



Photo Credit: Sean Sheridan/2016, Ethiopia

# **ECONOMIC IMPACT OF COVID-19 IN THE SOMALI REGION OF ETHIOPIA**

## **Assessment and Recommendations**

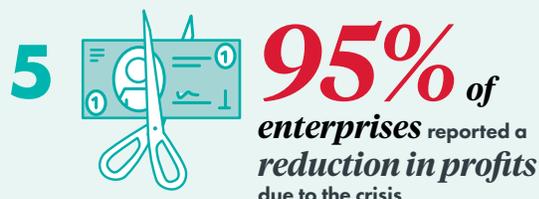
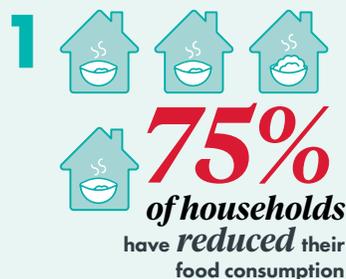
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Outside Addis Ababa, the Somali Regional State of Ethiopia has suffered the highest number of COVID-19 cases, and infections are rapidly rising. Given the existing vulnerabilities in the region, the impact of the crisis on lives and livelihoods is expected to be particularly severe, and will likely be further exacerbated by the desert locust situation. While there have been multiple studies analysing the expected impact of COVID-19 on the Ethiopian economy and population, and an increasing body of evidence emerging that is measuring actual impact, there has not yet been any analysis into how the economy and population of Somali Region is being affected.

Mercy Corps has been working in the Somali Region of Ethiopia for more than 10 years and has developed deep relationships with government, private sector and communities. For the vulnerable groups we serve in the region – pastoralists, agro-pastoralists, entrepreneurs, workers and households – the most pronounced and longest-lasting impact of COVID-19 is likely to be on their food and economic security. In April and May, Mercy Corps undertook a series of assessments to better understand this impact. These assessments were not designed to be rigorous pieces of research based on large sample sizes. Instead, we undertook rapid surveys covering various different aspects of the Somali Region economy, which together provide an insightful snapshot of how the economy and people of the region have been affected.

The assessments paint a picture of an economy which, while not yet on the verge of collapse, is in sharp decline with many crucial market actors struggling to survive and very concerned about the next few months. Supply chain actors for essential foods are worried about their ability to keep their doors open, enterprises are doubtful they will be able to pay staff salaries for more than a few months, and household expenditure and consumption already appears to have fallen significantly, in part driven by the stagnation of the livestock market system which is the major source of livelihood in the region. Perhaps most revealing about the scale of the challenge is the data from Somali Microfinance Institution (SMFI), which shows that loan repayments by businesses are facing increasing delays, and liquidity is falling.

This report analyses five distinct areas of impact, presented in this graphic and detailed in the following pages, and makes recommendations for how Mercy Corps should respond to the crisis in the region.



## 1. Purchasing power of households

The COVID-19 crisis poses a severe risk to the purchasing power of households in Somali Region, and their ability to buy food and essential items to survive. The COVID-19 restrictions and risk of transmission made it impossible to safely conduct a large household survey and get quantitative information on how household incomes have been affected. Mercy Corps therefore conducted a small set of household interviews, of 16 urban and 8 rural households, to get indicative information on how household expenditure and consumption has been impacted. This is also triangulated against findings from a survey of wholesalers and retailers, which provides an insight into how sales of food items have declined and how food prices have changed.

**Information from household interviews, though drawn from a small sample, suggests that the COVID-19 crisis is severely impacting household purchasing power in Somali Region, and this is negatively affecting food expenditure and consumption. This finding is corroborated by the huge fall in sales reported by food retailers.**

- › 96% of interviewed households reported that the COVID-19 pandemic has reduced household expenditure on food.
- › Retailers selling essential food items report that sales have declined dramatically by an average 52%, which is further evidence of a significant decline in expenditure by households.
- › Food consumption has also been impacted as a result of the crisis. 75% of households have reduced the frequency of eating, and 21% have reduced portion size. Only 4% report no change in food consumption.
- › Data from retailers and wholesalers indicates that the price of essential food items, such as rice, cooking oil and spaghetti, on average increased by 13% between early March and the middle of May.

## 2. Financial services

Finance fuels investment, spending, and people's ability to mitigate risks. As the economy of Somali Region slows and risks to households and businesses grow, this critical function is likely to come under increasing pressure. Mercy Corps conducted a survey of Somali Microfinance Institution (SMFI), which has approximately 500,000 clients across Somali Region. Our analysis examined five potential impact areas: i) Business continuity; ii) Lending and repayments; iii) Savings and withdrawals; iv) Liquidity; and v) Adaptation and measures to cope with the crisis.

***Despite maintaining business continuity, the Somali MFI is already being impacted by the COVID-19 crisis, due to the crippling effect of the crisis on business performance and the impact on customers' ability and willingness to maintain deposits and savings.***

- › Somali MFI has scaled back its loan collection activities and has stopped providing loans to any new clients. It has not yet had to close any branches, and all mobile banking agents are operating.
- › There has been a decline in loan repayments by SMFI clients; 61% of repayments due in April were delayed compared with an average of 53% in January to March. This resulted in a noticeable increase in SMFI's portfolio-at-risk (from 2.5% on 31st March to 4.0% by 30th April).
- › Total savings deposits fell by 4.6% in April, as a result of increased cash withdrawals and lower rates of deposits in savings accounts, due to public fears of lockdown movement restrictions.
- › SMFI has not yet run into liquidity problems, but their liquidity situation is deteriorating. Their liquidity ratio fell from 121% on 31st December to 100% on 31st March, and early data for 30th April suggests a sharp fall. This is being driven by the key trends above – falling savings deposits, delays in loan repayments and increased loan defaults.
- › There has been increased demand for cashless transactions and mobile money services, and SMFI is placing emphasis on supporting a shift to a cashless environment. In April alone there was a huge increase of 29% in the number of mobile money 'merchant accounts' for businesses, and a 5% increase in Mobile Money outlets.

## 3. Supply chains for essential food items

Access to food and basic needs depends on the movement of goods and people. Policies that have been introduced to stem the spread of COVID-19 in Ethiopia and other countries, such as border closures, movement restrictions and limitations on factory production, have the potential to severely disrupt the supply of essential food items to Somali Region. Mercy Corps conducted a survey of retailers and wholesalers in two geographies of Somali Region (the Jigjiga area, and Dollo Ado on the border with Somalia and Kenya). The survey looked at three key areas of impact: i) Stock availability and supply chain disruption; ii) Customers and sales; and iii) Business impact.

***Supply chains of essential goods have been severely disrupted by the COVID-19 crisis. Retailers and wholesalers are facing challenges sourcing stock, and a huge decline in sales and revenue which is impacting their ability to finance loans. So far there has not been a significant problem of food unavailability, but this could become a problem in the coming months if retailers and wholesalers close their businesses.***

- › 75% of retailers and wholesalers report that sourcing stock has become a major challenge during the COVID-19 crisis, with the main reason being limited stock availability from their suppliers.
- › Despite these challenges, at the point of conducting the survey there was no unavailability of stock for the selected essential food items.
- › Retailers and wholesalers are experiencing a huge fall in sales of essential food items (on average revenue has fallen by 52% compared with pre-crisis levels). From the business owners' perspective, the two main factors are reduced incomes of customers and the increase in prices.
- › The reduction in sales and revenue is having a huge impact on the ability of retailers and wholesalers to manage their finances (70% of retailers and wholesalers reported the crisis had affected their ability to repay a loan).
- › 30% of retailers and wholesalers say they are likely to have to close their business if the crisis persists, which could pose a risk for food availability and security.

## 4. Livestock market system

The Somali region is a livestock-based economy, and the health of that sector influences the economic reality of the region at large. Pastoralist and agro-pastoralist households in the lowlands of Ethiopia rely on livestock sales as their main source of income. Shocks affecting that sector negatively are likely to directly affect the food security and nutrition status of family members. Mercy Corps conducted a survey of twenty market actors involved in the livestock market system, covering three different functions: i) Trade and processing of livestock and livestock products; ii) Animal health services; and iii) Feed / Fodder.

*The livestock market system in Somali Region has been paralyzed by the COVID-19 crisis, and this has severely disrupted livestock-related businesses. Demand for livestock has collapsed, due to border closures, transportation challenges and disrupted religious festivals. This has resulted in declining prices, and diminished mobility is affecting the remaining livestock producers and traders. The inability to earn income from the sale of livestock and milk threatens the food security and lives of households in the region, in particular given the looming desert locust crisis.*

- › Livestock prices have declined due to reduced demand for livestock products, increased transportation costs and movement restrictions (cross-borders, and cross-regions).
- › The two peak periods for livestock sales in Ethiopia, Orthodox Easter and Ramadan, did not live up to livestock producers and traders' expectations, with reduced consumer demand.
- › The resulting larger herd sizes, coupled with reduced movements, increase the risk of animal health problems spreading within higher density herds, as well as the risk of unsustainable use of pasture. The looming desert locust crisis will likely compound the latter further.
- › Milk collection transportation costs have increased as a result of restrictions on passengers per vehicle, leading to higher prices for consumers, and a resulting decrease in the quantity demanded.
- › Movement restrictions and decline of veterinary drug imports has reduced the availability of veterinary inputs.

## 5. Businesses and employment

The COVID-19 crisis is expected to have a severe impact on Somali Region enterprises of all sizes, resulting in reduced incomes for vulnerable micro-entrepreneurs (in particular women), and the risk of job-losses and lost incomes for thousands of low-paid workers. Mercy Corps conducted a survey of 44 micro, small, medium and large enterprises (MSMEs) to understand how they have been affected by COVID-19. Our analysis focuses on three major areas: i) Enterprise performance; ii) Employment impact; and iii) Enterprise resilience and adaptation.

*Business operations in Somali Region, as in other parts of Ethiopia, are being crippled by the effect of the COVID-19 crisis. Profits have fallen for almost all businesses, due to decreased demand and movement restrictions that are increasing transportation costs and hindering access to affordable inputs. This is already resulting in job losses, which are likely to increase in the coming months as businesses will increasingly be unable to pay their workforce.*

- › 95% of surveyed enterprises reported a reduction in profits as a result of the crisis, which is being driven in particular by a decline in demand (reported by 43% of enterprises) and the increase in transportation costs (36%).
- › 30% of enterprises have been affected by challenges in accessing key production inputs. For enterprises engaged in food processing and livestock trade, this decline in performance will have a knock-on effect on farmers and livestock producers who depend on them as buyers.
- › Of enterprises with loans from financial institutions, 25% have stopped repaying the loan due to the crisis, which triangulates with the findings from the financial service provider (FSP) survey.
- › The Somali Region COVID-19 response plan for May – July does not currently include a plan to support businesses.
- › 24% of enterprises have been forced to lay-off workers, resulting in 75 job losses among those surveyed. These numbers may increase in the coming months, as only 11% of business owners reported having the capacity to maintain their current payroll for more than six months if the crisis continues.
- › Enterprises have been proactive in adopting new business strategies to survive the crisis. 45% of the firms are utilizing social networking, 39% have started home delivery and 10% have begun employing digital solutions.

# RESPONSE RECOMMENDATIONS

## Mercy Corps' response recommendations are designed to address three inter-related objectives:

### OBJECTIVE I

Address the immediate urgent needs of the most vulnerable target groups in the region, using market-based approaches to sustain, not undermine, market actors.

### OBJECTIVE II

Bolster essential systems that have reduced functionality or are in danger of collapse, such as the livestock trade and financial services. These interventions are also designed to support a stronger and more rapid recovery when normality starts to return.

### OBJECTIVE III

Foster innovations made possible by the unique conditions of the crisis to drive positive change that will position businesses and households for a new trajectory of growth and resilience.

Mercy Corps is also planning to undertake follow-up data collection and analysis, focusing on key trends of concern identified in this report, such as the impact on household consumption, food 'stockouts' and liquidity of financial service providers.

For a complete list of the detailed response recommendations, we encourage readers to refer to the full assessment report. Below we present an overview of selected response recommendations.

## Purchasing power of vulnerable households:

- › **Cash transfers to meet immediate basic needs:** These should target the most vulnerable households using digital transfers as much as possible, and should include support for local retailers to access mobile money merchant accounts, so that the process can be completely cashless.
- › **Catalyse income opportunities during the crisis:** Support niche opportunities to stimulate income opportunities during the crisis in ways that will also contribute to reducing the risk of the virus spreading, for example subsidies for unemployed workers to clean public spaces or support for producers of soap or cloth face masks.

## Financial services

- › **Technical support for MFIs to manage their liquidity:** Facilitate discussions and solutions between the Association of Ethiopian Microfinance Institutions (AEMFI) and the Development Bank of Ethiopia to establish an appropriate sharia-compliant delivery mechanism for the government concessional loans.
- › **Partner with CPA to design and implement a Ru/SACCO support plan:** Support the Cooperative Promotion Agency to develop and implement a COVID-19 Ru/SACCO support plan, including management advice and a financial support package leveraging the government concessional loan mechanism.
- › **Support MFI adaptation in loan terms and conditions for businesses:** Working closely with AEMFI, provide technical assistance and strategic financial support to enable financial service providers to put in place loan-rescheduling measures targeting micro- and small-enterprises.
- › **Incentivize financial service provider lending for businesses to recover after the crisis:** Support mechanisms and technical support for FSPs (in particular SMFI and Rays MFI) that incentivize and enable them to provide loans to help businesses bounce back quickly and strongly once the crisis recedes, helping to stimulate recovery and creation of jobs.

- › **Support to accelerate a shift to cashless services and digitalization:** Use the opportunity of increased demand for mobile money to support MFIs to accelerate uptake of digital solutions, through expanding mobile money agents and support for door-to-door marketing to businesses.

## Supply chains for essential foods

- › **Stimulate increased local crop production:** To help mitigate the problem of increasing food prices and reduced mobility, support smallholder farmers and agro-pastoralists to increase crop production through vouchers for seeds and subsidies for agricultural labour. This intervention will be dependent on the evolving Desert Locust situation.
- › **Support measures to address the Desert Locust threat:** Availability and prices of local food will also be negatively impacted if the Desert Locust situation worsens. Measures that help to protect farmers, such as spraying, would help mitigate this.
- › **Support uptake of digital delivery systems by supply chain actors:** Partner with BelCash to launch 'HelloDelivery' in the Somali Region, enabling wholesalers and retailers to improve information flows and coordination and reduce transaction costs and uncertainty. This also lays the foundation for innovations in digitally-supported supply chains for livestock and crop products in the future.

## Livestock market systems

- › **Keep livestock markets safe and open in spite of the pandemic:** In partnership with market authorities, explore options to allow livestock markets to remain open, such as livestock trade tax relief, safe distancing practices, and waiver of quarantine service fees during the crisis. This will allow producers and traders to generate income during the crisis.
- › **Stimulate offtake of animals through strategic subsidies:** This intervention will stimulate commercial de-stocking, which is a cost-effective way of generating income for vulnerable groups while also stimulating the livestock market system. This will be particularly important if the Desert Locust situation worsens.
- › **Support milk value chain actors, to ensure business continuity:** Provide strategic support for female-entrepreneurs working in the milk trade, through transportation subsidies, enabling them to continue operating their business and earn income for their households, while helping to reduce the price of milk for urban households.

## Businesses and employment

- › **Support government to develop policies that provide relief for enterprises:** Work with the Regional Authorities to add a plan for support to Somali Region businesses in their updated COVID-19 response plan for August onwards.
- › **Provide a business survival / support package:** For businesses most at risk of collapse, provide financial support to help them to survive, retain their workforce, and operate a functioning business. This could include a contribution towards rent or utility costs, support for raw materials purchase, or subsidies for transportation costs.
- › **Strengthen business management skills and support during the crisis:** Launch a Somali-language business support platform, like Mercy Corps' MicroMentor model, and provide COVID-19 training to mentors, enabling micro-enterprises to access the emotional support, crisis management skills and motivation to survive the crisis and recover quickly when the crisis recedes.

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## About Mercy Corps

Mercy Corps is a leading global organization powered by the belief that a better world is possible. In disaster, in hardship, in more than 40 countries around the world, we partner to put bold solutions into action — helping people triumph over adversity and build stronger communities from within. Now, and for the future.



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