Republic of Somaliland

Ministry of Trade and Tourism

Impact assessment of the COVID-19 crisis on the informal business sector in Hargeisa

Final Report

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1. Introduction

In light of the potential impact of the COVID-19 crisis on Somaliland's economy[1], the Somaliland Economic Sub-Committee for COVID-19 requested the development of two private sector surveys, one focusing on the formal sector, and the other on the informal sector. The Ministry of Planning and Development (MoPD) conducted the formal business sector survey, published in May 2020[2]. The informal sector survey was tasked to the Ministry of Trade, Industry and Tourism (MoTIT). The findings of both surveys are expected to support policy decisions aimed at helping the private sector weather the crisis brought about by the pandemic. The results of the informal sector survey are presented in this report.

The survey attempted to quickly assess the main impacts of the COVID-19 crisis on Somaliland's informal sector. In this regard, informal businesses may be at higher risk than formal enterprises. The greater difficulties of government policies in reaching out to informal businesses and workers may impact their ability to cope with the crisis. In this respect, the survey assessed the impact of the pandemic on the informal sector based on three different areas: (i) impact on revenue and workers, (ii) challenges faced and coping capacity, and (iii) main needs and recommendations for government action. Also, basic profile questions were asked to produce evidence on some of the main characteristics of informal enterprises.

The survey questionnaire was framed according to the three areas above, and fieldwork was conducted in Hargeisa in early June and consisted of a total of 176 interviews. The survey design followed a non-probabilistic method, therefore results are not representative. Targeted enterprises were informal businesses in Hargeisa, defined as those not registered at the MoTIT and with fewer than 10 employees. Most urban economic sectors were included, as well as almost all Hargeisa's districts. Despite some methodological limitations, the survey findings shed valuable light on the impact of the COVID-19 crisis on informal businesses.

The present report is structured as follows. The next section provides further detail on the background and objectives of the study. Section 3 delves into the methodological details of the survey. Section 4 presents the analysis of the results. Section 5 concludes by highlighting the key tenets of the study.

2. Background and objectives

The COVID-19 pandemic has hit countries around the globe. At the moment of writing, there are more than 14 million confirmed cases and 600,000 deaths[3]. In Africa, the virus has spread across all countries, although the death toll is relatively low and some countries have already started lifting COVID-19-related measures. The distress brought about by the pandemic is a three-fold one; while it puts healthcare systems under pressure, it also has deep social and economic consequences. With regard to the latter, the severe measures implemented to halt the spread of the virus have resulted in a significant reduction in domestic and international trade.

Somaliland's economy is especially vulnerable to global crises due to its dependence on imports for food and energy, on remittances for sustaining domestic consumption, and on livestock for export revenue and foreign exchange. In addition, the crisis is having a severe impact on government revenue through a lower tax base due to reduced international trade and business closures, primarily. Expenses related to the measures implemented, such as purchasing PPE and funding awareness raising campaigns, do also add to these budget woes. The lack of international recognition means that borrowing funds from abroad is normally not

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[1] MoFin (2020). *Fiscal and Economic Implication of COVID-19*.
[2] MoPD (2020). *Business impact of COVID-19 Survey*.
[3] Dong E, Du H, Gardner L. An interactive web-based dashboard to track COVID-19 in real time. *Lancet Inf Dis*. 20(5):533-534. doi: 10.1016/S1473-3099(20)30120-1.

an option. Under these circumstances, it is usually the case that the most vulnerable layers of society are the hardest hit.

The informal sector has traditionally been considered as one of these layers, not least due to the frequent lack of registration of workers and companies. In most cases, this limits the ability of government policies to reach those in most need, especially when it comes to social protection policies as well as liquidity support for businesses. In addition, unavailability of data on the size and characteristics of a country's informal sector can incur in biased policy designs. This is particularly important in countries like Somaliland, whereby informal sector activities are predominant. Informal workers' lack of savings and need to earn an income to support household expenditures exacerbates the impact of economic shocks. They also tend to be more exposed to occupational health and safety risks, which are currently of extreme importance given the nature of this crisis.

3. Methodology

The survey's population were informal enterprises in Hargeisa. Informal enterprises were defined as those enterprises that were not registered at the MoTIT and employed fewer than 10 workers. Enterprises not registered at the MoTIT but registered with Hargeisa's municipal authority or at the Chamber of Commerce were included in the survey[4]. Albeit registered, these companies had other characteristics typical of informal enterprises such as firm size or family members' engagement in the business[5]. Their inclusion allowed the MoTIT to extend the reach of the survey and produce higher-quality results.

Given the need to produce timely statistics and the complexity of informal sector surveys, the survey design followed a non-probabilistic method, namely purposive sampling. As introduced earlier, target respondents were enterprises[6] with fewer than 10 employees and not registered at the MoTIT. The survey also targeted those areas with a high concentration of micro and small businesses, such as Hargeisa's main markets. Home-based economic activities, which do not have a clear visible establishment, and the agriculture sector, were omitted.

The survey was conducted in Hargeisa during the first week of June 2020. Interviews covered 8 districts (*deegma*): Ahmed Dhagax, 26 June, 31 May, Ahmed Macalin Haruun, Gacan Libaax, Ibraahim Koodbuur, Maxamuud Haybe, and Sheekh Cumar Yusuf. Interviews also covered most economic activities, including services (retail, tea/coffee shops, restaurants, transport, and money exchange), and manufacturing (production of doors, wheelbarrows, water tanks, and tailoring). Most respondents belonged to the retail sector (food, clothes and khat sale). 85% of total enterprises were micro enterprises, the remaining 15% were small enterprises[7]. The total number of interviews conducted was 176.

The questionnaire was based on the ILO's COVID-19 Needs Assessment Survey[8]. Interviews were conducted using the Computer-Assisted Personal Interview (CAPI) software KoBo Toolbox. Given the survey methodology used, the analysis of the data is mainly descriptive, and the results are not representative. Albeit difficulties encountered during the survey design and fieldwork stages, efforts were made to ensure the validity of the trends emerging from the survey results, so that the analysis could be considered to provide insightful information about the main impacts of the COVID-19 crisis on the informal sector in Hargeisa.

[4] For more information on companies' registration requirements, the reader is referred to Somaliland's Company Law (2018).
[5] The definition of the informal sector is based on ILO (2013). *Measuring informality: A statistical manual.*
[6] The survey did not address the complexity of accounting for enterprises with more than one establishment. Thus, 'establishment' and 'enterprise' are used interchangeably.
[7] See MoTIT (2019). *Micro, Small and Medium Enterprises (MSME) Policy* for further information on the definition of MSMEs.
[8] ILO (2020). *Enterprise survey tool: Assessing the needs of enterprises resulting from COVID-19.*

4. Results

4.1. Informal enterprises profile

As introduced earlier, except for district Maxamed Mooge, the survey included establishments from all districts of Hargeisa. Aside from districts 26 June, 31 May, Ahmed Macalin Haruun, and Sheekh Cumar Yuusuf, surveyed establishments were relatively evenly spread across districts. The reason why 26 June district has almost twice as many observations as the rest of the districts is because it is where the main market (*suuq*) in Hargeisa is located. The table below details the distribution of interviewed informal businesses by district.

Table 1. Informal businesses surveyed by district

District	Number	Percentage
Ahmed Dhagax	25	14.2%
26 June	46	26.1%
31 May	7	4%
Ahmed Macalin Haruun	9	5.1%
Gacan Libaax	29	16.5%
Ibraahim Koodbuur	31	17.6%
Maxamuud Haybe	22	12.5%
Sheekh Cumar Yuusuf	7	4%
Total	**176**	**100%**

Regarding the size of the enterprises, as already introduced, 85% had fewer than 5 employees and were thus considered as micro enterprises. The remaining 15% had between 5 and 10 employees and qualified as small enterprises (Figure 1). Most companies belonged to the retail sector, which includes the sale of food, khat, and clothes, main items sold in Hargeisa's market areas. Following the retail sector, the hospitality sector, including restaurants and tea/coffee shops, accounted for the largest share with 17% of total companies surveyed. At a lower level, the survey also included other services such as money exchange, and manufacturing activities such as tailoring and building doors, wheelbarrows, and water tanks (Figure 2).

Figure 2. Number of Workers

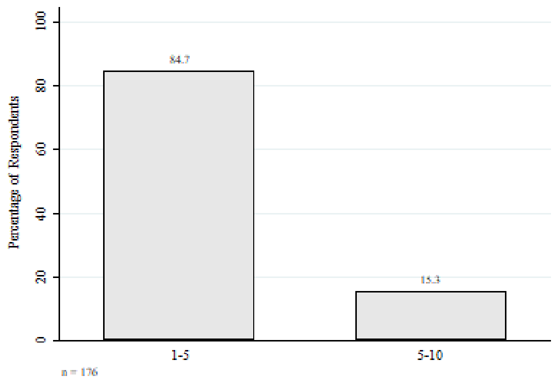
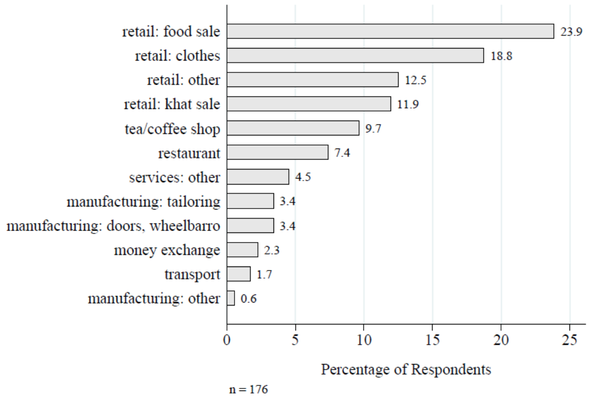
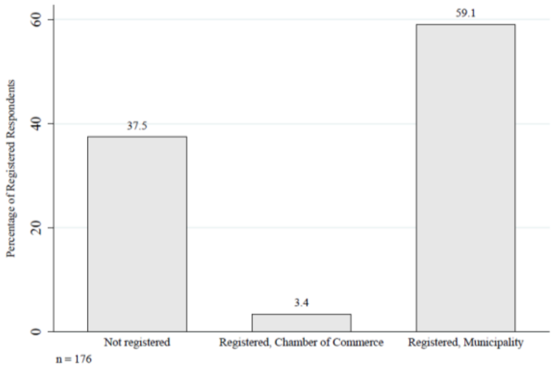


Figure 1. Surveyed firms by sector



Finally, out of the 176 firms surveyed, nearly 38% were not registered in any of the potential administrative registers: the Hargeisa Municipality, the Chamber of Commerce, and the MoTIT. Out of the remaining 62%, most firms were registered with the municipal authority and only 3% of enterprises were registered at the Chamber of Commerce (Figure 3). Together with registration, another salient feature of the informal business sector is the presence of family workers. In this regard, 52% of the businesses surveyed employed family members.

Figure 3. Firms by registration status



4.2. Income and employment

The interviews asked respondents different questions about the impact that the COVID-19 crisis was having on their business revenue and employment. First, it is worth emphasizing that 92% of the enterprises surveyed had seen their revenue decrease in the month before the interview (May). At the time of the interview, 5 respondents argued that their enterprise was not operative anymore. Out of those who answered their enterprise was active at the time of the interview, 54% answered that they were only partially active[9].

With regard to the scale of the impact on their sales revenue, most respondents (61%) rated the impact as 'high', 26% as 'medium', and 13% as 'low' (Figure 4). This is correlated with the workers dismissed or planned to dismiss. 47% of surveyed companies answered they had dismissed or were planning to dismiss workers. 97% of these said they would dismiss from 1 to 5 workers (Figure 5)[10]. Those companies whose impact on revenue was rated as 'high' were more likely to dismiss more workers.

Figure 5. Impact rate of the COVID-19 crisis on firms' revenue

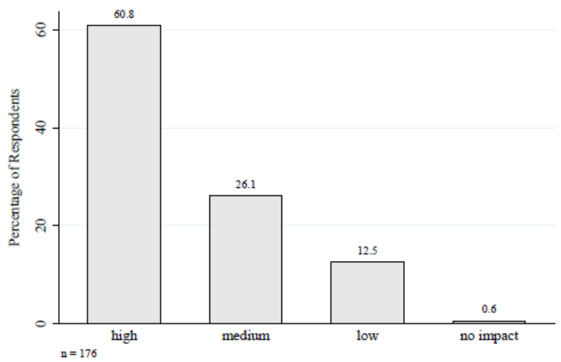
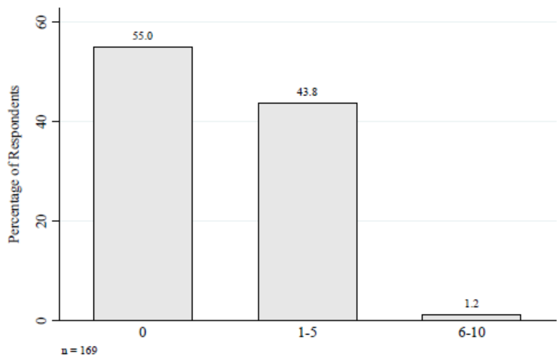


Figure 4. Workers dismissed or planned to dismiss



It is clear by the results above that the impact of the crisis has reached virtually all surveyed companies in one way or another. Most importantly, the scale of the impact was rated as 'high' for most companies, suggesting that there is a real threat of firm closures and employment losses. The following subsection sheds further light on these issues.

[9] There is some incoherence between those who answered that their revenue in May had been negatively affected by the crisis, but they also answered that their firms were fully operational at the time of the interview. One explanation might be that they adjusted to the economic shock by reducing input costs and/or dismissing workers, thus in June, when the interview was conducted, they became fully operational again in the sense of having no excess supply or net losses. Further insights might be needed to provide a more comprehensive explanation.

[10] The discrepancy between the figure stated here and the graph below appears because 7 companies stated they were planning to dismiss workers but did not specify how many. For simplicity, these companies were omitted in Figure 5.

4.3. Challenges and resilience

The interviews posed questions related to the coping capacity of firms. 92% of companies statesd they were afraid their business may have to close. Nearly 41% of respondents answered their businesses would not be able to operate for longer than one month if the current circumstances were to prevail, while 42% of respondents said their business could keep in operation for longer than 2 months (Figure 6). Within this context, 78% of respondents answered they knew at least one company which had already closed due to the difficulties posed by the crisis, and 16% knew more than 5 (Figure 7), indicating that the crisis has already impacted Hargeisa's informal business sector in the form of firm closures and employment losses.

Figure 7. Expected enterprise survival time under current circumstances

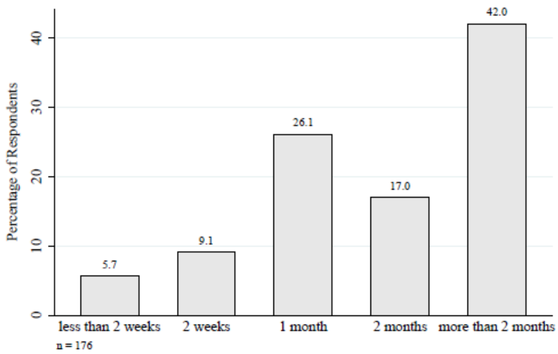
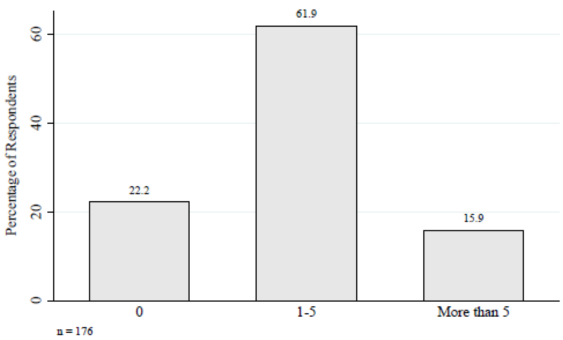


Figure 6. Number of companies the respondent knows have closed due to the crisis



Businesses were also asked to detail if they were facing or not a series of challenges, namely:

I. Insufficient cash flow,
II. Customers have been badly affected,
III. Lack of raw materials,
IV. Workers are absent,
V. Suppliers are unavailable, and
VI. Business partners have been badly affected.

According to respondents, the most important challenges were challenges (I) and (II); insufficient cashflow and low demand, both faced by approximately 75% of firms. In addition to these, approximately 30% of companies answered they were facing challenges related to limited availability of raw materials, suppliers, workers, or business partners (Figure 8). This is in alignment with the nature of this crisis, since lockdown and travel restriction measures have generally impacted the local economy through a reduction in final consumption, and this is seemingly the key channel through which the economic downturn is being felt by companies.

Importantly, the structure of Somaliland's economy may exacerbate the potential impact of demand-led economic shocks. Besides the vulnerabilities of the largely informal nature of micro and small businesses, the relevance of the retail sector in urban areas such as Hargeisa, which has been among the hardest hit, is one more reason why the urban business structure may be disproportionately affected. In addition to these, the disruption of global value chains and international trade paired with Somaliland's dependence on food imports is also posing important risks.

Finally, respondents were asked whether they had available sources of funding that could help them keep their business in operation in the following months. The survey also asked about the availability of Personal Protective Equipment (PPE). Accordingly, 80% of respondents had no access to funding, and the remaining 20% had access to external sources of funding or own funding (Figure 9). Regarding PPE availability, 69% of respondents stated their firms had no access to hand sanitisers and other personal protective equipment products. The widespread lack of funding availability is closely related to the nature of informal businesses and highlights their vulnerability in times of economic distress. Also, the lack of PPE availability indicates that the spread of the virus can pose severe occupational safety and health risks to workers. Given the evidence presented in this section, it is urgent to support informal businesses if the current situation is prolonged.

Figure 9. Main challenges

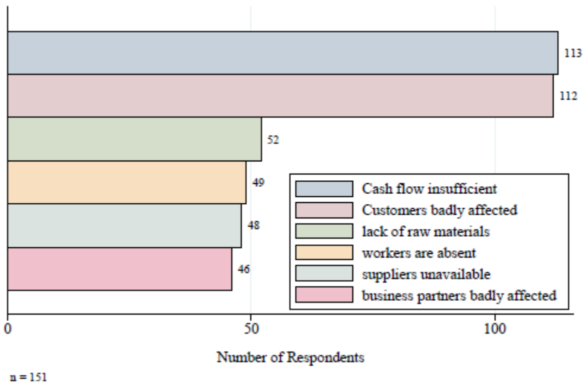
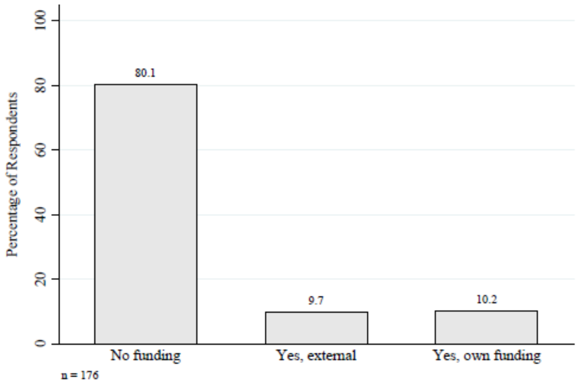


Figure 8. Funding availability



4.4. Needs and recommendations

Interviewees were asked open-ended questions about their most pressing needs and what action they expected from the government. The answers were manifold but can be encapsulated in the following categories. First and foremost, respondents indicated they were in need for better access to finance and household expenditures support (bills and food expenses). Related recommendations for government action were:

- Ensure access to sanitisers and other protective equipment.
- Raise awareness across Somaliland about the measures being implemented and the perils of the virus.
- Provide workers' compensation/unemployment benefits.
- Provide targeted support for MSMEs.

Other more marginal yet interesting suggestions were the lift of some of the restrictions imposed (thus seen as the primary cause of the difficulties their businesses were going through) such as the ban on khat imports, support through the provision of inputs, and tax exemptions.

Some relevant conclusions that can be drawn are, first, that respondents expect an active role of the government in supporting their businesses. The kind of support expected, as detailed above, is manifold, although it generally comes down to financial support. Second, and related to the latter, the responses above clearly show the link between the economic and social dimensions of the crisis, given many respondents indicated they need support for covering basic household expenditures such as food and household bills. Third, while the results shown here are only indicative and ought not to be extrapolated to the larger Somaliland business sector, some lessons can be drawn in terms of which areas of government action could be strengthened to increase the resilience of the private sector in the country, such as providing targeted financial support, enhancing the social security system, and OSH-related measures.

5. Conclusions

This report has presented the results of the survey on the CODIV-19 impact on the informal business sector in Hargeisa. The survey aimed at assessing how the COVID-19 crisis has impacted the informal business sector in Hargeisa through a questionnaire organized in three areas: employment and income, coping capacity, and recommendations for government action. The survey's population were Hargeisa's informal businesses, thus targeted respondents were informal micro and small businesses (fewer than 10 employees) non-registered at the MoTIT. A total of 176 interviews were conducted.

First, the results show that virtually all surveyed companies have been impacted by the crisis in one way or another. In this regard, most companies rated the impact on their revenue as 'high' and almost half of the companies surveyed had dismissed or were planning to dismiss part of their workforce. The impact on production and employment is thus clear. The crisis has in most instances reached companies through fewer customers and insufficient cash-flow to cover ongoing expenditures, driven by the measures taken to stop the spread of the virus. The impact of this demand-led economic shock may be exacerbated due to the predominance of the retail sector in Somaliland's urban economy.

Second, most surveyed enterprises lacked access to funding and personal and protective equipment. This is aligned with the nature of informal firms, not least the lack of funding available, but it is nonetheless a call for action if occupational safety and health, employment, and firms' operations are to weather the crisis. In this regard, 90% of interviewees answered they feared their business may have to close and around 40% stated that, under current circumstances, their businesses may not survive for longer than 1 month. Within this context, 78% of respondents answered they knew at least one company that had already closed due to the difficulties posed by the crisis, and 16% knew more than 5.

Third, firms' most common answer to the question about their most urgent needs and suggestions for government action was access to finance and support to cover household expenditures (food and household bills). Other common answers were related to the provision of unemployment benefits, PPE access, awareness raising, and targeted support for MSMEs. If anything, this shows that the informal business sector expects the government to take appropriate action, and not only in terms of keeping their company afloat, but also through the provision of direct support to sustain household expenses, clearly demonstrating the relationship between the social and economic dimensions of the crisis.

In sum, the survey sheds light on the effect of the COVID-19 crisis on the informal sector in Hargeisa, the key impact channels, and the main needs of the sector. As informal sector surveys have been scarce in Somaliland, the profile questions asked can also be useful to understand better this sector. Efforts were made to ensure the validity of the results, so that findings could be considered to provide insightful information. Results were reported to the Somaliland Economic Sub-Committee for COVID-19.