



BANK OF PAPUA NEW GUINEA

BUSINESS PULSE SURVEY REPORT

**Assessing the
impact of the
COVID-related
measures on the
Micro, Small, and
Medium Enterprises
in Papua New
Guinea.**



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BANK OF PAPUA NEW GUINEA
P.O. Box 121, Port Moresby**

Table of Contents

EXECUTIVE SUMMARY.....	i
1. BACKGROUND.....	2
2. METHODOLOGY	2
3. SURVEY RESULTS.....	2
3.1. Respondent's Profile	2
3.2. Impact of COVID-19 on the MSMEs	4
3.3. Business Adjustment Strategy	5
3.3.1 Reduction in Labour cost	6
3.3.2 Use of Technology.....	7
3.3.3 Product Diversification.....	8
3.3.4 Working from home	9
3.3.5 Assistance from Government and Financial Institutions	9
3.4. MSME Business Prospect	10
3.5. Issues and Challenges.....	12
4. POLICY RECOMMENDATIONS	13
4.1. Short and Medium-term	13
4.2. Long term.....	13
REFERENCE	14
APPENDIX.....	14

EXECUTIVE SUMMARY

The outbreak of the novel coronavirus in China had brought the world down on its knees. The consequences of the pandemic on the Papua New Guinea (PNG) economy is quite profound, which filtered down through to all businesses. Therefore, the Governor of the Bank of Papua New Guinea sanctioned this business pulse survey to assess the effects of the first lockdown and the State of Emergency (SOE) on business activities. Unlike other related surveys, the focus was on the Micro, Small, and Medium Enterprises (MSMEs).

The survey questionnaire was designed by the World Bank and modified slightly to suit the PNG situation. There were issues with selecting a representative sample due to a lack of proper database for the MSMEs and therefore, a population survey was conducted. A combination of face-to-face and online methods were utilized. The provinces where face-to-face surveys were conducted in addition to the online survey are; National Capital District, Central, Milne Bay, West New Britain, East New Britain, New Ireland, Morobe, Madang, East Sepik, Eastern Highlands, Western Highlands, Jiwaka, and Simbu.

The survey found that the measures imposed by the government to contain the spread of the COVID-19 had detrimental impacts on domestic business activities. The findings showed that the MSME sector was severely affected during the lockdown and SOE periods. The restriction on transport forced many transport operators to ground their vehicles, which in turn disrupted the supply chain of other associated MSMEs. The restriction on labour mobility led to a fall in consumer spending and disruption to cash flow. The subsequent contraction in sales revenue reduced profitability and raised the likelihood of loan arrears for businesses with existing commercial loans. These difficult situations forced the MSMEs to downsize employment and investments to circumvent financial distress.

Moreover, MSMEs reported that arduous and stringent requirements on a loan application are restricting them from accessing credit to fund activities during the period of restrictions. The firms with existing commercial loans were concerned that they did not benefit from the loan repayment holiday imposed by the Bank of Papua New Guinea. They stated that loan deductions continued during the period when the measure was supposedly in effect. While most businesses surveyed had little knowledge of government support, some applied for tax deferrals and utility subsidies. It was revealed that businesses need urgent cash flow support to sustain current operations. Thus, those who provided services to the Government require some payments of their outstanding invoices. Others mentioned that policy interventions in areas of tax and rental deferrals, and utility subsidies would assist businesses to save cost and build cash buffer to sustain their operations under the current circumstance.

Overall, the survey found compelling evidence of the negative impacts of COVID-related measures on domestic businesses. With the latest rise in domestic transmission of the disease, likely, the business activity would further deteriorate. The assessment of the business prospects revealed a mixed outlook with so much uncertainties.

To build resilience and support business growth during and after the pandemic, this report contributes to some policy recommendations based on the issues and concerns gathered from the survey. It proposes ways in which the Bank of Papua New Guinea in collaboration with the Government can assist the locally owned MSMEs during this difficult time.

1. BACKGROUND

The outbreak of novel coronavirus (COVID-19) in China had brought the world down on its knees. The spread of the disease had caused severe human suffering and enormous economic disruptions around the world. The containment measures imposed by governments such as restrictions on travel and labour mobility had detrimental impacts on the global economy through disruption in the supply chain, demand for final goods and services, and a rise in financial risk, and fall in consumer and business confidence (OECD, March 2020).

In March 2020, the PNG Government introduced responsive measures involving a shutdown and the State of Emergency in addition to the quarantine measures to contain the spread of the disease in the country. The measures impacted adversely on the PNG economy, and combined with the global spillover effects of COVID-19 had taken a toll on the economy. In response, the national Government announced a stimulus package of K5.6 billion to build resilience and support growth in the economy. Therefore, to help the Government make informed decisions on the implementation of its rescue fiscal plan to support businesses during and after the pandemic, the Bank of Papua New conducted a Business Pulse survey.

Unlike other surveys already conducted, this survey examined the impact of Covid-19 on the locally owned Micro, Small and Medium Enterprises (MSMEs) in the country. For the purposes of this survey to simplify the definition, the survey broadly considered any registered business with employees between 1 and 50 and turnovers

of less than or equal to K3 million as an MSME¹.

2. METHODOLOGY

The survey used a combination of paper-based and online methods to collect data. The Kobo Toolbox was utilized to collect survey feedback online.

Given the lack of data on MSMEs in the country, a population study was conducted. A sample could not be determined from the Internal Revenue Commission and SME Corporation supplied data due to the lack of the firm-level information. Their data only contained lists of company names including corporates and foreign-owned businesses.

The survey broadly covered the four regions of the country. As at the time of this report, a total of 1735 businesses across different economic sectors were surveyed. Thirteen provinces were covered, viz. National Capital District, Central, Milne Bay, Morobe, Western Highlands, Jiwaka, Eastern Highlands, Madang, East Sepik, New Ireland, East New Britain, West New Britain, and Simbu mostly through the face-to-face and online survey. The survey responses from other provinces were mainly collected online.

3. SURVEY RESULTS

This is a qualitative survey based on respondents answers and on who was interviewed/surveyed so the results should be treated with some caution.

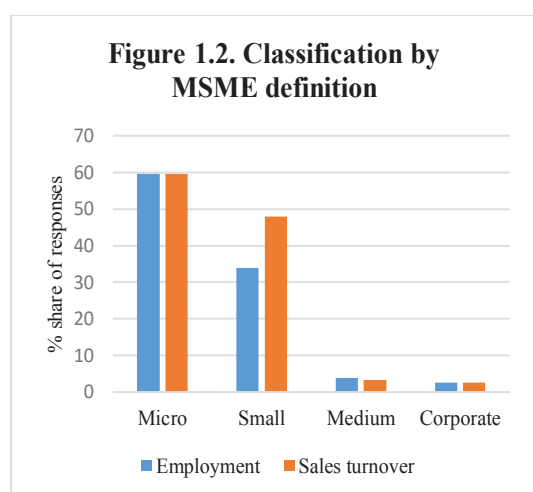
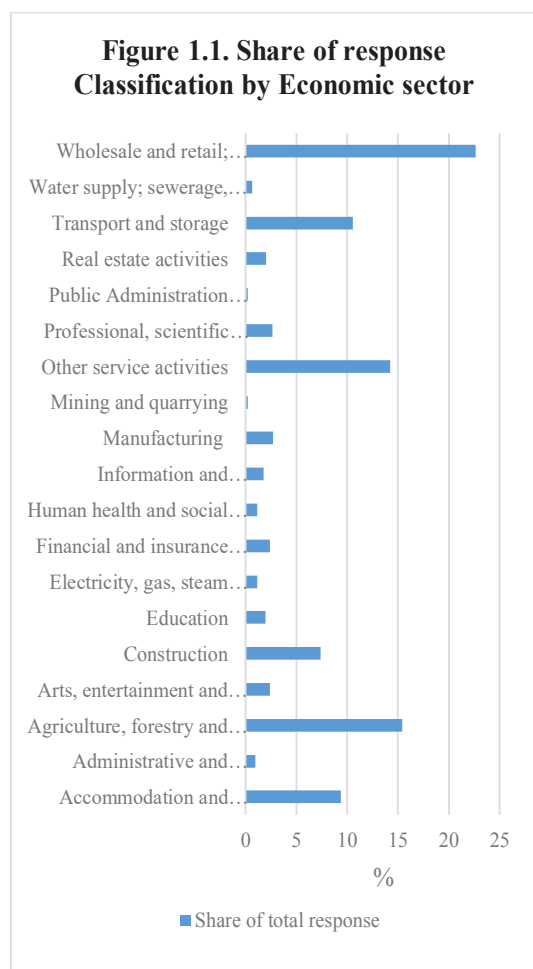
3.1 Respondent's Profile

Figure 1.1² shows that most of the businesses are from the 'wholesale and retail', 'agriculture, forestry and fisheries',

¹ Table 1 in the appendix provides detailed specifications on the definition.

² The PNG Standard Industrial Classification Guideline – Revision 4 of NSO was used to classify businesses into various economic sectors.

‘transport and storage’, and ‘accommodation and food services’ sectors. These businesses accounted for about 72% of the total respondents. Further, the majority of those businesses fall under the MSME category as shown in Figure 1.2.



In terms of business ownership, Figure 1.3 demonstrates that most of the businesses

surveyed are owned by males than females. On average, less than 20% of the total business surveyed are exclusively owned by females. This suggests that there exists a huge gender disparity in the ownership of MSME businesses in PNG. This result signifies that gender inequality is not just a social problem in the country but also a business issue (Munzo, 2019). According to Mishra, Odhuno, and Smyth (2017) the principal factors that hinder females in PNG to expand or operate a business are; lack of financial literacy and few professional and social networking among women. These obstacles often disadvantage many of the women from accessing finance and business advisory services than men.

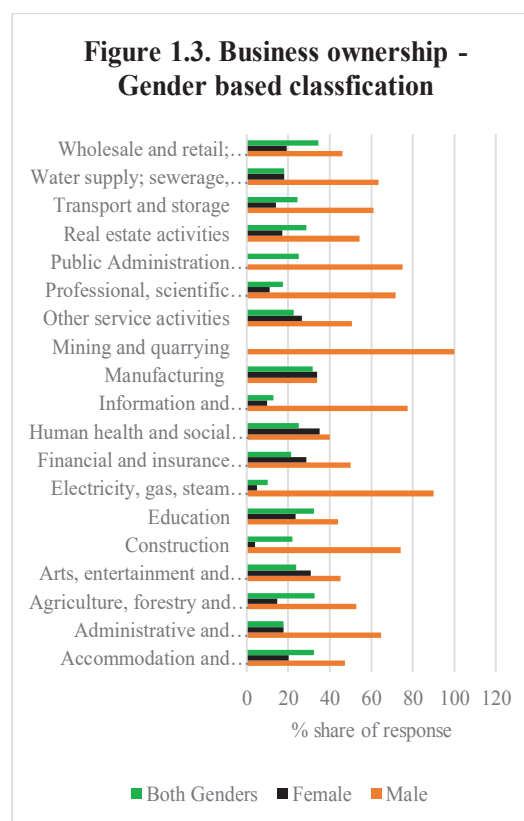
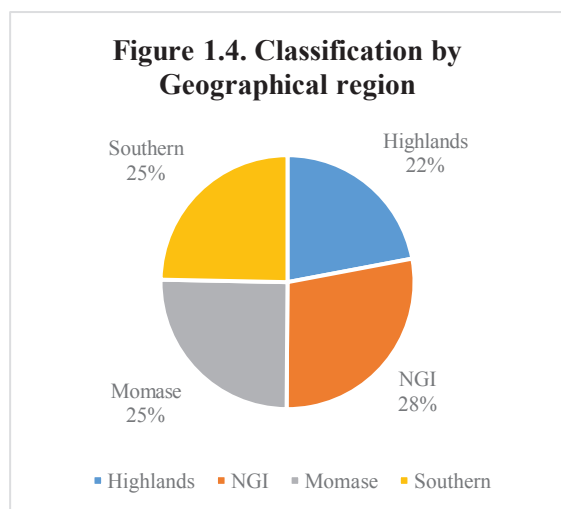


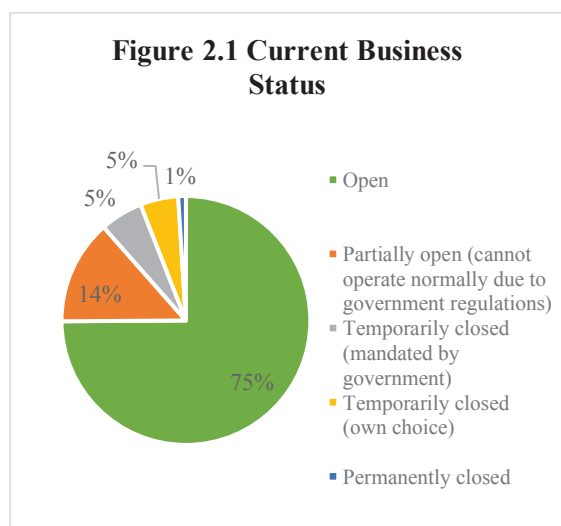
Figure 1.4 portrays that the survey has a fair representation of the four regions. While the results from the survey are likely skew towards the Micro and Small enterprises mainly in the five stated economic sectors, there is a good representation in terms of geographical spread. It is expected that the outcome from the Business Liaison Survey

conducted by the Bank, which covers the corporate entities would assist towards addressing the biases in the results of this survey.



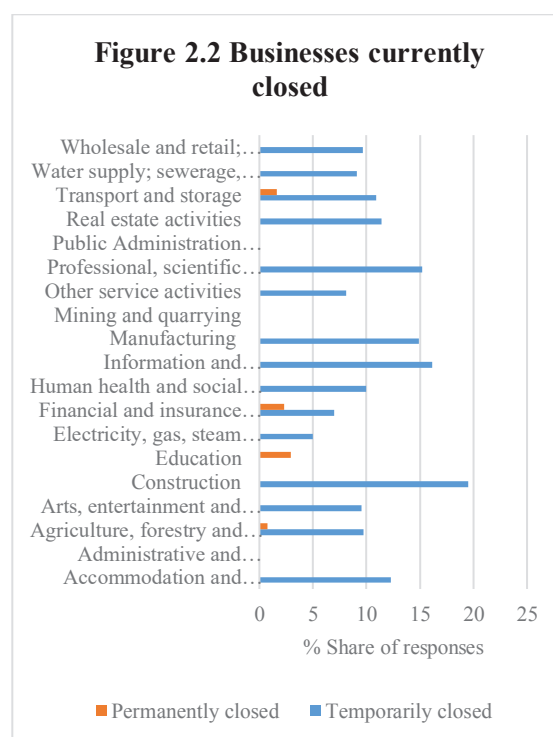
3.2. Impact of COVID-19 on the MSMEs

The containment measures introduced by the Government to prevent the spread of the disease in the country had detrimental impacts on business activities. Figure 2.1 shows that while the majority of the respondents remained open for businesses, some companies were temporarily closed and others were permanently out of business.



The results from Figure 2.2 presents the distribution of the businesses amongst the different sectors that are currently closed. The findings show that a few of the

businesses that are permanently closed are mainly from the ‘transport and storage’, ‘financial and insurance services’, and ‘education’ sectors. Over 10% of the respondents that were temporarily closed are mainly from the ‘accommodation and food services’, ‘construction’, ‘information and technology’, ‘manufacturing’, and ‘professional, scientific and technical services’ sectors. A recent report from the Tourism Promotion Authority presented similar results for the tourism industry (Tourism Industry Business Impact Survey, April 2020).



The assessment of the channels through which the COVID-imposed measures affected the businesses is presented in Figure 3. The findings indicate that mobility restriction measures disrupted the supply chain and resulted in a cash flow shortage. As fewer people moved around and spent on goods and services, sales revenue declined for most of the businesses as shown in Figure 4.1. The fall in revenue affected the repayments of existing commercial loans and expenses on input costs such as wages and salaries.

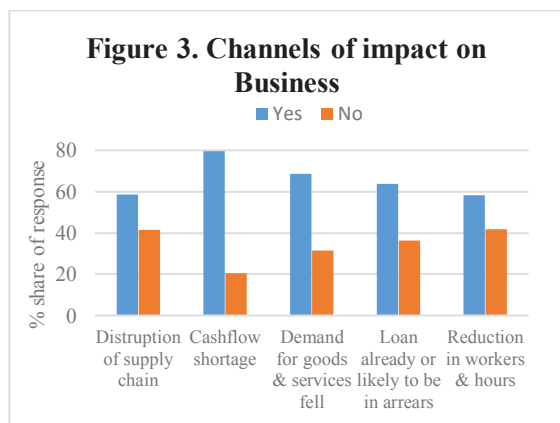


Figure 4.1 shows that about 78% of the respondents admitted that their sales revenue for June 2020 was lower than that of the corresponding period last year. In contrast, only 7% of the businesses reported an increase in sales, while about 11% said their sales did not change despite the shutdown.

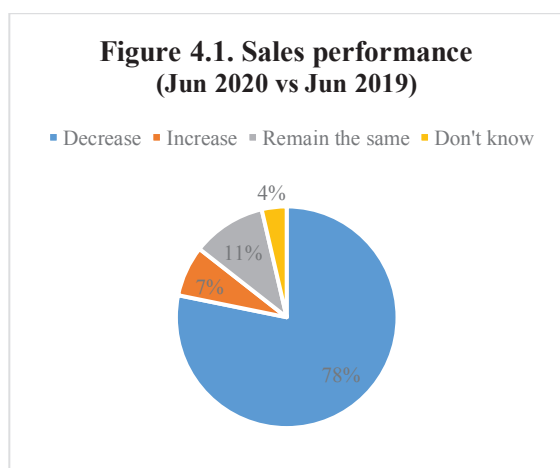
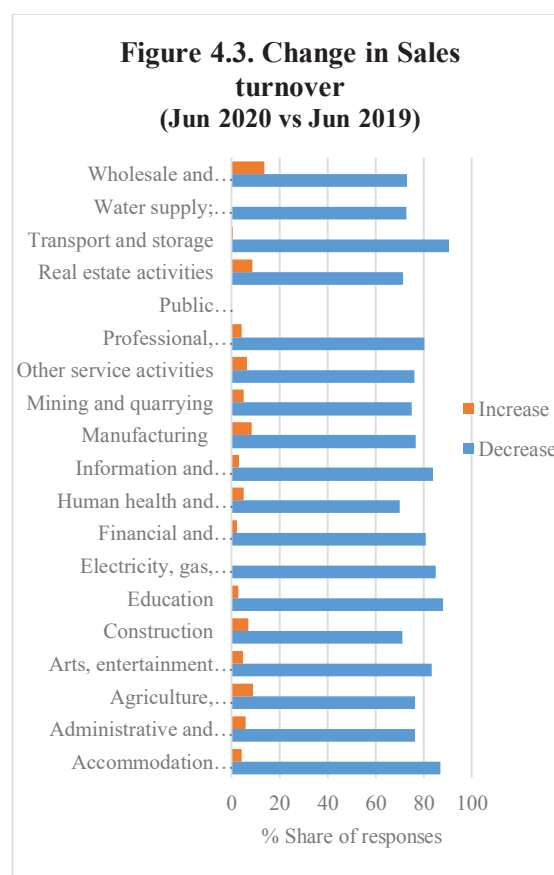
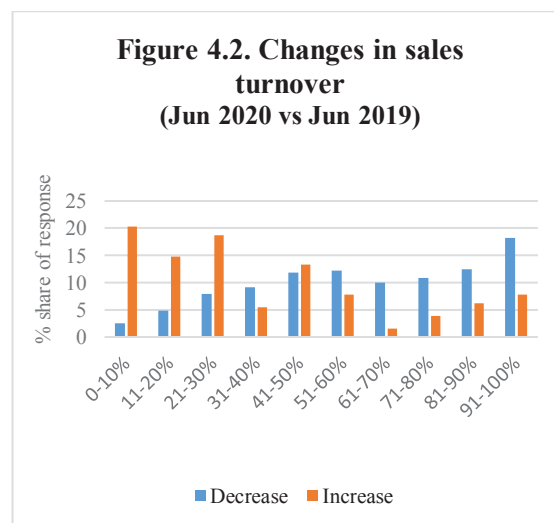


Figure 4.2 shows that about 76% of the respondents said their sales turnover declined between 50% and 100%. Those that reported increases in sales revenue were mainly from the 'wholesale and retail' sector as depicted in Figure 4.3. The businesses that have diversified their product mix and sold health products, and shops that operated during the shutdown benefited. However, Figure 4.2 reveals that increments in sales were mostly below 50%, which are lower than the magnitudes of reduction in sales. Therefore, the overall

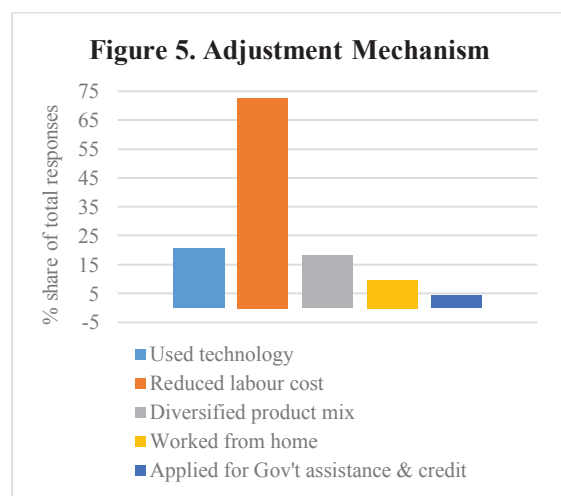
picture depicts depression in business activities.



3.3. Business Adjustment Strategy

The grim situation prompted most of the businesses that remained open to adopting cost-cutting measures to circumvent financial difficulty. Some MSMEs applied for government assistance and credits from financial institutions to support their

business operations. Figure 5 reports the type of measures the MSMEs have adopted to build resilience against the downturn.



3.3.1 Reduction in Labour cost

Almost 75% of the businesses have reduced their labour cost to compensate for the losses in revenue. They stated that labour cost constitutes a larger share of their overhead cost. Thus, businesses used a combination of measures such as layoffs, reduction in working hours and benefits, and leave of absence to minimise the labour cost.

Figure 6.1 reports that most of the businesses have downsized their workforce. We find that more male workers were laid off than females. For those who were retained by the businesses, more female workers had their benefits and working hours reduced than their male colleagues. At the same time, some businesses hired workers, which amounted to about 18% of the total change in the labour force within the MSME sector. Of the newly recruited workers, about 42% were females. As in the case of business ownership, gender inequality exists in the employment of labour. Unfortunately, the survey did not cover questions to identify possible factors contributing to the gender disparity in employment.

Figure 6.1 Composition of change in Employment June 2020

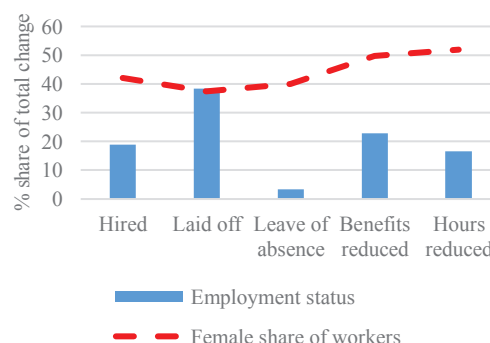


Figure 6.2. Composition of change in Employment June 2020

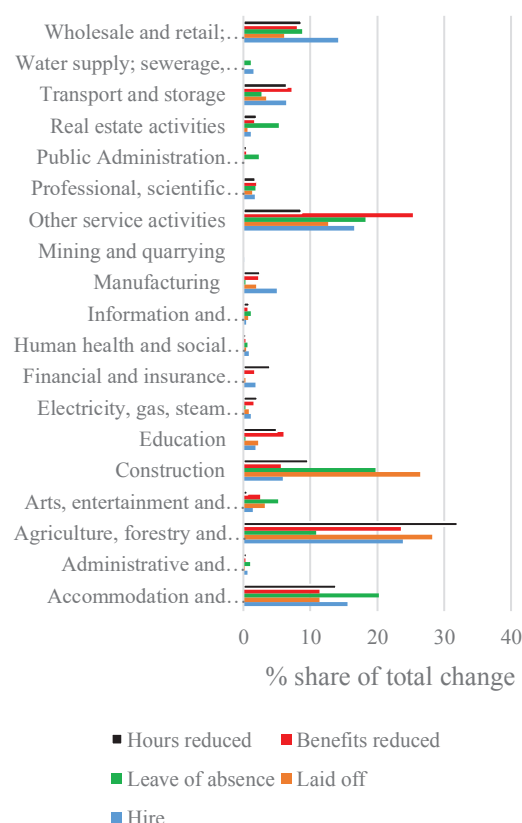


Figure 6.2 shows that the 'construction', 'agriculture, fisheries and forestry', and 'accommodation and food services' recorded large movements in employment. Many of the workers in these sectors were laid off since businesses were unable to cope with the reduction in sales amid the dramatic decline in consumer spending.

Likewise, for the workers who were retained, their wages and salaries were affected through a reduction in working hours and benefits, and leave of absence.

On the other hand, the ‘agriculture, fisheries, and forestry’ sector had the highest share of the hired workers. One reason could be that these employees were mainly seasonal workers. For example, businesses in the coffee industry explained that May and June are coffee bumper periods, hence, additional workers were hired to harvest and process the coffee beans.

3.3.2 Use of Technology

The survey found that the pandemic prompted about 20% of the MSMEs to utilise digital technology such as social media platforms and the internet to conduct businesses (Figure 5).

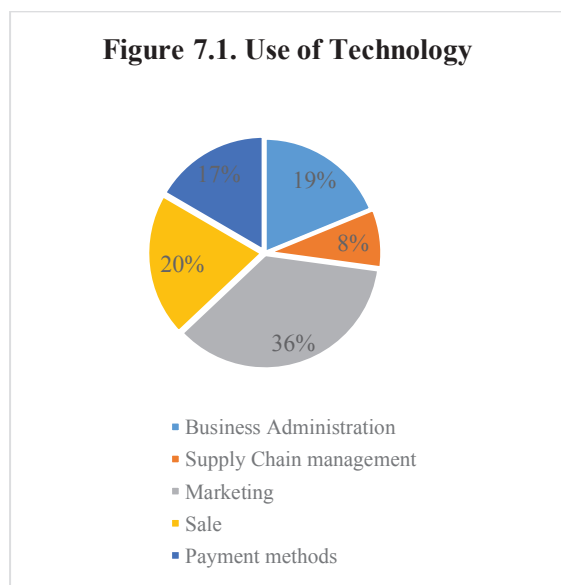


Figure 7.1 shows that businesses adopted digital technology mainly for marketing, sales, business administration, and payment purposes. Figure 7.2 illustrates the distribution of businesses across different sectors that used digital technology to maintain operations. The results show that businesses mainly in the service-oriented sectors that require technical competence

such as ‘information and communication’, ‘professional, scientific and technical services’, ‘education’, ‘arts, entertainment and recreation’, ‘real estate’, and ‘mining and quarrying’ had prominently utilised digital technology. The disproportion in the use of business technology within the MSME sector could be due to a lack of literacy on digital business technologies and high cost of internet services.

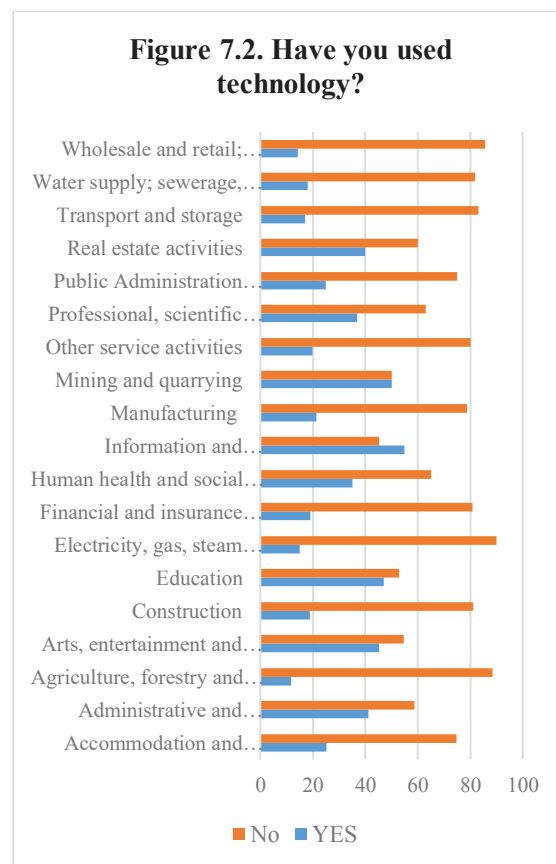
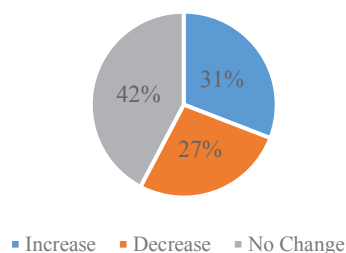


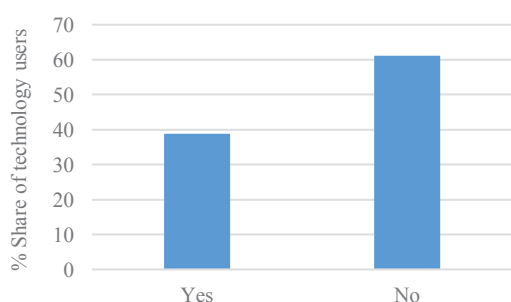
Figure 7.3 assesses whether the use of technology helped the businesses in terms of boosting their sales. About 31% of the technology users admitted that their share of sales using digital platforms increased, while 27% recorded a decline in digital sales and 42% reported no change. These results reveal that the MSMEs are tapping into harnessing the potential of technological innovations to support business operations.

Figure 7.3. Share of Sales using digital platforms
(% share of responses)



Moreover, the survey found that almost 40% of the users invested in new software and digital solutions to assist with operations as shown in Figure 7.4. The further analysis presented in Figure 7.5 shows that about the same number of businesses expressed interest to invest in new technology if funding assistance such as a credit guarantee is provided. These results are closely correlated with that presented in Figure 7.3. It seems that businesses that experienced an increase in sales from the use of digital solutions have invested in new technology. And therefore, if credit is provided, they are willing to invest in new technologies to expand the business.

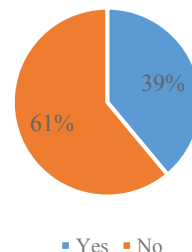
Figure 7.4. Have you invested in new digital solutions ?



The result of 61% having no interest to invest in new technology as according to Figure 7.5 is additional evidence that businesses struggle with cash flow problems and, hence, prefer to fund existing operations. Thus, there is a lacklustre appetite for investments in any form of

asset. According to Figure 7.3, these are businesses that reported decline and nil change in their digital share of sales, a majority of the respondents.

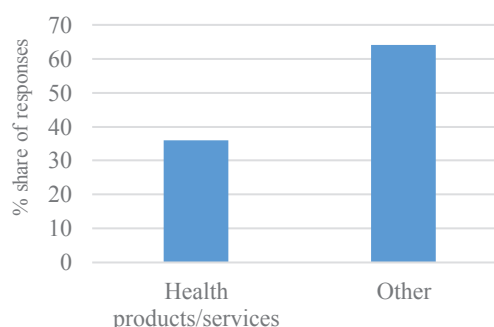
Figure 7.5. Would you invest in new technology if credit is provided?



3.3.3 Product Diversification

Figure 5 showed that about 17% of the MSMEs stated that they diversified their businesses.

Figure 8. Main changes in the Products/services mix



Of this, Figure 8 shows that 36% included health products and services in their product mix. Some said they ventured into selling pharmaceutical goods, spices, and herb products. They claimed that the pandemic presented an opportune time for businesses in health-related products and services. Health products such as hand-sanitizers and facemasks were of high demand at the time when the first case of the disease contraction was recorded in PNG and during the lockdown period. As panic grew, a lot of people were rushing to the shops for health products, which created

a perfect market for wholesale and retail businesses. Hence, this explains the increase in sales reported by about 14% of the businesses in the ‘wholesale and retail’ sector shown earlier in Figure 4.3.

3.3.4 Working from home

Only about 10% of the respondents had some of their employees worked from home (Figure 5). It can be inferred that technology permitted businesses to allow some of their staff to work remotely from home.

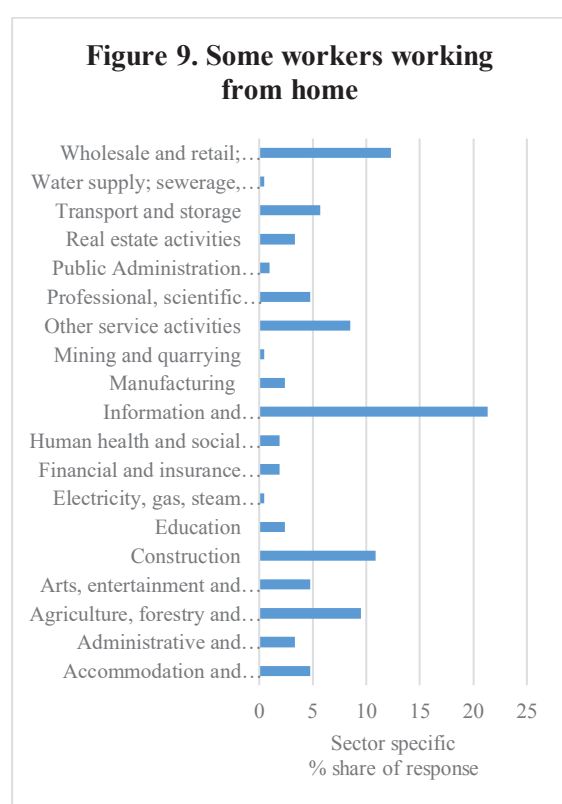
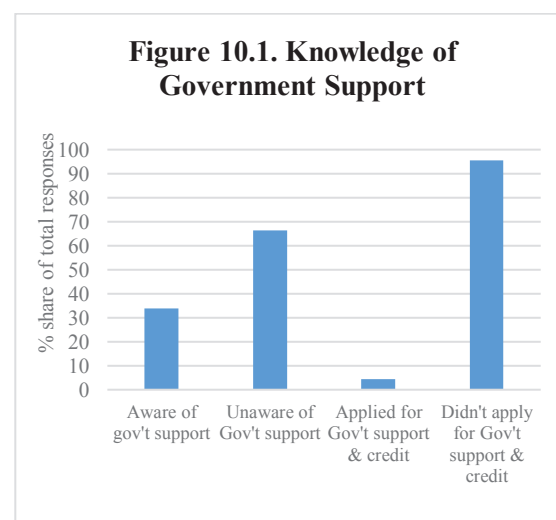


Figure 9 reports that businesses across the different economic sectors at least had some of their employees working remotely from home. It appears that most of the firms in the ‘information and communication’ sector allowed their staff to work from home during the lockdown. Interestingly, some of the businesses in the ‘wholesale and retail’, ‘construction’ and ‘agriculture, fisheries, and forestry’ sectors also had certain staff working from home. Without the data, it is difficult to determine the

different positions of staff who worked from home. However, it is assumed that they could mainly be staff who had remote access to business technologies and the internet.

3.3.5 Assistance from Government and financial institutions

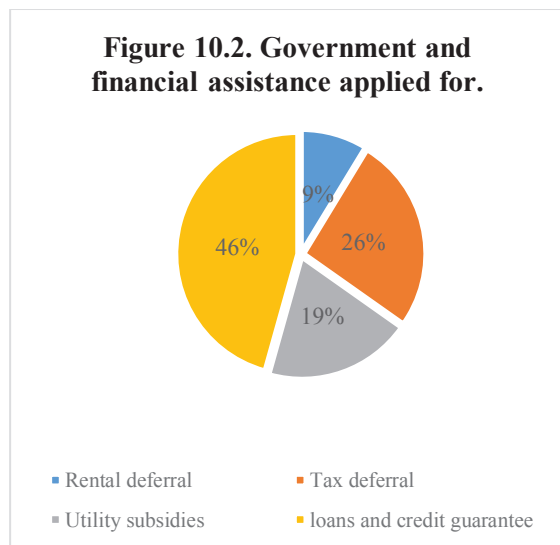
Figure 10.1 shows that only about 35% of the respondents were aware of the government stimulus package. Out of this, less than 5% have applied for government support and credit assistance from the financial institutions. Since most of the businesses were not aware of the government assistance, they did not apply for it. These findings reveal a lack of communication of government policies and decisions to the MSME community. Further, the findings imply that a larger number of MSMEs did not benefit from any form of government support or loans from the financial institutions during the lockdown period.



From the businesses that applied for government support and credit, Figure 10.2 portrays that 46% of them applied for loans. The rest sought tax deferral, utility subsidies, and rental deferral. It appears that the need for financial support exceeded other policy measures. These results suggest that businesses needed financial

support to mitigate the cash flow problem. The rental and tax deferrals, and utility subsidies would enable businesses to save costs and build cash buffer to fund operations during the pandemic.

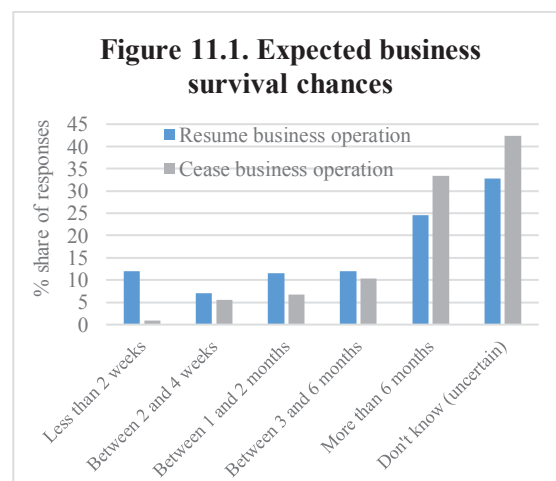
The 54% of the respondents (Figure 10.2) that have sought relief from the government stated that nothing tangible has transpired so far. They have yet to benefit from the fiscal stimulus package.



3.4. MSME Business Prospect

The MSME business survival chances reported in Figure 11.1 examine the duration it would take for businesses to cease their operations or reopen given the current circumstance. We find that the outlook is worrying with so much business uncertainties. Figure 11.1 shows that 33% of the businesses that are temporarily closed³ are uncertain when they would resume operation, while 25% of them expect to do so at least after 6 months. Others are of the view that if the situation improves and there are no further restrictions on mobility, they expected to

resume business soon, possibly in less than 6 months.



Moreover, Figure 11.2 shows that businesses in the ‘wholesale and retail’ sector that are temporarily closed are the majority of the firms that expect to resume operations after more than 6-months. Entities in the various service-related businesses indicated that they were not certain about when they would resume operation. The impression gathered from these findings is that, if the pandemic persists, these businesses may shut down permanently.

Figure 11.1 further shows that about 42% of the MSMEs that are currently open for business did not indicate when they would shut down if the pandemic continues. According to Figure 11.3, these are businesses mainly from the ‘wholesale and retail’, ‘agriculture, forestry and fishing’, ‘accommodation and food services’, ‘construction’, ‘transport’, and ‘other service’⁴ sectors.

About 33% think it would take more than 6 months before they can shut down their operations. As shown in Figure 11.3, they are mainly in the ‘wholesale and retail’, ‘agriculture, forestry and fishing’,

³ Refer to Figure 2B for the sectors affected.

⁴ Other services sector includes activities of trade unions, professional membership organisations, religious organisations, political organisation etc.

‘transport’, and ‘accommodation and food services’ sectors. Overall, these results suggest that the business prospect depends on the status of the pandemic.

Figure 11.2. Expected resumption period

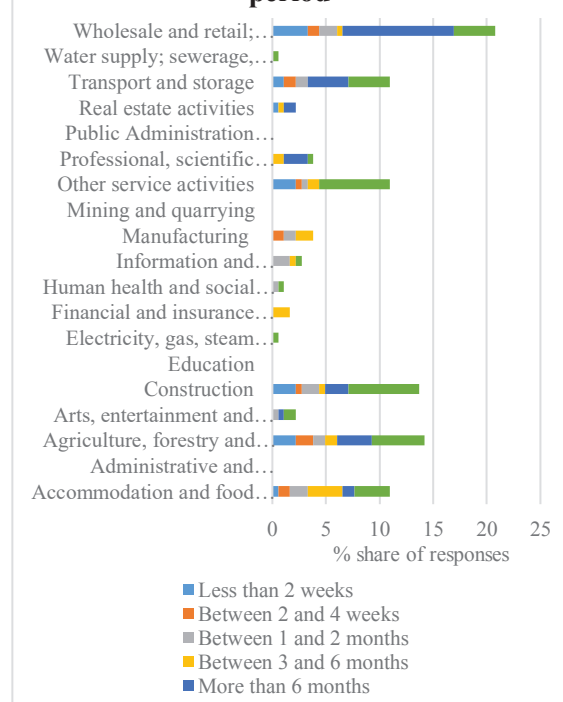
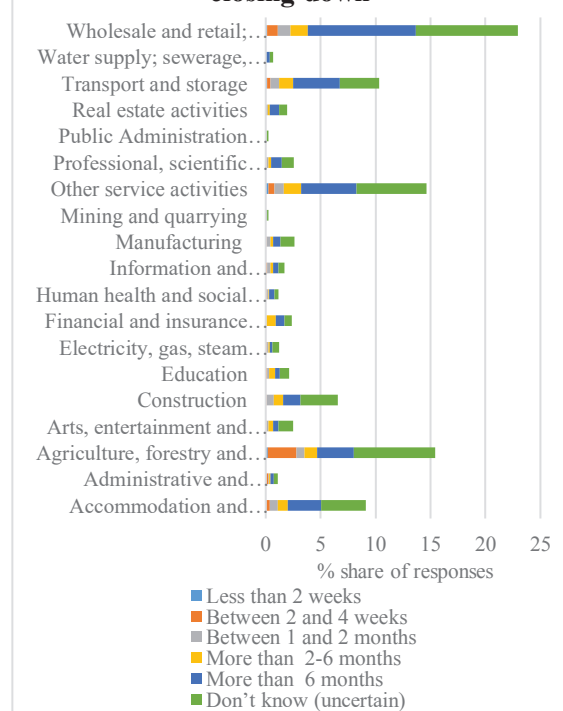
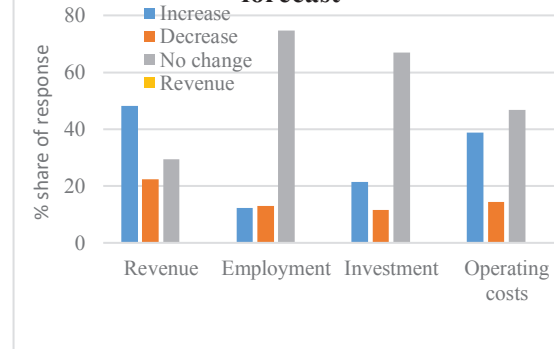


Figure 11.3. Expected period of closing down



To gauge further insight into the business prospects, the survey collected business forecasts for one-month ahead on sales, employment, investment, and operational cost. Figure 12 exhibits a mixed outlook on the business prospect.

Figure 12. One-month ahead forecast

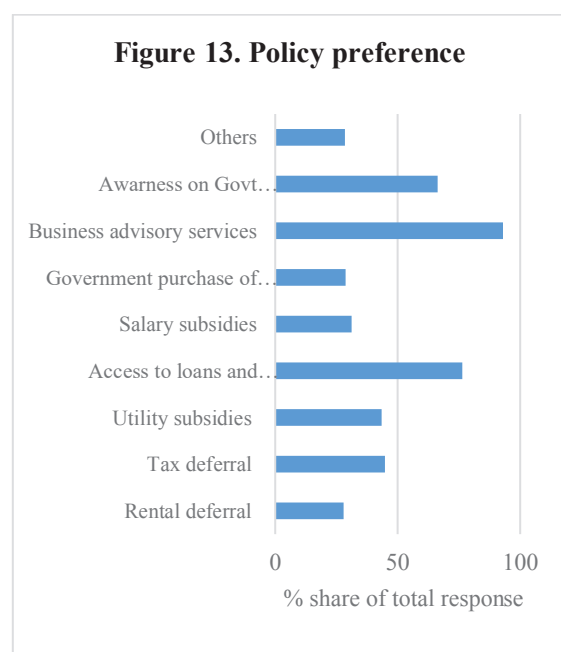


About 50% of the businesses expected revenue to pick up, assuming that the situation would gradually recover after the lockdown was lifted. They expected that as sales turnover rebounds, the operational cost would rise with slight increases in employment and investments. On the contrary, a sizable number of respondents stated that pick-up in businesses would only compensate for the losses incurred. As such, they anticipated that there would not be any significant change in revenue which would trigger them to adjust employment, investments, and operational costs accordingly.

Only a few of the businesses, about less than 25% of the respondents expected a further slowdown in activities provided that, scientists have yet to discover a cure for the disease. With the latest rise in domestic transmission of the disease, likely, the business climate would deteriorate if there is a further delay with the implementation of the stimulus package earmarked to assist the MSME businesses.

3.4. Issues and Challenges

The key structural issues and challenges (some of them are COVID-related) that largely affected the businesses are retrospectively presented as policy preferences in Figure 13. Some of these issues have already been discussed in Section 3.3.



While most of these problems are ongoing structural issues, the following appeared to be COVID-related:

- Businesses that have provided services to the government were concerned that the delay in payments of their outstanding bills is negatively affecting their cash flow. To sustain the business operation, these firms require the government to pay at least some of its liabilities.
- The firms with existing commercial loans are concerned that they have not benefited from the loan repayment holiday imposed by the Bank of Papua New Guinea. They reported that loan deductions continued during the period when

the measure was supposedly in effect.

- As seen in Figure 10.1, most of the MSMEs were not aware of how the government would support them during this difficult time. There seemed to be a lack of effective communication of the Government policies and decisions.
- MSMEs were worried that stringent requirements for a loan application, especially, the demand for security deposit is preventing them from accessing credit. Thus, as seen in Figure 10.1, only a few of the businesses have applied for credit.
- The restriction on the number of passengers required to travel on buses and taxis harshly affected the transport operators. Many transport owners have grounded their vehicles, which in turn disrupted the supply chain of other associated MSME businesses.
- The lockdown badly affected the MSMEs engaged in agriculture export commodity businesses as the restriction on transport had forced them to stockpile their productions. They did not make any sales during that period and it impacted on their business operations.
- The delay in the disbursement of the promised K200 million assistance had caused a lot of unease among the MSMEs as to the confidence they have in government policies and decisions. As shown in Figure 10.2, about 46% have applied for this credit support but the survey found that none has received the assistance.
- Some businesses were not making money during the lockdown and they queried whether the Government has policies for utility

companies like PNG Power and Eda Ranu to delay invoice or provide some sort of relief to the businesses. Figure 10.2 showed that 19% of the 34% of the businesses that were aware of government support (as reported in Figure 10.1) applied for utility subsidies.

4. POLICY RECOMMENDATIONS

The subsequent recommendations provided are wholly based on the issues and concerns gathered from the survey. The policy recommendations feature the measures that the Bank of Papua New Guinea and the Government could adopt to build resilience and support the growth of MSME businesses during and after the pandemic.

4.1. Short to Medium-term

Bank of Papua New Guinea

- 1) Utilise the K10 million credit guarantee funding support to guarantee MSME borrowing or provide soft loans to Microbanks for liquidity and on-lending to MSMEs. A waiver of some of the stringent security requirements will assist the MSMEs to access credit during the pandemic.
- 2) Expedite the process to implement the Discount window facility for the Microbanks to lend to MSMEs.
- 3) Issue a specific Directive to commercial banks to reduce interest rates on new loans for MSMEs and waive menu costs such as loan application and capitalization fees including other fees and charges.
- 4) Issue a specific Directive to ensure liquidity from the cash reserve requirement reduction is utilized to boost the economy rather than investing in short-term money market assets.

Government

- 1) Defer tax payments for SME businesses especially during the lockdown periods. As highlighted in the Deloitte's survey report, this measure will not incur a financial loss. So long as the businesses remain open, tax deferral will assist with future tax revenue.
- 2) Provide utility subsidies or arrange with utility service providers to come up with some relief measures for MSMEs. Such measures will enable businesses to build cash buffers to maintain operations during the downturn.
- 3) Immediately settle outstanding government invoices to service providers. Such action will mitigate the cash flow problem and allow business continuity.
- 4) Expedite the facilitation of the K200 million SME funding support. Since Microbanks have a strong MSME customer base, the Government should also consider allocating some of its funding support to the Microbanks for liquidity and on-lending to the MSMEs.
- 5) Carry out awareness on any stimulus packages or funding allocated to financial institutions for MSMEs.

4.2. Long term

Bank of Papua New Guinea

- 1) Continue to invest in financial inclusion and financial literacy initiatives with a program tailored for MSME businesses.
- 2) Adopt technology and approaches to look at alternative financing for MSMEs including crowd funding and peer-to-peer lending to broaden

the financing/credit options for MSMEs.

Government

- 1) Have a clear definition of the MSME business.
- 2) Improve coordination between the respective national departments and representative offices at the provincial and district levels to provide business advisory services. This was highlighted in the survey as shown in Figure 8.
- 3) Implement the new Tender requirements that allow the opportunity for the eligible local businesses to source government contracts.
- 4) Enact the new Reserve Business List and provide financial and advisory services and a pathway to enable local MSMEs to enter into the reserved activities. This measure will provide a huge opportunity for local MSMEs to migrate from the informal into formal business.
- 5) The Government to consider further reducing the cost of mobile internet to allow MSMEs to use digital technology for business. The survey found that some MSMEs were utilizing digital solutions to conduct businesses during the lockdown (Figures 5 and 7.1), however were restricted due to the costs.

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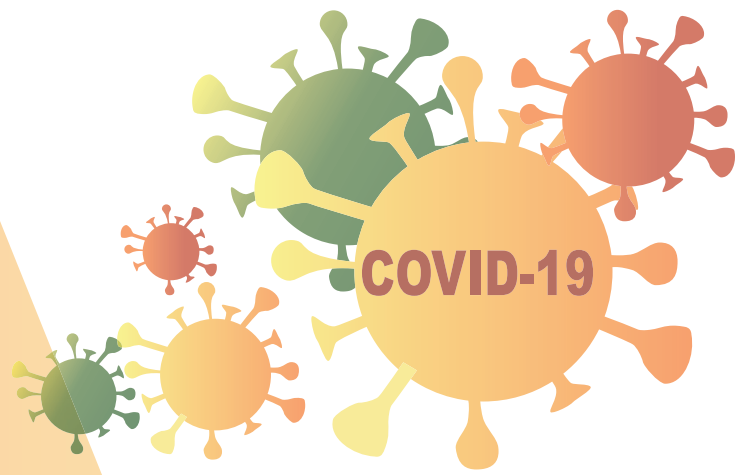
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APPENDIX

Table 1: Definition of MSME Businesses

Business type	# of workers	Annual turnover (TO)
Micro	1 to 5	TO ≤ K200,00
Small	6 to 25	K200,00 < TO ≤ K1m
Medium	26 to 50	K1m < TO ≤ K3m

Note: Any business with over 50 employees and an annual turnover greater than K3 million is considered a corporate entity.



BUSINESS PULSE SURVEY REPORT 2020

