

MOROCCAN AND GHANAIAN MSME RESILIENCE IN THE FACE OF COVID-19



BACKGROUND

On behalf of the German Federal Ministry for Economic Cooperation and Development (BMZ), the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH and Allianz RE joined forces to support vulnerable communities in Morocco and Ghana in developing integrated risk management approaches for climate risks.

In Morocco, the implemented risk management activities of this Public-Private Partnership are targeted at Small and Medium Sized Enterprises (SMEs) located in Industrial Zones (IZ). The Ait Melloul Industrial Park was selected as a pilot IZ, because it has an economic value for the Souss-Massa region (hosts 300 enterprises, 70% of which are SMEs), has a high infrastructure vulnerability and experienced frequent floods which caused severe damages and significant financial losses. The project identified poor water systems and limited awareness amongst locals for the need of precautionary systems and security measures as the biggest hurdles to develop and implement adequate risk management plans.

In Ghana, the project focuses on climate risk financing for municipal public assets. This is to strengthen urban resilience by preparing the grounds for implementing risk transfer solutions within an integrated flood risk management approach in Greater Accra Metropolitan Area (GAMA). The GAMA is the economic hub of Ghana with a high vulnerability towards floods with a population of 4.6 million (World Bank, 2017¹). The area has experienced severe flood events in the past which has served as a wake-up call to many stakeholders. In its effort to address the infrastructure vulnerability to floods, the project has implemented activities on risk identification and risk reduction to reduce their vulnerability ahead of the event, as well as designed a flood cover insurance solution for public assets to cater for residual risks.

On behalf of



STUDIES ON RESILIENCE OF MICRO, SMALL AND MEDIUM-SIZED ENTERPRISES (MSMEs) IN THE FACE OF COVID-19

Context

Besides climate risks such as flood hazards, the economic impacts of COVID-19 are currently increasing the vulnerability of Moroccan and Ghanaian MSMEs and potentially also influence their risk management and risk perception. According to a study published by the Moroccan confederation of business association CGEM 57% of SME ceased their activities during the lock-down.

Therefore, as an accompanying measure, this project commissioned CENFRI to conduct studies to identify the perceived and experienced risk of MSMEs in Morocco and Ghana amid the COVID-19 pandemic and to identify opportunities to enhance their resilience to these risks.

In Morocco, the focus was on MSMEs located in industrial parks, whereas in Ghana the geographic focus was on MSMEs in the urban project areas. It is expected that a different perception between MSMEs located in IZ and MSMEs located in the boundaries of an urban settlement exists.

Objective and methodology of the studies

The studies' aim was to analyse the resilience of MSMEs in the context of COVID-19 in order to 1) better understand to what extent the pandemic changed the risk perception of the target group as well as 2) elaborate different mechanisms (economic and financial), including digital solutions, that MSMEs are already using and/or can use in the future to better counteract risks. In addition, the studies aimed at identifying the differences between the impact of COVID-19 on Moroccan vs. Ghanaian MSMEs based on the different types of MSMEs considered and the different local contexts. Many key questions were considered in the studies, such as:

- What are the major risks MSMEs are facing?
- What are the immediate, long-term impacts on MSMEs?
- What are the responses on the ground and how are SMEs managing risks?
- How were they supported by the Moroccan/Ghanaian governments?
- To what extent did MSMEs address the challenges through digital solutions?
- What financial product features would have helped them to overcome the COVID impact quickly and effectively?
- What are resulting opportunities which should be used to enhance MSMEs resilience to these risks?

In Morocco, the methodology to conduct this study was a combination of desktop research, stakeholders (key informant) interviews, and consumer research (qualitative interviews: in-depth interviews & focus group discussions). In close coordination with GIZ and Allianz, three sectors were agreed to focus on: the tourism industry, the agribusiness industry and the automotive industry.

In Ghana, the same methodology was adapted but with geographic focus that lied in the municipalities of GA East and AMA (both in GAMA) together with the regions of Ashanti, Ahafo and Bono East and Western. To understand how MSMEs and the MSME ecosystem have been affected by, and have responded to COVID-19, a combination of desktop research, qualitative interviews with MSMEs and key stakeholders, and a quantitative survey with selected MSMEs was applied in collaboration with CDC Consult Limited. A wide array of research activities was used to gain a holistic understanding of how COVID-19 affected MSMEs, how MSMEs responded to the shock and what the risk perception of MSMEs is.

Study results and key findings

Morocco:

The impact of COVID-19 is severe on all fronts. COVID-19 has transcended a health shock to become an economic shock, whose impact has left very few untouched. Despite support measures offered by the Moroccan government and coping mechanisms implemented by the enterprises themselves, the challenges exacerbated by and arising from the COVID-19 pandemic have left Moroccan MSMEs more vulnerable than they were before.

MSMEs in Morocco have adapted to survive. Despite the fact that Moroccan MSMEs have needed to deal with a major and cumulative shock, across three very different sectors, they express considerable hope that the future looks brighter than the past. For some, this sentiment is a result of having no other option – their peers who have given up on adapting their strategies and finding new ways to engage (potentially new) clients have gone out of business. For others, this optimism is based on a firm belief that the Moroccan government will continue to support the recovery, whether through policy measures aimed at strengthening their sector's future prospects or through direct financial contributions.

More support required to build future resilience. In order to harness this optimism, it is important that the existing challenges and gaps are identified so that solutions can be designed that are tailored and adaptable to MSMEs' needs. Otherwise, there is a risk that financial services providers will not be trusted and will only be seen as a last resort. Capacity building and training provide opportunities for financial services providers



to forge relationships with MSMEs, which can generate a win-win situation in terms of upskilling on risk mitigation, risk management strategies and risk transfer solutions such as insurance. The need for these strategies has never been more salient and recognised by MSMEs than now.

Investment financing is in high demand. Although Moroccan MSMEs indicate that they are more reluctant to take up loans, it is clear that covering their costs remains a major challenge. Investment financing, where the provider of funds supports improvements in an enterprise's efficiency and growth, is a much-preferred option.

Training is a key opportunity to enhance MSMEs' resilience. Across the board, MSMEs express the need and desire for training to help them to build back better in the aftermath of the pandemic. It is important that this training is sufficiently tailored to meet enterprises' needs – although general business management, risk management and opportunities to diversify their offerings all appeal to respondents.

Ghana:

COVID-19 has put a spotlight on business and ecosystem resilience alike. The COVID-19 pandemic delivered one of the largest systemic shocks in recent history to the Ghanaian economy. As a result, MSMEs have not only been forced to endure more cumulative and sustained shocks than ever before, but they 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 required to be both more reactive and proactive in providing direct and sustained buffer support against shocks to MSMEs 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 clearly exposed vulnerabilities in the MSME ecosystem in Ghana that, if not addressed now, may only worsen in the future.

Ghanaian MSMEs are poorly equipped and inadequately supported to better manage risks. Research findings indicate that most MSMEs are either inconsistent or highly biased by recent events when assessing and evaluating their risks. Without being able to accurately assess own risks, many firms struggle not only to identify and implement effective coping mechanisms, but also to evaluate the appropriateness of given strategies in terms of their impact on the long-run sustainability and resilience of their business. In terms of available support, most public and private support did not succeed in reaching the majority of MSMEs, with, for instance, many MSMEs 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 shifting to Personal Protective Equipment business), the ecosystem has not yet equipped firms with tools to navigate and build back better in the new normal markets.

Resilience of the ecosystem and its players can be strengthened. The Ghanaian government and regulators were quick to respond to the needs of MSMEs during the pandemic, but these responses were highly constrained due to weak institutional capacity, lack of funding, 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 can indeed emerge if effectively leveraged through more bottom-up and coordinated engagement of financial service providers and associations in support of digitalisation and more holistic risk management by MSMEs.

Prioritising opportunities can better prepare the system for future shocks. The pandemic has provided a much-needed impetus to strengthen the preparedness of the Ghanaian ecosystem for risks and to build more holistic resilience at both the macro and micro levels in terms of managing, transferring and coping with risks. By leveraging the opportunities identified in the study, the existing potential of the system and the entrepreneurial spirit of MSMEs in Ghana can be fostered. This will not only mitigate the risk of MSME loss and contribute to economic growth, but also develop resilient markets.



Activity name

Moroccan and Ghanaian MSMEs Resilience in the Face of COVID-19

Focus area

Industrial zones (Agadir, Ait Melloul, Mohammedia, Tangier) in Morocco;
Greater Accra Metropolitan Area (GAMA) as well as the regions of Ashanti, Ahafo and Bono East and Western in Ghana

Local partners

Cenfri; CDC Consult Limited only in Ghana

Target group

MSMEs

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Disclaimer

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Photo credits

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For more information on the studies, please refer to: GIZ (2021). MSME Resilience in Morocco in the Face of Covid-19.

GIZ (2021). Ghanaian MSME Resilience in the Face of Covid-19.

For more information on the project, please refer to the factsheet “Developing Climate Risk Management Approaches for SMEs in Morocco” as well as the factsheet “Developing Disaster Risk Management Approaches for Climate Risks in Ghana”.

