



Photo Credit: Sean Sheridan/2016, Ethiopia

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

Assessment and Recommendations

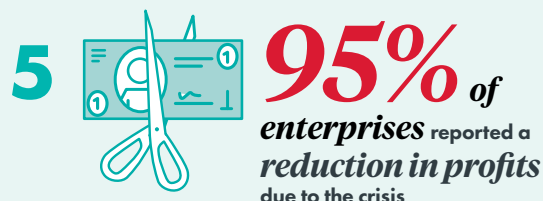
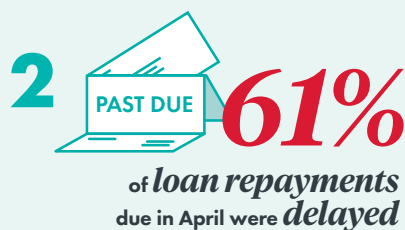
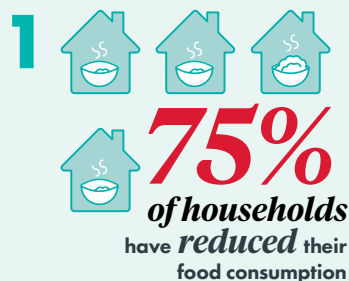
JUNE 2020

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.



This assessment is co-funded by the European Union through the EU Trust Fund - Strengthened Socio-Economic Development and Better Employment Opportunities for Refugees and host Communities in the Jigjiga Area (STEDE) program

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.



mercycorps.org

This report was made possible through funding by the U.S. Agency for International Development and EU Trust Fund, and the views do not necessarily reflect the views of the U.S. Government or European Union

Contents

1. Overview of assessment	9
2. Purchasing power of households	11
3. Financial services.....	13
4. Supply chains for essential food	18
5. Livestock market system	22
6. Businesses and employment	25
7. Response Recommendations	30

1. Overview of assessment

The first case of COVID-19 was reported in Ethiopia on March 13th 2020, and the first case in the Somali Regional State of Ethiopia on April 26th. The Government of Ethiopia was extremely swift in responding to the threat of the virus, through measures such as school closures, limitations on gatherings of more than four people, and declaring a State of Emergency on 10th April. The government's quick action appears to have been successful in slowing the spread of the virus significantly, creating time for the health authorities to prepare for the large number of expected cases. However, by the end of May the number of daily cases had begun to climb substantially, with much higher numbers of community-to-community infections. The majority of these cases have been in Addis Ababa, but the Somali Regional State of Ethiopia (henceforth 'Somali Region') has suffered the highest number of cases outside the capital¹, in part due to an influx of Somalis repatriating to the region from Djibouti and Puntland in Somalia. In Ethiopia, as in all countries around the globe, the COVID-19 crisis seems certain to persist for some time, and in Somali Region it is likely that a surge in cases is still to come, with accompanying increased restrictions.

There have been a number of studies examining the expected macroeconomic impact of the COVID-19 crisis on the Ethiopian economy and the lives of Ethiopians. The national Jobs Creation Commission forecasts that 2.2 million jobs are at risk if the crisis persists for six months² and the government of Ethiopia estimates that 30 million people will need food assistance during the crisis (including one million who will be affected by desert locusts)³. There have also been several recent studies assessing the actual impact of the crisis so far, but these have mainly been focused on Addis Ababa and other large cities. In Somali Region, there have not yet been any studies examining the impact of the crisis on the economy and population, making it hard to predict how this fragile region is likely to cope with the crisis.

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. To understand this impact, in April and May 2020 Mercy Corps undertook a series of rapid assessments to analyse the different ways that people's lives and the wider economy are being affected. These assessments in Somali Region form part of a wider series of assessments that Mercy Corps has been conducting in our target areas across Ethiopia, and link to Mercy Corps' global strategy and efforts to understand the economic impact of COVID-19⁴.

The assessments were not designed to be rigorous pieces of research based on large sample sizes. This type of research is being undertaken by institutions such as the World Bank⁵. Instead, we aimed to undertake rapid surveys covering various different aspects of the Somali Region economy, which together provide an insightful snapshot of how the economy of the region is being affected. Thus, the assessments looked at the following five areas of impact:

1. **Purchasing power of households:** This included analysis of how household food expenditure and consumption has been affected, and analysis of price increases for essential goods;

¹ COVID-19 Pandemic: Daily Situation Report; Ethiopian Public Health Institute; (13th June 2020)

² 'COVID-19: Ethiopia - Potential impact on jobs & incomes'; Jobs Creation Commission (March 29th 2020)

³ 'Searching for new solutions to an old problem: Fighting the lingering food insecurity revamped by COVID-19'; Ethiopian business review No.86 (May 16th – June 15th 2020)

⁴ This global thinking can be found in Mercy Corps' ['COVID-19 Rapid Markets Impact Report'](#).

⁵ For example, the research presented in ['Monitoring COVID-19 impacts on firms in Ethiopia'](#); World Bank

2. **Financial services:** Mercy Corps undertook a rapid survey of FSPs across Ethiopia (including Somali MFI) to understand how the financial services ecosystem has been affected and how this may impact FSP customers and loan clients.
3. **Supply chains for essential food:** The analysis is based on a survey of wholesalers and retailers and aims to understand how the supply of essential food items is being disrupted by the crisis and how this is impacting supply chain actors.
4. **Livestock market system:** The analysis looks at various functions of the livestock market system, including trade dynamics, prices, animal health services and feed.
5. **Businesses and employment:** Based on a survey of enterprises of all sizes, this analysis examines how the crisis has impacted business performance and the workforce.

The assessments were conducted in April and May 2020. Mercy Corps recognises that the assessment findings in this report are a snapshot of the situation at a particular point in a rapidly evolving crisis. We plan to undertake follow-up assessments in the coming months to monitor how the situation is changing. Below are the survey tools that were used, and these were complemented by key informant interviews with sector experts and government agencies.

Figure 1: Surveys conducted as part of Mercy Corps’ assessment in Somali Region

Assessment tool	Numbers surveyed	Location of assessment	Dates of survey
Retailer and wholesaler survey	38 retailers and wholesalers	Fafan Zone and Dollo Ado woreda	7 th April – 15 th May
Financial service provider (FSP) survey	Three FSPs and AEMFI ⁶	Remote interviews and data collection	29 th April – 13 th May
Household survey	24 households	Babile Somali and Erer woredas (Somali Region) and Babile Oromia woreda (Oromia region)	14 th – 19 th May
Business survey	44 enterprises		
Livestock market system assessment	21 livestock-related businesses		

⁶ The Association of Ethiopian Microfinance Institutions (AEMFI)

2. Purchasing power of households

Why this is important: 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. There are two potential drivers of this effect. Firstly, as the contagion spreads and restrictions in Somali Region, Ethiopia and neighbouring countries are introduced, incomes are likely to fall dramatically due to business closures, reduced domestic and export demand and inability to access markets. Secondly, as supply chains are disrupted at both global and national levels, prices of essential food items may increase, reducing the ability of households to maintain their usual consumption. These effects could negatively impact a wide range of groups in the region, from urban workers to pastoralist communities. For individuals and households with low incomes and limited savings, which in Somali Region is a large proportion of the population, these impacts are likely to be devastating.

Mercy Corps analysis: The COVID-19 restrictions and risk of transmission makes it very difficult to conduct large household surveys and get quantitative information on how household incomes have been affected. Our analysis therefore focused on how prices have been affected, and how this may be impacting household expenditure patterns. The household interviews, though a very small sample size, provide information on household expenditure and consumption. The survey of wholesalers and retailers provides an insight into how prices have changed for essential food items, and how this may be impacting expenditure patterns.

Summary of findings

Although the sample size is small, the data from surveyed households 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 surveyed households reported that the COVID-19 pandemic has reduced household expenditure on food.
- Retailers selling essential food items report that expenditure has 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.

2.1. Impact on household expenditure and consumption

The COVID-19 crisis appears to be severely impacting household expenditure on food in Somali Region. Though the sample size is small, 96% of surveyed households (23 out of 24) reported they had reduced their food expenditure. The increase in prices seems to be a significant driver of this (58% of respondents said the reason for this reduction is that food items are not affordable for them). Lack of availability of affordable items may also be a factor, as respondents reported decreased availability of food in the market, including vegetables (79% of respondents), legumes (75%) and cereals (54%).

Sales data reported by retailers provides corroborating evidence that expenditure has declined dramatically. On average, the value of sales by wholesalers and retailers has decreased by 52%

compared with pre-crisis, and in Dollo Ado the fall in sales is far higher at 70%. This fall in sales presumably also reflects, to some degree at least, a reduction in consumption of essential goods by households in target areas, suggesting that household food security is already being affected. Business owners believe there are several reasons for falling consumer demand, including lost income from customers (61%) and the price increase in goods (46%).

The fall in expenditure also equates to a fall in consumption for many households, suggesting nutrition and food security is being affected. Though the sample size is small, it is striking that only one household (4%) reported no change in household food consumption. 75% of respondents reported reducing the frequency of eating, and 21% reported reducing portion size. The reduction in portion size was particularly prevalent in female-headed households, which constituted 43% of households surveyed. Other coping mechanisms adopted were purchasing cheaper food items (25%) and borrowing money (12%).

2.2. Price increases of essential food items

Mercy Corps’ survey of retailers and wholesalers in Somali Region found that prices of selected everyday food items have on average increased by 13% between early March and mid-May. The price increase has been similar in Jigjiga (14%) and Dollo Ado (12%)⁷. These price increases appear to be a result of supply chain disruption at global, national and local levels, rather than exploitative pricing behaviour on the part of retailers and wholesalers, as businesses reported similarly high increases in the prices they are paying for food items from their suppliers. Strict border closures with Somaliland and Kenya have restricted the flow of official and unofficial imports, and transportation restrictions within Ethiopia may also have impeded the flow of goods into Somali Region. Wholesalers also report that a slowdown in factory production in key supplier countries such as India and China due to the crisis, has reduced the availability of stock nationally in Ethiopia.

Figure 2: Average price change for essential food items

Food item	Average % change in sales price (Fafan zone)	Average % change in sales price (Dollo Ado)
Sugar	11%	15%
Rice	12%	16%
Cooking oil	14%	22%
Flour	10%	4%
Spaghetti	9%	8%
Tomatoes	27%	7%
Average	14%	12%

Availability of local production, and proximity to borders for imports, appear to be two factors that influence the scale of price increase. We should be cautious in drawing strong conclusions from just two geographies, but it is striking that the price of tomatoes in Dollo Ado, where there is strong local production on irrigated farms, increased by 7% while in Jigjiga, which relies on tomatoes imported from Oromia and SNNP, prices increased by 27%. In Dollo Ado the price increases are particularly high for food items that usually arrive across the border from Kenya and Somalia (e.g. cooking oil, rice and sugar), as these are often unofficial imports and the border closures mean that businesses are now relying on products from within the country.

⁷ This information is based on self-reporting by owners of retail and wholesale businesses on how prices had increased between 1st April and mid-May. It is not based on consumer price survey data collection.

3. Financial services

Why this is important: 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. Savers may withdraw their assets, loan defaults could rise, and formal and informal lenders may become less willing and able to provide credit. The negative impacts can quickly cascade, affecting businesses from large service providers to microenterprises and small livestock traders. Micro- and small-enterprises (MSEs) are likely to be the worst-affected by inability to finance, as they lack their own capital to ride out a downturn. In Somali Region, where micro-enterprises to a large extent drive the economy, the faltering of MSEs will have a devastating effect on incomes and employment in the region. Maintaining liquidity and promoting safe access to financial services is essential for both short term business survival, and longer term recovery.

Mercy Corps analysis: Mercy Corps conducted a survey of senior managers from three financial service providers, in Somali Region, Afar Region and in Addis Ababa, as well as interviewing the Association of Ethiopian Microfinance Institutions (AEMFI). This report will focus on the findings from the survey of Somali MFI (SMFI), which has approximately 500,000 clients across Somali Region, and information from AEMFI about the wider situation for MFIs. Our analysis examined five potential impact areas: i) Business continuity – the ability of SMFI to continue delivering services to clients; ii) Lending and repayments; iii) Savings and withdrawals; iv) Liquidity; and iv) Adaptation and measures to cope with the crisis.

Summary of findings

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 public fears that have led to increased withdrawals and reduced deposits.

- 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 particular, 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.

3.1. Business continuity

To-date, the business continuity of Somali MFI has not been significantly affected by the crisis.

Despite certain restrictions on movement and large gatherings in Somali Region, all SMFI physical branches and mobile money agents are functional and continue to provide services to their customers.

They have introduced precautionary measures to allow for social distancing, but these restrictions have not

impacted their ability to serve customers. One business activity that has been affected is customer follow-up for loan repayments, which is not as strict as usual due to movement restrictions and other business priorities.

The crisis has also led to new business opportunities for SMFI. They are currently in discussions with government ministries, UN agencies and a number of NGOs about implementing digital cash transfer programs.

3.2. Lending and repayments

Somali MFI has experienced a surge in new loan applications⁸ since the COVID-19 crisis reached Ethiopia. According to SMFI management, these loans are from businesses that are struggling to maintain their revenue and cash flow, and are unable to cover their basic business costs. The GoE State of Emergency directive states that businesses cannot lay off workers, so employee wages are a significant cost that businesses are having to cover with hugely reduced revenue.

Somali MFI has currently stopped offering loans to new clients. SMFI continues to provide loan renewals to existing clients, but new loan clients are deemed too risky due to the challenging business environment. So they are forced to turn away the large number of new loan applicants.

There has been a significant increase in loan repayment delays, likely due to COVID-19. The proportion of loans due that were delayed increased to 60.7% in April, from an average of around 52% in the previous six months. Though we can't be certain that this is only due to COVID-19, the findings from Mercy Corps' enterprise and supply chain surveys, and reports from Somali MFI of large numbers of businesses asking for loan re-scheduling, suggests this increase is driven by the crisis. This is an important data point to monitor in upcoming months, to see whether loan repayment delays increase further. If this situation continues it suggests SMFI could face significant portfolio-at-risk increases and liquidity challenges in the near future.

Figure 3: Value and percent of loan repayment delays

	Oct – Dec 2019 (monthly average)	Jan – Mar 2020 (monthly average)	April 2020
Value of loans maturing (ETB)	35,222,583	32,202,238	31,256,173
Value of loans repaid (ETB)	16,920,000	15,205,250	12,298,743
Value of loan repayments delayed (ETB)	18,302,583	16,996,989	18,957,429
% of loans due with delayed repayment	52.0%	52.8%	60.7%

Urban loans for the services, manufacturing and construction sector have the highest rates of loan repayment delays, suggesting these sectors are being worst affected by the crisis. Responding to a request from the National Bank of Ethiopia (NBE), SMFI has analysed the proportion of loans that have been affected by the COVID-19 crisis⁹, shown in the Figure below. On average, 8.7% of urban loans have been affected, and this figure is significantly higher for loans for manufacturing and construction businesses.

⁸ 'New loan applications' refers to businesses that do not currently have a loan with SMFI applying for one.

⁹ 'Loans affected by COVID-19 crisis' refers to loans with repayment delays or which have defaulted.

Figure 4: Proportion of urban loan portfolio affected by COVID-19 crisis

Sector	Distribution of loans by sector		
	Total outstanding urban loans	Value of urban loans affected by COVID-19 crisis	Percentage of urban loans affected by COVID-19 crisis
Services	155,009,717	18,601,166	12.0%
Urban agriculture	249,165,399	12,458,269	5.0%
Manufacturing	38,718,481	7,743,696	20.0%
Trade	297,165,399	20,846,600	7.0%
Construction	25,537,784	4,707,556	18.4%
Other	158,519,582	15,851,958	10.0%
TOTAL	924,116,363	80,209,248	8.7%

SMFI is experiencing an increase in loan client drop-outs. Not only are some business unable to repay existing loans, but existing SMFI loan clients are also choosing not to renew their loans. These businesses are apparently reluctant to take on debt when their business revenue is so badly impacted.

These factors have led to an increase in portfolio-at-risk (PAR-30) for SMFI which is likely to worsen over time. At the end of March, the SMFI portfolio-at-risk (PAR) across the region was 2.5%. By the end of April this had increased to 4.0%, a huge increase of 1.5% percentage points in just one month. This is an alarming increase for Somali MFI, and Mercy Corps will monitor this situation closely when we do a repeat survey of FSPs in early July.

3.3. Savings and withdrawals

SMFI is experiencing an increase in withdrawals and a slowdown in deposits from saving clients, resulting in a fall in the total value of deposits of 4.6% between 31st March and 30th April. This appears to be driven by the fear that stricter lockdown restrictions will come into force, and so households are choosing to keep reserves of money at home. Withdrawals for Ramadan expenditures are also likely to have been a factor. SMFI are concerned that if this situation escalates it will lead to a cash / liquidity shortage at the institutional level.

There has been a significant increase in applications for HelloCash mobile banking accounts. These accounts do not necessarily result in savings deposits, but it's of note that customers are motivated to shift to digital financial services due to concerns about a possible lockdown. This is a positive trend, as it will tend to reduce the amount of paper money transactions and visits by SMFI clients to branches to collect money, which could be a cause of COVID-19 transmission. SMFI is responding to this demand, and placing significant emphasis on supporting mobile money 'merchant accounts' in particular.

3.4. Liquidity

So far there is no liquidity problem for Somali MFI, but their liquidity situation appears to be deteriorating and it is likely to become a problem if the crisis continues. The key trends described above – falling savings deposits, slowdown in loan repayments and increased risk of loan defaults – are all reducing SMFI liquidity over time. The liquidity ratio¹⁰ declined from 121% in December 2019 to 100% by March 2020, and early data for April suggests it may be falling substantially as the crisis persists. If these trends continue and escalate, SMFI may face a liquidity crisis in the coming months that could have severe

¹⁰ The liquidity ratio is the ratio of total SMFI liquid assets to total deposits.

negative implications for households and businesses. The Government of Ethiopia concessional loans for MFIs are a crucial measure that can support SMFI in the coming months, though Somali MFI is worried about their ability to access these as they are not sharia-compliant.

Figure 5: SMFI liquidity ratio

	December 31 st 2019	March 31 st 2020
Ratio of liquid assets to total deposits	121%	100%

Somali MFI has faced challenges in accessing their deposits with Commercial Bank of Ethiopia.

SMFI reports that when they request withdrawals of their deposits (e.g. ETB 500k) from the CBE main branch in Jigjiga, CBE frequently says they are only able to provide a small portion of the requested amount (e.g. ETB 100k or 200k). According to the Somali MFI management, the underlying challenge may be a liquidity problem that CBE in Jigjiga itself is facing. In the next round of our FSP survey in early July, we will survey CBE to better understand this challenge.

3.5. Adaptation and measures to cope with the crisis

Somali MFI is taking the COVID-19 situation very seriously. They are taking precautions to mitigate the risk to their staff and clients, and have established a team to monitor and assess the impact of the crisis on their institution.

Somali MFI is trying to support customers and business clients to shift to a cashless environment.

This is in line with the World Health Organization recommendation that people should use contactless payments and avoid handling banknotes as much as possible. In April there was a larger than normal increase in HelloCash mobile money accounts (see Figure below). There has also been unprecedented demand from businesses to shift to remote payment transactions for trade, and the number of mobile money ‘merchant accounts’ (which enable businesses to buy goods and services with digital payments) has increased by a huge 29.4%. SMFI have created a team that is now working on opening HelloCash merchant accounts for businesses of all sizes, ranging from microenterprises to large businesses. The number of agent banking outlets also increased, to meet this surge in demand and use of mobile money.

Figure 6: Number of SMFI mobile money accounts and service points

Account / service point	March 31 st 2020	April 30 th 2020	Increase (#)	Increase (%)
# of mobile money accounts	455,896	463,120	7,224	1.6%
# of Agent Banking outlets	1543	1624	81	5.2%
# of mobile money merchant accounts	4340	5618	1,278	29.4%

Somali MFI has not yet introduced loan re-scheduling measures or other loan term adaptations.

SMFI is currently analysing their loan portfolio to identify which sectors and types of businesses are vulnerable to the crisis and could be eligible for loan repayment re-scheduling. Other financial service providers (such as Enat Bank in Addis Ababa) are also considering measures such as waiving interest on business loans for the crisis period, though this is not yet a measure being considered by SMFI.

The Government of Ethiopia is now offering concessional loans for MFIs to bolster liquidity. This will be an important measure if current trends continue and liquidity becomes a challenge. The government has now approved ETB 2 billion through the Development Bank of Ethiopia to provide loans to MFIs and

SACCOs, with an additional ETB 2.5 billion expected soon. This loan mechanism has not yet been finalised, but AEMFI says that the term length is likely to be for one year, and the interest rate will be below 10%. These concessional loans may not be immediately accessible for Somali MFI and other Islamic Finance institutions, as there are currently no plans to establish a sharia-compliant loan mechanism.

4. Supply chains for essential food

Why this is important: Access to food that meets basic needs depends on the movement of goods and people. Policies that have been introduced due to COVID-19 in Ethiopia and in 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 analysis: 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.

Summary of findings

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.

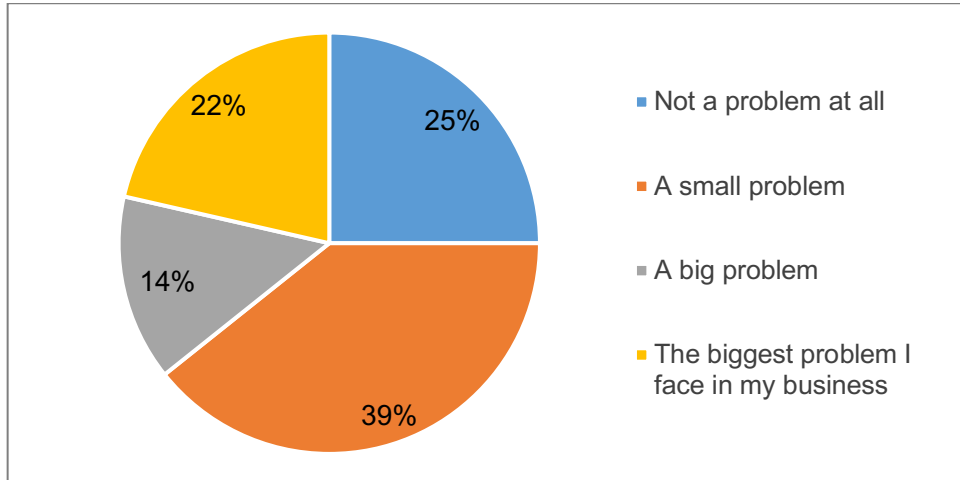
- 75% of retailers and wholesalers report that sourcing stock has become a major challenge during the COVID-19 crisis, with the main reason being limited stock availability from their suppliers.
- Despite these challenges, at the point of conducting the survey there was no unavailability of stock for 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.

4.1. Stock availability and supply chain disruption

Retailers and wholesalers are facing significant challenges in sourcing stock of essential food items as a result of the crisis¹¹. 75% of businesses in Jigjiga said sourcing stock had become a challenge during the crisis, and 36% of businesses said it was a big problem or the biggest problem they currently face. In Dollo Ado it is even more of a problem, likely due to the closure of borders with Kenya and Somalia, with 100% of businesses saying it was a big problem or the biggest problem they face.

¹¹ The survey focused on the following food items: rice; cooking oil; flour; spaghetti; sugar; and fresh tomatoes.

Figure 7: How big a challenge is sourcing stock for retailers and wholesalers in Jigjiga?

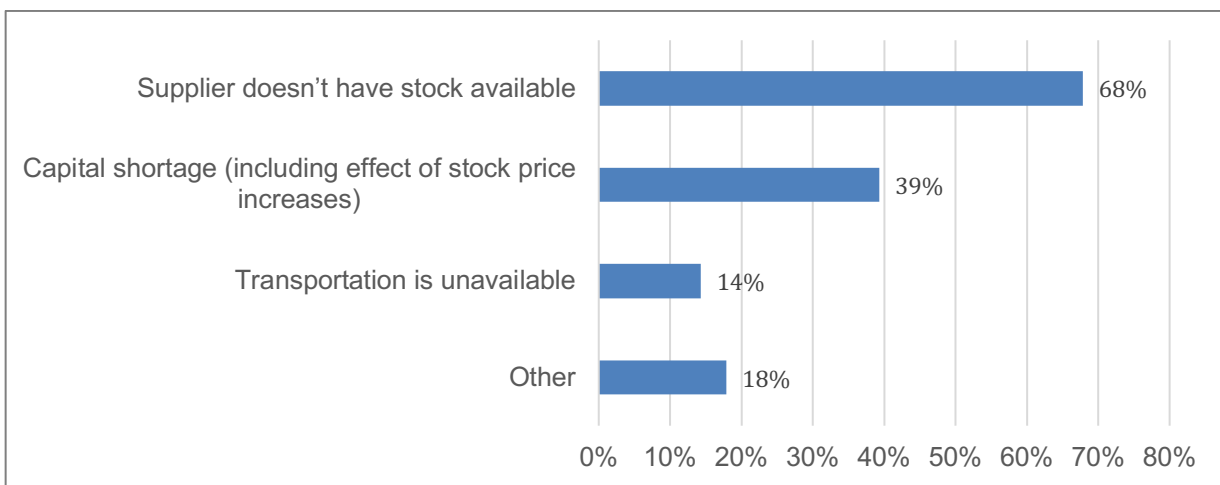


Despite challenges in sourcing stock, ‘stockouts’ have not yet become prevalent for retail and wholesale businesses. At the point of conducting the survey, all retailers and wholesalers had stock available for the listed essential food items. This may be because they had not yet sold all their stock from before the crisis, in turn perhaps a result of the severe slow-down in sales. We will continue to monitor this situation to see if stockouts become a problem.

Lack of availability of food items may be more of a problem in informal markets, due to less well-established supply chains. The household survey found that high proportions of households were reporting decreased availability of food items in local markets, in particular vegetables (79% of respondents), legumes (75%) and cereals (54%).

The major challenge that retailers and wholesalers are facing in sourcing supplies of essential food items is lack of stock availability from their suppliers. 68% of respondents said that the supplier not having stock available is a reason for their challenge in sourcing stock, while 39% said they are facing challenges in purchasing stock as a result of business capital shortages or price increases.

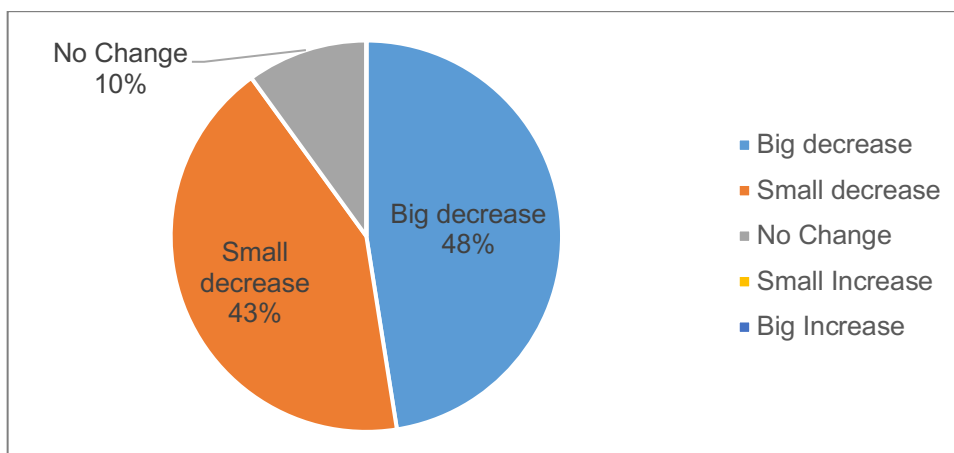
Figure 8: What are the reasons for challenges in purchasing stock



4.2. Customers and sales

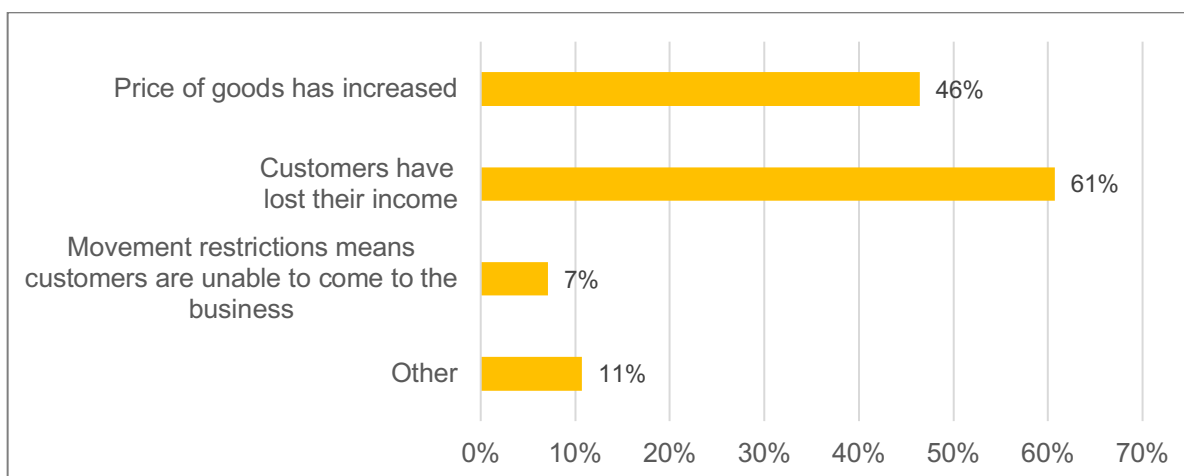
Retailers and wholesalers are experiencing a huge fall in sales of essential food items. Nearly 50% of respondents reported suffering a 'big decrease' in sales, while 43% said they were experiencing small decreases. Only 10% of respondents said they had experienced 'no change' in sales levels. This is also reflected in a very large fall in the value of sales; on average the value of sales is 52% lower than pre-crisis levels. This fall in sales presumably also reflects a reduction in consumption of essential goods by households in target areas, suggesting that household food security is already being affected.

Figure 9: How have sales volumes been impacted since COVID-19?



Retailers and wholesalers believe that customers losing income and the increase in prices of goods are the biggest factors behind the fall in sales. 61% of businesses said they believed that lost income for their customers is causing them to purchase less essential food items. In the absence of household surveys, this is an interesting insight into how households are being affected. So far, government restrictions on movement do not seem to be an obstacle for customers to access shops.

Figure 10: What are the main reasons businesses think their sales have fallen?

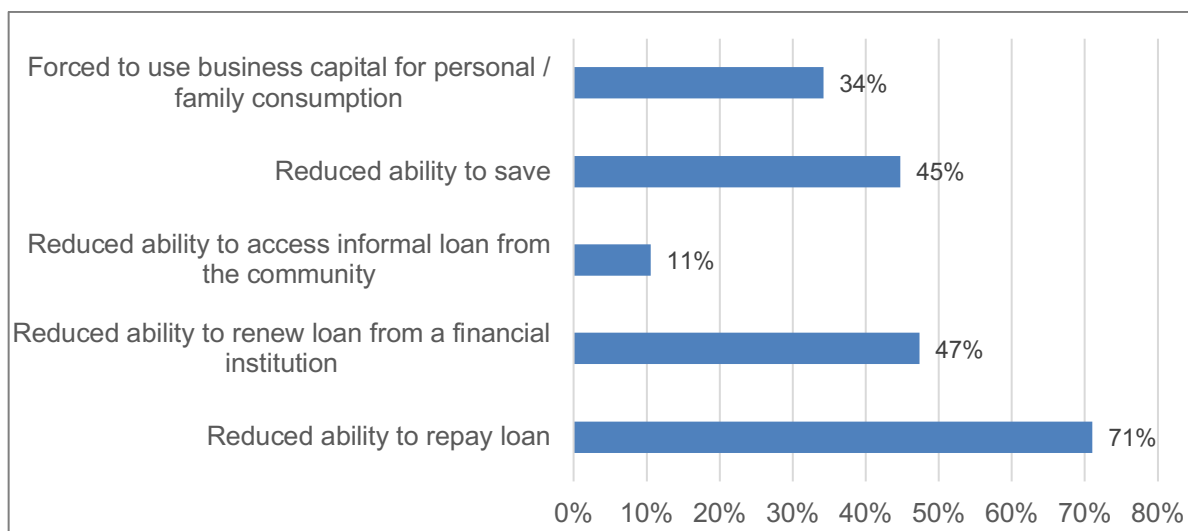


4.3. Business impact

The decline in sales has had a crippling impact on the revenue of retailers and wholesalers. On average, the value of sales by wholesalers and retailers has decreased by 52% compared with pre-crisis, and in Dollo Ado the fall in sales is far higher at 70%.

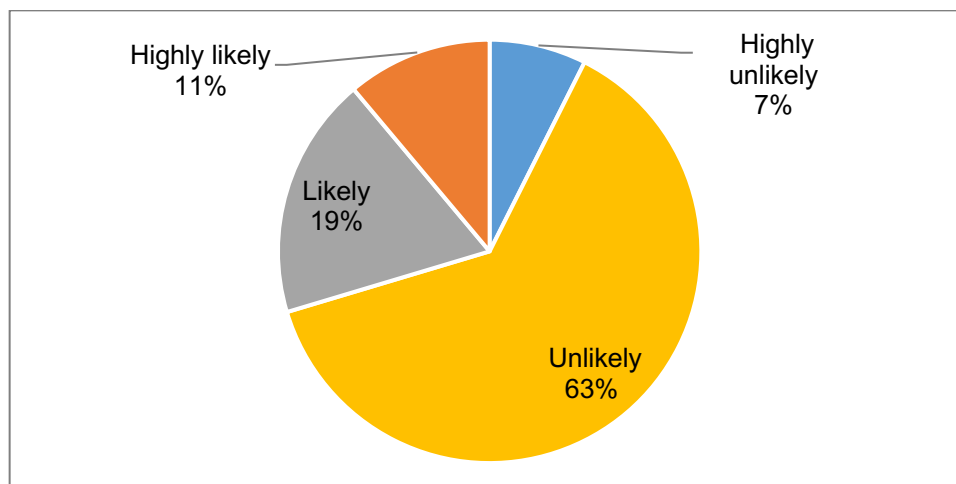
The reduction in sales and revenue is having a huge impact on the ability of retailers and wholesalers to manage their finances. More than 70% of businesses reported reduced ability to repay a formal or informal loan, which corresponds to the information received from Somali MFI. Other challenges reported by more than a third of businesses were difficulty in renewing a loan, reduced ability to save, and resorting to using business capital for everyday consumption purposes. These challenges also indicate that bouncing back from the economic downturn is likely to be challenging for the surveyed businesses.

Figure 11: How has the difficult business situation impacted the financial situation of retailers / wholesalers?



A significant proportion of retailers and wholesalers say they may have to close their business if the crisis persists. 30% of respondents said that they are either likely or highly likely to have to close their business in the coming months if the crisis situation persists. Mercy Corps will closely monitor this situation, as large-scale closures of food supply businesses would threaten food security in the region.

Figure 12: What is the likelihood that respondents will have to close their business in the coming months?



5. Livestock market system

Why this is important: The Somali region is a livestock-based economy, and the health of that sector influences the economic reality of the region at large. Livestock also constitutes an important source of foreign currencies for the country. 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 analysis: Mercy Corps conducted a survey of twenty market actors involved in the livestock market system, covering three different functions: Trade and processing of livestock and livestock products (ranging from small-scale traders and milk collectors to a large export business of live animals); Animal health services (including last-mile private veterinary pharmacies and an importer and wholesaler of veterinary drugs); and Feed / Fodder (including last-mile woreda-level retailers and a large wholesale business). Our analysis examines each of these, and discusses the likely impact on pastoralist households.

Figure 13: Numbers of market actors surveyed per system function

Function of livestock market system	Number Interviewed
Trade and processing of livestock and milk	12
Animal health services	5
Feed / Fodder	3
Total	20

Summary of findings

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, cancellation of Hajj and a disrupted Ethiopian Easter. 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 to reduced movements, increase the risk of zoonotic 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, leading to higher prices for consumers, hence reduced demand.
- Movement restrictions and decline of veterinary drug imports has reduced the availability of veterinary inputs.
- Reduced demand for livestock products has in turn minimized demand for animal feed.

5.1. Impact on pastoralist households

Mercy Corps' assessment found that livestock prices (i.e. cattle, sheep, goat and camel) have declined since March 2020 as a result of restrictions on exports and transportation challenges.

Survey respondents engaged in livestock trade reported that prices for cattle have decreased following COVID-19 mitigation measures. Reported reasons for the decline in livestock prices include loss of demand from traders as livestock markets were required to close because of movement restrictions and slowed livestock trading due to fear of aggravating COVID-19 situations affecting business, increased livestock transportation costs and declined demand for livestock products (e.g. meat). Due to movement restrictions between regions and cross border closure (i.e. can't cross from Somali into Oromia and Djibouti trade route), pastoralists and agro pastoralists had limited options on where to sell their animals. Livestock sold in Somali region are consumed within the region or travel to markets along the way from Harar to Addis Ababa.

Continued decrease in demand and prices of livestock in pastoral areas, where livestock represent the main source of livelihood/income, will seriously affect the resilience capacities of pastoral households to withstand recurrent shocks/stresses. Unless pastoralists are able to sell their animals for a reasonable price, they will not be able to buy food and other required household goods/services as well as inputs for their livestock production. COVID-19 is affecting livestock trade. Desert locusts in some areas is affecting livestock and crop production. A report¹² on the impact of desert locusts on the livelihoods and food security revealed that there was an increase in the proportion of households using emergency livelihoods coping strategies from 22 percent in August 2019 to 49 percent in February 2020, particularly in Oromia, Somali, and Afar regions. According to the Ethiopia Humanitarian Bulletin¹³, the price of cereal has increased by an estimated 50 per cent as of February 2020 compared to the same time last year. Meanwhile, the price of livestock (both camels and shoats) have dropped by slightly more than 30 per cent during the same period. The same Humanitarian report further indicated that there were negative Terms of Trade in Afar, Somali and Oromia regions - mainly because of very high cereal prices. The overall picture is therefore of lower cereal stock and higher prices while livestock prices are stagnant or falling.

The two peak periods for livestock sales for Ethiopian pastoralists are Orthodox Easter and Ramadan. This year, these holidays corresponded with COVID-19 related market closures and reduced consumer demand. In addition to causing the loss of important annual income for pastoralists, the situation has potential secondary negative effects as livestock producers keep increased sized herds when entering into the dry season (i.e. long dry season from October to March in much of Somali region). There is a need to monitor forage quantity, rangeland quality and animal body condition in addition to pastoralist food security needs to prevent a larger crisis. Even without the added burdens of the pandemic and desert locust, the majority of the Ethiopian pastoral areas often experience recurrent drought and inconsistent supply of quality feed to support their livestock production year-round.

5.2. Livestock and milk trade

The closure of borders and export routes, and the loss of sales due to the cancellation of the Hadj, has dealt a huge blow to the livestock export trade and market actors in Somali Region. The Ethio - Djibouti international border was closed as of 8 April and movement of livestock was severely reduced. In April, the regional governments announced a lockdown in the region restricting movements between and within the region, and all public gatherings. The major livestock markets routes of Asbuli to Djibouti, Biki and Dire Dawa have been restricted due to restriction of transports and market lockdown. Since the emergence of COVID-19, there has been frequent lockdown of market centers and regional roads connecting the major market centers in Somali regions from the central market and border trade. During this time, there has been low livestock supply to major livestock primary market centers.

¹² Impact of Desert Locust Infestation on Household Livelihoods and Food Security in Ethiopia, April 2020

¹³ OCHA: Humanitarian Bulletin Ethiopia, Issue #4| 24 Feb– 08 Mar. 2020

Demand for livestock for local consumption has also fallen. Respondents reported that reductions in demand for cattle is due to fear of COVID-19 transmission via raw meat consumption. Local butcheries in urban centers are therefore slaughtering (and purchasing) fewer cattle due to lower consumer demand for meat, causing further stagnation in the livestock trading system. In normal times, during Easter holidays there is a well-established practice of communities slaughtering and sharing beef among families residing in the central regions of Ethiopia, which helps drive sales of cattle at this time. This did not occur this year due to COVID-19 related health concerns. Instead, there was a shift to households purchasing sheep and goats, which are more appropriate for household-level consumption, and this led to stronger demand and thus prices for shoats over the Easter holiday period.

Transportation restrictions and costs have led to disruptions in livestock traders purchasing from their usual brokers in pastoralist communities. Movement restrictions and changes in transportation tariffs discouraged livestock traders from going to farther or remote markets to purchase animals. In some cases, transport costs doubled due to COVID-19 mitigation measures. Traders have also been impacted by lost revenue from the import and sales of consumer goods, as they often operate these two businesses simultaneously as they cross the borders. As a result, traders have a lower purchasing power causing them to reduce overall trading and transportation activities.

The trade of milk has also been badly impacted, particularly affecting female micro-entrepreneurs. COVID-19 restrictions have caused the cost of transportation to more than double, and this has undermined the profitability of businesses that already have small margins. Movement restrictions have also reduced the regularity of transportation services to urban centers. The trade in milk is a time-sensitive business in Somali Region, as there are no refrigeration facilities, and reduced transportation services have resulted in delays in milk delivery causing spoilage and lost incomes. These increased costs of transportation, and higher rates of spoilage, have been passed on to urban consumers in terms of higher prices for milk, resulting in decreased demand for the milk. This situation not only affects women engaged in the trade and processing of milk, but also the large numbers of milk-producing pastoralist households (and women in particular) who depend on the trade for income.

5.3. Animal health services and input delivery

Animal health service providers are being affected by disruptions to drug supplies, and uncertain demand. All animal health service providers surveyed for the assessment reported that COVID-19 has negatively impacted the consistency and quantity of their supply of veterinary drugs. This is a concern in terms of the looming desert locust crisis, as degraded rangeland due to the locusts will reduce livestock body condition and make them more vulnerable to disease, and limited availability of drugs could compound this situation resulting in loss of animals. One private veterinary pharmacy business owner highlighted an additional challenge caused by the desert locust situation: *“the effects of Desert locust also affected my business since people are moving from one place to another looking for healthy pasture, when I reach the planned village riding my motor cycle, I can’t find them there”*.

5.4. Impact on animal feed supply

Market actors engaged in animal feed have been hit by the crisis, due to reduced demand for their products as a result of higher input prices and reduced demand from traders and livestock producers. Respondents highlighted an increase in the price of feed ingredients due to movement restrictions and higher transportation prices across Ethiopia, which has resulted in an increase in the price of the feed products they are selling. Demand for animal feed has also collapsed, due to the stagnation of the trade in livestock which has impacted incomes of traders and livestock producers. The challenge facing the customers of animal feed businesses is highlighted by one owner of a fattening business, who when

asked about the cost of animal feed said: “It is difficult for me to talk about livestock feed cost for fattening as it becomes a headache for me because I ended up only with feeding cost surplus but no market for fattened animals”. Operators involved in livestock fattening and trade expressed further concerns about the future of livestock marketing due to the Desert Locust infestation. They expect this to further affect their animal fattening activities due to the likelihood of critical shortage of feed supply due to increased demand or loss of fodder/feed crops to locusts.

6. Businesses and employment

Why this is important: The COVID-19 crisis is expected to have a severe impact on Ethiopian enterprises of all sizes, due to diminished demand both globally and locally, and restrictions on workforce movement and large gatherings. Micro and small enterprises, which are to a large degree the drivers of the Somali Region economy, are likely to face a particular challenge in coping with the crisis, as they lack capital reserves and loans to ride out the downturn and, compared with larger businesses, lack the business know-how and support to adapt their management practices to survive. For micro-entrepreneurs in Somali Region, including female business-owners, the decline in business performance or failure of their enterprise altogether threatens the food security of their household. In the case of small, medium and large enterprises, the decline in performance could result in job-losses and lost incomes for thousands of low-paid workers. If the crisis persists for some time, businesses of all sizes will deplete their business capital or even fail altogether, which will severely restrict their ability to bounce back when the crisis is over and could set-back the Somali Region economy for years.

Mercy Corps analysis: 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.

Summary of findings

Business operations in Somali Region, as in other parts of Ethiopia, are being crippled by the effect of the COVID-19 crisis. The enterprise survey showed how 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.

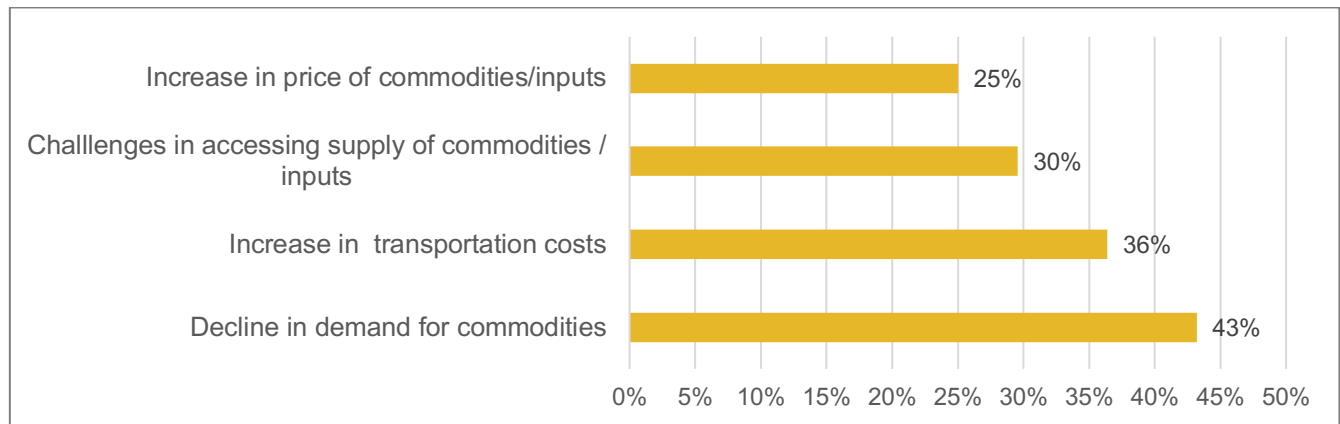
- 95% of surveyed enterprises reported a reduction in profits as a result of the crisis, which is being driven in particular by a decline in demand (reported by 43% of enterprises) and the increase in transportation costs (36%)
- 30% of enterprises have been affected by challenges in accessing key production 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 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. 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

- Enterprise have been proactive in adopting new business strategies to survive the crisis. 45% of the firms are utilizing social networking, 39% of them have started home delivery and 10% have begun employing digital solutions.

6.1. Enterprise performance

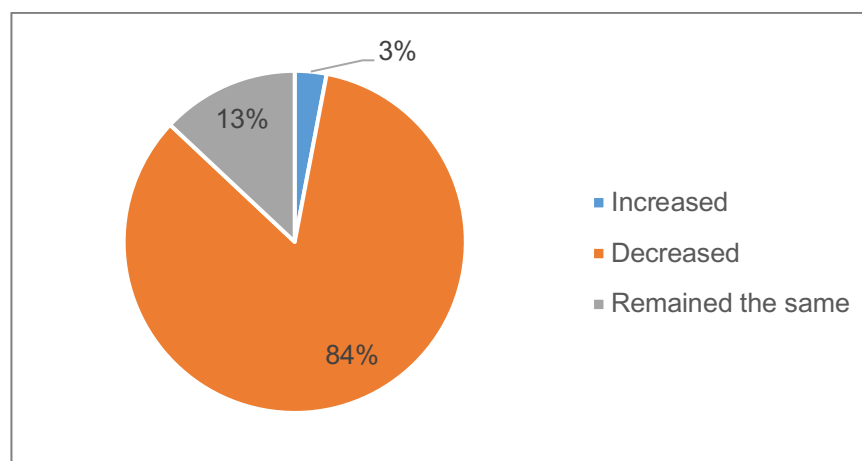
Across all sectors and size of business, the COVID-19 crisis is having a crippling impact on enterprise performance in Somali Region, due in particular to a decline in demand from customers and increased transportation challenges. 95% of surveyed businesses said that the crisis had resulted in a decline in their profits, and the same proportion (95%) reported a decline in the sales. A large proportion of the surveyed enterprises are engaged in the services sector (80%), reflecting the dominance of the services sector in the Somali Region economy. These businesses rely heavily on sales of goods that are imported or exported (in the case of livestock), and require transportation of goods locally. They have therefore been badly affected by border closures, movement restrictions and the increase in cost of transportation. Decline in demand (43% of businesses) and an increase in the cost of transportation (36%) are the two main factors that enterprise owners gave for their decline in performance, as shown below.

Figure 14: What are the reasons for the decline in enterprise performance during COVID-19



The vast majority of businesses that operate on a pre-order basis have seen a decline in orders for the next six months. 57% of surveyed enterprises receive orders in advance, and of these enterprises 84% reported a decline in orders compared with the pre-COVID-19 crisis, as shown below.

Figure 15: Impact on enterprise orders from customers for next six months



Enterprises have also been affected by difficulty in getting supply of inputs including raw materials, and by price increases in these inputs. 30% of enterprises reported that their business productivity had been affected due to a difficulty in accessing inputs / raw materials to continue business operation, and 25% said their business was suffering due to increases in the price of these inputs. Enterprises involved in production of packaging materials, food processing and manufacturing were particularly affected. The difficulty in accessing raw inputs for businesses engaged in food processing and livestock trade, and their decline in business performance, is likely also having a knock-on effect on farmers and livestock producers who depend on these buyers for their livelihood.

The decline in business performance has resulted in challenges in repaying loans for a significant proportion of businesses. 18% of surveyed enterprises currently have loans with a formal financial institution, and this is higher for medium (33%) and large (25%) enterprises, than for micro (14%) and small (8%). Of the businesses that have loans, 25% say they have stopped repaying their loan due to the pandemic.

Enterprises do not currently have access to external support to help them sustain their business during the crisis. The Somali regional government has prepared a response plan for addressing the impact of COVID-19¹⁴, for the period May to July, which covers the following priority sectors: health, education, food, agriculture, water, shelter and non-food items, nutrition and protection. There is currently no inclusion of a response plan to support enterprises to survive the crisis, and when the government prepares the response plan for the next phase of the crisis (August onwards) it will be crucial for this to also be included. The Somali Region government has a clear commitment and resources to dedicate to job creation in the region, and there is an opportunity for the government to help mitigate the impact of the crisis on businesses in order to protect jobs during the crisis and engender conditions for business growth and the creation of jobs during the recovery.

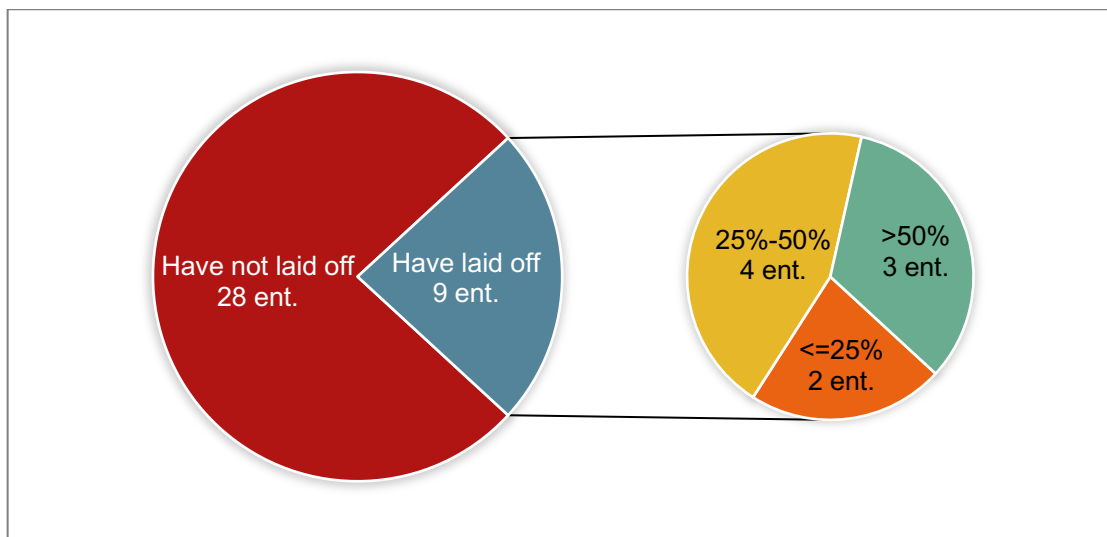
Female business-owners face particular challenges during the crisis and this is placing the health of their families at risk. The example of Alhab Yusuf, a female milk collector interviewed as part of the survey, illustrates the challenge facing many female business-owners. As schools are closed and travel is restricted, Alhab's children and husband are confined at home, which demands much of her time to care for the family. Milk trading is a demanding business and requires Alhab to be on time for collection and delivery, but her family obligations have made it impossible for her to conduct her business activity effectively, and this has resulted in a big fall in her income, which the family depends on to survive. In the surveyed woreda, Alhab is one of many female businesses engaged in informal road-side trade.

6.2. Employment

The widespread decline in business performance is already having a significant impact on workers, with 75 job losses reported by surveyed businesses as a result of the crisis. 24% of surveyed enterprises (nine) reported having laid-off part of their workforce, as shown in the figure below. Of these nine enterprises, three had laid off more than 50% of their workforce, and four had laid-off between 25% and 50%. It is primarily small and medium enterprises that have laid off workers. In total, business owners reported the loss of 75 workers as a result of the crisis. Given the national State of Emergency prohibits laying-off permanent employees, it's likely that these the workers who have lost their jobs are low-paid temporary workers who are least able to cope with the lost income. Despite the regulation against firing workers, if the situation continues businesses may be forced to cease operation altogether due to lost revenue and inability to pay their employees.

¹⁴ Somali region COVID-19 Emergency preparedness and response plan, May-July 2020.

Figure 16: Numbers of businesses that have laid-off workers due to the crisis



The loss of jobs is likely to increase substantially in the coming months, if the crisis situation does not improve. Of the surveyed enterprises, only 11% reported having the capacity to maintain their current payroll for more than six months, if the current crisis situation continues. The prohibition on laying-off workers puts businesses in a very difficult position. If they are not able to lay-off workers, many businesses may be forced to close completely, resulting in even more job losses.

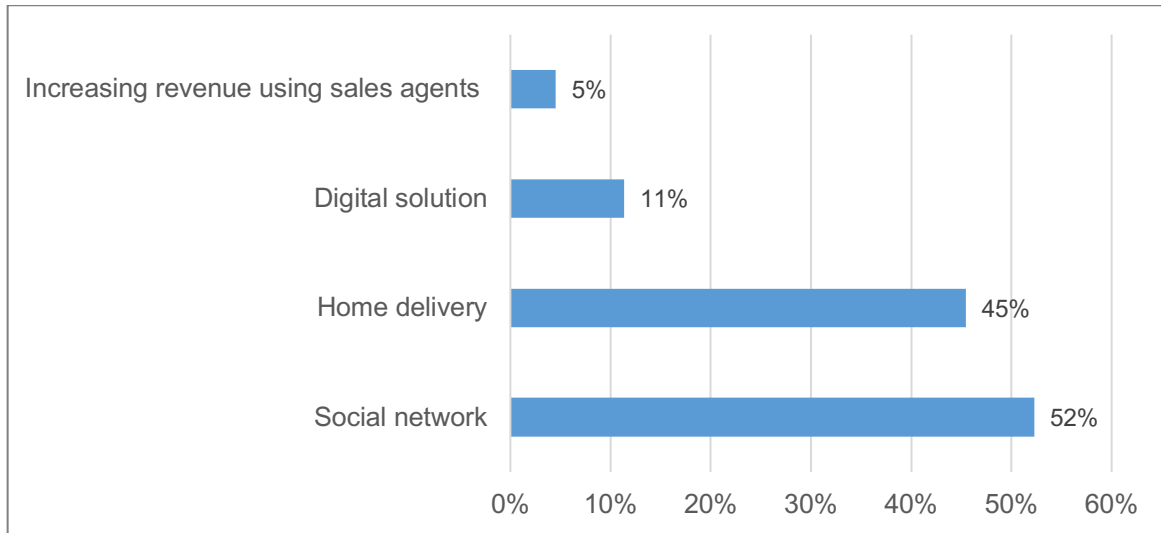
There is no evidence of a change in the daily wage rate for low-pay workers, but other costs have increased. Enterprises reported that the daily wage rate remains unchanged at between ETB 150 and 300 per day. Given that transportation costs have doubled in price and food prices have increased, employees have suffered a decline in disposable income.

6.3. Enterprise resilience and adaptation

Enterprises in Somali Region overwhelmingly see the COVID-19 crisis as a threat, but this does not prevent them from also seeking new business opportunities. 50% of enterprises are in 'wait-and-see mode' in relation to the crisis, and are focused on survival rather than new opportunities. But 30% of respondents say they are looking for new business opportunities that have arisen due to the crisis.

Enterprises have been proactive in adopting new business strategies to survive the crisis. 52% of the firms are utilizing social networking, 42% of them are using home delivery, 11% employ digital solutions and 6% are using sales agents to keep their revenues flowing in. Business which are engaged in manufacturing/agro processing, trade of vet drugs and livestock trade have indicated that they are using mainly using home delivery and social networking in adopting to the changing situation of the pandemic.

Figure 17: Business adaptations to cope with COVID-19 that have been adopted by surveyed businesses



Enterprises identified up-to-date market information, tax relief and business capacity-building as the support they most need to survive the crisis. 95% of surveyed businesses thought that up-to-date market information would help their business to survive. A majority of businesses said they were in need of business development services (BDS) to help them navigate the crisis (57%) and that tax relief would help them survive (55%). 30% of enterprises said that support in access to online marketing platforms could help their business.

7. Response Recommendations

Mercy Corps' assessments in Somali Region paint a picture of an economy which, if not yet on the verge of collapse, is certainly in sharp decline with many crucial market actors struggling to survive and extremely 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. Perhaps most revealing about the scale of the challenge is the data from Somali MFI, which shows that loan repayments by businesses are facing increasing delays, and liquidity is falling.

Below we outline our recommendations for interventions in response to the crisis. These are designed to address three inter-related objectives:

- Objective I. Firstly, many of the recommended interventions aim to address the immediate urgent needs of the most vulnerable target groups in the region, including pastoralists, refugees and workers. In line with Mercy Corps' commitment to use market-based approaches in emergencies, these interventions will be designed to leverage and sustain, not undermine, local market actors, and will focus in particular on female producers and businesses.
- Objective II. Secondly, the interventions are also designed to bolster essential systems that are non-functional or in danger of collapse, helping to avoid knock-on effects which would greatly increase food security needs and could set-back the economy of Somali Region for years to come. These interventions are also designed to support a stronger and more rapid recovery when normality starts to return.
- Objective III. Thirdly, Mercy Corps recognises that the unique conditions created by the COVID-19 crisis can also be harnessed as a driver of innovation and positive change. Some of our intervention recommendations aim to foster these changes, so that when the crisis recedes, Somali Region businesses and vulnerable populations will be positioned for a new trajectory of growth and resilience.

Although the focus of this assessment was the impact of COVID-19, the assessment also took into account the Desert Locust crisis which is already beginning to hit the region and is expected to worsen in the coming months. Mercy Corps responses will take into account these overlapping crises, and also the protracted refugee and IDP situation in the region.

Mercy Corps' aim is that these response recommendations will be implemented across Mercy Corps' portfolio of programs in Somali Region, leveraging opportunities for resource-sharing and harmonization of approaches. New funding opportunities to respond to the crises have not yet emerged, so as much as possible Mercy Corps will integrate these approaches into our longer-term development and resilience programming.

7.1. Recommendations for further assessments / monitoring

We recognise that the COVID-19 crisis, and the economic impact in Somali Region, is continuously evolving. A key recommendation of this assessment is that Mercy Corps should undertake follow-up data collection and analysis in the coming months, focusing on key trends of concern identified in this report. Examples of these, for focused information collection, include:

- HH expenditure and consumption
- Food 'stockouts' and retailer / wholesaler closures
- Price trends for essential food items

- Delayed repayments, PAR-30 and liquidity in Somali MFI (and other financial service providers in the region)
- Enterprise closures and job-losses
- Trends in continued provision of animal health services and availability of veterinary drugs

In addition, where COVID-restrictions allow, Mercy Corps should try to get additional information on the following:

- Detailed livestock prices and feed prices as an indicator of the need for commercial de-stocking
- Analysis to understand differentials in gender impact, for example how women-owned micro-enterprises are being impacted)

Finally, it's also recommended that Mercy Corps expands the FSP analysis to include other MFIs in target rural areas, including ACSI (Amhara), Afar MFI (Afar) and Omo MFI (SNNP). This could be undertaken in partnership with AEMFI, which is already collecting data from MFIs in their networks.

7.2. Purchasing power of households

The assessment findings show a significant decrease in household expenditure on essential food items and negative coping mechanisms in terms of consumption. These response recommendations aim to address the immediate food security needs of target populations (Objective I), using a market-based approach.

a. *Cash transfers to meet immediate basic needs:*

Given restrictions on movement and risk of transmission, these should be digital cash transfers as much as possible, leveraging Mercy Corps' close relationship with Somali MFI. The intervention could also support local retailers to access mobile money merchant accounts, so that cash transfer recipients can receive the transfer and purchase essential goods through a completely cash-less process. An alternative approach that could be considered if digital cash transfers are challenging in some locations, is vouchers that can be redeemed for essential items through partnering businesses. Vouchers may be particularly effective in supporting households to purchase protective items, as the assessment showed that a significant portion of their expenditure is on these items. These interventions will be closely linked to monitoring of supply chain networks, to ensure items are available and affordable.

b. *Play a coordination role to harmonize cash transfer approaches:*

As the crisis persists there are likely to be increasing cash transfer activities by NGOs in Somali Region, and this can easily lead to confusion, duplication and difficulties for financial service providers and government. Mercy Corps is in a position to work with government to play a coordination role with other NGOs, to help ensure consistency in approaches and coordination in geographies.

c. *Strengthen the effectiveness and safety of PSNP payments:*

During this time of crisis, PSNP payments are more important than ever. The assessment did not specifically aim to understand how PSNP has been (or will be) affected, and this should be an area for further investigation. This aligns with the objectives of Mercy Corps' resilience programming, to support government systems to become more effective and resilient to shocks.

d. *Catalyse income opportunities during the crisis:*

There are some niche opportunities to stimulate income opportunities during the crisis, in ways that will also contribute to reducing the risk of the virus spreading. This will be focused at vulnerable individuals in urban and peri-urban areas who have lost their employment because of the crisis. For example, in Addis Ababa Mercy Corps is currently implementing an intervention in partnership with the Jobs Creation Commission and TaskMoby (a services-matching platform) to employ laid-off domestic workers as disinfectant cleaners for businesses in public spaces. A similar approach could be applied in Jigjiga or Kebribayah. Given the poor supply and high price of protective equipment and soap in Somali Region, another example could be to subsidise microenterprises to produce affordable cloth face masks or soap products.

7.3. Financial services

The assessment findings show that loan clients for Somali MFI are increasingly unable to repay loans and that, if current trends continue, the institution itself could ultimately face a crisis of loan defaults and lack of liquidity. The following response recommendations aim to bolster the financial services system of Somali Region, and in particular the services provided to businesses during the crisis (Objective II). They will target MFIs (e.g. Somali MFI and Rays MFI), Banks (e.g. Commercial Bank of Ethiopia), Saving and Credit Cooperative Organizations (SACCOs) and saving and loan groups (SLGs). There is also a unique opportunity for an accelerated shift to digital financial services, which is an additional response recommendation (Objective III).

a. *Technical support for MFIs to manage their liquidity:*

Somali MFI has concerns about their liquidity in the next few months, and the assessment findings suggest they are right to be worried. The Association of Ethiopian Microfinance Institutions is playing an active role in supporting their member MFIs¹⁵ to plan applications for concessional loans from the Development Bank of Ethiopia, but Islamic Finance MFIs such as Somali MFI and Rays MFI will not be able to access these unless they are sharia-compliant, which is not currently the case. There is an important role for Mercy Corps to play in facilitating discussions and solutions about how these crucial concessional loans can be delivered to Islamic Finance institutions, leveraging our relationships of trust with AEMFI and the MFIs. Where necessary, Mercy Corps should also work with AEMFI to support them in providing clear guidance and advice to MFIs on liquidity forecasting and decision-making about the loan application.

b. *Support MFI adaptation in loan terms and conditions for businesses:*

The Somali MFI management has been thinking about relief for their business clients in terms of loan re-scheduling, but lack the technical capacity to design and implement these. The same is true of the surveyed FSPs in other regions. Mercy Corps should facilitate technical support for MFIs in Somali Region, to put into action loan re-scheduling measures particularly targeting micro and small enterprises. Support could also include some kind of subsidy incentive, for example a contribution towards interest payments if mark-ups are waived for a set-period. This approach would help to reduce incidences of business failure, helping to protect the FSPs' bottom-line and ensuring businesses are able to bounce back when the situation improves. This is a need not only for MFIs in Somali Region, but across Ethiopia, so Mercy Corps should also consider how a similar approach could be applied more systematically across the country,

¹⁵ Somali MFI is a member, but RAYS MFI and Afar MFI are not.

in partnership with AEMFI and an MFI technical support institution such as Microsave. New funding sources would be required for this initiative.

c. *Partner with CPA to design and implement SACCO support plan:*

Our rapid assessment did not include surveys of SACCOs, but interviews with the Cooperative Promotion Agency (CPA) at regional level indicate that SACCOs are suffering solvency challenges due to members unable to repay loans and restrictions on large gatherings. Mercy Corps has a close relationship with the CPA from our ongoing programming, and should leverage this to work together to develop an appropriate SACCO support plan, including technical support to SACCOs on how to survive the crisis. The government's ETB 4.5 billion concessional loan fund through the Development Bank of Ethiopia is also intended for SACCOs, so the SACCO support plan should also include a mechanism that enables SACCOs in the region to access these funds through a sharia-compliant mechanism.

d. *Maintain Saving and Loan Group (SLG) functioning and effectiveness:*

In some geographies of Somali Region there are significant numbers of SLGs impacted by movement restrictions and rules prohibiting gatherings of more than four people. For existing SLGs supported by Mercy Corps programs, a response option could be to support them to organise early share-out procedures so that households have cash to survive the crisis. In instances where groups wish to continue meeting, Mercy Corps can support adaptations in management practices, such as adoption of digital financial management solutions (such as Jamii.One), smaller group meetings, and remote communication. For example, Mercy Corps has helped SLGs supported by private service providers in Dollo Ado established WhatsApp groups so they can share information and stay connected during the crisis.

e. *Incentivize financial service provider lending for businesses to recover after the crisis:*

By the time the COVID-19 crisis is over, many businesses will have depleted their business capital and potentially defaulted on their loans. For the Somali Region economy to bounce back strongly, it's essential that they are able to access capital to re-start their enterprise. However, FSP standard procedures for assessing loan clients may make it difficult for them to lend to these businesses, in particular if they have defaulted on a loan. Mercy Corps should support mechanisms and technical support for FSPs (in particular SMFI and Rays MFI) that incentivize and enable them to provide loans to help these businesses bounce back quickly and strongly. This will allow micro-entrepreneurs to recover their income, and result in rapid job creation in small and medium enterprises.

f. *Support to accelerate a shift to cashless services and digitalization:*

Somali MFI is experiencing unprecedented demand for its mobile money products from individual customers, and increased willingness to open mobile money merchant accounts for businesses. While they are trying to dedicate resources to this expansion, this is constrained by the crisis situation the institution itself is in and the movement restrictions in place. Mercy Corps should support SMFI and Rays MFI to accelerate uptake of digital solutions through logistical support and cost-share investments that enable them to support new mobile money agents in underserved areas (including refugee camps) and increase door-to-door visits to businesses to open merchant accounts and provide basic financial literacy training. These activities will also be crucial enablers for multipurpose digital cash transfer interventions as the need for these increases.

7.4. Supply chains for essential foods

The assessment of supply chains for essential goods showed that, despite supply chain challenges and a huge fall in sales volumes, there has not yet been a major problem of stock availability. For this reason, there is not currently a need for measures to support wholesaler and retailer sourcing and transportation, though Mercy Corps will continue to monitor the situation closely. However, price increases have been significant for essential goods and this has been a factor in reduced household food expenditure and consumption. Our main response recommendation is therefore interventions that help boost the production and supply of food at local level, helping to meet the immediate needs of vulnerable populations (Objective I). We also see an opportunity to stimulate a shift to digital platforms for supply chains, which would provide new opportunities for marketing beyond the crisis (Objective III).

a. *Stimulate increased local crop production:*

Increased crop production by local smallholder farmers has the potential to improve food security for their families, and increase supply of affordable food for neighbouring households. Even during normal times, farmers in Mercy Corps target areas of Somali Region tend to use a low-input and low-output mode of production, with minimal purchase of quality inputs and corresponding low yields. The current crisis is posing additional challenges for farmers, as movement restrictions means agricultural labour is more expensive (farmers are now relying on IDPs who are willing to accept lower wages), and the desert locust situation means they are more reluctant to invest in their crops for risk of losing their investments. Mercy Corps should consider interventions that buy-down the risk for farmers to invest in increased production, for example through voucher subsidies to purchase improved seeds from agricultural input retailers, subsidising the cost of labour, or subsidies for pesticide spraying to protect against desert locusts. The intervention should target crops with lower risk of destruction by desert locusts (e.g. higher-value vegetable crops that are quicker-yielding and which are easier to protect).

b. *Support uptake of digital delivery systems by supply chain actors:*

The increase in cost of transportation and disruptions due to movement restrictions suggest this is an opportune time to support improved systems for digital delivery between suppliers and retailers. Mercy Corps has been in discussions with BelCash which has successfully launched its 'HelloDelivery' platform in Addis Ababa, and is interested in expanding to Somali Region which is where their HelloCash product has been most successful. HelloDelivery could be beneficial for microenterprises to reach customers and survive the crisis. Potentially more impactful still, HelloDelivery could be utilised for trade between wholesalers and retailers to improve information flows and coordination challenges, helping to reduce transaction costs and uncertainty during the crisis. Once the system is in place for retail supply chains, it will be easier to adapt it to support digital platforms for the purchase of key commodities produced in the region, such as livestock, livestock products and crop products.

7.5. Livestock market systems

The assessment of the livestock market system highlights disruptions affecting all aspects of the value chains, from input providers, to consumers, via producers. The recommended responses include support to vulnerable households to earn income from their livestock, for example through commercial-destocking and subsidies for milk trade actors, which will help to stimulate local demand for products (Objective I). This will address challenges posed both by the COVID-19 pandemic, and by the desert locusts that are already affecting the lowland rangelands. We also recommend interventions targeting the continued functioning of

key livestock systems, including livestock marketplaces, animal health services and inputs for fodder production (Objective II). Designing and implementing mitigation plans along supply chains (e.g. support increased market-based offtake of livestock, improve livestock feed and vet drug supply and facilitate the reduction of transportation costs), will go a long way in absorbing the pandemic shock, for those engaged in livestock trade, and support the systems' resilience.

a. *Keep livestock markets safe and open in spite of pandemic, allowing producers and traders to generate income.*

COVID-19 prevention measures should be designed, implemented and monitored by market authorities. In the medium term, livestock market information systems should be reinforced. Explore livestock tax and quarantine service fee-relief or subsidies during the emergency.

b. *Stimulate offtake of animal through strategic subsidies*

When livestock to cereal ratio falls by 25%, it is advisable to consider interventions that facilitate commercial de-stocking. This can take several forms such as improving linkages between buyers and sellers, tax relief or subsidies, transport facilitation and subsidies, or vouchers for vulnerable producers. This intervention will provide immediate relief to target households, and help stimulate the stagnant market system. It will also help to reduce the problem of large herd sizes and over-grazing, which will be particularly important if the desert locust situation worsens.

c. *Support milk value chain actors, to ensure business continuity*

This intervention will take the form of strategic support for female-entrepreneurs working in the milk trade, to enable them to operate their business and continue to earn income for their households. The intervention could look at subsidies to stimulate more reliable and frequent transportation, or direct subsidies to milk traders to bring down their transportation costs. This intervention will help stimulate purchases of milk from vulnerable households producing milk, and bring down the price of milk for urban consumers, helping to mitigate against lost purchasing power.

d. *Help sustain a functioning animal health services system*

Support private veterinary pharmacies and community animal health workers to continue provision of quality veterinary drugs and care to livestock producers, in order to keep healthy and productive animals. Provision of training and PPE to animal health workers, and subsidize veterinary inputs vouchers to producers should be considered following careful assessment of the situation.

e. *Support producers with smart subsidies for feed/fodder*

Depending on the impact of Desert Locusts on pasture, provide smart subsidies for feed and/or fodder to pastoralists and agro-pastoralist households, to help them maintain a healthy core herd despite limited access to pasture. This intervention will improve the resilience of livestock holders, and help them quickly rebuild productive herds after the crisis.

7.6. Businesses and employment

The assessment findings show that enterprises are suffering large falls in demand/sales, and this is having serious implications for their ability to maintain operations and their workforce. The following response recommendations aim to strengthen support systems for businesses that will help them to survive the

crisis, and position them to thrive during the recovery period (Objective II). The crisis also represents a new opportunity to scale-up delivery mechanisms for business development services (BDS), and this is included as one of the response options (contributing to Objective III).

a. *Support government to develop policies that provide relief for enterprises:*

Since the Somali Region COVID-19 response plan for May to July does not include a plan to support the business community, Mercy Corps should advocate for this to be included in the revised response plan for the period from August onwards. Mercy Corps should facilitate discussions between government and key stakeholders including the business community (e.g. working with the Regional Chamber of Commerce) and financial service providers, to identify needs and solutions, and provide technical support to government to develop an appropriate plan for support to businesses, including improved monitoring of impacted businesses and measures such as tax relief and improved access to information.

b. *Provide a business survival / support package for the most vulnerable business owners*

For businesses most at risk of collapse, provide financial support to help them to survive, retain their workforce, and operate a functioning business. This support could include a contribution towards rent or utility costs, support for raw materials purchase, and subsidies for transportation costs. Where possible, this would be implemented in partnership with government, help to incentivize government support for businesses as part of their support plan.

c. *Support businesses in key sectors to adopt new business approaches:*

The survey found that many businesses are already trying to adapt to the new crisis context, and Mercy Corps should play a catalytic role to accelerate these adaptations. By providing small grants, and technical assistance, this intervention would enable businesses to adopt new approaches that sustain and diversify their business operations. This should include support businesses in key sectors to adopt safe working practices that reassure government they should be allowed to continue operations (e.g. local meat processing enterprises or the transportation sector). Mercy Corps should also look at supporting increased home-working capacity and home-delivery (including using digital platforms), in particular targeting female business-owners so they are better able to balance business and family responsibilities. For example, in Jigjiga Mercy Corps has supported local food micro-enterprises (such as *Muqmad*) to establish production stations at their homes.

d. *Facilitate market linkages to new input sources and end customers:*

The rapid assessment indicated that significant numbers of businesses normally source their inputs from Somalia and Djibouti, or sell their products to these bordering countries, which has been interrupted by the crisis. Mercy Corps should support businesses to use this opportunity to build market linkages with other parts of Ethiopia, helping them to remain operational and laying the foundation for future growth by accessing new sets of customers in country. An example of this is Mercy Corps' support for sesame processing enterprises in Dollo Ado, which have lost their market in Somalia, to build business relationships with buyers in Addis Ababa.

e. *Strengthen business management skills and support during the crisis:*

More than half of businesses surveyed through this assessment identified access to business skills and advice as a key need that will help them through the crisis. To address this need, Mercy Corps should launch a Somali-language version of our successful MicroMentor platform, which links micro-enterprise owners with a more experienced mentor business-owner. The

COVID-crisis context presents an opportune moment to launch MicroMentor. Movement restrictions are forcing businesses to adapt, and our survey of FSPs found that micro-entrepreneurs are increasingly relying on digital cash payments for trade and loan payments. The business mind-set and strong linkages between Somalis within Ethiopia and across borders, including refugee and diaspora populations, means we expect MicroMentor to scale rapidly. The MicroMentor approach should be adapted for the crisis to include provision of guidance and support to mentors to help them advise mentees on how to navigate the crisis, including emotional support, motivation, financial planning, crisis management, and adapting business models. Equally importantly, mentors will provide guidance to micro-enterprises to prepare them for the recovery, so they are able to bounce back quickly.

CONTACT

WILLIAM BARON

Director of Programs | Mercy Corps Ethiopia
wbaron@mercycorps.org

MAHLET SEIFU

Team Lead: Diversified Economic Opportunities | Resilience in Pastoral Areas (RiPA)
mseifu@mercycorps.org



This assessment is co-funded by the European Union through the EU Trust Fund - Strengthened Socio-Economic Development and Better Employment Opportunities for Refugees and host Communities in the Jijjiga Area (STEDE) program

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.



mercycorps.org