

HOW COVID-19 IS AFFECTING FIRMS IN MADAGASCAR



Key messages



The Business Pulse Survey (BPS) in Madagascar, conducted by the Madagascar National Statistical Agency (INSTAT) with technical and financial support from the World Bank, provides information to monitor the effects of the COVID-19 pandemic on businesses, better tailor interventions and inform policy dialogue. Two waves of the survey have so far been conducted. A first wave with 943 interviewed firms took place in June-July 2020 during a partial lockdown. A second wave with 1,994 firms was conducted between December 2020 and February 2021, after the lockdown and a State of Health Emergency was lifted. This note presents key findings from both waves :

- **Impact on firms:** While the vast majority of firms had reopened by the time of the wave 2 survey, firms continued to report large revenue losses. The average firm had lost 56 percent of their monthly sales in May 2020 compared to the same month of 2019. This had only improved slightly to a drop of 44 percent of sales between October 2020 and October 2019. These demand shocks were accompanied by disruptions to firms' supply chains and shocks to their finances. One in ten businesses had to cancel clients' orders due to a lack of or a delay in inputs in October 2020. And even though firms' cash availability improved between the survey waves, more than a third of businesses with ongoing loans had to adjust the repayment terms or calendar since the start of the pandemic. Smaller enterprises as well as firms in the tourism, construction, and transport and warehousing sectors have been impacted most severely.
- **Firm responses:** Following these shocks, businesses have shed a significant number of workers since the start of the pandemic, losing on average a sixth of their permanent employees by October 2020. Medium-sized firms and businesses in the transport and warehousing, tourism, and trade sectors saw the largest reductions at about a quarter of their workforce. Businesses also tried to adapt their operations to the changed conditions. However, while larger businesses adapted by significantly increasing their use of digital solutions, 71 percent of micro-enterprises still did not use any of these tools in the wave 2 surveys. Overall, five percent of firms changed their products or services in response to the pandemic, but this number was much higher – at one-eighth – in the tourism sector.
- **Outlook and expectations:** When asked about their expectations for sales in the next three months, firms showed more optimism in the second compared to the first survey wave, but they continued to forecast declines in their revenues. The continued uncertainty and the lockdown measures that were reintroduced in April 2021 could result in further reductions of hiring and investment.
- **Public support:** Businesses' access to public support increased by a factor of five between the survey waves, from seven percent to 37 percent. Outreach for the available measures of support still needs to be improved, however. Two-thirds of firms that did not receive support reported that this was due to a lack of information. The support measures most desired by firms were tax exemptions or reductions, followed by monetary transfers.

Given these findings, a renewed deterioration of the health situation in the spring of 2021, uncertainty about the path of the pandemic going forward and limited fiscal space, measures that :

- 1) increase awareness of existing support policies,
- 2) improve firm capabilities to adapt and innovate,
- 3) target support towards viable firms that are facing liquidity challenges may contribute to a resilient and sustainable recovery in Madagascar.



About this survey

The Madagascar Business Pulse Survey (BPS) is a nationally representative survey of registered firms which investigates the impact of the COVID-19 pandemic on businesses, businesses' responses to the disruptions and their access to public support. It is conducted by the Madagascar National Statistical Agency (INSTAT) with technical and financial support from the World Bank. The

first wave of the survey took place in June-July 2020, during Madagascar's partial lockdown, and interviewed 943 firms. The second wave of the survey, conducted between December 2020 and February 2021, re-interviewed 665 firms from wave 1 and added 1,329 new firms. (See Box 1 for a description of the methodology.)

Country context

Following the global spread of COVID-19, the Malagasy Government announced a State of Health Emergency in March 2020, followed by a lockdown in selected regions of the country (including in Analamanga and Atsinanana regions). For regions in lockdown, all non-essential economic activities (everything but food production and retail, financial services, and pharmacies) were closed. Measures were relaxed toward the end of April 2020, before resuming strict lockdown measures in July 2020.

Lockdown measures were again lifted in August 2020, but the country remained in a State of Health Emergency until October 2020.

After an increase in confirmed cases of COVID-19 in March 2021, the State of Health Emergency was re-introduced in April 2021. Some regions (including the capital region) were again partially locked down, with measures including a nightly curfew and tighter border restrictions.

Impact on firms

During the second wave of the BPS conducted from December 2020 to February 2021, businesses reported some signs of improvements as compared to the first wave that took place during the partial lockdown in June-July 2020. Nevertheless, even though most firms had reopened in wave 2, large revenue losses continued, and firms still reported difficulties in

sourcing inputs and in accessing finance. Micro, small and medium enterprises as well as firms in the tourism, construction, and transport sectors have been impacted the most.

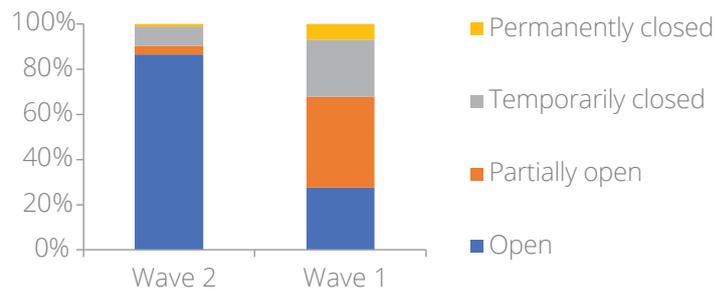


FIRM CLOSINGS

With partial lockdown measures lifted, most Malagasy firms had reopened in wave 2 of the survey. In the first wave, during Madagascar’s partial lockdown, 32 percent of firms reported to be temporarily or permanently closed (see Fig 1). This number had decreased to 10 percent during the second wave, with 90 percent of businesses being partially or fully open.

The exceptions to this pattern were businesses in the tourism sector and medium-sized firms. 25 percent of tourism firms continued to be closed in wave 2, compared to 28 percent in wave 1. Medium-sized firms were the only grouping where firm closures increased between the waves, from 15 percent in wave 1 to 25 percent in wave 2.¹

Fig 1. Firm operating status in BPS wave 1 and wave 2 surveys (%)



Source: INSTAT and WB staff calculations, April 2021



DEMAND SHOCKS

Firms continued to report large revenue losses in the wave 2 surveys. For October 2020, 82 percent of firms reported that their sales had decreased compared to the same period last year. This is only a slight improvement over the 94 percent of firms that had reported a decrease between May 2020 and May 2019.

The average firm lost 56 percent of their monthly sales in May 2020 as compared to May 2019 (see Fig 2). This figure had only improved slightly to a drop of 44 percent between October 2020 and 2019. These losses were larger the smaller the firm. In terms of sector, the losses of revenue were particularly large for the tourism sector, followed by the construction sector, and transport and storage sector (see Fig 3).

Exports fell by half as a proportion of sales. Among exporters, 63 percent of sales were exported in 2019, compared to 33 percent of sales in 2020 until October.

¹ Note that these qualitative patterns also hold when focusing on firms interviewed in both survey rounds.

Fig 2. Change in revenues by firm size (%)

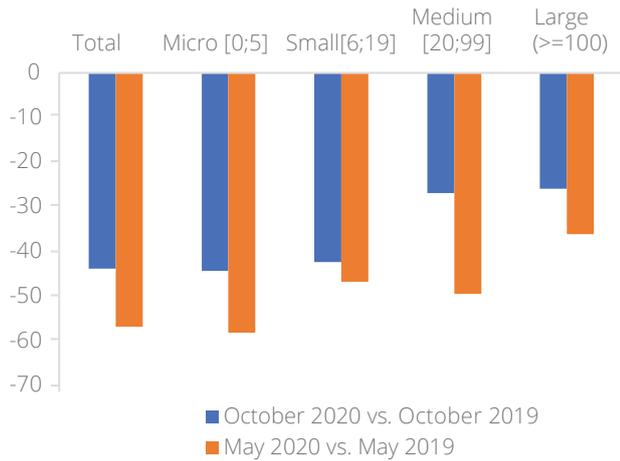
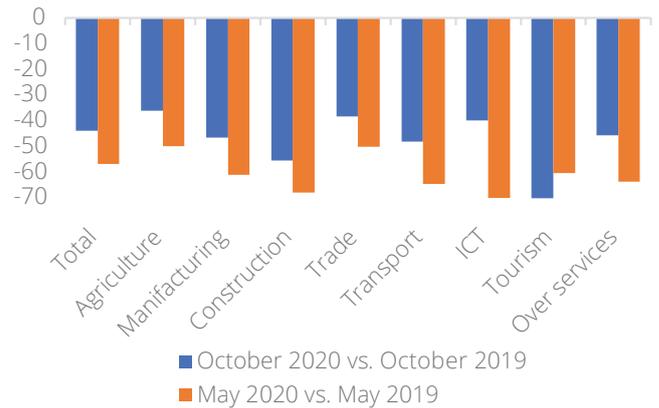


Fig 3. Change in revenues by sector (%) ²



Source: INSTAT and WB staff calculations, April 2021³



SUPPLY SHOCKS

Companies continued to experience disruptions in their supply chains. For October 2020, nine percent of firms reported that they had to cancel clients' orders because of a lack or delay of inputs (see Fig 4). Small- and medium-sized firms reported the most disruptions, in addition to firms in the manufacturing sector. Two-thirds of firms experiencing disruptions were not taking any actions to address these (See Fig 5). About a fifth of affected firms are holding larger inventories in response and 17 percent have increased the number of suppliers.

Fig 4. Firms that cancelled clients' orders because of supply disruptions (%)

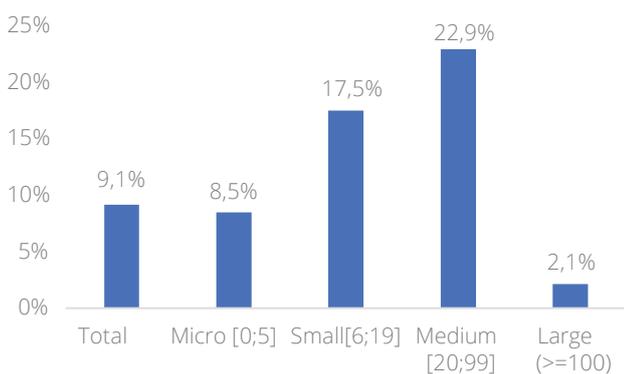
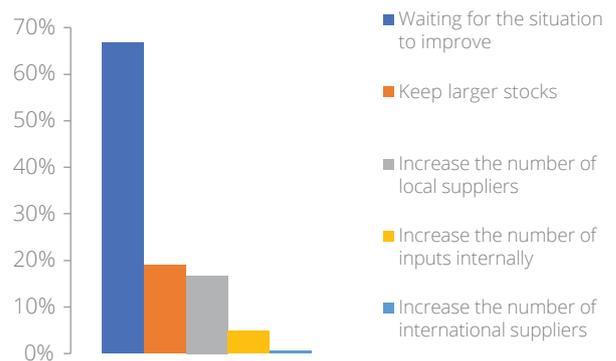


Fig 5. Responses to supply disruptions (%)



Source: INSTAT and WB staff calculations, April 2021

² ICT = Information and communications technology, Trade includes wholesale and retail trade.

³ Figures 2 and 3 present the estimate of the average percentage change in sales, where each firm's response is weighted by the sampling weight.



FINANCIAL SHOCKS

Only 14 percent of firms reported no difficulties in accessing finance in the wave 2 surveys. The main difficulties mentioned were high interest rates (22 percent), high risk due to uncertainty (18 percent), and a lack of guarantees (16 percent).

Since the beginning of the pandemic, 15 percent of firms (and 37 percent of firms with ongoing loans) could not service their loans according to the original terms and had to adjust their repayment terms or calendar (See Fig 6). Medium-sized enterprises were significantly more likely to have to resort to these measures. However, only 40 percent of firms had ongoing loans at the time of the wave 2 survey.

Firms were reporting some improvements in cash availability. Whereas firms in wave 1 reported that internal funds could cover expenses on average for seven weeks, this has increased to 16 weeks in wave 2 (See Fig 7). This pattern holds true for all size groups except medium-sized firms, where cash availability practically did not change. Cash availability also increased for all sectors across the two waves. However, the lowest cash availability was reported in the tourism sector in wave 2, with only 11 weeks of operating expenses that could be covered on average.

Fig 6. Firms needing to adjust the repayment terms or calendar of their loans (%)

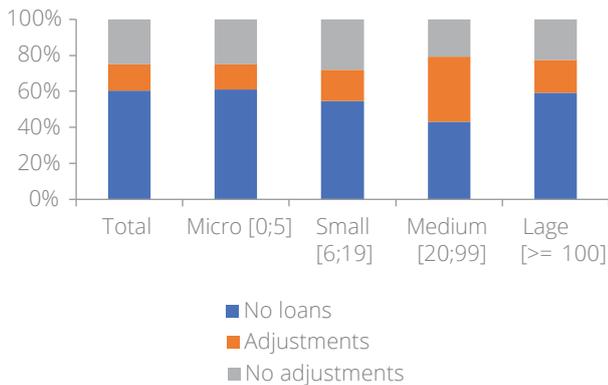
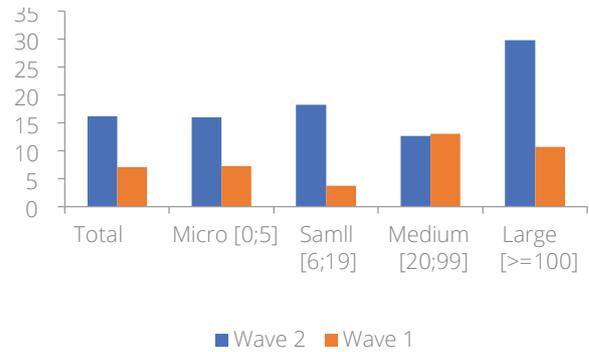


Fig 7. Availability of cash to cover costs (in weeks)



Source: INSTAT and WB staff calculations, April 2021



Responses by firms

The shocks resulting from the COVID-19 pandemic continued to have implications for employment and firm operations in the wave 2 surveys. Businesses have laid off a significant number of workers since January 2020, especially in the transport, tourism, and trade sectors. The use

of digital technologies remains limited, especially among micro-enterprises, and only a small share of firms changed their offerings in response to the pandemic. Almost all firms have introduced measures to prevent the spread of infections.

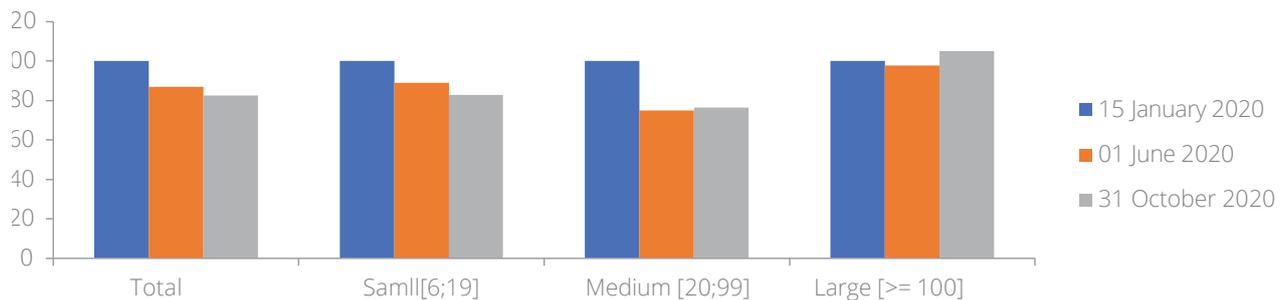


IMPACT ON JOBS

Firms have shed a significant part of their workforce since the beginning of the pandemic.

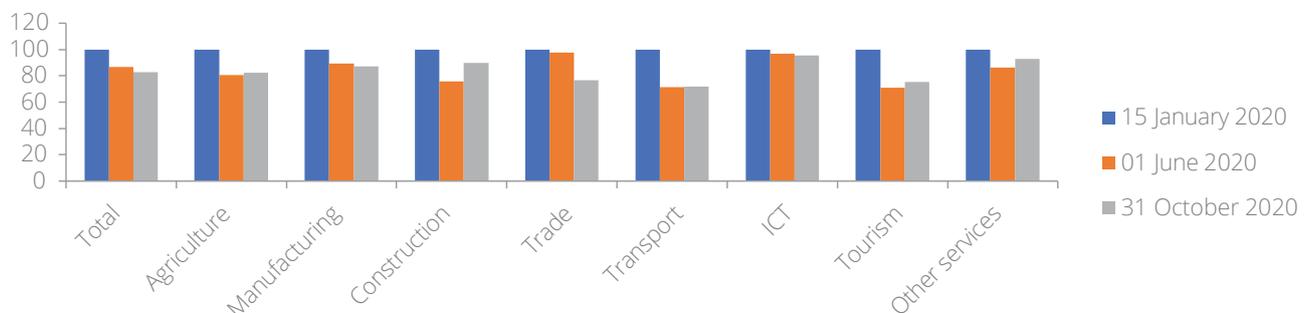
For non-micro enterprises, firms on average shed 13 percent of permanent employees between January and June 2020, and an additional four percent between June and October 2020 (See Fig 8)⁴. These reductions were largest for medium-sized enterprises at 24 percent until October 2020, whereas large businesses were able to grow their workforce by five percent. In terms of sector, the transport and storage, tourism, and trade sectors were most affected, losing 28 percent, 25 percent, and 23 percent of their permanent workforce until October 2020, respectively (See Fig 9).

Fig 8. Change in number of permanent workers for non-micro enterprises by firm size (15 January 2020 = 100 %)



Source: INSTAT and WB staff calculations, April 2021

Fig 9. Change in number of permanent workers for non-micro enterprises by sector (15 January 2020 = 100%)



Source: INSTAT and WB staff calculations, April 2021

⁴ Similar data on number of employees for micro-enterprises is not available.



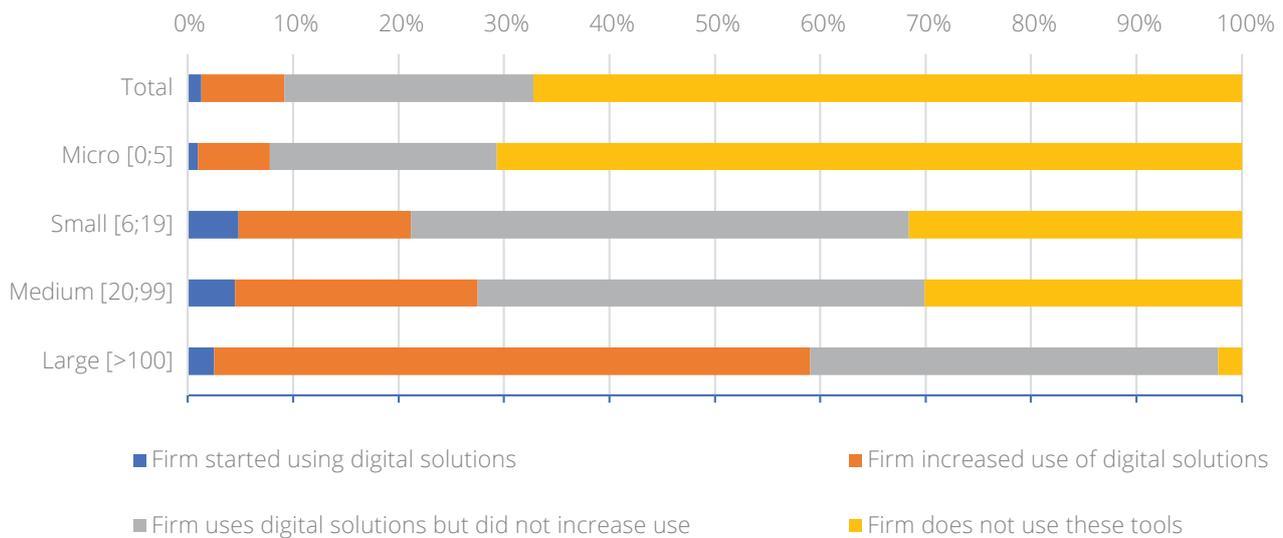
DIGITAL SOLUTIONS AND CHANGES IN OPERATIONS

The use of digital solutions remains limited, especially among micro-enterprises. Only 30 percent of micro firms reported using digital solutions in the second wave survey, and only eight percent of micro firms had started or increased their use of digital solutions as a response to the pandemic (see Fig 10). This is a stark contrast to non-micro firms, with more than 70 percent of small- and medium-sized firms and 98 percent of large firms reporting that they use digital solutions. Similarly, 40 percent of large businesses invested in digital solutions as a response to the COVID-19 pandemic, compared to only about ten percent of small- and medium-sized firms.

Five percent of firms had changed their product or services mix as a response to the pandemic as of the wave 2 survey. Some sectors were more likely to have changed their offering: 13 percent of tourism firms and eight percent of ICT firms had changed their business model (see Fig 11).

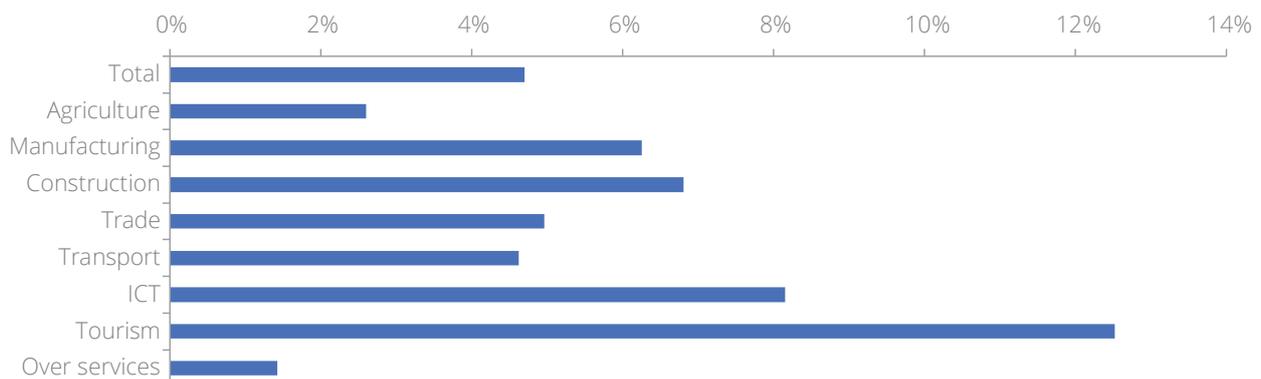
The vast majority of businesses have also implemented preventative measures against COVID-19 infections. This applies to 100 percent of large enterprises, 95 percent of small- and medium-sized enterprises, and 92 percent of micro-enterprises. The most commonly introduced measures include sanitary measures for employees (e.g. masks, gloves, handwashing), and an adjustment of premises to allow for social distancing and increased disinfection.

Fig 10. Use of digital solutions as a response to the pandemic



Source: INSTAT and WB staff calculations, April 2021

Fig 11. Changes in products or services as a response to the pandemic (%)



Source: INSTAT and WB staff calculations, April 2021

Outlook

Businesses' expectations for the future have improved between the two survey waves, across the scenario that firms consider most likely to materialize as well as more optimistic and pessimistic alternatives. Nevertheless, the continued uncertainty is an additional channel

affecting firms. The lockdown measures that were reintroduced in Madagascar in April 2021 may mean that businesses believe themselves to be in the pessimistic case, which could result in further reduced hiring and investment.



EXPECTATIONS

Firms continued to foresee declines in sales in the wave 2 surveys, but their outlook had improved since the first lockdown period. For the most likely case, non-micro firms expected a decline in sales of four percent in the next three months in wave 2, compared to an expected decline of 33 percent in wave 1 (see Fig 12 and 13). Similarly, expectations in a more optimistic and a more pessimistic scenario had also improved. However, firms in the tourism and trade sectors foresee worse outcomes than other sectors.

Fig 12. Expectations about sales for non-micro enterprises – Wave 2 (%)

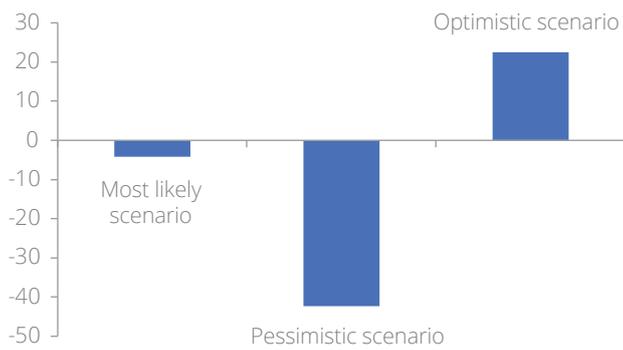
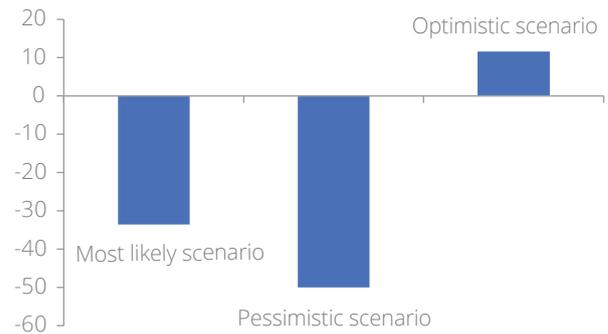


Fig 13. Expectations about sales for non-micro enterprises – Wave 1 (%)



Source: INSTAT and WB staff calculations, April 2021



Public support

The survey results strongly suggest that firms, and especially MSMEs, require support in the short- and medium-term to avoid widespread bankruptcies and unemployment. The Malagasy government has implemented a number of measures to support the private sector. Measures in the Plan Multi-Sectoriel d'Urgence (pillar 3) include tax relief (in the form of tax deferrals) and financial measures. Other measures include support to improve SMEs' access to finance, such as the provision of credit lines to banks and micro-finance institutions at concessional rates, expansion of credit guarantee programs, and grants to support SMEs in sectors most affected by the pandemic. In addition, the

Government of Madagascar has committed itself to expanding vocational training to ensure that skills can be retained and adapted to the new economic and social context that the pandemic has brought on.

The share of firms that received public support increased more than five times between the survey waves, including for MSMEs. Nevertheless, information campaigns are still needed to facilitate access, especially for smaller firms.



SUPPORT RECEIVED

Access to public support has increased significantly between the two survey waves. Whereas only seven percent of firms had received government support in wave 1, this figure had increased to 37 percent in wave 2 (see Fig 14). While large enterprises are still more likely to have benefited from support, access increased across all size categories. Nevertheless, the dissemination of information about support programs should still be improved. Out of the firms that had not received support by the time of the wave 2 surveys, two-thirds reported that this was due to a lack of knowledge about policies.



DESIRED POLICIES

The most demanded policies by far were tax reductions or exemptions (mentioned by 62 percent of firms) and grants (46 percent), see Fig 15. Other policies, such as deferral of payments, access to new credit, and skills training were demanded by between 10 to 20 percent of firms.

Fig 14. Access to support policies (%)

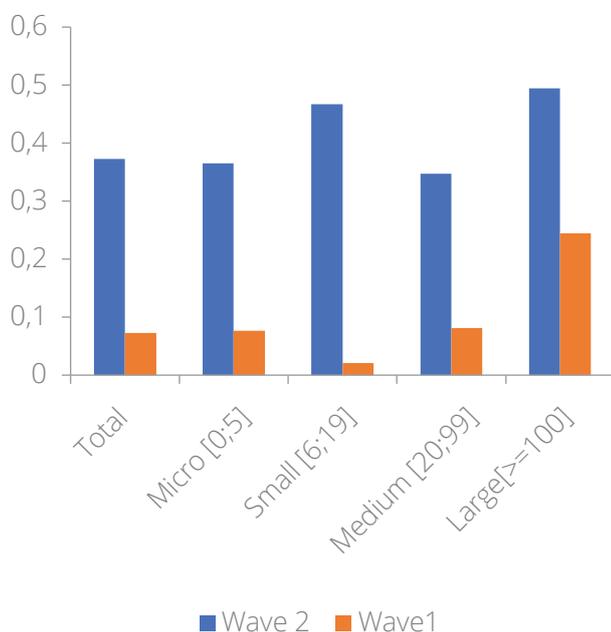
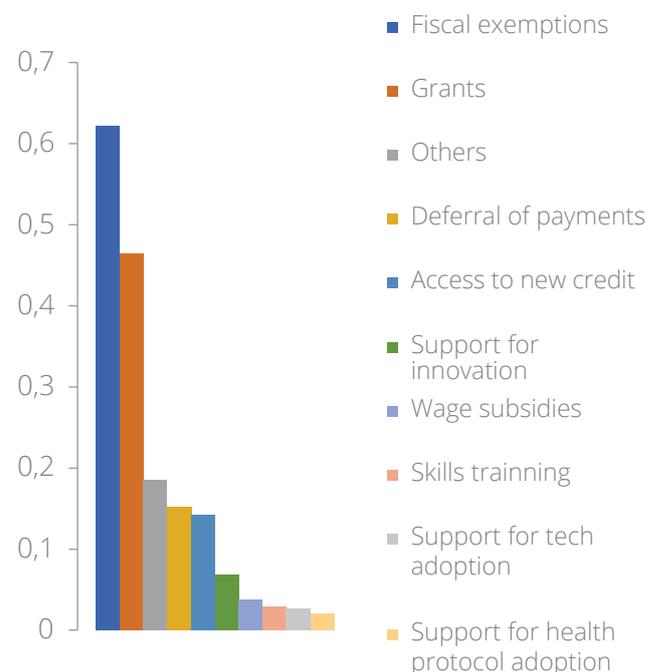


Fig 15. Most demanded policies (%)



Source: INSTAT and WB staff calculations, April 2021



BOX: Methodology

- Business Pulse Surveys (BPS) measure the impact of COVID-19 on the private sector, identifying distinct channels through which firms are affected.
- Madagascar is one of more than 60 countries where the World Bank and partners are surveying the impacts of COVID-19 on the private sector as part of the Business Pulse Survey or Enterprise Survey initiatives.
- The goal of the Madagascar BPS is to provide vital information to help monitor the effects of the pandemic on businesses, better tailor interventions and inform policy reform and dialogue.
- The Business Pulse Surveys in Madagascar are conducted by the Madagascar National Statistical Agency (INSTAT) with technical and financial support from the World Bank.
- In Madagascar, 943 firms were surveyed in wave 1 of the BPS, which took place in June-July 2020. 665 of these firms were re-interviewed in wave 2 of the BPS, which took place from December 2020 to February 2021. In addition, 1,329 new firms were added for wave 2 of the BPS to achieve a better coverage of sectors.
- Firms were sampled from the list of all registered firms in Madagascar, housed with INSTAT, stratified at the level of the sector, location, and legal form.
- The results presented here use the cross-sections available in wave 1 and wave 2, and do not restrict the sample to the firms available in both surveys.
- The results in this note employ sampling weights in each wave to achieve representativeness.
- The results in this note may differ from reports using the global methodology since it uses country-specific sampling weights, variables and definitions that may differ from the global BPS dataset.