings thus suggest either a limited understanding of MSME needs or an unwillingness by insurers to tailor products to meet MSME needs. Notably, low engagement between MSMEs and insurers also signified the limited extent to which insurers have attempted to provide businesses with risk management training or assistance.

2.2.1.2. Snapshot of Ghanaian banking/credit industry prior to COVID-19

Ghana's credit sector underdeveloped. The share of private sector credit to GDP is low, at about 12%, compared to the SSA average of 45%³⁸. This signifies low development of the financial system and poor extension of credit to the private sector, thus contributing towards the finance and credit constraints faced by MSMEs.

31 [Insight2Impact Financial Service Needs Framework \(2017\)](#)

32 [NIC, 2019](#)

33 The penetration rate is defined as a country's total insurance premiums as a percentage of its gross domestic product (GDP) and indicates how much the insurance sector contributes to the national economy (A2II, 2017).

34 [Musah and Duker \(2020\)](#)

35 Allianz is the only non-life insurer who underwrites MSME insurance in Ghana (Allianz, n/d)

36 [Esoko Ghana](#)

37 [SEED Labs](#)

38 [World Bank, 2019](#)

Variety of credit products exist for MSMEs, but barriers exist. Several FSPs provide credit for MSMEs specifically. For example, Opportunity International offers housing loans and working capital loans for MSMEs in Ghana. Ghana Commercial Bank, Stanbic Bank, Choose Africa, Advans Ghana, Absa Ghana, Fidelity Bank, Standard Chartered and First National Bank also provide loans to MSMEs³⁹. However, most of these products can only be accessed by formally registered MSMEs, which account for less than 20% of MSMEs in Ghana⁴⁰. High collateral requirements⁴¹ and burdensome application procedures⁴² further constrained access to, and usage of, credit for MSMEs. In addition, MSMEs lack trust in the formal financial sector due to its history of engaging in fraudulent practices. Although Ghana's financial sector experienced significant reforms in 2017⁴³, this resulted in the closure of many institutions and only GHC1 billion out of a total of GHC10.1 billion has been successfully recovered so far, thus serving to further erode trust in the sector⁴⁴.

2.2.1.3. The missing middle

Challenges limit FSPs' ability to serve MSMEs. Limited financial resilience products exist specifically for MSMEs in Ghana due to a range of challenges that FSPs encounter when establishing a business case for their provision. These challenges include the heterogeneity of MSMEs in terms of activity and sectors⁴⁵. The informal nature of most MSMEs in Ghana also limits the amount of information and data available on these businesses, as many businesses lack proper record-keeping capabilities and sufficient levels of technical skills. The informal nature of MSMEs and lack of accessible aggregation points or distribution channels for insurance also hamper the business case to serve MSMEs.

A missing middle exists. These challenges make MSMEs a difficult business case for FSPs to solve and, as a result, are often overlooked in comparison to their micro- and corporate counterparts⁴⁶. Thus, MSMEs currently face a finance gap, known as the "missing middle". This became evident by the lack of appropriate MSME products in the market in Ghana, thus constraining their development and undermining the extent to which they can access products in the event of a shock.

39 [Opportunity International](#) (n/d); [GCB bank](#) (n/d), [Stanbic Bank](#) (n/d), [Choose Africa](#) (n/d), [Advans Ghana](#) (n/d), [Absa Ghana](#) (n/d), [Fidelity Bank](#) (n/d), [Standard Chartered](#) (n/d) and [FNB Bank](#) (n/d)

40 [Ghana Statistical Service, 2015](#)

41 Ghana has one of the highest average collateral value requirements, estimated at over 200% of the loan amount for firms ([World Bank, 2016](#)).

42 Loans often have complex application processes, unfavourable interest rates and short loan maturity periods which prevent Ghanaian MSMEs from applying for credit ([World Bank, 2016](#)).

43 In 2017, the Bank of Ghana implemented comprehensive reforms in the financial sector to clean up the sector and strengthen the regulatory and supervisory framework. These measures were implemented due to high-risk financial undertaking by many institutions, poor governance in the face of low capital and unrecoverable loans ([PwC, 2019](#)).

44 [Graphic Online, 2019](#)

45 [Ackah and Vuvor, 2015](#)

46 Corporate entities can provide insurers with high margins supporting a business case for bespoke solution, while micro-enterprises can be grouped with individuals and together can constitute the necessary scale for a sustainable risk pool and business case.

47 For more information about the missing middle in SSA and the emerging world, see the [Microinsurance Network State of Microinsurance report \(2018\)](#).

2.2.2. Government support

MSMEs have been a key focus of the Government. The Government of Ghana recognises the key role of MSMEs in the economy. Various policy documents focus on promoting the development of MSMEs⁴⁸. In addition, interviews with stakeholders indicated that MSME-specific policies were released prior to COVID-19, which set the foundation for the ecosystem stakeholders to coordinate around MSME development. Given the constraints of the financial sector to adequately cater for the needs of MSMEs, the Government has had to step in to promote MSME development and provided a range of financial and non-financial support.

2.2.2.1. Financial support

Government financial support was predominantly focused on access to credit. The Government was predominantly focused on supporting the growth of MSMEs through facilitating access to credit⁴⁹. Only a few projects, namely the Promotion of Small and Micro Enterprise Fund (PSME), the Africa Project Development Facility (APDF) and the Programme for Sustainable Economic Development (PSED) by GIZ, included training components to improve the skills and capacities of MSMEs⁵⁰.

2.2.2.2. Non-financial support

Technical assistance was provided through associations. The Government established various non-banking institutions, including:

- The Ghana Enterprise Agency (GEA) (1985)
- Empresas Technologicas (EMPRETEC) Ghana Foundation
- The Association of Ghana Industries (AGI)
- Ghana Regional Appropriate Technology Industrial Services (GRATIS)
- The Ghana Incentive-Based Risk-Sharing System for Agricultural Lending (GIRSAL) (see Box 1)
- The Private Enterprises Foundation (PED)

These institutions promote the development of MSMEs through training and capacity-building and business advisory services. In addition, these business associations also facilitate access to industry-related information, promote exports of goods and link MSMEs to financing institutions. However, these initiatives have been largely uncoordinated with other initiatives undertaken by the Government.

48 For example, the GPRS II (2006 – 2009) set objectives to identify areas of linkages between large and small enterprises and support MSMEs through establishing Business Development Service units ([Ghana National Development Planning Commission, 2005](#)). Similarly, the Ghana Shared Growth and Development Agenda II (2014 – 2017) aimed to enhance the performance of MSMEs by improving their operational efficiency and competitiveness, access to finance and technical and entrepreneurial skills ([National Planning Development Commission, 2015](#)).

49 This was the primary objective of, for example, the Funds for Small and Medium Scale Enterprise Development (FUSMED), the Ghana Private Sector Development Fund (GPSDF), International Fund for Agricultural Development (IFAD) projects, the Private Enterprise & Export Development (PEED) Project (targeted specifically towards exporting businesses), the Support for Private Enterprise Expansion and Development (SPEED) project and the Microfinance and Small Loans Centre (MASLOC) ([Prempeh, 2015](#); [Ghana Private Sector Devt. Fund, n/d](#); [Support for Private Enterprise Expansion and Devt, n/d](#); [IFAD Projects](#); [PEED Project, n/d](#); [MASLOC, n/d](#)); [Abor and Biekpe, 2006](#))

50 [GIZ, 2019](#); [Danida, 2003](#); [IFC, n/d](#)

Box 1: Overview of the Ghana Incentive-Based Risk-Sharing System for Agricultural Lending (GIRSAL)

GIRSAL is an example of an initiative undertaken by the Bank of Ghana and the Ministry of Finance prior to COVID-19 to strengthen risk management among agricultural MSMEs.

About GIRSAL: GIRSAL is a non-bank financial institution, supported by the Ministry of Finance, the Bank of Ghana and the African Development Bank.

Background: GIRSAL was established to overcome specific challenges faced by the financing of the agricultural sector, including the high cost of financial services, lack of trust and understanding, access challenges, poor financial product design, insufficient understanding of customers and value chain actors, lack of technical knowledge and insufficient liquidity.

Objective: To de-risk agricultural financing and increase credit provision to the agricultural and agribusiness sectors through the issuance of agricultural credit guarantee instruments and provision of technical support.

Approach: GIRSAL works with banks, savings and loans companies, rural and community banks, and other lenders or investors and apply a six-pillar approach:

- **Risk-sharing facility:** develop risk-sharing instruments to reduce the risks of banks and leverage their balance sheets into agriculture lending.
- **Technical assistance:** strengthen the institutional capacity of banks and intermediaries to support new lending into agriculture, develop new platforms to support delivery of loans to rural areas and provision of technical assistance to farmer groups and agribusinesses.
- **Insurance facility:** used to develop and deploy appropriate insurance products for agriculture to lower risks faced by smallholder farmers and agribusinesses.
- **Bank rating scheme:** a rating scheme is used to rate banks in Ghana based on their lending to agriculture, to create incentives for banks to achieve impacts in agricultural lending.
- **Bank incentive mechanism:** used to develop appropriate incentives to reward banks that are lending to the agricultural sector, based on the volume of lending, effectiveness of lending and impacts.
- **Digital finance:** increase the low-cost distribution of financial services particularly in rural areas using mobile phones and other digital distribution channels.

GIRSAL successfully managed to enhance the ability of banks to lend to smallholder farmers and agribusinesses and trained banks to better assess loan applications for agricultural MSMEs. Stakeholder interviews also revealed that the initiative helped regulators to better understand the agricultural value chain and identify how they, and their licensed entities, can better assist MSMEs. However, to support a more holistic and widespread approach to MSME development and resilience, the focus of GIRSAL could have been extended to risk management for other risks and to other sectors in which MSMEs operate.

Source: [GIRSAL](#) (n.d.)

2.2.3. Regulatory support

Regulators undertook initiatives to extend financial services to MSMEs. The National Insurance Commission (NIC) has undertaken various types of market research to increase insurance penetration, promote microinsurance and better understand the risk profiles and insurance needs of MSMEs in Ghana⁵¹. The NIC has also made provisions for insurance to be distributed via mobile phones⁵² to improve MSMEs' access to insurance and partnered with GIZ in 2010 to promote microinsurance in Ghana⁵³. The NIC has also supported the GIZ-led Inclusive Insurance Innovation Lab in Ghana, which is focused on promoting innovative solutions to advance the development of their insurance market and establishing micro- and small business clinics⁵⁴. The Bank of Ghana (BoG) signed a Memorandum of Understanding with FSD Africa to undertake a credit market development programme to support stable and sustainable credit expansion in Ghana⁵⁵. BoG also supports GIRSA and established an electronic collateral registry, in partnership with the International Finance Corporation, to improve the country's financial infrastructure to increase MSME access to finance⁵⁶.

Ample ecosystem support, yet gaps remained for holistic resilience. Despite the variety of government and regulatory support provided to MSMEs, there was a lack of focus on strengthening risk management, insurance and adaptation. In addition, most support to MSMEs provided by the Government and regulators was delivered in isolation of each other, with weak inter-sectoral coordination on MSME development. The financial sector also failed to provide appropriate, tailored financial products to MSMEs. Overall, this implied a relatively weak level of resilience to shocks, both at a micro- and systemic level.

51 NIC, n/d
 52 NIC, 2017
 53 NIC and GIZ, 2018
 54 A2II, 2018
 55 My joy online, 2018
 56 IFC, 2012

3. UNDERSTANDING THE RESILIENCE OF THE MSME ENVIRONMENT AMID COVID-19

This section explores the resilience of MSMEs and the ecosystem amid COVID-19, providing an overview of the initial response of the ecosystem to the pandemic, the various impacts of the pandemic on MSMEs, the mechanisms through which MSMEs managed these impacts, the extent to which they engaged with ecosystem support and what challenges they encountered in utilising various coping mechanisms effectively.

3.1. COVID-19 ecosystem response

3.1.1. Government response strategy: a timeline

Government implemented rapid measures in response to COVID-19. In March 2020, Ghana confirmed its first case of COVID-19. Figure 12 provides a timeline of government responses to the pandemic. Four days after the first case was identified in Ghana, various COVID-19 safety measures were implemented, including social distancing measures, travel restrictions, a suspension of public gatherings, closure of all universities and schools and a mandatory 14-day self-quarantine for residents who visited a country with over 200 cases. Thereafter, the Government tightened the restrictions by closing the borders and implementing a partial lockdown of urban areas.

Easing of restrictions. In April, the lockdown was lifted, following expansion of testing, treatment and isolation centres and increased production of sanitisers and medicines. Various restrictions were eased from June onwards, including the re-opening of schools, universities and religious services, as well as the opening of tourist sites and flights. However, beaches, pubs and cinemas remained closed and social distancing was mandatory.

New restrictions and vaccination. In January 2021, restrictions on large gatherings, restaurants and flights were reintroduced following a surge in COVID-19 cases. A month later, the vaccination campaign started, with the President receiving the first shot. Ghana was also the first country in Africa to receive the COVAX vaccine⁵⁷.

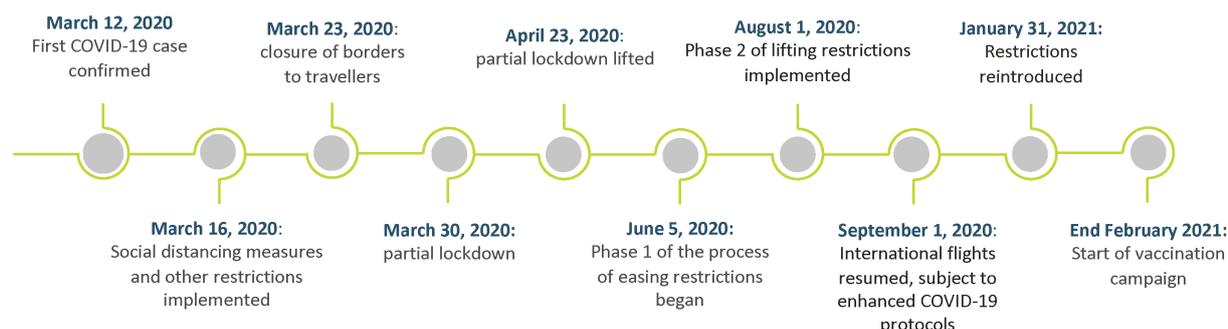


Figure 12: Overview of COVID-19 safety measures

Source: Authors' own; IMF, 2020

3.1.2. MSME support delivered under COVID-19

Ecosystem stakeholders reacted swiftly and proactively to support MSMEs during the initial waves of COVID-19. Various ecosystem stakeholders provided a range of financial and technical assistance as well as other types of support⁵⁸ to MSMEs during COVID-19, as shown in Table 1. This support was primarily focused on responding to the immediate impacts of COVID-19. There has been limited focus placed on recovery and adaptation aspects thus far. Furthermore, the support has often been reported as inaccessible and not sufficient to effectively meet MSME needs.

Stakeholder	Support
Government	<p>Financial support: via the Coronavirus Alleviation Programme (CAP) (GEA), the Ghana Care Guarantee Scheme (via GIRSAL) and the Nkosuo programme (GEA and Mastercard Foundation)</p> <p>Enabling ecosystem: reduced mobile money fees, flexible KYC and absorbing utility bills</p>
Regulators	<p>Financial support: e.g. reduction of the policy rate by 150 basis points, lowering of the primary reserve requirement from 10 to 8% and the capital conservation buffer from 3 to 1.5%</p> <p>Training with MSMEs: e.g. to reduce credit risk, ensuring there is adequate financial information and effective financial reporting systems</p> <p>Product development: e.g. exploring insurance for business interruption</p> <p>Digitised operations: began engaging with licensed entities remotely</p>
Policymakers	<p>Financial support: the Ministry of Finance (MoF) supported MSMEs via GEA and related government programmes.</p> <p>Policy encouraging digitisation/innovation: e.g. the MoF launching new policies promoting digital financial services and financial inclusion</p> <p>Policy encouraging MSME growth and development: MSME engaging associations, or government</p> <p>Digitised operations: began engaging remotely</p>
Associations	<p>Advocacy/education: safety protocols</p> <p>Facilitate access to stimulus: collaborating with GEA and the Government for support</p> <p>Surveys: explores COVID-19 impacts among members</p> <p>Facilitated access to finance/markets</p> <p>Developed a digital MSME database: registered and captured information on MSMEs and their operations</p>

⁵⁸ The most visible type of support offered by ecosystem stakeholders was targeted towards the formal sector, given the need for company registration details. It was not clear whether the same type of support was provided to informal MSMEs.

FSPs	Digitised operations: use of mobile applications/online platforms, used WhatsApp or called clients
	Credit relief: restructuring of loans and repayment holidays, reduced interest rates
	New product development: soft loans to MSMEs (Opportunity International, Mastercard and GEA) and a loyalty insurance product offered by Prudential Life Insurance, Enterprise Life Insurance, Vodafone and MicroEnsure ⁵⁹
	Outreach activities: credit providers distributed PPE to all their clients, hosted business advisory webinars
	Capacity-building: e.g. Sinapi conducted business empowerment sessions with MSMEs
Development partners/ private sector	Financial support: the World Bank, IMF Rapid Credit Facility and African Development Bank
	Loan programmes: e.g. OZÉ launched a COVID-19 Relief Loan Program for firms
	Digitalisation support: GIZ awarded a grant of EUR1.5 million to the GEA to help digitise the operations of 500 SMEs in Ghana.
	Employment support: GIZ and the KfW Development Bank launched a special initiative on training and job creation (SI Jobs) in Ghana.

Table 1: Overview of ecosystem support to MSMEs amid COVID-19

Source: Danquah & Schotte (2020); ATTA (2020); Ghana Ministry of Finance (2020); CGAP (2020); The National News (2020); AFDB (2020); All Africa (2020); Stanbic Bank (2020); OZE (2020); McCormick (2020); Mastercard (2020); PwC (2020); IMF (2020); Kwofi (2021); Ghanaian German Economic Association (2020); Ghana Premium Business Consulting (2021)

59 In December 2020, Prudential Life Insurance partnered with Enterprise Life Insurance to co-underwrite SafeNet, an innovative new mobile insurance product, distributed through Vodafone and MicroEnsure. The product is offers new customers cover for hospital cash compensation, accidental injuries or disabilities and general life insurance cover. To help limit the economic impact of the COVID -19 pandemic on customers, SafeNet will be offered to Vodafone Ghana's 9 million plus subscribers as free insurance cover for the next six months. To qualify, all customers who have a cumulative spend of at least GHS5 or more of airtime in the previous month will be eligible (Prudential, 2020).

Box 2: New MSME policy in Ghana.

In 2020, a new policy framework aimed at enhancing the competitiveness of MSMEs was approved and is set to be launched by the Ministry of Trade and Industry (MoTI), the Business Development Ministry and key partners. This new policy framework is expected to drive specific interventions such as a credit-rating system and effective measures to de-risk the business ecosystem, which will protect the development and growth capabilities of MSMEs. The policy also empowers the GEA to become more of an umbrella organisation and to coordinate and drive MSME development forward and help regulate MSMEs. This will help address data and coordination challenges and will allow the Government to collect data on the MSME space and use that data to design intervention for the sector.

Source: [Goldstreet Business, 2020](#)

3.2. COVID-19 impact

3.2.1. Impact on MSMEs

The impact of COVID-19 is overwhelmingly perceived as negative by businesses in Ghana. As in many parts of the world, the pandemic and its associated safety measures hit businesses hard by restricting their access to consumers and markets, as borders closed and lockdowns were introduced. It is therefore unsurprising that an overwhelming proportion of MSMEs indicated that they were badly hit because of the virus. More specifically, businesses associate the pandemic with hardship, low sales, reduced income, unemployment and fear regarding both the disease and the survival of their business⁶⁰. This was illustrated during the interviews when a medium-firm owner said, for example, that “It has had a negative effect on my business... This is what feeds my family, my workers and myself so I think about it always”⁶¹ and micro- and small firm owners said that COVID-19 is “a curse on our generation” and a “heart attack to the nation and has put fear in people”.

Small firms have been worse off relative to more adaptive medium-sized firms. Small firms have been hit hard by the pandemic, as shown by Figure 13, with medium firms seemingly better positioned to weather its impacts. This suggests that smaller firms have been more exposed and less equipped to mitigate or manage the immediate impacts of COVID-19. This became evident during the interviews, when a small firm owner said that “COVID-19 has destroyed my business” and another said “customers are crying of hard times, so it makes it difficult for them to patronise my goods”. Their apparent struggle to survive appears to have hindered their ability to identify positive opportunities that have emerged. However, overall very few MSMEs reported positive impacts from COVID-19⁶². In most cases, firms noted increased competition, thus eroding any gains in sales.

60 This study does not cover businesses that ceased operations as a result of COVID-19, as the sampling methodology was focused on businesses that were in existence (at the time of sampling).

61 Currently, there is no provision in the law which sets out social support for unemployed individuals. The Government of Ghana launched a retraining programme and a national unemployment insurance scheme in 2020, which includes support for those who lost their jobs due to COVID-19 ([Graphic Online, 2020](#); [Ministry of Finance, 2020](#)). However, it is unclear whether this has been implemented.

62 For example, some firms experienced growth in sales in local markets due to the border closures.

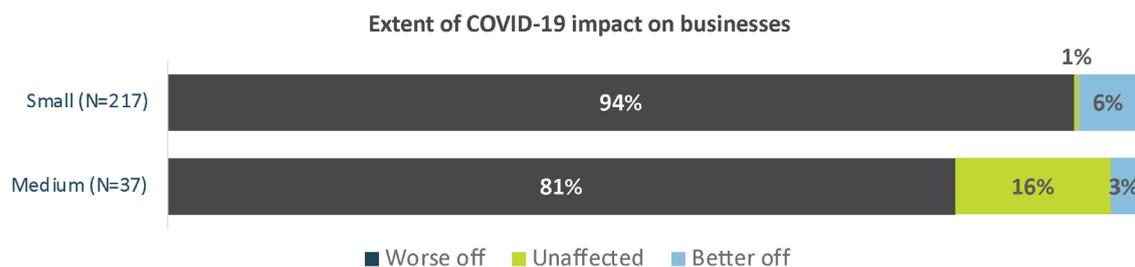


Figure 13: Impact of COVID-19 on MSMEs

Source: Quantitative survey with MSMEs

Reduced sales and disrupted supply chains had the largest impact on small firms. Around 80% of small firms stated that reduced sales and disruptions in supply chains had the biggest impacts on their business⁶³, followed by cash flow issues⁶⁴, see Figure 14. This affected small firms' welfare, with many respondents reportedly facing difficulties providing for their family as a result of their strained business. In the long run, small firms foresee business closures if COVID-19 is not "resolved".



Figure 14: Specific impacts of COVID-19 on small firms

Source: Quantitative survey with MSMEs

⁶³ Similarly, according to research done by the Ghana Statistical Services (GSS) (2020), more than 476,000 firms across Ghana experienced a decrease in demand and 252,000 experienced difficulties in sourcing inputs because of COVID-19 and its related responses.

⁶⁴ Small firms operating in the industrial sector (predominantly manufacturing) were more heavily impacted than those operating in the services sector (where small firms are primarily engaged in professional, scientific and technical activities and other services). This was particularly the case regarding reduced production and cash flow issues (roughly a 20% difference across these impacts between the sectors). It may be the case that small manufacturing firms are heavily reliant on cross-border flows of raw and intermediary supplies and orders, which have been disrupted, and by the lockdown which would have prevented staff from coming to the workplace.

Medium-sized firms faced similar challenges but to a greater extent. The biggest impacts of COVID-19 experienced by 89% of medium-sized firms include reduced sales, disrupted supply chains and decreased production⁶⁵, as highlighted by Figure 15. These impacts have also affected the sustainability of medium-sized firms who also foresee business closures if COVID-19 is not resolved⁶⁶. It is interesting to note that small firms were less likely to report being severely affected by any of the challenges relative to medium firms. The fact that medium-sized firms reported experiencing these impacts to a greater extent may be due to their employment of more people, being more integrated in value chains and more dependent on international markets than smaller firms. However, it may also suggest that small firms struggle to accurately identify how their businesses have been impacted relative to more informed medium-sized firms⁶⁷.

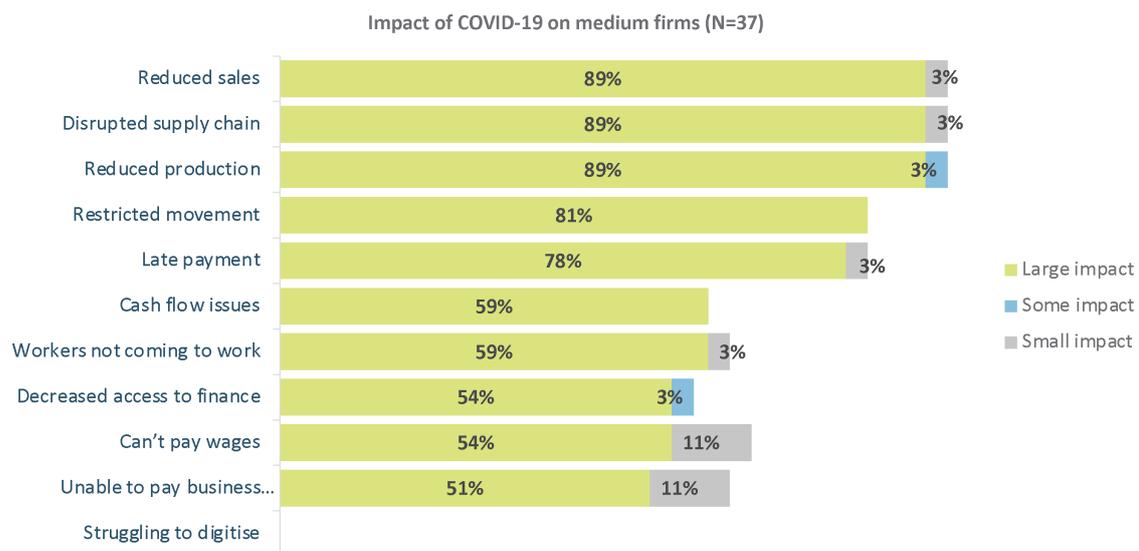


Figure 15: Specific impacts of COVID-19 on medium-sized firms

Source: Quantitative survey with MSMEs

3.2.2. Change in risk experience

A few specific risks were worsened for MSMEs, limited novel risks produced. Figure 16 and Figure 17 Change in medium-sized firms' risk experience & Change in small firms' risk experience provide an overview of the risks faced by small and medium-sized firms since the start of their operations, respectively. COVID-19 served to worsen the risk of payment issues, lack of access to finance/credit and business interruption for MSMEs.

⁶⁵ In contrast to small firms, medium-sized firms operating in services (predominantly engaged in other services and wholesale/retail trade) were more heavily impacted than those operating in industry (predominantly construction), especially when it came to reduced sales and production and disrupted supply chains (10% difference across these impacts between the sectors).

⁶⁶ Close to 30,000 businesses have closed as a result of COVID-19 pandemic and the related responses (Ghana Statistical Services, 2020).

⁶⁷ Sampling bias in the survey towards smaller firms may also underestimate the reported impact of COVID-19 on medium-sized firms relative to smaller firms who were over-sampled for the survey. Nevertheless, given that medium-sized firms are more likely to conduct proper record-keeping and engage with financial services, it is not unexpected that smaller firms would report greater vulnerability to shocks.

The latter was largely due to the reductions in sales, disrupted supply chains and reduced production. Few novel risks were produced for MSMEs; 20% of small firms experienced business interruption for the first time during COVID-19, largely as a result of reduced sales, cashflow issues and reduced access to finance, and 15% experienced disrupted supply chains. Medium-sized firms experienced greater risk of injuries (both for the business owners themselves and their workers), which 32% experienced for the first time during COVID-19⁶⁸.

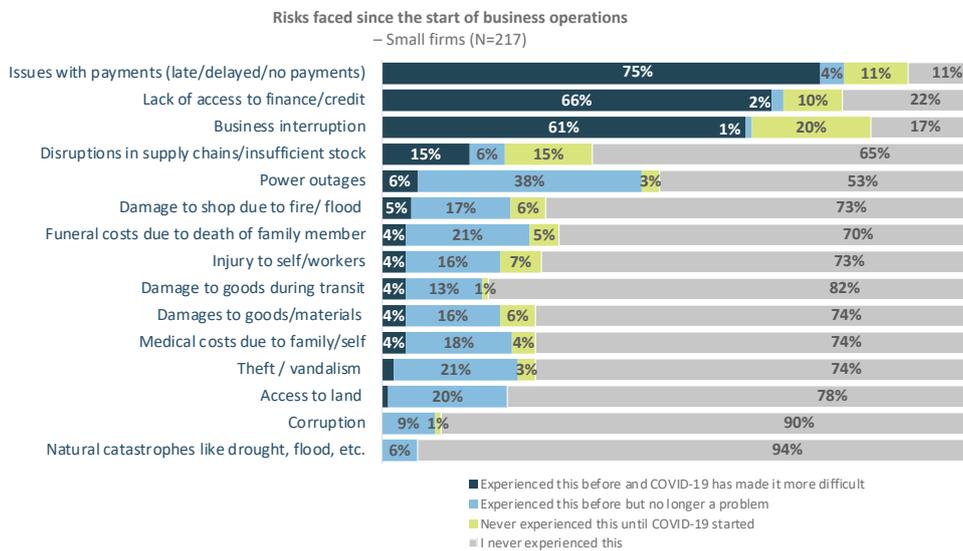


Figure 16: Change in small firms' risk experience

Source: Quantitative survey with MSMEs

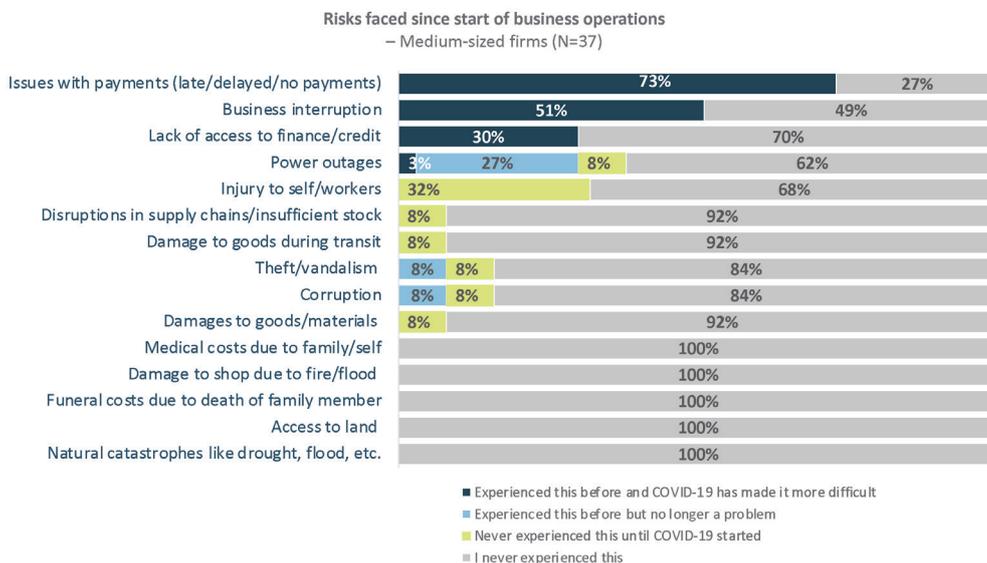


Figure 17: Change in medium-sized firms' risk experience

Source: Quantitative survey with MSMEs

68 This question did not distinguish between injuries and illnesses. However, given that 7% of small firms and 32% of medium firms experienced this risk for the first time amid COVID-19, it may be the case that respondents interpreted this option as including getting sick.

MSMEs reluctant to disclose prior risk experience. Research from Section 2.1.1 Risks illustrates that MSMEs faced a host of risks prior to the pandemic. The limited experience of these risks by MSMEs, as shown in Figure 16 and Figure 17, such as natural hazards, suggests a mismatch between the risks reported by MSMEs in the survey and their actual risk experience. It is possible that there is some availability bias at play, with COVID-19 potentially positioning certain risks as more front of mind than others. Given that many businesses had to pause their operations while the country was in lockdown, it is also possible that firms did not experience any of these risks in the recent past and thus did not consider them during the survey. Nevertheless, the reasons for the low mention of prior risk experience would require further investigation.

3.3. Coping mechanisms used

3.3.1. Overview of coping mechanisms used

MSMEs not fully equipped to manage COVID-19 impacts. Engagements with MSMEs revealed that many businesses did nothing to manage the impacts of COVID-19. Instead, many simply hoped for the best and tried to weather the storm. This attitude was illustrated in the interviews when a small firm owner (male) said “I haven’t implemented any coping mechanism... I can’t stop a pandemic from happening so I don’t think I can do anything differently” and a micro-firm owner (male) said “I haven’t implemented any coping mechanism, I have just been hanging in there”. This points to a need for improved proactive planning on risk management by enterprise owners. Training and capacity-building may be an impactful intervention to support enterprise owners to better plan for future risks.

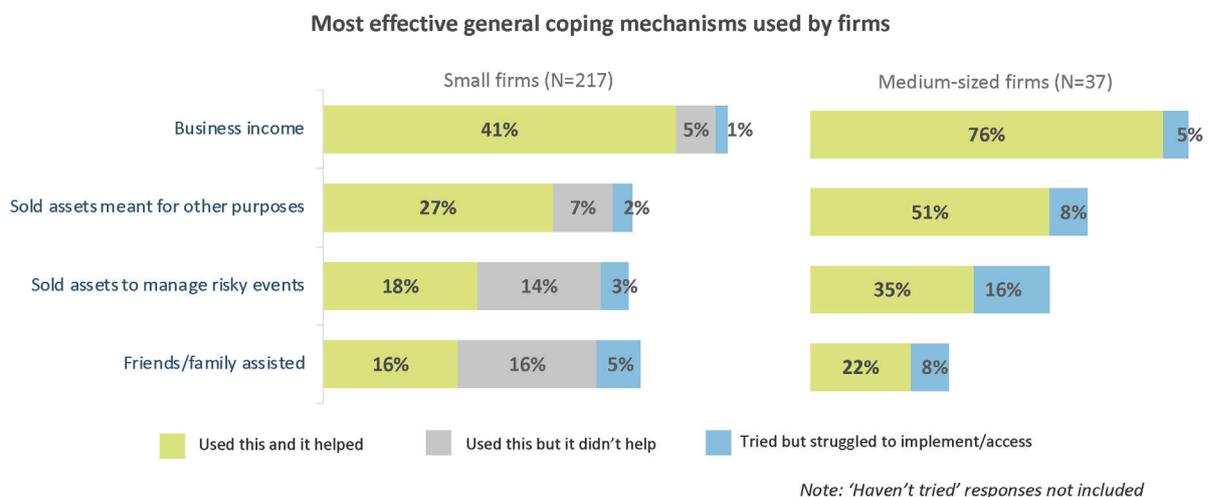


Figure 18: General coping mechanisms used by MSMEs

Source: Quantitative survey with MSMEs

MSMEs reliant on diverting business income to manage shocks. Seventy-six percent (76%) of medium-sized firms and 41% of small firms used their business income to cope with the impacts of COVID-19, followed by selling assets meant for other purposes, as shown by Figure 18. The use of business incomes, typically reserved to manage day-to-day-expenses, as opposed to dedicated funds for risk events, suggests that medium-sized firms did not have adequate access to (or the awareness of) more suitable resilience mechanisms such as insurance or fixed savings. The diversion of business income to managing shocks may have forced businesses to experience greater trade-offs from redirecting their income.

For example, during an interview, one small firm owner reported that “I added another job to my tailoring job”, while a medium-sized firm owner said they managed COVID-19 impacts by “cutting down and letting go of some of my workers”.

Personal networks proved ineffective against a systemic shock. Only 16% of small and 22% of medium-sized firms used personal networks to cope and reported doing so effectively, as highlighted by Figure 18 General coping mechanisms used by MSMEs : Quantitative survey with MSMEs. The remainder of MSMEs stated that these networks did not help (16% of small firms) or that they struggled to implement/access them (5% of small and 8% of medium-sized firms). Given the systemic nature of the pandemic and its impact on most networks, it is evident that these social strategies are no longer appropriate or as ineffective compared to more formal, tailored resilience strategies that explicitly cater for shock events. Yet, the continued dependency on these informal networks suggests that both small and medium-sized firms do not recognise the inappropriateness of this strategy and the need to proactively plan to manage future risks.

Savings most effective financial coping mechanism used. Figure 19 shows that the most common financial coping mechanisms used by MSMEs included savings at a bank, other formal savings and other informal savings. A larger share of small firms, relative to medium-sized firms, used mobile money savings or savings through member or cooperative groups, including credit unions, and informal savings with village savings and loans associations (VSLAs) and Susus. This speaks to the informal nature of small businesses and indicates a preference for these firms to use services that are already embedded within their networks and are convenient, such as mobile money. This is an important consideration for FSPs, and insurers in particular, when designing products for, and thinking about how to reach, smaller firms.

Savings alone were not enough to shield MSMEs from the effects of COVID-19. The use of savings is typically a relatively short-term coping mechanism and proved insufficient to help MSMEs cope with a large, sustained risk such as COVID-19. As such, business owners reported in reductions in welfare despite using their savings to cope with the impacts of COVID-19, especially smaller firms who often had insufficient savings to begin with. Many reported facing difficulties providing for their family. This was illustrated during an interview by a small firm which indicated that they “had a little money saved so I used that money.” Another firm mentioned that “as we speak, I have just a little money left so I don’t even know how I am going to survive”.

Use of credit products nascent. The overall use of credit by MSMEs to cope was low, with less than 25% of MSMEs using, or trying to use, loans (both formal/ informal), as shown by Figure 19. Small firms in particular tried, but struggled to access, loans. This is unsurprising given that smaller firms often lack the collateral and necessary documentation to access credit⁶⁹. Notably, many medium-sized firms did not try to use credit. This suggests that they might have had sufficient savings, that they were reluctant to take on debt during this time, or perhaps were reluctant to engage with credit providers due to a lack of trust. On the other hand, MSMEs may also not have had access to available credit offerings by FSPs that accurately met their new needs amid COVID-19, despite their incentives for FSPs to do so during this time.

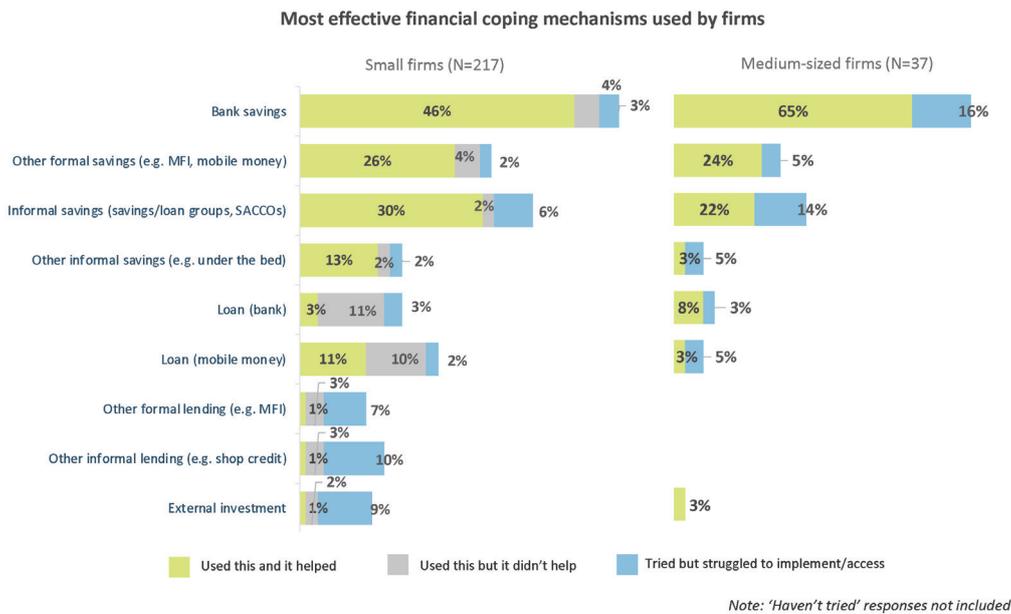


Figure 19: Financial coping mechanisms used by firms

Source: Quantitative survey with MSMEs

Insurance remained significantly under-utilised despite elevated risks. According to Figure 20, more than two-thirds of businesses did not use insurance in response to the pandemic. Insights from insurers interviewed suggests that insurance is yet to be considered by MSMEs as valuable or useful in the face of risk events. This observation reinforces the tendency and likelihood of MSMEs to not focus on planning for risks, but rather their response to them, if and when they occur. This perception was particularly valid for small firms who were less willing to engage with insurance, particularly business insurance, than medium-sized firms during this pandemic. Of those MSMEs who did use insurance, only 1% of small firms found personal insurance helpful, while 16% of medium-sized firms found business insurance useful amid COVID-19. However, medium-sized firms did not always benefit from using insurance, with around 16% to 24% of medium-sized firms finding that it did not help them cope. This suggests that insurance was not accessible, nor were existing policies fit for purpose for MSMEs⁷⁰. The fact that small firms were more likely to engage with personal insurance further suggests that the risks they face may be more closely aligned with the risks of individuals.

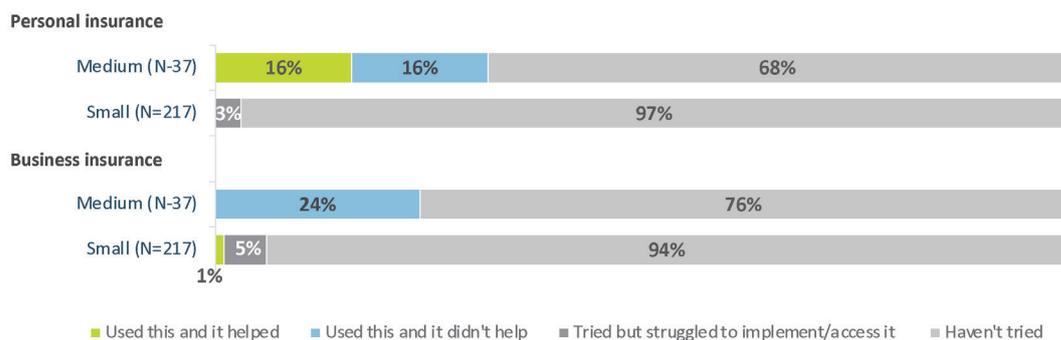


Figure 20: Use of insurance among MSMEs

Source: Quantitative survey with MSMEs

⁷⁰ However, the reasons for some firms having benefitted from insurance and other firms not having benefitted were not fully explored during this study, as this was outside the scope of the research and would need to be researched further.

COVID-19 risks excluded from most business policies. Regarding the use of insurance during COVID-19, it is salient to note that pandemic-related risks are traditionally not included in business interruption policies, as these risks tend to be global or systemic in nature and are thus considered too expensive for the insurance industry to cover. Despite its need, standard business interruption coverage was therefore not an available or viable option for MSMEs to manage COVID-19 impacts. This gap in coverage likely drove much of the reported ineffectiveness of insurance mentioned by MSMEs during this time. The evidently low use of coping mechanisms by MSMEs tailored specifically for risk events consequently underpins the need for alternative risk management mechanisms in the market that can overcome existing barriers faced by insurers to meeting business resilience needs.

3.3.2. Use of ecosystem support

Low use of ecosystem support among MSMEs beyond medium-sized firms. Most MSMEs did not make use of support from associations, FSPs or government, as shown by Figure 21. This was particularly true for smaller firms, where less than 41% had used either support from associations/groups, FSPs or the Government. It may be the case that the higher levels of informality among smaller firms could have prevented them from receiving this support. On the other hand, about 50% of medium-sized firms utilised the available support. This finding is less than expected, as medium-sized firms are typically better connected in formal value chains and tend to have more capacity to reach out and access support.

Association support not reaching MSMEs effectively. From engagements with business owners, most respondents feel that associations have not assisted them during this time. For example, during focus group discussions, MSME owners reported that “business associations have not been all that helpful apart from advocacy on safety protocols”. Similarly, only a few firms during interviews referenced associations’ provision of advocacy around safety protocols or assistance to MSMEs by securing funds from GEA. For example, a medium-sized-business owner (female) indicated that “the association has taught us how to protect ourselves and our workers and also our customers”, while a small-business owner (female) believed “it helped me get the loan”.

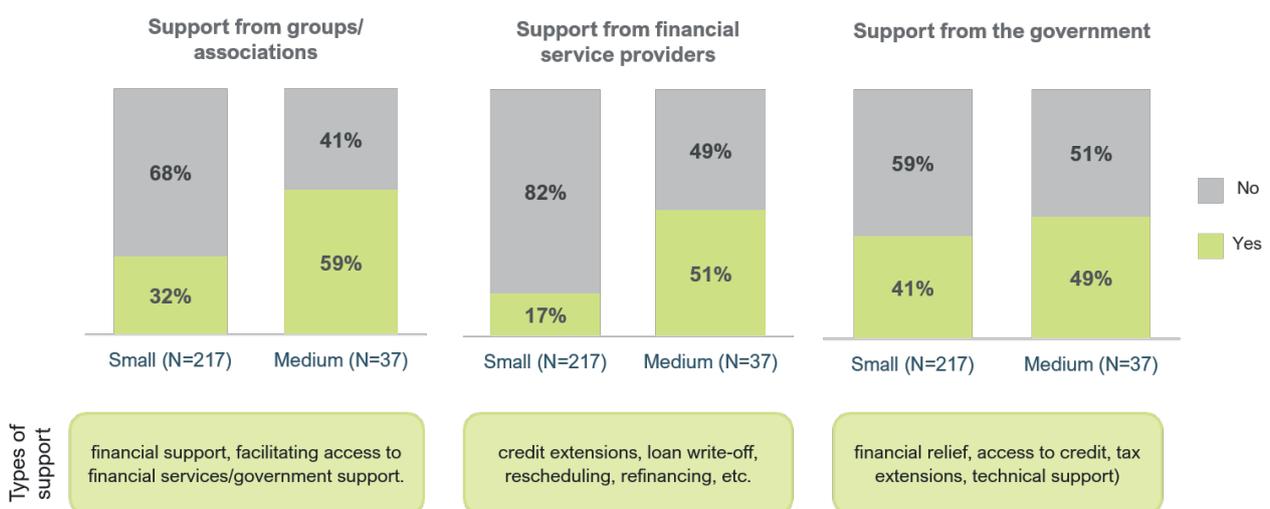


Figure 21: SMEs' access to ecosystem support

Source: Quantitative survey with MSMEs

Government support challenging to access. Many MSMEs indicated that they had applied for financial assistance from the GEA, yet many of them were unsuccessful or are still waiting for a response. For instance, a micro-firm owner indicated that “Yes [I have applied] but haven’t been successful yet. Still keeping hope alive”. Of those who received financial support, many claimed that the amount was inadequate compared to what was needed to effectively help them cope with the impacts of COVID-19. This constraint is illustrated by comments from a small firm which indicated that “even though I didn’t get the amount I was hoping for, I was able to start selling soap with the amount that was given to me”. The extent to which MSMEs used other types of support from the Government has been limited, as highlighted by Figure 22.

Reduced mobile money fees a key government intervention. Seventeen percent (17%) of small and 8% of medium-sized firms indicated that reduced mobile money transaction fees were effective at helping them cope (see Figure 22). This is an important consideration when thinking about how the ecosystem can become more enabling, especially when it comes to helping MSMEs adapt and digitise.

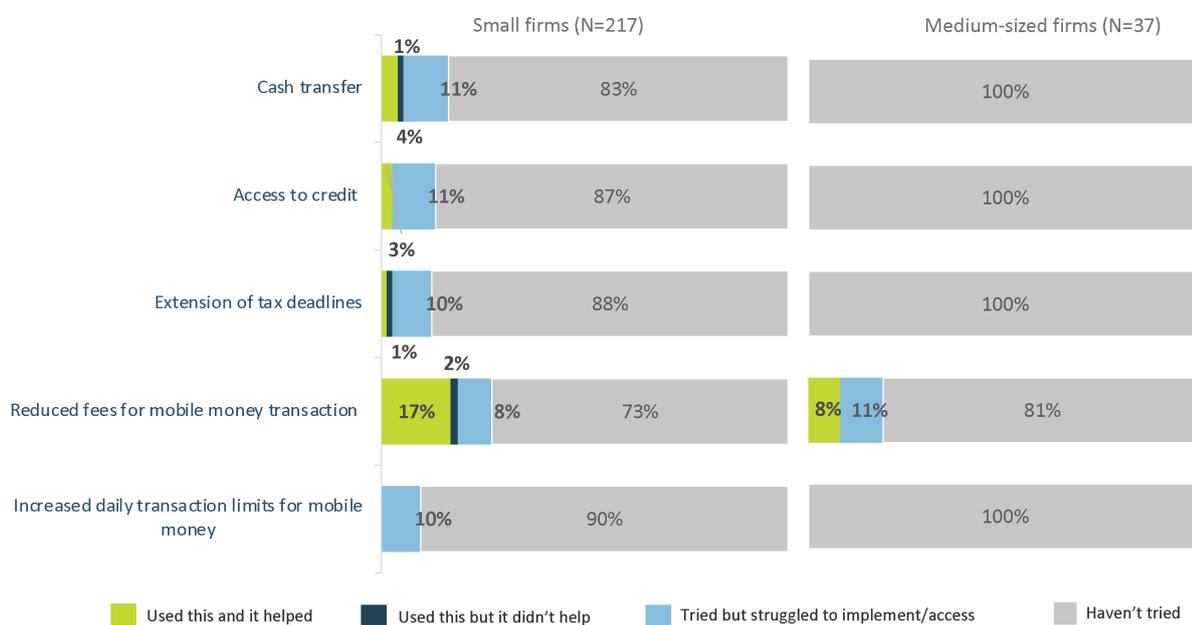


Figure 22: Types of government support used by MSMEs

Source: Quantitative survey with MSMEs

FSP support was not well received by MSMEs. Survey results show that only 17% of small firms and 51% of medium-sized firms utilised support from FSPs (e.g. reduced interest and repayment/premium payment holidays) to assist them during COVID-19. This low uptake of support was reiterated by MSMEs during in-person engagements. It is important to note, however, that due to the low uptake of insurance and credit prior to COVID-19, it is likely that many MSMEs continued to not see the value in formal financial services once the pandemic hit.

MSMEs choose to rely on their own coping mechanisms. MSMEs faced many difficulties accessing and utilising support offered by ecosystem stakeholders. Instead, most MSMEs relied on existing pre-pandemic coping strategies, rather than to update or revise strategies to manage the unique challenges triggered by COVID-19. The limited support received from the ecosystem represents a significant weakness of the ecosystem and is a threat to the sustainability of MSMEs. The ecosystem stakeholders themselves reiterated the need for the ecosystem to play a larger role, as MSMEs believe that it is difficult for them to remain resilient without any external support from the Government or other donor agencies and are not equipped to identify and leverage effective coping mechanisms themselves.

3.3.3. Challenges faced by MSMEs in coping and leveraging support

A wide range of challenges faced to access support. MSMEs struggled to cope both before and during COVID-19. There were several key challenges that both small and medium-sized firms faced, which hindered their ability to access and use support. These include:

- **Limited understanding of how to effectively prepare for, and manage, risks.** Many MSMEs reported not doing anything to cope⁷¹. This shows that MSMEs may possess limited capabilities around actively planning to manage their risks and potential coping mechanisms available. This highlights a need to increase MSMEs' risk awareness and help them develop effective strategies to cope.
- **High informality.** Most MSMEs in the Ghana (as well as those sampled) are informal⁷², which made it difficult for them to access support. For example, the GEA loan required firms to have proof of business operation, a Taxpayer Identification Number (TIN), financial details on their business (cash flow statement, etc.), demonstrate the negative impact of COVID-19 on their business and have a formal mobile money account⁷³. It became evident during the qualitative interviews that meeting these requirements was difficult for many MSMEs, with many business owners complaining about application processes being too tough.
- **Low digitalisation.** MSMEs display low levels of digitalisation (covered in Section 3.5). This limited their ability to engage with support, most of which was offered through digital channels. For example, the GEA loan had to be accessed online or via USSD and was distributed via mobile money accounts. However, only 39% of Ghanaian people above the age of 15 have a mobile money account⁷⁴, which suggests that many individuals – and thus MSMEs – would not have been able to access the loan.
- **Lack of appropriate products.** The associations mentioned that MSMEs often faced difficulties with premium or loan payments or found the sum assured unattractive, showing that financial services were not fit for purpose, nor did they add enhanced value to MSMEs.
- **MSMEs also faced some perceived challenges.** These included limitations regarding the extent to which they perceived financial services as useful and the degree of trust they placed in the Government and financial services⁷⁵. Survey responses show that 47% of medium-sized and 19% of small firms did not use insurance due to low trust. This was also illustrated during the IDIs, for example a medium-sized firm said “insurances are full of lies”.
- **Low awareness.** In many cases, MSMEs were unable to access support due to a lack of knowledge of what kind of support was available. This finding emerged quite strongly during engagements with business owners.
- **Perceived politicisation of funds and lack of transparency.** Perceived politicisation of funds and lack of transparency was reported by associations as barriers to the MSMEs receiving particularly, government support.

71 As a result of this, these firms were also not able to identify any challenges they faced with coping, because they had not tried to cope in any particular way.

72 Across our quantitative sample, 35% to 64% of MSMEs were informal. This is slightly under-representative of the national sample, which showed that more than 80% of MSMEs were informal ([Ghana Statistical Services, 2016](#))

73 [PeaceFM, 2020](#)

74 [Findex, 2017](#)

75 Similar sentiments have been found in previous research. [Voeten \(2016\)](#) conducted qualitative interviews among eight SME owners in 2015 and found similar negative perceptions of government policies, legal regulations and systems among these owners.

3.3.4. Coping mechanisms desired by MSMEs

Small firms focused on short-term access to finance, while medium-sized firms sought tools to build future resilience. When asked what kind of coping mechanism businesses would have liked access to when COVID-19 hit, small firms indicated that they would have liked access to finance; both loans and financial relief, as well as bridging credit and business interruption coverage (see Figure 23). This shows that small firms were largely focused on “getting by”, rather than thinking about how they can build their resilience in the future. Medium-sized firms, on the other hand, would have liked tools to help them improve their future resilience. As shown by Figure 24, these tools included risk assessment and training, which have been notably absent in their current coping strategies against COVID-19 risks.

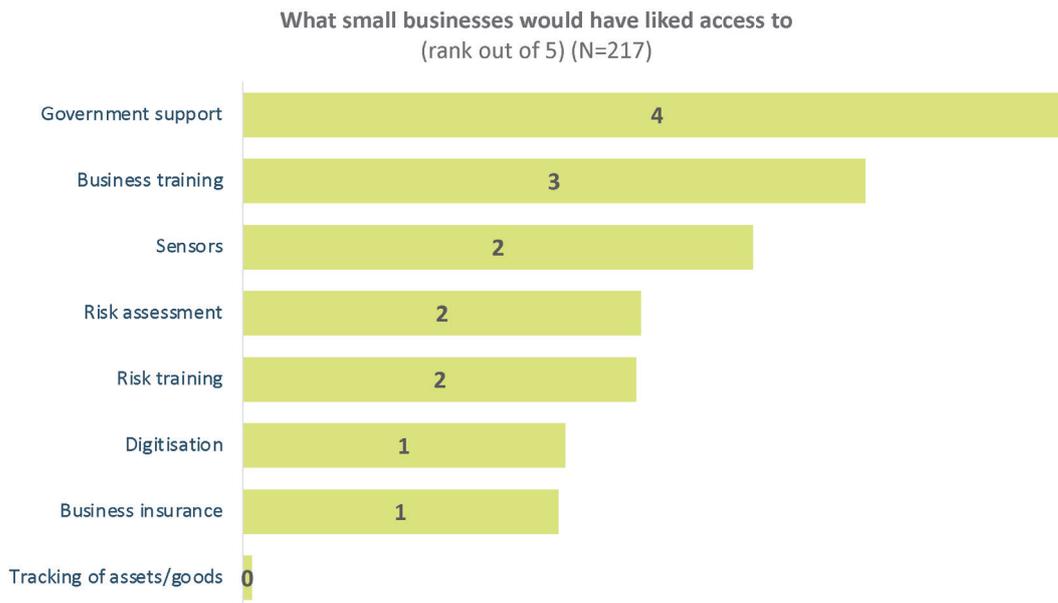


Figure 23: Coping mechanisms small firms would have liked access to
Source: Quantitative survey with MSMEs

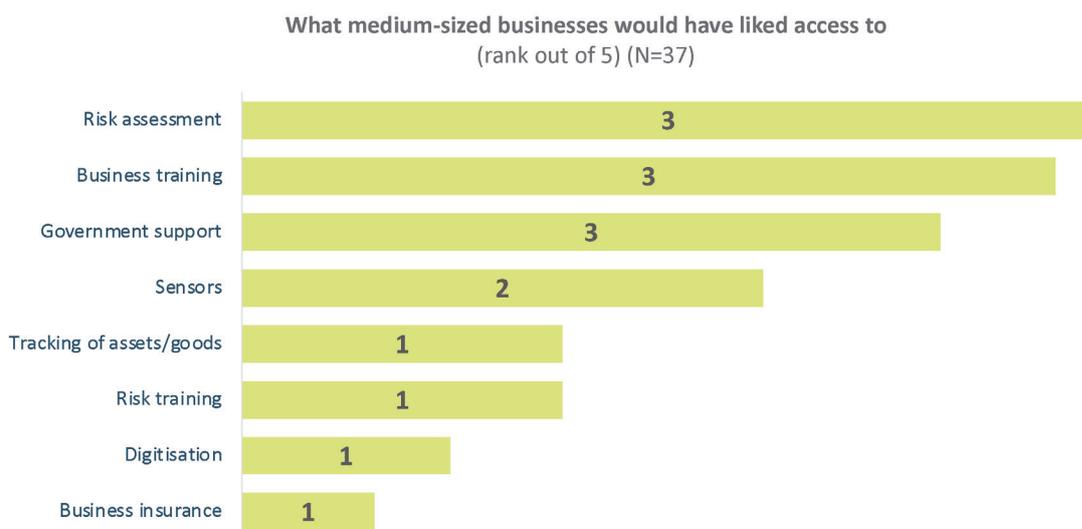


Figure 24: Support that medium-sized firms would have liked access to
Source: Quantitative survey with MSMEs

Business training key for both MSMEs. All sampled MSMEs showed a keen interest in leveraging business training to help them better manage their business and become more profitable. Sensors and risk assessments were also identified as useful tools by MSMEs. This favourable response to more risk management services suggests that businesses are aware of how COVID-19 has impacted their business and would like to improve their ability to proactively plan, prepare for, mitigate and manage risks that may arise in the future.

Low trust poses a barrier to MSMEs considering alternative coping mechanisms. Products that MSMEs found least useful included escrow services and bundled insurance. This was predominantly due to low trust in those products. However, regarding their perceptions on escrow services, it is unclear whether MSMEs would find it useful or if they do not understand the service. Regarding escrow services, a small-firm owner indicated “our Nigerian brothers do not make me trust this service. It would be great if it works in Ghana”. This points to a need for financial literacy training.

MSMEs require and desire different types of solutions to effectively manage risks. When asked what support/coping mechanisms MSMEs would have liked to help them cope with COVID-19 impacts, the differences in terms of what small firms need, as opposed to what medium-sized firms need, became apparent. The variations in desired coping mechanisms highlights the heterogeneous nature of MSMEs and speak to the need for tailored/differentiated strategies when targeting them. However, both small and medium-sized firms expressed the need for more risk management and assessment tools, which were under-provided by the ecosystem stakeholders.

3.4. Ecosystem resilience

As previous sections have shown, the ecosystem provided a range of support to MSMEs amid COVID-19. Nevertheless, MSMEs struggled to utilise this support and thus limited the effectiveness of ecosystem interventions. This section considers the challenges that the ecosystem, and its players, faced in providing support to MSMEs to gain further insights into the level of resilience of the ecosystem and its players.

3.4.1. Challenges at the ecosystem level

3.4.1.1. Challenges faced by ecosystem stakeholders

Ecosystem stakeholders not spared from the impacts of COVID-19. COVID-19 has represented a systemic shock across the Ghanaian economy, and as such, has led to ecosystem stakeholders themselves facing a number of unexpected impacts following the pandemic. These impacts in turn limited the extent to which ecosystem stakeholders were able to cater for challenges expressed by MSMEs. Associations and FSPs noted experiencing financial constraints due to the inability of MSMEs to pay member dues, repay loans or pay premiums. In addition, credit providers experienced reduced liquidity as a result of the lower interest rates and loan restructuring, further increasing their financial strain. Some of the associations and FSPs also faced increased unexpected expenses, as some purchased COVID-19 PPE for their staff in the branches and for certain clients. This meant that certain support services offered by the associations could not be continued and that the FSPs, particularly credit providers, were incentivised to de-risk lending to MSMEs to the detriment of their business.

- **Lack of understanding of MSMEs and heterogeneity.** MSMEs are heterogenous and have different financial needs, yet this is not often recognised by FSPs and regulators. For example, during the KII one of the regulators said: “the SME sector is seen as one big sector... only in other, more nuanced conversations do people speak about the dynamics within the sector”. In addition, many FSPs are also not willing to develop bespoke products for MSMEs, because they do not consider the business case to be strong enough. Instead, support was provided on a one-size-fits-all basis, which served to exclude many MSMEs.
- **Regulatory constraints.** Regulators’ mandates and certain policies and regulations limited the extent to which FSPs, the Government and regulators could provide support. Ecosystem stakeholders had to focus on their primary mandate of ensuring financial/market stability and the fact that market development, and therefore MSMEs, was a secondary objective.

Some unique challenges faced by ecosystem stakeholders also hindered delivery of support. Policymakers and associations also faced some specific challenges. The former said that political constraints, namely the elections that occurred in December 2020⁷⁶, affected their ability to provide support to MSMEs. The MoF, for example, said that operations had halted until the new minister came in. Associations, on the other hand, said that the support provided by the Government through GEA was too ambiguous and widespread. Instead, they suggested that the financial relief should have been provided through the associations, as they have a better understanding of, and access to, their members. In addition, associations themselves often lacked the skills and resources to support and reach their members. This included limited skilled staff, a lack of financial resources, and a lack of vehicles and fuel. Moreover, some of the associations themselves had a poor understanding of risk and resilience. This highlights the need to enhance their understanding of resilience so that they are able to better support their members with identifying and preparing for shocks, as well as their own ability to do so.

3.4.1.2. Challenges affecting the resilience of the MSME ecosystem

Limited coordination within the ecosystem constrained MSME support. A larger, underlying challenge, which served to undermine the resilience of the whole ecosystem was the fact that there was limited coordination around providing support to MSMEs. Regulators, for example, tend to operate relatively independent from one another and there is no formal coordination structure between regulators and among the ministries, particularly on MSME development. As shown by Section 3.1.2, the BoG and NIC engaged strategies towards MSMEs during the pandemic, but without collaboration. This resulted in fragmented support, which limited the effectiveness of such strategies. Similarly, despite the fact that a key role of the associations is to help MSMEs access support, few had engaged with FSPs or the Government, which meant that the needs of their members were not being communicated across the ecosystem. Furthermore, both FSPs and associations pointed to the absence of a specific policy on MSMEs that they can all refer to, in order to better serve MSMEs. One local insurer notably indicated that “there is no specific policy for MSMEs that we can all refer to, to have access to them in order to better serve them. The national framework that would support MSME does not exist. It’s the major challenge”. Associations also mentioned not being included in policy discussions (see quote below), thus resulting in the needs of business association members not being represented nationally in these discussions.

76 Oduor, 2020.

MSME development is a secondary mandate. Regulators and policymakers had to focus on responding to the impacts of the pandemic and ensuring market stability and financial soundness. As a result, their implicit second mandate of MSME development was given less attention during COVID-19. It was also challenging for regulators to support MSMEs, as they have more tools to directly support financial stability and prudential concerns, while they can only support MSMEs indirectly. For example, regulators had encouraged FSPs to support MSMEs during the pandemic through increased lending or extensions on repayments, etc. However, the extent to which this was implemented was limited due to the reduced liquidity and financial strain the ecosystem was facing as a whole.

Limited role of FSPs without more incentives to meet MSME resilience needs. The lack of coordination and lack of explicit focus on market development by regulators have allowed FSPs to determine when and how to serve MSMEs. This resulted in a lack of fit-for-purpose financial products to meet MSMEs' needs, as was seen in Section 3.3.3. Therefore, the financial sector did not sufficiently support the resilience and growth of MSMEs.

Weak ecosystem resilience undermined MSME resilience. Ecosystem stakeholders faced a range of pre-existing and new challenges in managing the impacts of COVID-19 and in supporting MSMEs. These challenges resulted in not only their own levels of resilience being constrained, but that of the overall ecosystem in which MSMEs participate within and rely on assistance for during shocks, in addition. Weak ecosystem resilience can therefore be observed as, in part, a driver of MSME support that has been highly response focused as opposed to holistic risk management. Although some learnings from inter-sectoral resilience programmes like GIRSAL have been shared across sectors, it has not been sufficient to inform insurers and association on how to effectively tackle or incentivise holistic risk management.

3.5. Adaptation efforts and future resilience

Adaptation capabilities are essential to resilience. A key component of MSME resilience involves their ability to recover and adapt post-shock. This is essential for the longevity of MSMEs and their income sustainability amid shifting consumer and supply contexts. As such, their ability to adapt to shocks, to the new context and build the resilience to withstand future shocks, must be fostered and enabled. This is particularly important, given the high attrition or failure rate MSMEs are often characterised by.

3.5.1. Adaptation

Limited digitalisation among smaller firms. Small firms were less digitally savvy prior to COVID-19. There was a large gap in connectivity between small and medium-sized enterprises, amounting to a 34-point difference across the indicators: whether a firm i) uses a website, ii) has broadband, and iii) uses email⁷⁷. This constrained their ability to digitalise their business operations. According to Figure 26 Digitalisation of business functions by small firms, small firms' payments processes were the most digitalised, for example via mobile money or electronic funds transfer (EFTs), followed by marketing, predominantly via social media, and distribution of goods/services.

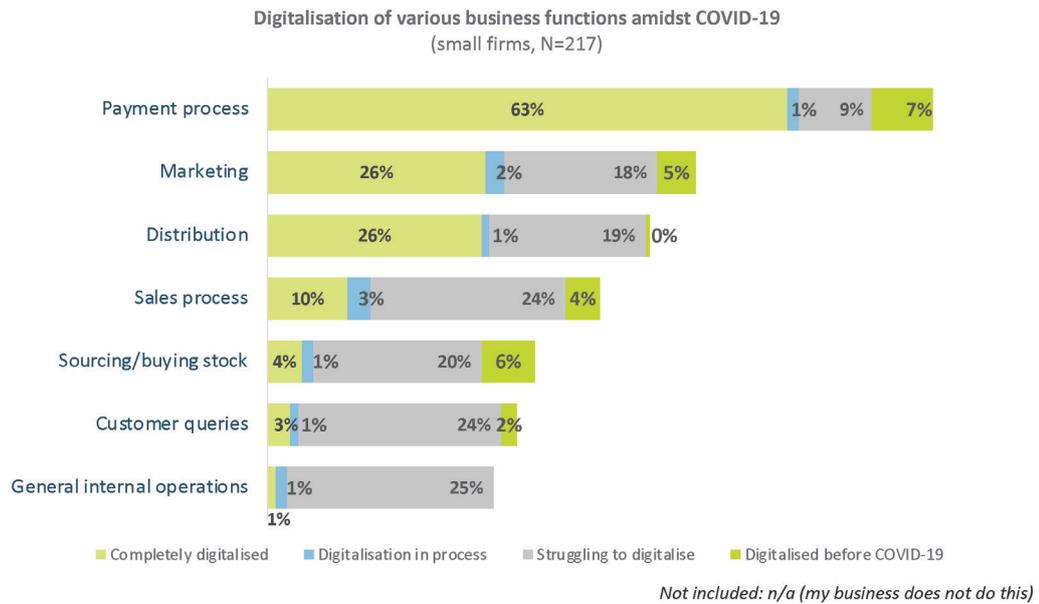


Figure 26: Digitalisation of business functions by small firms

Source: Quantitative survey with MSMEs

Medium-sized firms digitalised with greater ease. Digitalisation among medium-sized firms was much higher and done with greater ease than among small firms, as shown by Figure 27 Digitalisation of business functions among medium-sized firms. More than 50% of medium-sized firms had digitised various aspects of their operations. Like small firms, payments processes, marketing and distribution were the functions most digitised. Prior to COVID-19, medium-sized firms possessed greater digital capabilities than small firms. This readiness seems to have better equipped medium-sized firms to digitalise their operations.

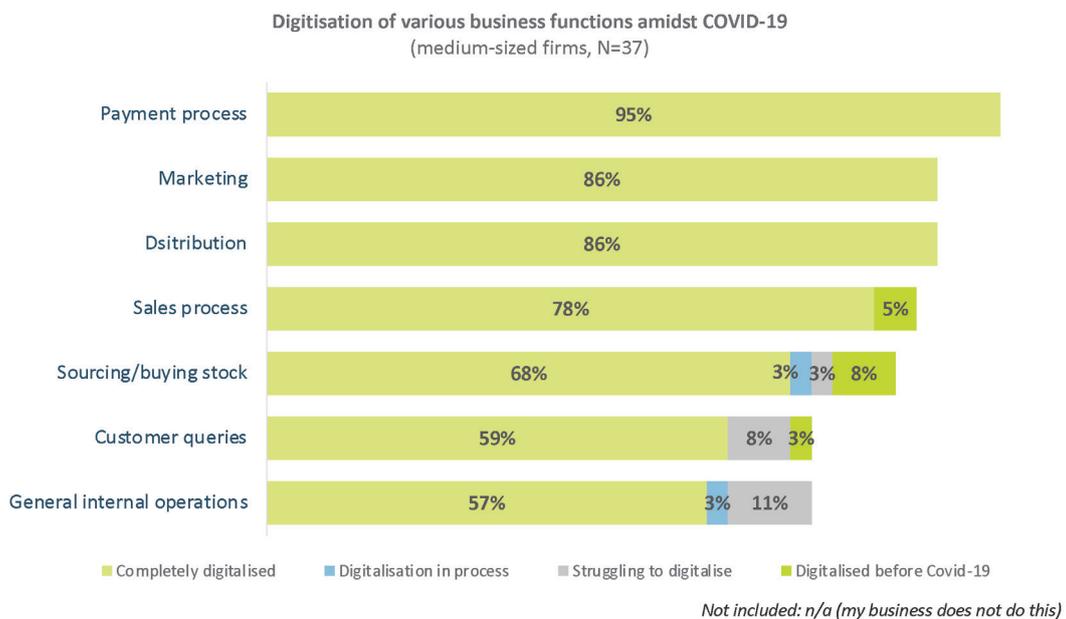


Figure 27: Digitalisation of business functions among medium-sized firms

Source: Quantitative survey with MSMEs

Business repurposing has yet to take off. Only a few MSMEs have shifted their production to essential goods or started engaging in another business to adapt to COVID-19. For example, one small business owner said, "I have repurposed my business by selling honey", while another indicated that, "I want to add beads making to my business". One medium-sized firm owner reported turning "one of [their] manufacturing shops into a showroom". This suggests that MSMEs were too busy struggling to manage the impacts of COVID-19 to consider new opportunities or lacked the skills to do so. Ecosystem stakeholders have also been limited in their involvement to drive business recovery and adaptation support amid COVID-19. This points to clear opportunities to develop these capabilities, especially if MSMEs want to continue operating under the new conditions created by the pandemic and increasingly digitalised markets.

3.5.2. Perception of the future

MSMEs unclear on how long COVID-19 impacts will last. MSME perceptions of how long COVID-19 impacts will last vary by the method of enquiry. When surveyed anonymously, business owners are tentative to make their struggles known. This is evident from Figure 28 SMEs' perception of length of COVID-19 impacts in which most MSMEs see recovery occurring within the next one to three years (or less) and are relatively optimistic about future growth opportunities. Yet, when asked in person, MSMEs reveal that they are indeed struggling and will continue to do so if COVID-19 impacts do not ease up. During an interview, a medium-sized firm owner indicated the "business will collapse if a vaccine is not found in two years' time", while a small firm feared that "we may all die... my jobs depend on people attending events, so if there are no events in the next two years, how will I get money to feed my family?"

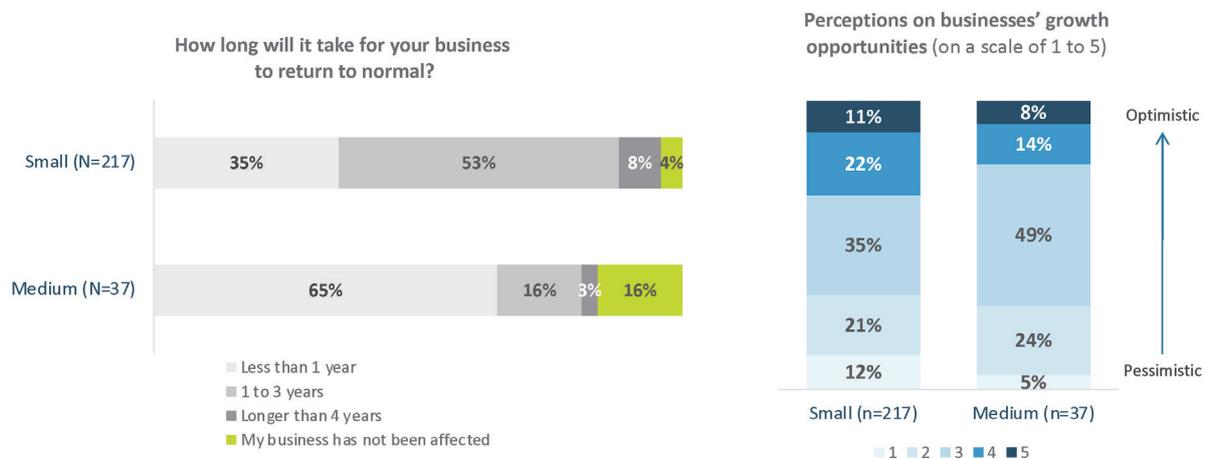


Figure 28: SMEs' perception of length of COVID-19 impacts

Source: Quantitative survey with MSMEs

MSMEs tend to be poor judges of risk and discount future shocks. The inconsistent perceptions among MSMEs regarding risk hints at their difficulty in evaluating past and future risks effectively. This suggests that businesses struggle to accurately evaluate and plan for their risks when required, which can lead to future risks being discounted. When asked what challenges they foresee in the future, many MSMEs report not foreseeing any challenges as long as the pandemic is over. This finding can be observed from the sentiment of businesses such as a medium firm owner who indicated that "my business will not face any challenges if COVID is over because people will be able to... patronise my services". Another small firm similarly believes that "my business won't face any challenge if COVID is over".

Limited consideration given to future coping mechanisms. The fact that MSMEs discount future risks have serious implications on their ability to select adequate coping strategies and plan for future risks. When asked how they plan to manage risks in the future, only a few MSMEs had become aware of how unprepared they were and were thinking about longer-term plans to build resilience (e.g. risk training or developing new products). The remainder aimed to rely on inherently welfare-reducing mechanisms to cope (e.g. doing nothing or using savings). For instance, when MSMEs were asked how they plan to manage risks in the future, a medium-sized-business owner (male) claimed that, "I am not preparing, waiting for COVID to be over first". Similarly, a micro-business owner (male) believed that "Until the virus is gone or there is a vaccine for it, [he] can't think of the future".

MSMEs are unable to evaluate risks without greater assistance. It is clear that MSMEs experience challenges to effectively evaluate their own risks and needs. These challenges can limit the extent to which they are able to select effective coping mechanisms and the extent to which they are aware of available strategies that can help them to cope, and can limit the extent to which the ecosystem can support them. This points to a need for risk management training among business owners and a stronger role for ecosystem stakeholders in helping MSMEs become more aware of their risks.

4. PROMOTING FUTURE RESILIENCE

Resilience of MSMEs and the supporting MSME ecosystem is low. Both MSMEs and the MSME ecosystem were unable to effectively manage the impacts of COVID-19. This was due to challenges that both MSMEs and ecosystem stakeholders faced to cope effectively in the face of COVID-19. The ecosystem as a whole was further undermined due to limited coordination, a reliance on responding to risks and limited focus on MSME development. There is thus a need to reassess the resilience of MSMEs and the ecosystem and adopt a more holistic approach to managing, transferring and recovering from risks.

A need exists to reconsider resilience at the micro- and macro- level towards recovery. To effectively build the resilience of MSMEs, a dual approach is required which focuses on the resilience at the micro-level (i.e. among individual firms) and at the macro-level (ecosystem). Unless the ecosystem itself is resilient, it will not be able to fully prepare businesses for, and assist them with, shocks. This will result in them continuously being ill-equipped to cope on their own. The current ecosystem reacted quickly to help businesses respond to the impacts of COVID-19. However, it was overly reliant on responding to risks which, in the context of a large, systemic risk such as COVID-19, resulted in the ecosystem becoming overwhelmed. In addition, effective risk transfer in the ecosystem was low due to a continued focus on access to finance as a means for MSMEs to manage risks. Insufficient attention was paid to other elements of risk management, resulting in firms not being equipped to recognise or prevent risks, nor adapt to a new normal, as observed by their inability to assess risks and plan for resilience in the future. A useful framework for thinking about resilience holistically is the GIZ's Integrated Climate Disaster Risk Management (ICDRM) framework (see Figure 29), hereafter referred to as an MSME resilience framework. This framework is characterised by a holistic perspective on the various components of risk management. As described in MSME resilience framework, each component informs and strengthens the next and thus provides key insights into thinking about the resilience of MSMEs. To support MSME resilience and prepare them for a world that is prone to disruption, the following opportunities, drawing on the MSME resilience framework, need to be seriously considered.



Figure 29: MSME resilience framework
Source: adapted from GIZ ICDRM framework (2019)

Box 3. Components of the MSME resilience framework

There are five components of risk management set out under this framework:

1. **Prevention:** The prevention phase entails assessing the current situation, through risk assessments, impact analyses and disaster risk management (DRM) performance analyses, followed by integrating preventive measures into policies.
2. **Retention and transfer:** Even after the necessary steps have been taken in the prevention phase, there are some risks that remain unmanaged. To address these risks, pre-disaster financing, in the form of insurance and other financial products, are used to help manage risks.
3. **Preparedness:** If a risk event occurs, it is important to have the capacity to effectively anticipate, respond to, and recover from the risks. For this phase, it is important to monitor the risks and have preparedness action plans in place so that, when needed, adequate support is available.
4. **Response:** This is predominantly focused on immediate actions just before, during or immediately after a risk to meet short-term needs. Effective and efficient response activities rely on risk-informed preparedness strategies and actions defined in contingency plans and also includes post-disaster financing to help address actual losses and mobilise resources.
5. **Recovery:** This phase involved building back better to create resilience. "Build back better" is an essential concept of resilient recovery, aiming to reduce vulnerability in the future and improve livelihood conditions.

Source: MCI and GIZ, 2018

4.1. Opportunities for intervention

4.1.1. Prevention

There has been a limited focus on developing risk prevention strategies and interventions in Ghana to help MSMEs assess their risk exposure and put preventative mechanisms in place. Opportunities to improve MSME risk prevention strategies against future risks could include:

- **Prioritising capacity-building/training.** Both business training and risk management training are necessary, which can be done through associations, development partners, FSPs, etc. This training should not only include general business management, but also the financial capabilities necessary to operate and to choose and use appropriate finance options. Associations should also undergo training to develop their expertise to better provide support to MSMEs and help them prevent and manage risks, as well as improve their own understanding of resilience.
- **Prioritising risk assessment.** Support and empower MSMEs with conducting risk assessments and impact analyses, with both FSPs and ecosystem stakeholders. This will help MSMEs in identifying hazards and in documenting the risks related to their business activities and operational environment, and to plan risk control measures.
- **Prioritising risk management.** FSPs can play a larger role in both previous points. This can be done by building risk management into their products (e.g. bundled products), and support MSMEs with risk analysis (e.g. conduct risk assessments, develop tools that allow MSMEs to better assess risks and mitigation options). For example, the MSME Risk Evaluation Framework under MSME risk assessment tool in the appendix.
- **Strengthening data collection.** There is a need to strengthen data collection on MSMEs to improve the ecosystem stakeholders' understanding of the key needs and risks. The MSME database being developed by GEA is an important first step in this regard⁷⁸. Other methods to collect information on MSMEs could include conducting surveys among MSMEs or establishing partnerships with NGOs/associations.

- **Strengthening engagement.** Engagement between ecosystem stakeholders on MSME resilience needs to be strengthened. This will allow these players to understand how to better serve MSMEs and offer a more holistic solution to preventing and managing risks. The new MSME policy will be an important facilitator in this regard, as it serves as an overarching framework that creates linkages between different interventions and facilitates coordination. Other examples of how to strengthen engagement could include running more initiatives like GIRSAAL across a range of sectors or hosting periodic or quarterly meetings with key ecosystem stakeholders.
- **Refining mandates.** One of the constraints faced by the ecosystem in serving MSMEs was the fact that MSME development is a secondary focus. Therefore, more emphasis on MSME development must be given in current policies and regulation. For example, through formulation of targeted policies and strategies for MSMEs such as those mentioned in Overview of stakeholders interview. The NIC and BoG can also encourage FSPs to play a more active role in serving and enabling the resilience of MSMEs, through encouraging and their licensed entities and using moral suasion.

4.1.2. Risk retention/transfer

Risk retention/transfer elements for MSMEs are under-developed due to a lack of tailored products in the financial sector and a focus on access to finance in relation to mitigating risks. The following opportunities or inventions are identified:

- **Design innovative and fit-for-purpose products.** FSPs need to consider the context of MSMEs, supported by stronger data collection mentioned under section 4.1.1, and use their understanding to develop fit-for-purpose products for MSMEs. For example, offering credit or insurance products with flexible repayment terms, to better suit the nature of when income is earned, or providing on-demand cover so that MSMEs can insure their operations for a specific amount of time, which reduces their cost burden. This requires a better understanding of MSMEs and their needs and reinforces the need for improved data collection on MSMEs.
- **Consider group discounts.** FSPs should consider offering group discounts for MSMEs, to reduce the cost of financial services. For example, by leveraging associations, creating platforms or identifying alternative aggregation points, so that MSMEs can directly/indirectly engage with FSPs and negotiate group discount based on membership size. In addition, working through existing value chains can offer a point of aggregation and can group MSMEs who conduct similar functions in the same value chain. These firms are likely to face similar risks and have a similar set of insurance needs⁷⁹, making it easier for FSPs to develop solutions for this group.
- **Consider alternative distribution mechanisms.** MSMEs are often difficult to reach, due to their informality, etc. Therefore, FSPs should consider reaching MSMEs through alternative channels, including via the business associations, utilising digital platforms⁸⁰, or through the value chain structure – utilising suppliers/ buyers to reach the MSMEs.
- **Actively build trust and awareness in financial services and government.** Ecosystem stakeholders should design and support campaigns to raise awareness about insurance and improve insurance literacy of MSMEs. This is necessary to improve the uptake of financial products in Ghana, given the current low levels of trust and awareness among MSMEs.

78 Kwofi, 2021

79 Sahler and Gray, 2020

80 For example, e-hailing platform Bolt, or freelance platform Fiverr (among others) can be used as MSME aggregation points ([insight 2 impact, n/d](#))

4.1.3. Preparedness

Preparedness offerings are nascent given the lack of knowledge/expertise observed by MSMEs to prepare for risks and the absence of ecosystem stakeholders to help MSMEs think strategically about withstanding shocks. The following are opportunities to develop greater preparedness of both MSMEs and ecosystem stakeholders:

- **Capacity-building:** MSMEs currently have poor awareness of identifying and preparing for risks. Therefore, training is necessary to help them identify how they can prepare for risk events. This can be done through the associations/development partners or by utilising alternative distribution channels/aggregation points.
- **FSPs should develop early-warning systems.** FSPs should consider using technology to improve risk identification among MSMEs. For example, given the high incidence of fires in Ghana, installing heat or smoke sensors that are bundled onto insurance products can help MSMEs identify fire risk and take preventative measures to avoid equipment or property damage, etc. Similarly, the risk of floods is likely to increase in the future, through rising sea levels and more erratic and intense rainfall patterns⁸¹. Thus, sensors to measure flood depth can help insurers develop a parametric product for MSMEs. Innovative solutions have been developed in this regard, including:
 - **Lumkani**, a technology company and distributor of inclusive insurance products in South Africa. They offer funeral and fire insurance, underwritten by Hollard. Lumkani provides customers with early-warning fire sensors, which detect heat within a household. In the event of a fire, the alarm will ring, allowing households to act before the fire becomes unmanageable. In addition, the device transmits a signal to all devices in neighbouring homes in the area, facilitating a community-wide response to the fire.
 - **FloodFlash** (UK) offers a parametric product that offers a set pay-out when a flood occurs. This pay-out is based on flood depths, measured via a mobile-connected sensor installed at the property, which reports any flooding. When the agreed trigger-depth has been reached, the sensor sends an alert to the homeowner and to FlashFlood (who is underwritten by Lloyds), which then automatically initiates that claims process.
- **Consider risk management mechanisms:** An additional solution to improving MSMEs' risk preparedness relates to developing strategies/tools to improve their ability to manage and mitigate risks. These tools refer to, for example, inserting tracking devices in trucks/delivery vans, to track speed, distance travelled, number of stops, etc. In addition, firm staff could be better trained to identify risks. For example, drivers could undertake courses on safety driving, or construction workers could be trained on safety protocols on site. An innovative solution in this regard is:
 - **Parsyl** offers insurance cover, underwritten by Lloyds, for perishable cargo and vaccines with quality monitoring technology embedded into the product. A tracking device located in the cargo records the location, temperature, light and humidity of the cargo. This technology offers customers immediate value because it helps monitor cargo and reduce spoilage, reduces the claims risk and the sensor data provides information to process claims payments rapidly⁸².
- **Consider a disaster preparedness survey.** Ecosystem stakeholders should help MSMEs conduct a disaster preparedness survey and develop action plans to allow quick response if a risk occurs. These plans could include evacuation plans and strategies to protect key equipment/materials.

81 USAID, 2017

82 Parsyl is currently licensed to offer insurance solutions in the UK and US. Furthermore, this technology solution has been bundled with an AXA insurance solution for the cocoa value chain in Cote d'Ivoire and will operate across the developing world as part of Global Health Facility and Syndicate 1796 to cover vaccine distribution from 1 October 2020 in partnership with Ascot and AXA.

4.1.4. Response

Response among MSMEs and the ecosystem in Ghana was over-emphasised to the detriment of amore holistic approach. In the context of a large systemic risk such as COVID-19, this resulted in the coping mechanisms used by MSMEs themselves being ineffective to cope with the scale of the impacts and the ecosystem being overwhelmed and failing to support MSMEs effectively.

- **Effective response dependent on earlier phases.** Risk-informed preparedness strategies set out in earlier phases (i.e. ensuring effective prevention, transfer/mitigation and preparedness) can ensure an effective response. Thus, more focus must be placed on building out capabilities in the previous phases.
- **Consider alternative risk-layering mechanisms.** When it comes to large risks, it is often the case that the scale of the risk is outside the capacity of the local ecosystem to manage. In this case, it is useful to consider alternative risk-layering mechanisms, for example an insurance pool for MSMEs facing similar risks, stop-loss cover (i.e. product that limits claims pay-outs when the cap is reached, yet may serve as a way for insurers to cover at least a certain portion of larger risks), sovereign parametric insurance, which automatically pay out when certain pre-agreed conditions, such as wind speed, rainfall, or modelled economic losses, meet or exceed a given threshold⁸³, or alternative financing mechanisms like insurance-linked securities⁸⁴.
- **Strengthen ecosystem coordination** to provide optimal needs-based support when a risk occurs⁸⁵. As mentioned above, coordination between the ecosystem was low prior to and amid COVID-19. Thus, there is a need for greater engagement and coordination between ecosystem stakeholders, so that when a large risk occurs, the ecosystem can effectively respond and support MSMEs. This is linked to the recommendation to strengthen engagement among ecosystem stakeholders. This could include setting up more regular stakeholder consultations or setting up an MSME task force to link and drive initiatives.

4.1.5. Recovery

Recovery and adaption were virtually non-existent, due to a failure to consider other elements of risk management, which undermined the sustainability/longevity of MSMEs, and inability of MSMEs and the ecosystem to adequately respond.

- **Strengthen support for digitalisation.** Digitalisation among MSMEs was low, therefore this aspect needs to be strengthened among MSMEs if they are to remain competitive in an increasingly digital, post-COVID world. Each of the ecosystem players has a role to play in this regard:
 - Regulators/policymakers should address regulatory barriers (e.g. to enable KYC/ remote onboarding) and encourage innovation through, for example, exemptions, regulatory sandboxes (i.e. trialling a product under regulator's supervision) or host convenings on innovations for FSPs to learn from one another.
 - Associations should support MSMEs in digitising, through capacity-building (e.g. learning sessions), and partnering with a telco to create a platform with expert information on website construction, security, digital marketing, etc.

83 In addition, because the pay-outs occur based on pre-agreed conditions, the payouts happen a lot faster, in turn enabling a speedy recovery (Martinez-Diaz, Sidner and McClamrock, 2019).

84 Insurance-linked securities (ILS) are investment assets which allow insurance and reinsurance carriers to transfer risk to global capital markets and raise capital or capacity to manage large-scale risks (Artemis, n/d)

85 Afii (2021) developed a policy catalogue that provides an overview of existing policies across all African countries that are aimed at improving MSMEs' access to finance. This catalogue serves as a good guide for regulators and policymakers around how they can develop fit-for-purpose policies to enhance MSME financing options.

- Government should address infrastructure barriers (e.g. barriers to ICT, electricity supply, mobile money fees) to make the environment more enabling for MSMEs to digitalise.
- **Promote information-sharing among MSMEs.** The digital skills of MSMEs need to be enhanced through knowledge-sharing, forums or workshops. An innovative example in this regard is Vodafone, who created the V-hub Knowledge Centre. This provides MSME customers with access to online guides, videos and webinars, as well as direct support through a chat and phone service, on topics such as website construction, security, remote working and digital marketing to support digitalisation⁸⁶. Another example is the European Commission, who created a network of digital innovation hubs. These are one-stop shops that help companies enhance the competitiveness of their business, production processes and products/services using digital technologies⁸⁷.
- **Strengthen individuals' resilience.** COVID-19 has resulted in many individuals feeling fearful about the virus and taking on personal strain to continue supporting their families or ensuring the continuity of their business. It is important not to overlook the effects of COVID-19 on individuals' mental health, which is an important aspect of recovery. Therefore, support should be provided (e.g. counselling and support networks) to ensure that people receive the necessary emotional support to build back better.
- **Strengthen systemic resilience,** by assessing what critical infrastructure within ecosystems are vulnerable to systemic risks, and ensure that they can survive future covariate risk events.

86 Vodafone, 2020

87 European Commission, 2021

5. CONCLUSION

COVID-19 has put a spotlight on business and ecosystem resilience alike. The COVID-19 pandemic has presented one of the largest systemic shocks to the Ghanaian economy in recent history. As a result, MSMEs have not only been forced to endure more cumulative and sustained shocks than ever before but have also been pressured to rapidly develop strategies to cope, withstand and, most importantly, to adapt to a new normal. Moreover, economic players have also been urgently required to be both more reactive and proactive to provide direct and sustainable buffer support to MSMEs against shocks with limited financial and human resources. In the absence of foresight and more deliberate preparedness for systemic shocks of this magnitude, the COVID-19 pandemic has evidently highlighted fragilities in the MSME ecosystem in Ghana that, if not addressed now, may only worsen in the future.

Ghanaian MSMEs are ill-equipped and inadequately supported to better manage risks. Research findings indicate that when asked to assess their risks, most MSMEs are either inconsistent in their evaluation or highly biased by recent events. Without being able to accurately assess their own risks, many firms struggled to not only identify and implement effective coping mechanisms, but to also evaluate the appropriateness of given strategies in terms of their implications for the long-run sustainability of their business. In terms of available support, however, most public and private support did not succeed in reaching a majority of MSMEs, with many remaining either unserved or under-served by the insurance sector. Furthermore, in the absence of more proactive strategies to help MSMEs recover and adapt (beyond pivoting to PPE business), the ecosystem has not readied or equipped firms with tools to navigate the new normal markets and build back better.

Resilience of the ecosystem and its players can be strengthened. The Ghanaian Government and regulators were quick to respond to the needs of MSMEs amid the pandemic, but these responses were highly constrained due to weak institutional capacity, funding constraints, low engagement with MSMEs, low digitalisation and poor coordination to realise relief synergies between and within sectors. Given the existence of a robust and broad MSME policy framework in Ghana, such synergies still exist if effectively tapped by more bottom-up and coordination engagement by FSPs and associations to support digitalisation and more holistic risk management by MSMEs.

Prioritising opportunities now can better prepare the system for future shocks. The pandemic has offered much needed impetus to bolster the preparedness of the Ghanaian ecosystem for risks and to build more holistic resilience at both the macro- and the micro-level in terms of managing, transferring and recovering from risks. By taking advantage of opportunities identified within this report, GIZ and its implementing partners could optimise the existing potential of the system and support the entrepreneurial spirit of MSMEs in Ghana. Doing so will not only mitigate MSME risks of attrition and contribute to economic growth but develop resilient markets such as the insurance sector to better serve MSMEs in ways that meet their needs and sustainably add value.

6. APPENDIX

6.1. Stakeholders interviewed

Type of stakeholder	Number of interviews	Name of stakeholder
Policy	2	<ol style="list-style-type: none"> 1. Ministry of Trade and Industry 2. Ministry of Finance
Regulation	2	<ol style="list-style-type: none"> 1. Bank of Ghana 2. National Insurance Commission
National business associations	6	<ol style="list-style-type: none"> 1. Association of Ghana Industries (AGI) 2. Ghana National Chamber of Commerce and Industry (GNCCI) 3. GAMFIN 4. Ghana Insurers Association (GIA) 5. Federation of Association of Ghanaian Exporters (FAGE) 6. Association of Small-Scale Industries (ASSI)
Regional business associations	5	ASSI (Ashanti, Ahafo, Bono, Bono East, Greater Accra)
MSME support institution	1	GEA
FSPs – Banks	2	<ol style="list-style-type: none"> 1. Fidelity Bank 2. Stanbic Bank
FSPs – Savings and loans	2	<ol style="list-style-type: none"> 1. SINAPI 2. Opportunity International
Insurance companies	2	<ol style="list-style-type: none"> 1. Star Assurance 2. SIC

Table 2. Overview of stakeholders interviewed.

6.2. Overview of micro firms

6.2.1. Snapshot of micro firms

Micro firms predominantly female-owned, young, involved in services and largely informal. Micro firms are survivalist in nature and thus do not contribute significantly to employment nor the economy. Given the focus of the project being on small and medium firms, we separated out the micro firms and have provided an overview of their experience in this section. A total of 109 micro firms were interviewed and were found to be predominantly female owned (66%) and operating in the services sector (94%). In addition, they are mostly informal, with 64% of micro firms being unregistered and 72% not keeping financial records.

6.2.2. Impact of COVID-19 on micro firms

Micro firms were hard hit by COVID-19, mainly through disrupted supply chains and reduced sales, with limited novel risks. Like small and medium firms, micro firms were severely impacted by COVID-19, facing disruptions in their supply chains (70%), reduced sales (66%) and issues with payments (50%). In addition, COVID-19 did not produce many novel risks for micro firms, besides business interruption and payment issues, faced by 34% and 19% of micro firms respectively⁸⁸. The welfare of micro firms was significantly reduced as a result of the pandemic and, like small and medium firms, they face the risk of closure if COVID-19 impacts fail to subside.

6.2.3. Coping mechanisms used by micro firms

Micro firms did not cope effectively during COVID-19 and require access to more suitable resilience mechanisms. The qualitative interviews found that many micro firms did nothing to cope with the COVID-19 risks and were more likely to rely on welfare-reducing mechanisms, such as taking their children out of school or using a child's investment. The most effective financial mechanisms used were savings and business incomes. However, these are short-term mechanisms and did not sustain micro firms throughout the duration of the pandemic. The use of credit and insurance was low, with less than 20% and 10% of micro firms using these products, respectively. Among those who did, most struggled to access/implement it, or found that it did not help them cope. This suggests that these products were not fit-for-purpose and that micro firms would benefit from having access to more suitable, tailored resilience mechanisms.

Micro firms engaged less with ecosystem support than small and medium firms. Around 30% of micro firms or less has engaged with support from associations/groups, government or FSPs. They faced similar challenges as small and medium businesses when accessing support, including not receiving the benefits of, or not qualifying for, support. This again points to the need for the ecosystem to take a more proactive role in supporting MSMEs amid COVID-19.

6.2.4. Adaptation efforts and future resilience

Micro firms struggled to adapt and digitalise. There was limited digitalisation of micro firms' business functions, with the payments and marketing processes being most digitalised (42% and 13% respectively). Micro firms faced more challenges around digitalising their business functions than small and medium firms (around 30% of micro firms struggled to digitise across various functions).

88 Again, there was a mismatch between the prior risks which micro firms said they faced in the survey, and their actual risk experience, which requires further investigation.

This reinforces the idea that the ecosystem had not been driving digitalisation support hard enough, both prior to and amid COVID-19, and points to the need for the capabilities of micro firms in this regard to be strengthened.

Micro firms had given little thought to future challenges and how they plan to manage these. There was a discrepancy in the responses received by micro firms when it came to their future resilience. When asked via the survey, micro firms were found to be relatively optimistic about the length of time required for their operations to return to normal, with 84% thinking it will take less than 3 years. However, when asked in the interviews, it became clear that many businesses were struggling and face imminent collapse. For example, during the IDIs a micro firm business owner said "I don't know the state in which my business will be in if things remain as it is. My business may collapse, so something must change so that we can go back to our former state", while another said "we must see the end of COVID by the end of this year. If not, I may be out of business by then". Despite this, most business owners did not foresee any challenges once COVID-19 is over, again suggesting that they have limited capabilities when it comes to thinking about their risk exposure and ways to manage this. In addition, most micro firms had not given any consideration to how they plan to deal with future risks, with many being reliant on external support, such as a vaccine being found or hoping that things will turn around.

6.3. MSME risk assessment tool

Contextual/external risks			
Risk category	Definition	Examples	Factors influencing the risk
Macroeconomic risk	<p>Risks arising from the impact of macroeconomic factors on an organisation and/or its customers, which includes:</p> <ul style="list-style-type: none"> • Interest rate risk (risks arising from changes in interest rates; includes an impact on customer behaviour as well as the financial impact on enterprises themselves) • Foreign exchange risk (risks arising due to exposure to movement in foreign exchange rates, which may be particularly relevant to SMEs that import some goods for production, or SMEs who are dependent on exports). 	<p>Decrease in the interest rate – potentially leading to higher disposable income for consumers and subsequently a higher demand for some products</p> <p>Changes in the exchange rate influences:</p> <ul style="list-style-type: none"> • Transaction exposure – foreign revenues and profitability as expressed in the home currency • Economic exposure – changes in the prices of exported goods, thereby affecting foreign sales • Translation exposure – when consolidating overseas accounts, the value in the home currency could be different. 	<ul style="list-style-type: none"> Aggregate supply and demand Government policies Unemployment levels Inflation, interest and exchange rates
Market risk	<p>The risk that market conditions (in the market into which the enterprise's products/services are sold) change in a way that is detrimental to the enterprise.</p>	<p>Decrease in demand for a product</p>	<p>Market conditions are typically a function of:</p> <ul style="list-style-type: none"> Market construction – size, barriers to entry, etc. Market participation action – strategic choice, method of implementation Market participant interaction – price elasticity
Credit risk	<p>Risk that a counterparty to an agreement will be unable or unwilling to make the payments required under that agreement. It has two components: the probability of default and the loss on default. Counterparty risk (the risk that another party to a transaction or agreement fails to perform its contractual obligations – including in a timely manner) is a subset of credit risk.</p>		<ul style="list-style-type: none"> Debtors defaulting and not paying back their debt as expected Late payments by creditors Financial loss due to counterparty failure to uphold agreement Loss of provision of services by a third party due to its own credit problems or bankruptcy Downgrading of the company's credit rating Failure of reinsurer to make payments (linked to mortality and non-life insurance risk)
Environmental risk	<p>Risks relating to the natural environment and human interactions with it. Could also include the risk of a natural disaster that will halt business proceedings and influence financial results.</p> <p>An environmental issue for the organisation may lead to reputational damage to the organisation and a subsequent loss of sales (e.g. a spillage at the factory could lead to an environmental disaster, leading to customers cancelling orders, etc.)</p>	<p>Climate risks such as natural disasters, drought, flooding</p>	<p>Environmental risks relate to:</p> <ul style="list-style-type: none"> Resources – regulation on use, depletion, etc. Pollution – emission quotas, consequences of no control (such as fines, reputational damage, and global warming)
Political risk	<p>Political risk may arise at various levels:</p> <ul style="list-style-type: none"> • Micro-level – affecting specific firms, industry sectors, etc. • National level – nationalisation of an industry • International level – Multi-national companies being affected by conflicting actions of different governments 		<p>Encompasses a wide range of risks including those related to:</p> <ul style="list-style-type: none"> Political decisions or indecision Changes in government Events that are related to political instability (e.g. terrorism)
Legal risk	<p>The risk of losses due to failing to comply with existing legislation or rules</p>		

Contextual/internal risks

Risk category	Definition	Examples	Factors influencing the risk
Liquidity risk	Risk that a company is unable to meet its short-term cashflow requirements or to do so without incurring severe losses (having to sell assets at uncompetitive prices). This could mean that the SME cannot afford to purchase more stock to sell. Also covers the risk that money markets are not able to supply funding to businesses when required (funding liquidity risk).		
Operational risk	The risk of losses resulting from inadequate or failed internal processes, people and systems, or from external events		
Process risk	Risk that processes are ineffective (fail to achieve their objectives) or inefficient (overly expensive)	 Processing errors  Inadequate documentation Resulting in costs (financial, customer turnover, loss of reputation, legal/ compliance breaches)	
People risk	People risks are risks to the organisation and its performance that can be attributed to the workforce. They include behavioural actions, human fraud and error, organisation structure, capabilities, deployment, mobility, attraction, retention, talent and succession management and issues pertaining to employee relations	 Key positions remain unfilled  Incompetent staff  Wrong people are promoted, retained, employed  Dishonesty of employees  Lack of risk awareness by the employees  Moral hazard and adverse selection risk	
Technology risk	Technology risk is thought of as the repercussions of technology failure, or the potential for such a failure to disrupt business	 Out-of-date functionality  Inadequate backup systems  Lack of sufficient access or capacity  Password theft  Unauthorised use or access to data  Service outages  Software errors	Human error, software or hardware issues, security incidents
Event risk	Risk of loss due to a single, unlikely event	 Business continuity risk  Failure to adapt to changes in regulation  Internal or external fraud	

Contextual/internal risks

Risk category	Definition	Examples	Factors influencing the risk
Model and data risk	Risk that financial models are inaccurate, not fit for its purpose or use incorrect parameter values		
Strategic risk	Risk that a company will not achieve its overall business plans and objectives, as well as the risk of loss that corresponds to unexpected changes in the competitive environment or trends that damage the operating economics of a business (e.g. as a result of inappropriate business strategies)	<ul style="list-style-type: none">  Inadequate business plans  Damage to the reputation of the business  Business results do not meet stakeholders' requirements 	
Financial crime risk	A financial crime is an attempt against financial services institutions, corporations or governments to steal, defraud, manipulate or circumvent established rules	<ul style="list-style-type: none"> <li style="width: 50%;"> Internal fraud <li style="width: 50%;"> Terrorist financing <li style="width: 50%;"> External hacking <li style="width: 50%;"> Account takeover <li style="width: 50%;"> Legal risk <li style="width: 50%;"> Illicit employee activity <li style="width: 50%;"> Insider trading 	
Cybersecurity risk	The potential of loss or harm related to technical infrastructure or the use of technology within an organisation. Cybersecurity risk extends beyond damage and destruction of data or monetary loss and encompasses theft of intellectual property, productivity losses and reputational harm	<p>Factors influencing rise in cyber-risk include:</p> <ul style="list-style-type: none">  Use of third-party vendors  Outsourcing  Cloud migration  Mobile technologies  Remote access 	
Conduct risk	Encompasses those risks that relate directly to the relationship between a company and its customers	<p>Can encompass elements such as:</p> <ul style="list-style-type: none"> <li style="width: 50%;"> Operational failures (poor control of distribution) <li style="width: 50%;"> Information asymmetries <li style="width: 50%;"> Keeping pace with customer needs <li style="width: 50%;"> Market conditions <li style="width: 50%;"> Product development 	
Agency risk	Risk resulting from the misalignment of interests between different stakeholders	The manager of the store has an incentive to sell as much products as possible, but perhaps at a price that is lower than the shareholders would want	
Reputational risk	Risk that events or circumstances could have an adverse impact on an organisation's reputation or brand value	If the SME launches a poor-quality product, this may lead to long-term reluctance of consumers to purchase the product	

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On behalf of the German Federal Ministry for Economic Cooperation and Development (BMZ), the Strategic Alliance between GIZ and Allianz SE "Developing Risk Management Approaches for Climate and Health Risks" (SAGABI) supports municipal, metropolitan & district assemblies to prepare the ground for implementing risk transfer solutions within an integrated flood risk management approach in Ghana.

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Cenfri is an independent African economic impact agency, working to boost economic growth and increase sustainable development in emerging markets. Cenfri collaborates with partners to deliver impact through research, capacity building, convening and innovation support in the four focus areas: financial sector innovation, integrity, resilience, and inclusive digital transformation. For more information, please visit: www.cenfri.org

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