

RESEARCH ARTICLE

Commercial Banks Responses toward Small and Medium Enterprises Survival in the Context of the COVID-19 in Africa

Annstellah Gakii^{1*}  Karoli Kolokonyi² Romano Miceni³

1. School of Business, Kenyatta University, Kenya

2. Kepler, Rwanda

3. Lord Ashcroft International Business School, Anglia Ruskin University, United Kingdom

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Abstract: The African government has implemented measures to sustain an investable economic downturn as it navigates the fiscal effect of the viral spread of coronavirus disease 2019 (COVID-19). Consequently, commercial banks in Africa have come hand in hand toward support of SMEs activities by increasing their borrowing power and reducing interest rates. Despite all these measures the general performance of small and medium enterprises (SMEs) across Africa as pertains to revenues and profits has gone down. This paper provides a theoretical analysis of the measures undertaken by commercial banks to ensure proper running and continuity of activities in the SMEs sector in Africa. The research is founded on the theories of innovation diffusion and resource-based theory. This study will use a mixed research design, which will include descriptive and explanatory research. The proposed target population will be Africa's thriving commercial banks. The primary and secondary data will be used from commercial bank reports and the central bureau of statistics reports across Africa. The data will be analyzed using a multiple linear regression model. The finding indicated that commercial banks in Africa have brought in solutions and measures to adapt to the crisis being implicated on the SMEs by the COVID-19 pandemic. Based on the findings of the desktop reviews, the study concludes that commercial banks have a significant influence on SMEs during this period of COVID-19, and with the assistance of the government, they have implemented more policies to support the activities of SMEs.

Keywords: Africa, COVID -19, Commercial banks, Small and medium enterprises

*Corresponding Author:

Annstellah Gakii,

School of Business, Kenyatta University, Kenya;

Email: stellahgakii@gmail.com

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1. Introduction

Small and medium enterprises (SMEs) are a significant driver for long-term and sustainable changes in developing countries such as Africa. Lockouts and closures in major sectors such as tourism, hotels and accommodation, education, and general merchandise have resulted in significant closures or strains on small and medium enterprises (SMEs) and higher unemployment rates globally^[1]. As opposed to large and global firms, the COVID-19 restrictions on SMEs are more stringent^[2,3]. Given the importance of SMEs in the economy, this situation threatens the African economy. Therefore, commercial banks in Africa and the government have responded by easing loans for SMEs to create viable growth in the sector during this difficult time of the coronavirus 2019 pandemic. The purpose of the literature review was to determine how governments and commercial banks in Africa responded to COVID-19 and the Survival of Small and Medium Enterprises (SMEs).

1.1 Relevant Aspects of the Situations in Africa

SMEs contribute greatly to innovation, employment, and the Gross Domestic Product (GDP) of the country. They contribute up to 90 percent of GDP to the economy generating higher employment rates^[4,5]. In any business, growth is a common parameter that is used for success. Penrose (1959) ascertains, that employment, revenues, profits, and assets are some of the concepts of firm growth. Commercial banks in Africa have come hand in hand toward support of SME activities by increasing their borrowing power and reducing interest rates. According to a World Bank report published in 2020, SMEs account for approximately 50% of all jobs worldwide and 90% of total business. This was harmed, however, by the coronavirus disease 2019 (COVID-19) pandemic, which was discovered in December 2019 in Wuhan, China but has since spread across the world^[6].

In Africa, the virus impact began spreading in March 2020. Nevertheless, the Government responded quickly to curb the spread of the virus by implementing a daily curfew, only essential movements outside the home were permitted (health care, food shopping, and banking), worship places, educational institutions, bars, restaurants, and cafes (except for takeaway services), and shops and markets, except those selling food and other necessities, were all closed. Except for essential employees, all employees (public and private) were directed to work from home. Until further notice, travel between cities and districts was prohibited^[7,8]. As a result, the African government as a whole encouraged people to travel as little as possible and

to work from home.

Small and Medium Enterprises (SMEs) are some of the areas that have been hit hard by the pandemic due to the closure of the economy. Manufacturing industries are almost operating on a zero budget which has impacted massive employment loss and financial crises^[9]. The central banks opted to minimize the interest rates. In the context of this crisis, it is important to analyze the impact of COVID-19 on SMEs and get external liquidity solutions for them to survive this pandemic^[10].

1.2 Digital Transformation Process of SMEs in Africa

A novel business model that connects communities and communication has emerged as a result of the market shift from traditional marketing to digital marketing^[11]. The collaboration of government and business is required for the digital transformation of SMEs. The government can help SMEs digitize their operations by providing incentives. Furthermore, amid the COVID-19 pandemic, the internet has assumed a dominant role in the marketing sphere^[12]. Because of the current pandemic challenges, commercial banks in Africa have consistently incorporated the aspect of internet marketing for the corporate well-being of their business. Banking technology advancements have transformed African commercial banks from staffed branches to a system supplemented by digital wallets^[13].

To mitigate the economic consequences of the COVID-19 crisis, African governments have increased their use of mobile money payments. These guidelines broaden financial inclusion to include institutions other than traditional banks^[14]. Some areas are also implementing welfare support programs that make use of digital payments to assist workers, especially those in the informal sector^[14]. For example, in Kenya, the government approved fee exemptions for M-PESA person-to-person mobile money transactions^[15]. Similarly, Ghana cancelled all financial charges on mobile fund transfer of less than 100 Ghana Cedi (GH100) for three months. The Central Bank of West African States also made it easier to open mobile money accounts and make personal transfers in Benin, Burkina Faso, Côte d'Ivoire, Guinea-Bissau, Mali, Niger, Senegal, and Togo^[15,16].

Despite the numerous benefits of digital transformation for SMEs, which are more agile, innovative, engaging, casual, and less administrative than larger organizations, digitalization in Africa is difficult due to insufficient infrastructure.

2. Theoretical Framework

The study's underpinning theories are resource-based

view theory and innovation diffusion theory.

2.1 Resource-based View Theory

Penrose (1959)^[17] developed the Resource-Based View (RBV) theory, which was later expanded upon by Wernerfelt (1984)^[18] and Barney (1991)^[19]. Proponents of the theory argue that firms are heterogeneous because they have heterogeneous resources, i.e. valuable, rare, unique, and non-substitutable (VRIN). Resources are valuable or rare when they are expensive to acquire, such as an airplane, or when they are extremely difficult to obtain, such as precious gems. Resources, on the other hand, are difficult to imitate by competing companies if they are either legally protected, such as trademarks, patents, or copyrights, or are extremely difficult to copy due to unique features set by the organization. This is the essence of effective organizational leadership. When competition fails to obtain an alternate solution resource that can provide the same gains as the resource, the resource becomes non-substitutable. The emphasis, therefore, is on leaders in organizations such as commercial banks in Africa and governments to maximize derived advantages by identifying assets, competencies, and abilities that have the potential to offer a competitive advantage over others. Even though the theory focuses on the internal environment rather than the external, the theory's precepts are relevant to the current study.

2.2 Innovation Diffusion Theory

In the theory of innovation diffusion put into practice by Rogers, (1995)^[20]. Innovations are technologies, concepts, practices, or goods that are alien to society and are spread and shared by members of society through interaction^[21]. The innovation diffusion theory was developed to investigate the rate at which consumers accept a product, service, or idea based on the distribution of five characteristics: relative advantage, compatibility, complexity, reliability, and trial ability^[23]. This theory proposed three major sources that influence innovation diffusion and adaptation: perception of innovation characteristics, adopter characteristics, and contextual factors. According to the theory, innovation spreads slowly over time and among people, resulting in different adopter categories. Commercial banks in Africa have responded by easing loans for SMEs in order to create viable growth in the sector during this difficult time of the coronavirus 2019 pandemic.

2.3 Commercial Bank's Responses to COVID-19 and Survival of Small and Medium Enterprises

Africa's Vision 2063 aims to boost economic growth

and development in Africa, as well as to lead to the rapid transformation of continents with ethical leaders^[22]. In this regard, the African government has taken additional measures to ensure that SMEs continue to perform well during the COVID-19 pandemic. COVID-19 imposes both macroeconomic and microeconomic shocks on the African economy and people. Macroeconomic factors such as GDP growth rate, inflation rate, exchange rate, and unemployment rate have all suffered as a result of the pandemic.

Commercial banks in Africa apportion an important role in leading and financing businesses in the entire economy. However, due to the current scenario, these commercial banks have no maximum capability of sustaining all the SMEs in the country therefore the African government is continually seeking funds. The International Monetary Fund among many financial institutions has already received financial requests and inquiries from up to 80 countries globally^[20]. On the other hand, World Bank Group 2020 has also contributed an increase of 14 billion dollars' package to finance companies and countries due to the rapid spread of COVID-19.

2.3.1 East Africa

In the case of Kenya, the government had taken additional measures such as reducing tax incentives for SMEs from 3% to 1% and temporarily suspending listing with credit reference bureaus for any SMEs whose loans are overdue or in arrears^[22]. Tanzania, state quickened payment of verified expenses arrears, with priority given to affected SMEs, totaling roughly US\$ 376 million. This is consistent with the Ugandan government, which began easing the burden of businesses experiencing hardship in March 2020 by allowing them to reschedule their National Social Security Fund (NSSF) contributions for three months without incurring a penalty. Concurrently, the Rwandan government established a support fund for negatively impacted businesses, which includes discounted commercial bank loans and financial assistance^[22,23].

Ethiopia's prime minister's office announced a four-month exemption from personal income tax withholding and a tax amnesty on interest and penalties for tax debt from 2015 to 2019, as well as support for SMEs, in its COVID-19 preparedness and response plan. The central bank of Somalia provided financial firms with USD 2.9 million in aid to support medium and small businesses. From May to November 2020, concurrently, Malawi implemented an emergency cash transfer program worth nearly USD 50 million to assist small businesses in major urban areas^[20]. Furthermore, Zimbabwean authorities announced a COVID-19 economic recovery and stimulus

package, which includes measures to support liquidity in various sectors, including SMEs^[20].

2.3.2 West Africa

Cabo Verde's government attempted to implement loan guarantees of up to 50% for large companies in all sectors, 100% for small and medium-sized enterprises (SMEs) in all sectors, and 100% for micro-enterprises in all sectors. Similarly, the government of Cote d'Ivoire allocated roughly 0.4 percent and 0.3 percent of its GDP, respectively, to a support fund for small, medium, and large businesses. A stimulus package was implemented to alleviate liquidity constraints on failing firms, which included all Mali SMEs^[23,24]. The package also includes tax deferral and relief to assist the most vulnerable businesses in overcoming liquidity constraints. Broad fiscal measures have been implemented in Sierra Leone and Senegal to protect the economy. Furthermore, Nigeria has drafted an Emergency Economic Stimulus Bill. Notably, the scope of these interventions is broad, frequently focusing on SMEs and larger companies in general^[24].

2.3.3 South Africa

The Angolan government proposed a \$40 million healthcare package, a tax exemption on humanitarian aid, and a delay in tax filings to mitigate the impact of COVID-19 on the economy. The Kingdom of Eswatini enhances brand image such as lowering the discount rate by 200 basis points to 4.5 percent twice, lowering the liquidity requirement by 20%, and restructuring loan repayments^[23,24]. Further, Lesotho was indeed implementing non-cash payment campaigns as part of its preparedness and responsive plan to reduce policy rates from 6.25 percent to 4.25 percent, with mobile network operators being asked to waive fees on transactions under M50. Zimbabwe's state declared a national disaster and issued a 2.2 billion domestic and international humanitarian appeal for the period April 2020 to April 2021.

A stimulus and recovering package that includes measures to support liquidity in various sectors, including SMEs. Botswana's government released 2 billion pula for wage subsidies and a six-month financial waiver on training levy with water and electricity supply companies, the health sector, and other parastatal companies. South Africa, which has by far the most confirmed cases in Africa, has implemented some economic measures to help the economy. Economic interventions include a 30-billion-rand unemployment insurance fund for workers who have lost their jobs, as well as tax breaks for small businesses. South Africa's Reserve Bank has cut interest rates by 100

basis points^[24].

2.3.4 Francophone

Gabon's government, like Chad's, provided free electricity to its most vulnerable and economically disadvantaged citizens, while DRC provided free electricity to all households for two months. The Congo Republic's corporate income tax was reduced from 30% to 28%, and the turnover tax was reduced from 7% to 5% for small businesses with less than \$100 million in revenue^[3]. The government of So Tomé and Príncipe also encouraged its commercial banks to reduce some banking fees and grant a temporary moratorium on debt services to businesses affected by the crisis, while the Cameroonian government, among other things, set aside a special CFAF 25 billion envelopes for the expedited clearance of VAT credits awaiting reimbursement. Cabo Verde's government attempted to implement loan guarantees of up to 50% for large companies in all sectors, 100% for small and medium-sized enterprises (SMEs) in all sectors, and 100% for micro-enterprises in all sectors^[23,24].

To assist SMEs, the Chadian government reduced business license fees by half. While in the Democratic Republic of the Congo, VAT collection on the production and sale of basic goods, as well as tax audits for businesses, were suspended. A grace period for businesses that are behind on their taxes was also implemented. In Gabon, a USD 375 million additional mechanism was announced to facilitate access to commercial bank financing for private (formal and informal) companies, including SMEs. All of these policies are extremely broad and frequently target SMEs.

Despite all of these measures, the overall performance of SMEs in Africa in terms of revenues and profits has gone down^[24]. So far, most interventions in Africa were short-term, with the majority aiming to alleviate the immediate burden that lockdowns had imposed on the various countries. However, due to the virus's evolving nature, governments are closely monitoring the situation and are aggressively initiating medium and long-term measures in response to the anticipated economic impacts^[23,24].

3. Research Methodology

Sequential mixed-methods research (MMR) design, employing qualitative and quantitative exploratory and explanatory approaches will be used for this study. This study used desktop review to collect and analyze data from online databases, the Internet, and the African government. This technique is low as compared to field research but a very effective technique that was found use-

ful after restriction of movement because of COVID-19.

4. Findings and Discussions

The SMEs COVID-19 pandemic has threatened the SMEs sector economy not only in Africa but worldwide. This pandemic represents a new type of challenge for most SMEs. The fundamental question that yet is to be discovered is whether the overbearing financial damage will leave Africa in a position to focus much on sustaining the SMEs as expected by the general public or if the government will retort to other measures to cover for this crisis.

5. Conclusions

This study has reviewed relevant theories underpinning the study however, minimal has been done on the empirical literature. This global pandemic of COVID-19 in the long term will require broader efforts to transform economic, security measures, and governance globally. COVID-19 is an eye-opener to the countries worldwide for the preparedness of all financial institutions in case of a global emergency. An arising issue on how to alter the financial institutions and make them more focused on the well about of human activities need to be implicated in the future. The growing number of recent papers on the COVID-19 pandemic show the measures undertaken by financial institutions and the government to enable the survival of the economy by supporting SMEs. Further research is required to test the effectiveness of these measures undertaken by commercial banks. Nevertheless, although much has been said about measures to curb the spread, there is a need to better understand different prevention processes that are likely to be implemented for long-term effect. In this possible prevention, policies are required to be implemented. From the finding, the study concludes that commercial banks have a significant influence on SMEs during this time of COVID-19 and with the help of the government they have put more policies to support the activities of SMEs.

Given the complexity of the COVID-19 pandemic, prevention strategies and governance policies globally are needed to curb the spread. The world health organization recommends social distancing, wearing a face mask, and hand sanitizing as a way to curb the spread of the COVID-19. Consequently, as indicated in the introduction part more restriction measures have been implemented by the government due to the spread of this disease. The spread of coronavirus disease 2019 is continually spreading. There is a need to understand the dynamics of this spread by better characterizing the route of transmission,

and the best approach to curb the spread to members of a population. Sensitization and awareness of this pandemic is a requirement that the government should adopt.

The study was limited to commercial bank's responses to COVID-19 in Africa. The data were collected through document review, though secondary data is longitudinal, the use the researcher uses is not the same use it was collected for. In addition, its accuracy cannot be established. Nevertheless, this research gives insights into the Responses strategies by commercial banks to COVID-19 in the context of SMEs in Africa. Future research should consider using cross-sectional data which is current and its reliability can be tested.

Conflict of Interest

There is no conflict of interest.

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