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ABSTRACT

This paper focused on the economic impact of the COVID-19 pandemic on the small-scale businesses in Mogadishu, Somalia. The paper further provided more updates and a comprehensive understanding on the recent pandemic trends and how it adversely affected the small-scale businesses in Mogadishu. 50 small-scale businesses participated in the study and the result has showed that the pandemic had negatively impacted the performance of small-scale businesses. The study further showed that pandemic caused businesses to delay payments on liabilities, disrupted its supply, sales debt had increased, effected employees' retentions, and expediated cash collections. Despite the serious coronavirus effect, most of the businesses were able to maintain their employees although some of them planned to laid-off employees due to low liquidity of the businesses but, the good thing was that businesses created proactive measures to cope with similar future shocks and built resilience.

Keywords: *COVID-19 pandemic, business performance, small-scale businesses, employment, government role.*

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INTRODUCTION

The momentum, the agility, and the unprecedented effect of the coronavirus pandemic known as COVID-19 Pandemic that has started in a disguise manner in China's Wuhan city in Dec 2019 has gone far and beyond boarders than the world predicted. The second wave of COVID-19 is on the rise and is still 'out of control'. The pandemic outbreak has posed innumerable challenges to the small-scale businesses that provide the biggest employment percentage of the Somalis and depend on daily cash revenue to sustain their business cycles. According to Oluoch (2016) Small and Medium Enterprises (SMEs) are crucial to all economies in the world, particularly developing or emerging economies like Somalia and to those similar countries with a major income distribution and employment obstacles.

The coronavirus pandemic has posed substantial financial loss in businesses and shrank remittance volumes which a considerable number of Somali households rely on and heftily the remittances enrouted to Sub-Saharan Africa is projected to decrease about 23.1% of less than what migrants send (World Bank, 2020). The pandemic has compounded and exacerbated the Somalia's fragile context and the informal economy that mainly based on agriculture, import, trivial exports, and posing difficulties for over 40% Somali households that rely on migrants remittance due to the remittance decrease of over 60% (UN Migration, 2020). Drastically, the downturn resulted that many businesses vanished slowly by slowly and become dissolvent creating a rampant an employment on the other hand.

Problem Statement

The coronavirus pandemic 2019 has been sufficiently studied globally and there are ample studies related to the COVID-19 pandemic done in Sub-Saharan African countries that deal with generally pandemic disruption on businesses. In Somalia, some of the published studies analyze how the COVID-19 affected the private sector, transport in general, and the justice system but, these studies did not focus directly on how negatively, the COVID-19 had economically impacted the small-scale business in Somalia. It is for that reason, why this study served an intervention to contribute and fill the literature gap to treat the negative economic impact of COVID-19 pandemic on the small-scale businesses in Somalia.

Objective of the Study

The general objective of this study was to empirically examine the economic impact of the COVID-19 pandemic on the small-scale businesses in Mogadishu, Somalia. The study was guided by the following specific objectives;

- Assessing the effect of COVID-19 on employment and performance of the small-scale business.
- Examining the government's role on supporting small scale businesses during or after the COVID-19 Pandemic.

Research Justification

This study intended to contribute and fill the gap of knowledge surrounding the economic impact of coronavirus on the small-scale businesses. The research desired to fill the literature gap since the economic impact of COVID-19 on small businesses was not done in Mogadishu, Somalia.

LITERATURE REVIEW

Coronavirus is not only the world-wide pandemic but, the Great Influenza Pandemic (Spanish flu) had posed in three main waves between 1918 to 1919 and some countries had a fourth wave in 1920 (Barro, Ursua, & Weng, 2020). The great Influenza Pandemic has introduced the world three main similar COVID-19 shocks and they are (i) decline in GDP and consumption (ii) morbidity and mortality, and (iii) effects on supply chain and world movement restrictions.

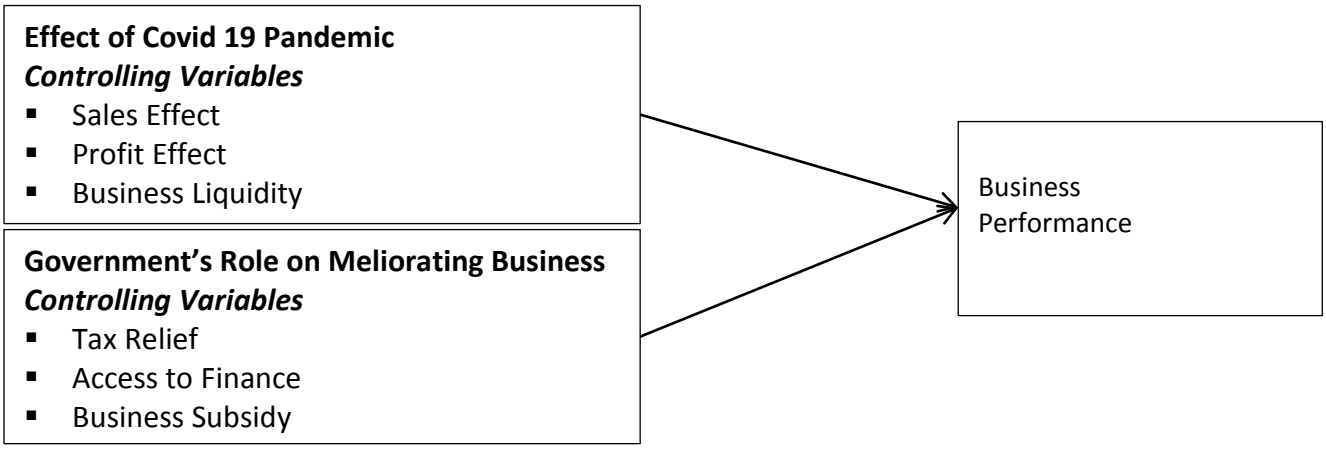
Noor, Khairul, & Juliana, (2020) studied the Impact of Covid-19 Pandemic Crisis on microenterprises: Entrepreneurs' Perspective on Business Continuity and Recovery Strategy, the researchers identified that Covid-19 pandemic epidemics have led many countries to impose travel restrictions and movement controls and this controls have directly

impacted micro enterprise and small business and reduced income due to the closure of several supporting sectors such as retails and transportation. Additionally, Stavros, (2020) studied COVID Impact on Small Business, the researcher showed that the attack of COVID 19 has affected human lives and economies to a great extent due to the lockdown and restrictions taken as measures and stop the spread of the coronavirus are caused to shut down many small businesses permanently their study also showed. The major victims of COVID 19 are micro, small, and medium sized enterprise due to the supply chain disturbance, reduction in sales and profit marching among consumers and producers (Mohsin & Junrong, 2020). Similarly, Corti, et al., (2020) studied how has the COVID-19 pandemic impacted Ugandan businesses? Results from a business climate survey, the researchers indicated the COVID 19 have effected small and medium businesses, their paper was indicated the most of the small business operating expense was increase due to the preventive measures imposed by the government to stop the spread of the virus. Also, the transportation restriction was affected the agricultural enterprises. The most affected were Small and Medium Enterprises and women entrepreneurs; due to limited resources unable to resist continued uncertainty and government restrictions (Salome & Stephen, 2021).

Theoretical Framework

The coronavirus has posed serious threat to the small-scale businesses and there is a limited theory for such outbreaks due to its novelty. (Chen, 1996) has explained and predicted introducing the awareness motivation capability (AMC) framework if a firm able to respond to an external threat. (Craighead, Ketchen Jr, & Darby, 2020), proposed and outlined a serious of theories and tools instructing organizations how they need to respond in this COVID-19 pandemic and beyond and how can be adjust the supply in case other similar shocks arose in the future. Business organizations can invent new approaches to deal effectively with pandemic employing the ideas offered by Plato, the Greek philosopher that says “necessity is the mother of invention.” Due to the limited and requisite resource available to women, MSMEs owned by women are prone to fail more than MSMEs owned by men (Hannan & Freeman, 1984).

When movement were strictly restricted and many business locations were closed to curb the spread of the pandemic, some businesses quickly innovated ways to survive and started to quickly exploit the condition changing their mode of business operations by providing online services and orders i.e. supermarkets, restaurants, online service providers started offering free deliveries to their customers and expressed flexibility to retain their loyal customers and attract new ones. Lin Qingxuan is one of the Chinese company that has effectively exploited and turned the pandemic disaster into opportunity after it has suffered initially a 90% collapse of business sales and in response to this huge loss, Lin Qingxuan developed digital engagement strategy that become successful within very short time (Jacobides & Reeves , 2020).



Empirical Model

This Study employs Shephard's lemma to get the demand function of;

$Min\ C = P_1X_1 + P_2X_2$

S.t $U_0\ (X_1, X_2)$.

This was given the following Lagrangian function;

$\mathcal{L} = P_1X_1 + P_2X_2 + \lambda(U_0 - X_2, X_2)$

$\frac{\partial \mathcal{L}}{\partial X_1} = P_1 - \lambda X_2 = 0$ .....(1)

$\frac{\partial \mathcal{L}}{\partial X_2} = P_2 - \lambda X_1 = 0$ .....(2)

$\frac{\partial \mathcal{L}}{\partial \lambda} = U_y - X_1X_2 = 0$ .....(3)

Dividing equation (1) by (2) yields; $\frac{P_1}{P_2} = \frac{X_2}{X_1}$

Therefore, $X_1 = X_2\frac{P_2}{P_1}$, $X_2 = X_1\frac{P_1}{P_2}$ .....(4)

Substituting the value of X_1 in to U_y we get; $U_0 = \frac{P_2X_2}{P_1}X_2$ It follows that U_0 ; $\frac{P_1}{P_2} = X_2^2$ .....(5)

Therefore, the empirical function of the study is given by; $BP = F(CEB, CEE, BRA, GR)$ .....(6)

Where BP = Performance of Small-Scale Businesses (dependent variable)

CEB = COVID-19 effect on businesses

CEE = COVID-19 effect on employees

BRA = Business resilience and adaptation

GR= Government's role on supporting small-scale businesses

The equation can additionally be written in linear form as follows:

$PB = \beta_0 + \beta_1 + \beta_2 + \beta_3 + \beta_4 + \varepsilon$ ..... (7)

$BP = \beta_0 + \beta_1 CEB + \beta_2 CEE + \beta_3 BRA + \beta_4 GR + \varepsilon$.....(8)

Where BP is Business Performance (dependent variable); β_0 is a constant; β_1, β_2, β_3, and β_4 are slope coefficients that measure the optimal productivity of business performance; CEB, CEE, BRA & GR respectively are (independent variables); and Ɛ is the error term or residual (Other explanatory variables not mentioned in the model).

METHODOLOGY

This study employed a descriptive research design and structured questionnaire as primary data that were sent to 50 Somali small and medium sized enterprises electronically via emails due to the COVID19 outbreak and lockdowns. Due to the uncertainty and other effects of this COVID-19 pandemic, exploiting electronically distributed questionnaires was viable and curbs pandemic contractions. Entrepreneurs were asked the Economic Impact of the COVID19 Pandemic on the Small-Scale Businesses in Mogadishu, Somalia. Specially, the structured questionnaires focused on the economic impacts of the business including productivity, price changes, employments, and cash constraints. The data were analyzed by using IBM SPSS V20 and STATA ver. 15.1.

Data

The data used for this study was obtained from 50 Somali small and medium sized enterprises in Mogadishu that were collected from May to June 2021.

FINDINGS

The COVID-19 pandemic outbreak has economically impacted the small-scale businesses in Mogadishu, Somalia. In the contemporary history, the coronavirus pandemic become one of the largest economic disruptions that the world has gone through.

This section discussed and analyzed the results of the economic impact of COVID-19 pandemic on small-scale businesses in Mogadishu, Somalia.

Respondent's Demographic Characteristics

The Table below showed that 72 percent of the respondents were male in the research area which means that women had no similar roles to their male counterpart and get little opportunity to be employed. According to the participant's age bracket, 54 percent were above 31 years old while 28 percent were had an age bracket of between 26-30. In terms of respondent's qualifications, 82 percent had university degree and this number

further showed that recently, businesses were outsourcing graduates and that is why most of the businesses interviewed had a financial record keeping.

Table 1. Respondent's Demographic Characteristics

Gender of Respondents	**Frequency**	**Percent**
Female	14	28%
Male	36	72%
Total	**50**	**100%**
Respondents Age Bracket	**Frequency**	**Percent**
20-25	9	18%
26-30	14	28%
Above 31	27	54%
Total	**50**	**100%**
Highest Level of Education Attained	**Frequency**	**Percent**
Primary Education	2	4%
Secondary Education	5	10%
University Education	41	82%
Other	2	4%
Total	**50**	**100%**

Business Characteristics

Notably was that respondent's status in businesses were mostly employees at around 62 percent and did not own the business centers and only 38 percent out of the total respondents owned the businesses they were operating as the below Table 2 illustrates. Subsequently, 70 percent of the studied businesses were partnership while only 30 percent of the businesses were in the state of sole proprietorship. At around 22 business centers (44%) had 1-5 employees while 14 business centers had above 16 employees. In regards to the financial records keeping, 84 percent had a system and only 16 percent of businesses had no any form of financial records keeping. Moreover, the study showed that around 62 percent of the business used cashbook while the businesses that practiced sales journal as a means of keeping records were around 38 percent.

The epicenter of the study was to assess the impact of COVID19 pandemic and how it had significantly impacted the functionality of the businesses in Mogadishu. 66 percent of the study participants revealed during the interviews that businesses were partially closed followed by 20 percent who experienced a complete business closure and only 14 percent of the study participants' business were running fully.

Table 2. Business Characteristics

Respondent's Status in Business	**Frequency**	**Percent**
Employee	31	62%
Owner	19	38%
Total	**50**	**100%**
Nature of the Business	**Frequency**	**Percent**
Partnership	35	70%
Sole Proprietorship	15	30%
Total	**50**	**100%**
Current Employee Number	**Frequency**	**Percent**
1-5	22	44%
11-15	6	12%
6-10	8	16%
Above 16	14	28%
Total	**50**	**100%**
Financial Records Keeping	**Frequency**	**Percent**
No	8	16%
Yes	42	84%
Total	50	100%
Records Kept	**Frequency**	**Percent**
Cashbook	31	62%
Sales Journal	19	38%
Total	50	100%
Business Status During the COVID-19	**Frequency**	**Percent**
The business was closed	10	20%
The business was partially closed	33	66%
The business was running fully	7	14%
Total	**50**	**100%**

Business Performance

Descriptive Statistics

Table 3. Descriptive Statistics

	Mean	Std. Deviation	Skewness	Kurtosis
BP	10.8600	2.59521	-1.314	1.615
CEB	9.1800	3.46227	1.237	2.391
CEE	10.3600	3.15427	.934	2.604
BRA	5.2000	1.61624	.961	1.941
GR	7.5600	2.33133	-1.041	.491
Valid N (listwise)				

The above table 3 indicated that the most of the variables were normally distributed, except business performance variable, and the government role on tax ameliorating variable which showed negative skewness, this result was supported by the skewness and kurtosis statistics which indicates that most of the variables are significantly distributed and have positive skewness which means that the distribution has a long right tail. Additionally, the mean and the standard deviation of the all variables showed strongly positive which indicates that the most of the respondent provided same answer to the survey questions.

Table 4. Regression Result

```
reg BP CEB CEE BRA GR
```

Source	SS	df	MS		
				Number of obs	= 50
				F(4, 45)	= 7.00
Model	126.611271	4	31.6528178	Prob > F	= 0.0002
Residual	203.408729	45	4.52019397	R-squared	= 0.3836
				Adj R-squared	= 0.3289
Total	330.02	49	6.73510204	Root MSE	= 2.1261

BP	Coef.	Std. Err.	t	P>|t|	[95% Conf.	Interval]
CEB	-.0390903	.1173364	-0.33	0.741	-.275418	.1972374
CEE	.1269357	.1467852	0.86	0.392	-.1687049	.4225763
BRA	.6543452	.2794216	2.34	0.024	.0915612	1.217129
GR	.2764683	.1370834	2.02	0.050	.0003681	.5525684
_cons	4.4111	1.316194	3.35	0.002	1.760149	7.062051

Source Computed Results (STATA 15.1)

The above **Table 4** showed that the p-value was (**0.0002**) of the model was reliable and lower than 5%. It showed that the model was statistically significant between the relationships of the dependent and the independent variables. Moreover, the $\mathbf{R^2}$ of the model illustrated that the amount of variance between the dependent and the independent variables was **38.36%** which explained the variance in SAT scores. Additionally, the model indicated that the adjusted $\mathbf{R^2}$ is **32.89%** which is very close to the $\mathbf{R^2}$ and this has evidenced that there are more reliable associations between the dependent and the independent variables in the model.

In regards to the COVID-19 effect on businesses, the model showed that an increase of COVID-19 pandemic effect on businesses decreases the business performance by **-0.0390** and this effect is supported by the t-value of **-0.33** which reveals that it is statistically significant and less than the critical value of 5%. Therefore, COVID has a negative impact on the performance of the small-scale businesses in Mogadishu and an increase of its effect increases the potentiality of businesses to delay payments of liabilities, disruptions in its supply, sales debt increases, and cash collections. In respect to the COVID-19 effect on employment, the study has shown that an increase of pandemic effect on businesses increases the business to laid off its employees and reduce their wages by **0.1269.** Therefore, the pandemic has not only seriously impacted the business performance but, also businesses are not able to maintain their employees or reduced by their wages and this is supported by the t-value of **0.86.** Similarly, the study has assessed the business resilience and adaptions to the COVID-19 pandemic and it has concluded that an increase of the pandemic effect on business increases the small-scale businesses to implement proactive measures to cope with similar future shocks by **0.6543** and this is supported by the t-value of **2.34.** Finally, the study has assessed the government's role on supporting small-scale businesses and the study revealed that the government has shown a little interest to support the small businesses during the COVID-19 (**0.2764, t-value = 2.02).**

Therefore, the constant alpha of the business performance during COVID-19 is **4.4111** when COVID-19 effect on businesses, COVID-19 effect on employment, businesses resilience and adaptation, and government's role on supporting small-scale businesses are equal to 1 or 0.

Thus, the regression model of the equation is as follows;

$$\boldsymbol{BP = 4.111 - 0.0390CEB + 0.1269CEE + 0.6543BRA + 0.2764GR + \varepsilon}$$

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Correlation Result

Table 5: Correlation Result

```
. correlate BP CEB CEE BRA GR
(obs=50)
```

	BP	CEB	CEE	BRA	GR
BP	1.0000				
CEB	0.3390	1.0000			
CEE	0.4725	0.6312	1.0000		
BRA	0.5615	0.5915	0.7062	1.0000	
GR	0.4011	0.2123	0.2551	0.3055	1.0000

Source Computed Results (STATA 15.1)

This correlation measure was used to evaluate the degree of the linear relationships between the five variables and it has been identified that they are highly correlated and the study participants gave similar answers.

CONCLUSION AND RECOMMENDATION

Based on the obtained results from this study being done in Mogadishu, most of the businesses were partially closed and other substantial number experienced a complete businesses closure. The study further showed that an increase of the COVID-19 effect on business decreases the business performance but, the positive thing was that businesses were able to continue functioning, implemented proactive measures to cope with similar shocks, and had financial record keeping systems. The study also revealed that more than 80 percent of the businesses were run by male graduates and female graduates got little opportunity to be employed due to different circumstances. Finally, the study found that COVID-19 caused substantial number of businesses lay off their employees and were not able to maintain them due to the corona disruptions and low liquidity of their businesses.

The study found that the COVID19 impacted negatively on the performance of the Small-Scale Businesses and the government did not take actions to ameliorate the small-scale businesses performance by exonerating from paying tax or subsidizing businesses. Furthermore, the study showed that small-scale businesses are practicing financial record keeping which is vital to the success of the SMEs performance. The study also showed that most of the businesses interviewed succeeded to build resilience, cope with the pandemic, and retain their loyal customers and employees despite most of them experienced partially or fully closure and planned laying-off employees if the situation continues to be the same. Finally, this paper recommended that government seriously consider the importance of the performance of the small-scale businesses and since SME's access to finance is a critical issue to facilitate loans without interest during and post the COVID19 era which will help businesses to continue existing.

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