SAVING LIVES BY SAVING SMALL BUSINESSES IN AFRICA

Covid-19 has disproportionately hit the most vulnerable, even more acutely in lower-income countries. According to DFID, an additional 70 million people could end up living in extreme poverty in Sub-Saharan Africa. Yet, existing measures to mitigate the economic impact of the pandemic are too small or too slow, especially in Africa, where the crisis has severely hit small businesses. If we care about our collective future, we have to work faster to mitigate the impact of the pandemic in Africa too. The time is now for a just and impact-led global recovery that benefits all people.

The Global Steering Group for Impact Investment (GSG) has been liaising weekly since mid-March with its members in Ghana, Zambia and South Africa to assess in real time the needs of non-profits, businesses and investors faced with the effects of the crisis. Through this work, we have identified solutions and areas where impact investment can have transformative effects.

Small businesses are suffering – and they are the beating heart of African economies

Beyond the challenge it poses to already fragile and insufficient healthcare systems, alongside major risk for food security, Africa has entered its worst economic crisis in the past 25 years. Micro, small and medium enterprises (SMEs) make up 90% of businesses and 80% of jobs on the continent, but they are struggling to keep afloat. Most SMEs may have only one- or two-months' worth of cash reserves left. Some estimates indicate that 40% of them may go bust in the next 6 months if nothing is done to save them.

The hard stop on tourism, lower levels of trade and the plunge of commodity prices are driving businesses to bankruptcy in several sectors, endangering the livelihoods of many, from taxi drivers to smallholder farmers.

Around 20 million jobs are at risk because of Covid-19 in Africa. In South Africa, 60% of SMEs are thinking about or have already laid off employees. South African President Cyril Ramaphosa warned of widening job losses as the effects of the shutdown to curb the spread of Covid-19 batters the economy. As economic growth and productivity slow, so too do the primary drivers that raise people out of poverty.

It is likely that these terrifying numbers don't even account for all job losses in the informal economy, which in most African countries employs more than half of the population. Their livelihood depends on daily earnings, casual work, farming or self-employment.

"Most of them don't have formal safety nets, such as unemployment or health insurance, nor worker protections, such as paid sick leave. This means that job losses and income reductions will hit families harder," says Paul Gubbins at FSD Kenya. Informal safety nets are also vanishing: $11bn in diaspora remittances have evaporated.

Of course, African governments are taking proactive measures, many considering or already implementing cash transfers to the most vulnerable, such as in Kenya. In each country, local businesses and philanthropists have taken action, from pivoting businesses to manufacture masks, to coordinating food delivery for nurses, matching public funds for emergency relief. Countries are not waiting for others to bail them out, but have welcomed significant support packages by donors and DFIs, or debt relief measures by the IMF.

Impact investment can provide powerful recovery tools for African businesses

Collectively we can all do more to provide support to African countries given the scale of the challenges they are facing, with incredibly limited resources. Now is the time to re-build economies that are truly equal and resilient to future shocks.

Donors and development finance institutions (DFIs) themselves recognise this need for pace. "We have to get better and faster," says Jonathan Charles, MD at the European Bank for Reconstruction and Development (EBRD), in a webinar hosted by Dalberg on DFI leadership.

For that purpose and additionally to other measures, we believe at the GSG that impact investment can provide relevant and powerful tools for the recovery of African businesses.

First, it can support micro-finance institutions (MFIs). At the moment, most of the support packages provided by multilaterals or DFIs will go to their existing portfolio and clients, given that any new due diligence is near impossible. This means that mainly government institutions, and larger businesses or finance providers will benefit directly. Yet, they are unable to on-lend to smaller businesses because outside of their usual risk profiles.

So, who will support SMEs?

Banks are not serving them, as only 20% of SMEs benefit from bank financing. MFIs are among the few addressing the finance gap for SMEs. Yet, "it seems likely that without significant support and concerted action, many MFIs are at risk in the coming storm," says Greta Bull, CEO of CGAP.

MFIs may be the best allies to support livelihoods now and for the recovery of economies, but they too will need support. For that, they need to be included in any DFI or government support packages to financial sector operators, which hasn't been the case until now. They would also need revised repayment terms and additional liquidity. This is where DFIs and other impact investors can help.

Impact investment will be critical too to mobilise emergency liquidity funds for SMEs. "The liquidity crisis can become a solvency crisis, but it doesn't have to. We know how to strengthen the resilience of small enterprises through impact investment tools," says Laurie Spengler, founder and CEO of Courageous Capital Advisors. She has been working with the Collaborative for Frontier Finance on the launch of a Covid Response Capital Bridging Facility. This $150M USD (target) fund will have a fund of funds structure and offer low-interest debt to local non-banking financial institutions and intermediaries in Sub-Saharan Africa.

Similarly, the Mastercard Foundation launched early April a $15M USD MSME fund in Ghana in partnership with the government. Other impact investors such as Yunus Social Business, Open Road Alliance, Kiva, or Equalife, are fundraising for similar emergency funds, targeting SMEs directly. The call to action is for DFIs and other impact investors to coalesce around these initiatives to ensure pace of relief and scale of impact.

The current context also pushes us to fast-track the design of impact-led funds. Under the impulse of the GSG's National Advisory Board (NABs), several countries such as Ghana, Zambia and South Africa have been exploring the possibility of setting up impact funds to support economic recovery. In Ghana, under the leadership of the NAB, new SME funds supported by the World Bank may be repurposed for Covid-19 recovery. The South African NAB led the launch of a $25M USD green outcome fund for high impact SMEs and are designing other impact vehicles. In Nigeria, the NAB Taskforce is exploring the use of unclaimed assets to set up an impact wholesaler, on the model of Big Society Capital in the UK. While addressing the most pressing emergencies, these examples show how the private sector can be a partner to support national governments in planning for a just and sustainable economic recovery.

Partnerships and collaborations will be essential

Despite increased operating constraints for many impact investors (currency exposures, enhanced risk, low predictability, etc.), the sector has already started working together on solutions. Until now, DFIs have been slow to walk the talk and they are needed to accelerate the pace and scale of the response, given the race against time African SMEs are in. The GSG is already working with its national boards in Africa as well as with governments, multilateral organisations, philanthropists, entrepreneurs and business leaders across the world. Sharing and investing in solutions to Covid-19 in a coordinated way will help drive change, and hopefully lead to faster and more impactful disbursements to support SMEs in Africa.

We must make this crisis a turning point towards more inclusive and impactful economies.

[END]

Notes to editors

For more information, contact: Portland-GSG@portland-communications.com

About GSG

GSG is an independent global steering group catalysing impact investment and entrepreneurship to benefit all people and our planet. The GSG currently has 32 countries plus the European Union as members through their National Advisory Boards (NABs). Chaired by Sir Ronald Cohen, the GSG brings together leaders from the worlds of finance, business, and philanthropy.

About National Advisory Boards (NABs) in Africa

A NAB is a national platform representing all the stakeholder groups needed to redirect significant capital flows towards social and environmental impact. Private-sector led, yet in close partnership with national governments, a NAB raises awareness, creates market intelligence, changes policies, and mobilises additional financial resources for public good. In short: a NAB is the basic infrastructure to accelerate change in a country.

The GSG has NABs in Ghana, Zambia, and South Africa. The GSG is working to extend its network in Kenya and Nigeria by setting up NABs in these countries.

Zambia

The GSG is using impact investing now, to fight the Covid-19 emergency through tools such as pay for success funding for health, education, and employment initiatives. The GSG's Zambia National Advisory Board (NAB) has already started working with the Central Bank of Zambia on the structuring of $10bn kwacha (USD $547 million), primarily targeted to SMEs in the hardest-hit industries. This will help drive recovery against the SDGs.

South Africa

The GSG is also bringing together the impact investment movement to share knowledge and best practices. In South Africa, the NAB has shared with the President's office a policy paper recommending impact-led interventions. The NAB has also engaged with the UN to raise a $2.5bn funding programme to support the government's solidarity fund.

Ghana

The National Advisory Board in Ghana has been working across the ecosystem to encourage impact capital to be deployed in the response to Covid. For example, NAB members have welcomed and supported a GHS 100 million Cedi Ghana COVID 19 Private Sector Fund to support Covid-19 activity, which has enable construction of the first infectious diseases isolation and treatment facility in Ghana.. In addition, the NAB working with its key stakeholders are designing various programs to support the SMEs to deal with the emergency and also for recovery. Government has also established a GHS 600 million cedis to support Micro and Small Scale Enterprises (MSMEs) in addition to some tax reliefs for businesses.

Follow GSG on social media

- Twitter
- LinkedIn
- Facebook

ANNEX WITH OTHER RELEVANT DATA POINTS:

- A recent survey conducted by PricewaterhouseCoopers revealed that 54% of Chief Financial Officers of companies operating in Africa expect a 10-50% decline in turnovers.
- According to the World Bank, remittance flows to Sub Saharan African countries will drop by 23.1% from $48 billion in 2019 to $37 billion in 2020 in the wake of the Covid-19 economic crisis.
- Data compiled by the Kenya Private Sector Alliance (Kepsa), and shared with the government, indicates at least 5.9 million direct and indirect jobs have either been lost or workers sent home on unpaid leave as companies and businesses mitigate effects of Covid-19.
- Data from Drew
    - UN agency saying that it needs market returns for its impact investing. Note that 100% of their funds are donor.
    - Major DFI says that it does not have vehicle to extend loans to small businesses in emerging markets.
    - Another major DFI saying that it does not do concessionary financing.
    - Over 80% of the funds that say they do gender lens investing only require their portfolio companies to have gender policies in place.

    - In our survey, of all of the SGB impact funds surveyed, only 16% are led by women, and none manage a fund greater than $5million.

- Data from ANDE Dalberg report
- There is a significant risk of widespread SGB failure in emerging markets. Nearly 42% of SGBs are at risk of failing in the next six months, a figure broadly consistent across regions. Many SGBs have already closed permanently as a result of Covid-19.
- Evidence is still spotty, but the ACDI/VOCA survey shows that enterprises in the food services, arts, events, tourism, and recreational and manufacturing sectors will fail in less than a month, compared to three to six months for finance and insurance companies. (5 USAID. (2020). Business Resilience Analysis COVID-19)
- The Gender Innovation Lab at the World Bank recently warned of the potential of Covid-19 to severely impact women entrepreneurs in Africa: women make up 58% of the continent's self-employed workforce but are "particularly vulnerable to shocks as they are disproportionately informal and operate in less profitable sectors." (Gender Innovation Lab. (2020). Supporting Women Throughout the Coronavirus (COVID-19) Emergency Response and Economic Recovery. World Bank.)
- DFID: Within this, Sub-Saharan Africa will experience is first recession in 25 years, and our modelling suggests an additional 70 million people could end up living in extreme poverty.