SME COMPETITIVENESS OUTLOOK 2020

Impact of COVID-19 and the Green Energy Transition of Businesses in Mauritius

January 2021

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Executive Summary

One of the most worthwhile strategies to achieve both national and international sustainable growth and development goals in developed and developing countries is through the uplifting of Small and Medium Enterprises (SMEs). SMEs increase the level of competition in the sectors that they operate in, create employment opportunities and promote entrepreneurship. However, they are also one of the most vulnerable sectors of the economy and their fragile status has been amplified by the economic crisis triggered by COVID-19.

The operational cost of doing business has gone up amidst this new business environment generated by the pandemic. To support SMEs in increasing their cost competitiveness through the adoption of renewable sources of energy and to ensure that they have a better chance of surviving the crisis, the MCCI has put forward a project proposal entitled "Supporting Small Businesses in Solar Innovations in COVID-19 Business Ecosystem" and the British High Commission (BHC) is providing the MCCI with funding for the implementation of this project.

The first part of this project pertains to an assessment of the impact of COVID-19 on SMEs and the latter's cost competitiveness. This report has been prepared based on the survey conducted to make the assessment. Accordingly, local businesses have highlighted the fact that they have been negatively impacted by the dual health and economic crisis with more than 40% experiencing difficulties in accessing finance and more than 35% facing reduced investment in their business. Nevertheless, a large proportion of small businesses are still operational with more than 60% of them having kept employment levels the same as prior to the crisis. This is expected to be on account of government support measures such as the Wage Assistance Scheme. Moreover, the findings show a high level of interest by Mauritian SMEs to transition to renewable energy sources with more than 90% of firms having expressed their willingness to switch to solar panels. There is thus an urgent need to sensitise, guide and accompany local businesses in Mauritius towards green energy absorption and sustainable business practices.

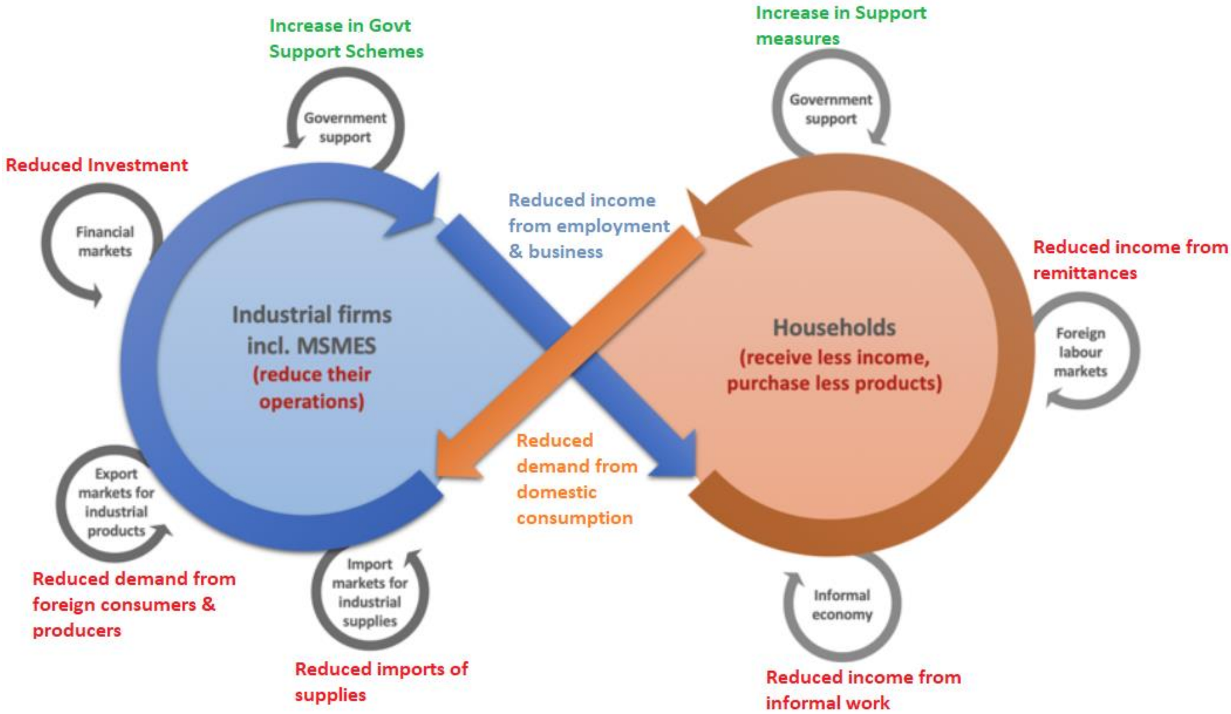
The following sections will, therefore, expand on the pertinent findings of the survey and provide appropriate recommendations as and where relevant.

Introduction

The COVID-19 pandemic has rapidly evolved from a health emergency into a full-blown economic crisis affecting, both directly and indirectly, nearly all sectors of the economy negatively. As of 5th January 2021, the World Health Organisation (WHO) has confirmed 531 cases of COVID-19 in Mauritius with 10 deaths and 8 active cases. Given that Mauritius is a small island economy, to prevent the rapid spread of the virus, the government imposed a complete lock-down for around 2 months in 2020 with only essential services being open. While this helped in containing the health impact of COVID-19, it had a drastic effect on businesses across most sectors of the economy. Many firms were either operating on a much smaller scale or were unable to operate for nearly 3 months or more, especially those directly related to the tourism sector.

The country-wide lock-down was lifted in June 2020 with the Mauritian borders being closed until 1st October 2020 for commercial purposes. This led to a pick-up in activities since businesses were able to resume work with minimal restrictions. However, factors such as the cessation of activities during the lock-down together with no tourist arrivals during Q2 and Q3 2020 and uncertainty over trade flows due to countries worldwide being at different stages of confinement are expected to affect Mauritius' recovery rate. Although the pandemic is projected to lead to contractions across various sectors, the magnitude will not be uniform. With fewer resources to ride out the storm, Small and Medium Enterprises (SMEs) have been particularly vulnerable to the ramifications of COVID-19. On the supply side, measures to contain the pandemic led to declines in capacity utilisation and supply chain disruptions. On the demand side, SMEs most likely faced drastic drops in demand and revenue which led to liquidity shortages. Loss of income and heightened uncertainty also reduced consumer confidence and, in turn, business activity. The effect of COVID-19 on SMEs is considered to be especially severe given their lower resilience and higher vulnerability, often related to their size. As such, the period over which SMEs can survive the shock is more limited when compared to larger corporations, thereby explaining the need to assist them during their recovery phase.

Figure 1: Effects of COVID-19 on Firms and Households



Source: United Nations Industrial Development Organisation

In Mauritius, given that the SME sector contributes around 40% to GDP and represents 54.6% of total employment, SMEs constitute an important driver of growth. Over the last decade, this sector has established itself as a strong economic pillar with the Government supporting the vision to transform the SME sector by making it more vibrant and resilient. In Mauritius, SMEs are, therefore, called to assume a more impactful role in the economy, not only as an enabler, but also as a key driver of inclusive and balanced growth.

Figure 2: SMEs in Mauritius

Source: 10 - Year Master Plan For The SME Sector in Mauritius, Ministry of Industrial Development, SMEs and Co-operatives

However, several challenges exist in the SME sector and those challenges are multi-dimensional. The COVID-19 pandemic has highlighted both the importance and the fragility of the SME sector. With both workers and customers staying indoors for a prolonged period of time, and supply chains tested by global shutdowns, SMEs have been put under stress.

It is, therefore, paramount to adopt a coherent framework to ensure transparency and business facilitation for SMEs vis-a-vis support institutions, banks, the private sector and Government with the goal of developing a synergy to work together to ensure the survival and sustainability of Mauritian SMEs during the COVID-19 period. At the same time, the objective is also to enhance the competitiveness of SMEs while increasing their resilience to both internal and external shocks.

The MCCI is fully committed to collaborate with institutions and the Government during this period of business and economic uncertainty, both in the local and international markets. Moreover, since the impact of crises are generally felt well after they have technically ended, particularly the effects on employment and productivity, it is imperative to draft strategies to mitigate such outcomes. The MCCI also believes in the importance of transforming Mauritian SMEs into high-value-generating enterprises. To this end, the MCCI has conducted a survey to assess the impact of the COVID-19 pandemic on Mauritian SMEs with a view to providing appropriate policy recommendations to the Government to support it in crafting measures for the deeply impacted SME sector. It is also undertaking the aforementioned project, in collaboration with the British High Commission, to educate and support Mauritian SMEs on sustainability and energy efficiency while assisting them to evaluate and re-visit their cost structure in an attempt to be more cost effective with a focus on the use of photovoltaic (PV) panels to generate electricity for their business.

Survey Findings

SMEs account for the majority of enterprises in most countries around the world, including Mauritius. According to the World Bank, they account for around 90% of businesses and more than 50% of employment worldwide. Formal SMEs contribute up to 40% to GDP in emerging economies and this contribution would generally be higher when informal SMEs are also considered.

The definition of SMEs usually differs depending on geographical location. In Europe, for instance, the category of micro, small and medium-sized enterprises (MSMEs) is made up of enterprises which employ fewer than 250 people and which have an annual turnover not exceeding EUR 50 million, and/or an annual balance sheet total not exceeding EUR 43 million. In the U.S., the Small Business Administration (SBA) classifies small businesses according to their ownership structure, number of employees, earnings and industry. For example, in the manufacturing sector, a firm is considered as SME if it has 500 or fewer employees. In contrast, businesses that mine copper ore and nickel ore can have up to 1,500 employees and still be identified as SMEs. In Mauritius, a small enterprise is defined as one with an annual turnover ranging between MUR 2 - 10 million while a medium enterprise is one having an annual turnover ranging between MUR 10 - 50 million. Micro enterprises in Mauritius are those with an annual turnover not exceeding MUR 2 million.

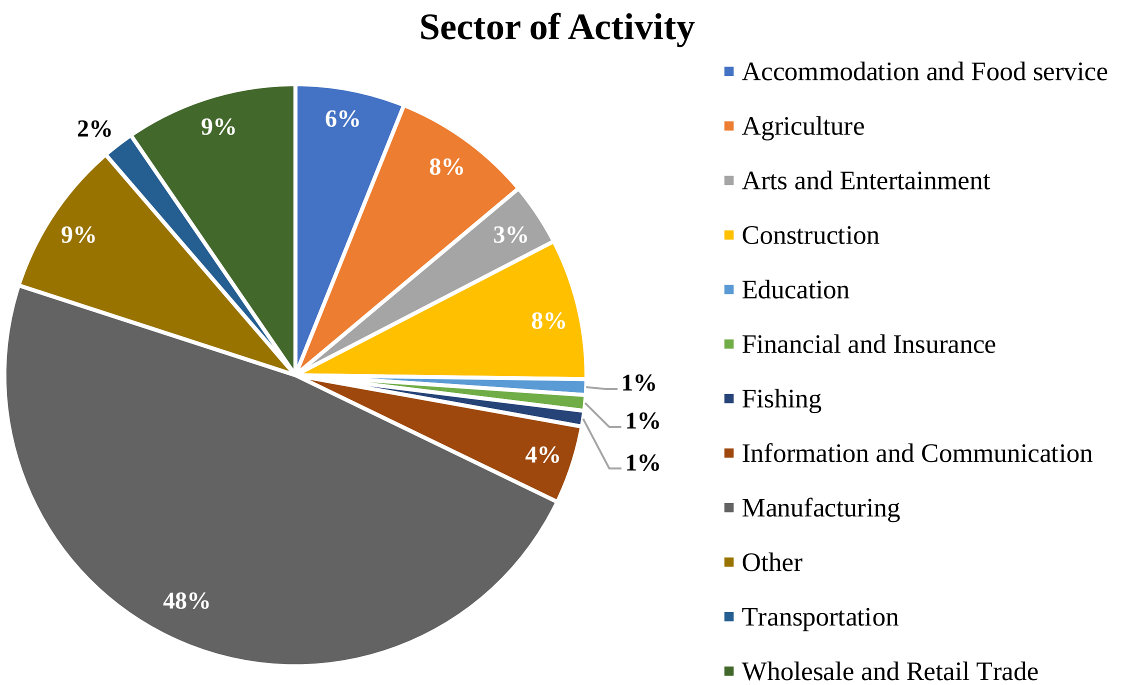
To assess the impact of the COVID-19 pandemic on a vital yet fragile sector, the MCCI, therefore, aimed at gathering evidence from businesses which qualify as SMEs in Mauritius. A rapid assessment questionnaire comprising 16 questions was sent to all SMEs in the MCCI's database. Given the difficulties associated with getting responses from SMEs due to the small scale of their operations and their low level of digitalisation, a database of SMEs was also created simultaneously through online searches to gain higher visibility and reach the target response rate.

Data was collected over the month of October 2020. The timing of the survey provides insight at a point when Mauritius is no longer under strict movement restrictions and firms have had the opportunity to make use of the various schemes available to support business survival during and after the lock-down period.

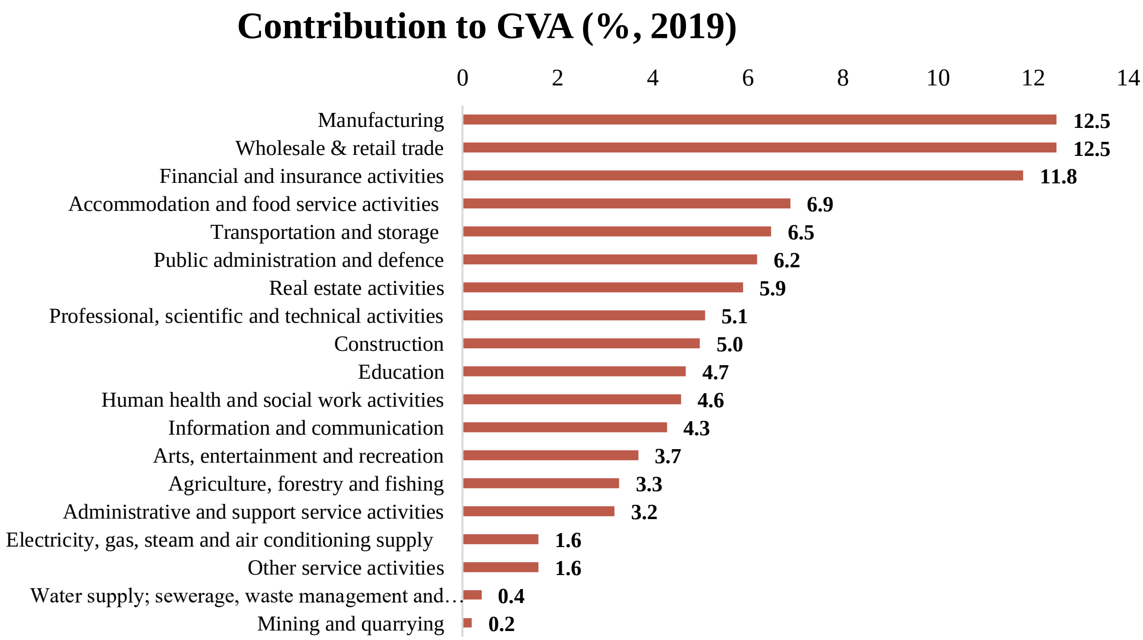
(i) Profile of Enterprises

a. Sector of Activity

Firms were asked to indicate, as best as they could, their main industry group. As shown below, a large proportion of respondents operate in the Manufacturing sector.



Source: MCCI Survey

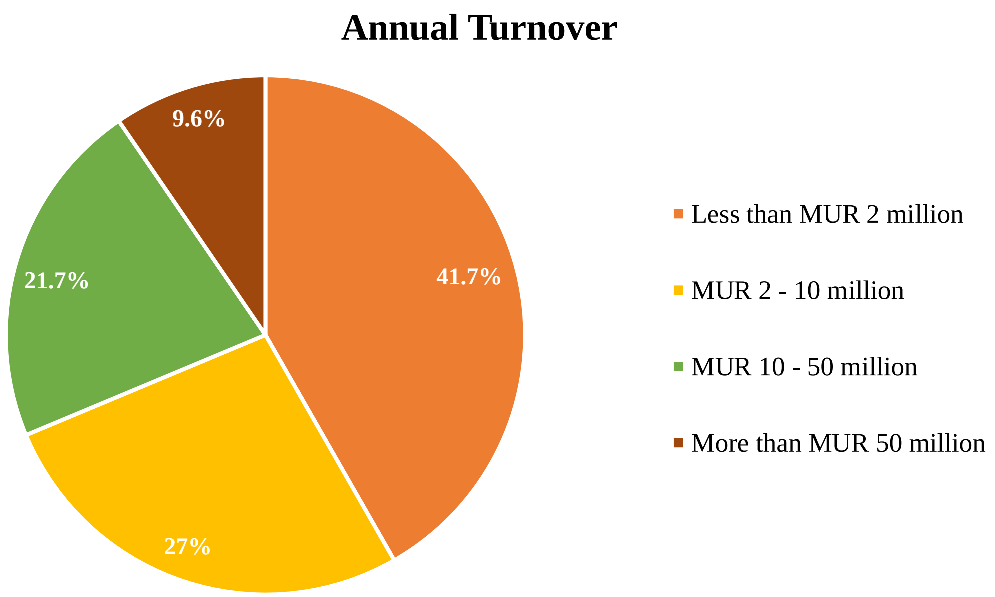


Source: Statistics Mauritius

Given the importance of the Manufacturing sector to Gross Value Added (GVA) and its inter-linkages with other sectors of the economy, the sample response break-down obtained is believed to be justified. Many operators in sectors such as tourism, crafts or construction are also engaged in the process of manufacturing, thereby partly explaining why the latter's response rate was considerably higher than that from other sectors. Given that the survey allowed respondents to provide their contact details, it was observed that some of the enterprises which chose Manufacturing as their industry could have formed part of Wholesale and Retail Trade as well as of some other sector like Arts and Entertainment. However, due to the inter-connectedness of the industries, it is believed that such a differentiation was not made by some respondents.

b. Annual Turnover

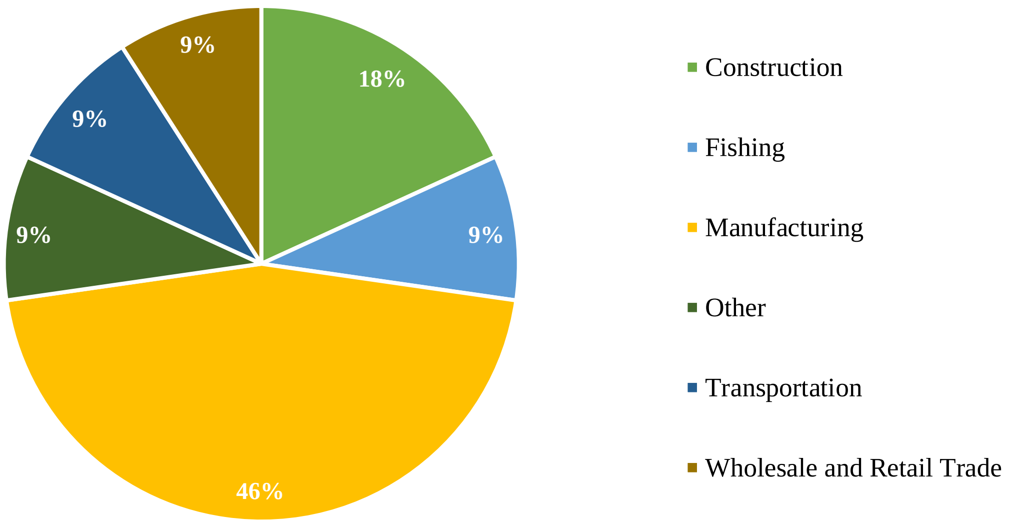
Respondents were also classified according to their annual business revenue/turnover, a distinction that allowed the categorisation of firms into micro, small, medium and large enterprises.



Source: MCCI Survey

While SMEs were the targeted group, due to the public nature of the survey, 9.6% of responses received were from larger firms with an annual turnover exceeding MUR 50 million. This has been considered while making inferences in the later sections and given the low percentage of responses outside the target group and the fact that such responses are spread across sectors, this is not expected to distort the analysis. These responses have not been excluded from the analysis because, while larger enterprises were not the focus of this analysis, it is believed that they will allow brief insights to be generated as to how larger firms were affected.

Respondents not classified as SMEs (Turnover > MUR 50 Million)



Source: MCCI Survey

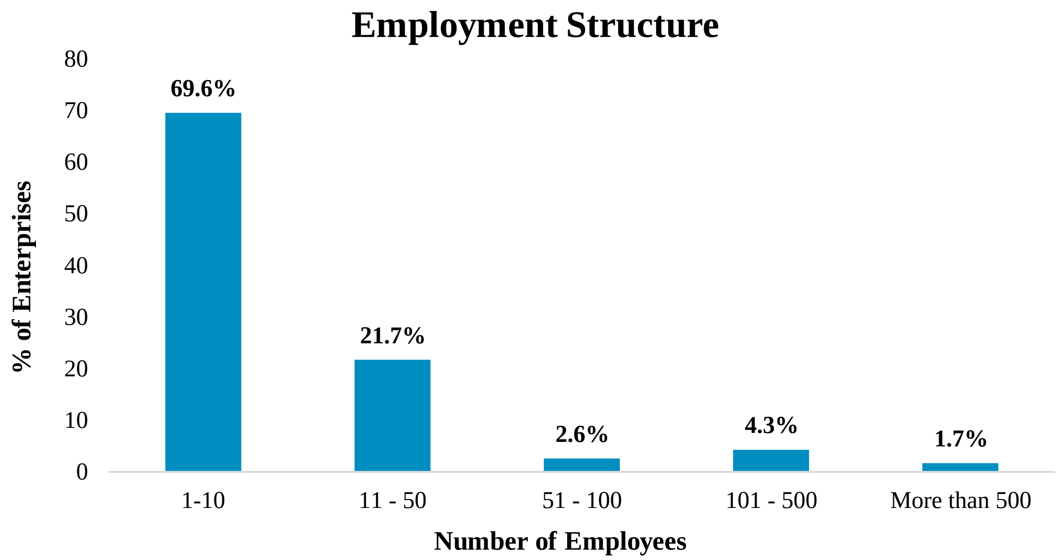
Overall, 41.7% of the respondents were classified as Micro enterprise, 27% as Small enterprise, 21.7% as Medium enterprise and the remaining 9.6% were Large firms.

	Micro Enterprise	Small Enterprise	Medium Enterprise	Large Enterprise
Accommodation and Food service	71%	29%	0%	0%
Fishing	0%	0%	0%	100%
Education	100%	0%	0%	0%
Financial and Insurance	100%	0%	0%	0%
Transportation	0%	50%	0%	50%
Construction	22%	22%	33%	22%
Arts and Entertainment	100%	0%	0%	0%
Wholesale and Retail Trade	27%	27%	36%	9%
Information and Communication	0%	20%	80%	0%
Agriculture	33%	44%	22%	0%
Manufacturing	44%	31%	16%	9%
Other	50%	10%	30%	10%

Source: MCCI Survey

c. Number of Employees

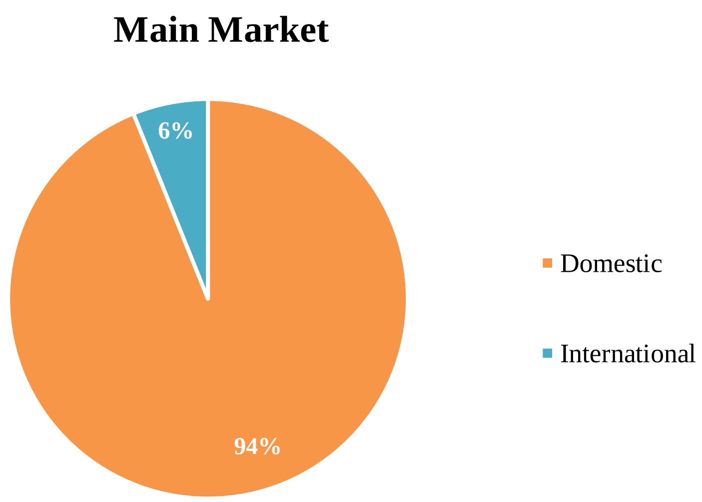
Respondents have also been categorised according to their employment structure. Nearly 70% of enterprises had a maximum of 10 employees which coincides with the fact that 69% had a turnover less than MUR 10 million and were micro and small enterprises. Similarly, all firms having more than 100 employees were large ones with annual turnovers exceeding MUR 50 million.



Source: MCCI Survey

d. Main Market and International Trade

Businesses were also asked to indicate whether their main product or consumer market was local (Mauritius) or international.

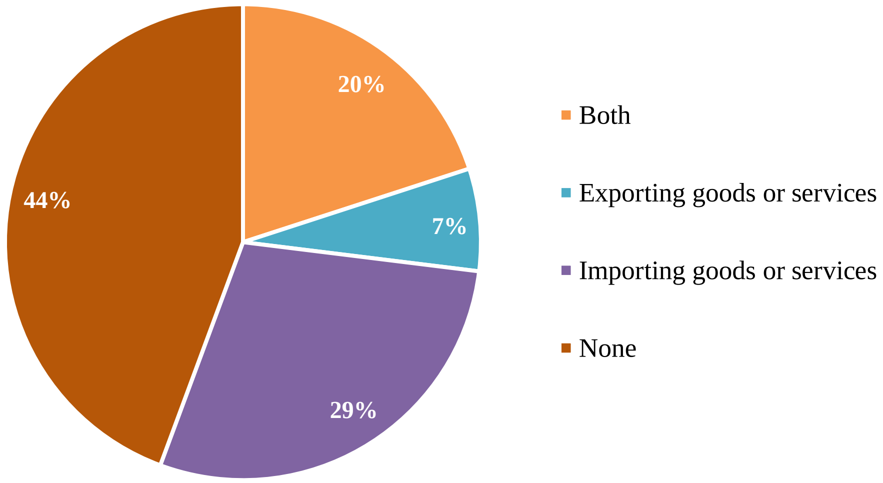


Source: MCCI Survey

For the small percentage of firms which primarily served the international market, the main destinations were Europe, India, the USA, and Seychelles. While the remaining 94% of firms operate mainly for the Mauritian market, it is likely that a small share of their goods or services is exported as well.

In addition to the above, firms were questioned as to whether they were engaged in international trade, that is, whether they were exporting or importing goods and services.

Imports or Exports of goods and services



Source: MCCI Survey

While only 6% of the total respondents served international markets, 56% of them were participating in international trade by either importing or exporting goods and services or doing both. Nearly 50% of firms were importing from other countries, thereby highlighting Mauritius' dependence on imports to serve the local market. At the same time, around 27% indicated being engaged in the exportation of goods and services, implying that while most firms might be principally serving the Mauritian market, they are still largely open to international trade.

(ii) Impact of COVID-19

International organisations and local governments have been carrying out impact assessments to gauge the implications of the pandemic on SMEs to propose appropriate policy considerations. For example, the International Trade Centre (ITC) COVID-19 Business Impact Survey gathered evidence on how the pandemic affected 4,467 companies in 132 countries. Data collected during 21 April–2 June 2020 showed that the pandemic strongly affected 55% of respondents. Nearly two-thirds of micro and small firms reported a strong effect on business operations, compared with about 40% of large companies. One-fifth of SMEs put forth the risk of permanently shutting down within three months. In Africa, two out of three businesses reported being strongly affected mostly due to reduced sales (75%) and/or difficulty in accessing inputs (54%). Women-led and youth-led firms were also found to be more severely affected compared to male-led and non-youth-led firms, respectively.

Proceedings of the National Academy of Sciences (PNAS) also surveyed more than 5,800 small US businesses between March 28 and April 4. Across the full sample, 43% of businesses had temporarily closed mainly due to COVID-19 and largely on account of reductions in demand and employee health concerns. On average, businesses reported having reduced their active employment by 39% since January. The potential crisis duration also played a central role in businesses' beliefs about the probable impact of the pandemic. For a crisis lasting 4 months instead of 1 month, only 47% of businesses expected to be open in December 2020 compared to 72% under the shorter duration.

Business Call to Action (BCtA) in collaboration with SDG Accelerator, ImpactAim and Connecting Business Initiative (CBi) also organised an online survey for enterprises in April 2020 to get an overview on how the COVID-19 crisis had impacted their business. 90 companies, with operations in different countries across the globe, participated in the survey, responding to 17 questions about the impact on their enterprises and how they responded to the crisis. In terms of regional market distribution, 48 companies operated in Asia and the Pacific, 29 in Africa, 20 in Latin America and the Caribbean, 20 in Western Europe and North America, 16 in Eastern Europe and Central Asia, and 9 were operating in the Arab States. The pandemic was found to have had a substantially negative impact on companies with more than half reporting negative or highly negative impact while only 2% reported not having felt the impact of the crisis. The top difficulties faced by businesses were disruptions in supply chain followed by disruptions in distribution channels and reduced customer demand due to lock-downs and restrictions on social gatherings.

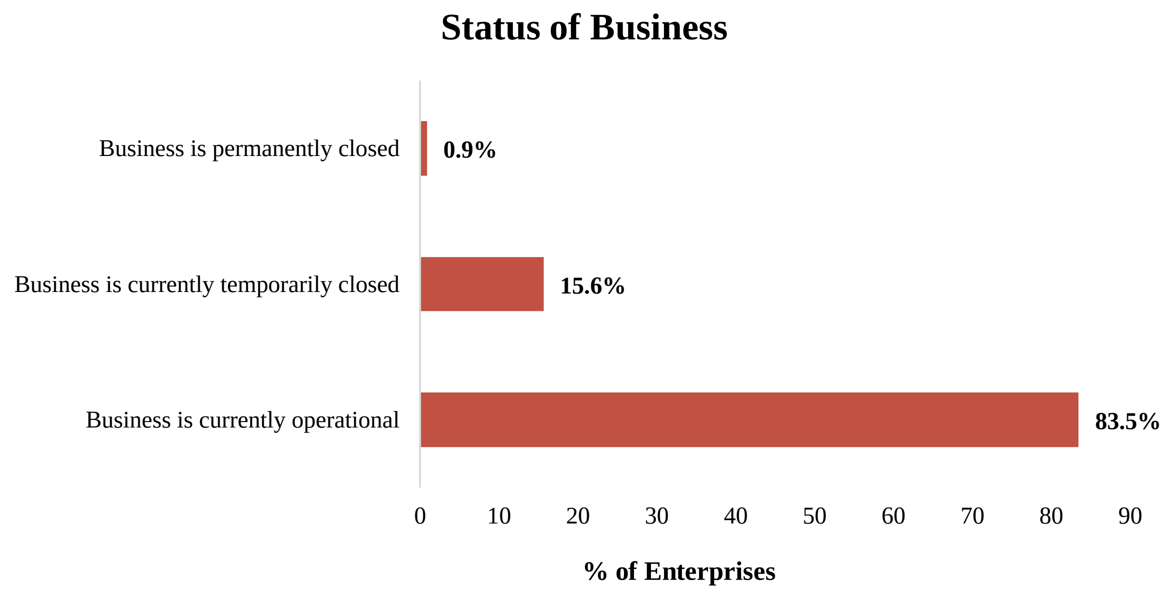
In addition to the above, smaller country-specific surveys have led to meaningful insights about the impact of the pandemic on businesses. In China, a survey of 524 firms in 15 cities in the Guangdong Province revealed that 48.7% of firms were stable while 35.1% had experienced a halt in operations or faced closure. According to the survey, nearly 70–90% of respondents were already exploiting online commerce or were willing to do so and to engage in remote office work or digital operations. 46% of the companies which answered the survey also believed, with certainty, that they would incur losses during 2020 with 83.5% expecting the city’s GDP to fall. Similarly, New Zealand insurance agency Vero published the results of its survey showing that 71% of SMEs experienced a decrease in revenue due to COVID-19 with 39% struggling to make ends meet. SMEunited, the association of Crafts and SMEs in Europe, surveyed its members in June and found that 40% of SMEs experienced liquidity issues while 90% experienced turnover losses during lock-down periods.

For Africa in particular, the African Trade Policy Centre (ATPC) of the United Nations Economic Commission for Africa (ECA) and International Economics Consulting Ltd, jointly carried out the first comprehensive survey on the COVID-19 pandemic and its economic impacts across Africa in mid-April. Four fifths of the respondents indicated having been significantly impacted by the pandemic with one of the immediate effects of the restrictions imposed by the governments in Africa to limit the spread of the virus being that African businesses were functioning with considerably less employees than usual. Businesses in the manufacturing, travel/hospitality and transport sectors seemed to be operating at their lowest capacities. In general, micro, small and medium-sized enterprises (MSMEs) were primarily concerned by their cash flow position while large companies were confronted with the need to alter their business model in a way that is adapted to the crisis and its ever-changing nature.

Among the respondents for the aforementioned survey, 84 were companies with business operations in Mauritius. Accordingly, Mauritian companies were, on average, running at 50% of normal capacity during the period surveyed, with local firms operating at relatively lower capacity (41-50%) than those which trade (51-60%). **The top 3 challenges faced by Mauritian companies during the crisis were the lack of operational cash flow, a drop in demand for goods/services and reduced opportunities to meet new customers.** In line with this, through a survey, the MCCI has also endeavoured to gain insights on how the pandemic has affected SMEs in terms of their cost structure, their ability to continue business operations and the measures they have had to take to ensure business survival. The **main findings** are as follows:

a. Business Status

83.5% of firms indicated that they were currently open for business while nearly 16% of firms had temporarily halted their business activities. Among those firms which were temporarily not operational, 66.7% were in the Manufacturing sector while 22.2% were in the Arts and Entertainment industry. In terms of total responses received, this implied that all responding firms in the Arts and Entertainment industry were temporarily closed. This is because such respondents are engaged in the crafts industry catering mainly for international tourists. The below also indicates that 21.8% of firms in the Manufacturing sector were currently temporarily closed while 76.4% were currently operational. Those who indicated being permanently closed operated in the Manufacturing sector as well.

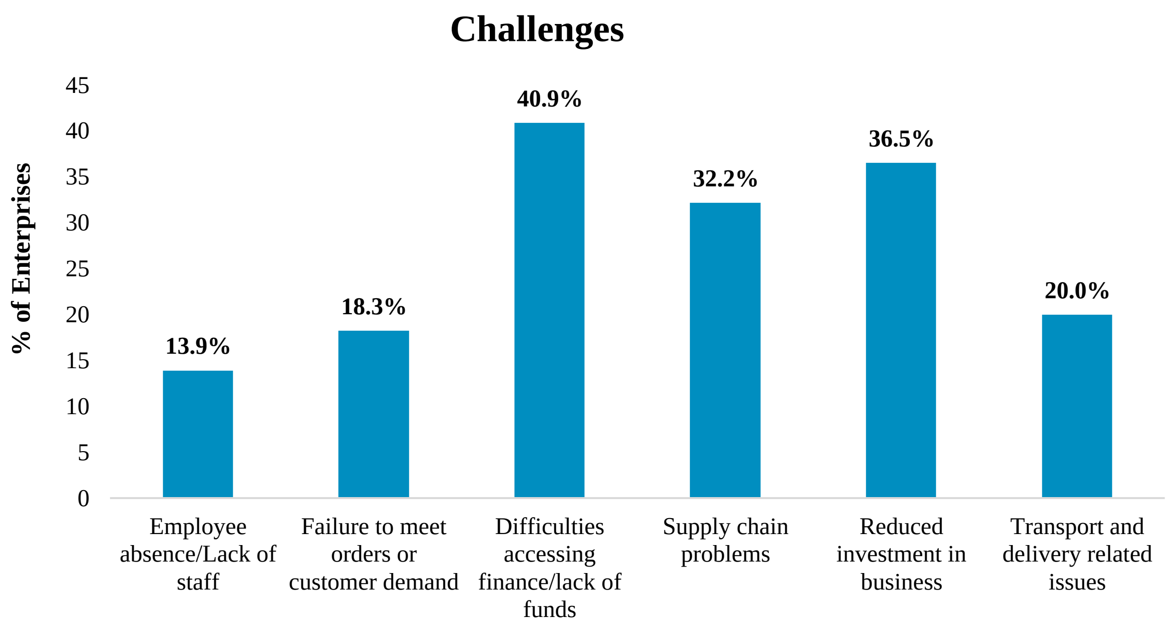


Source: MCCI Survey

The small percentage of firms which reported being temporarily or permanently closed can attributed to the fact that numerous support measures were provided to firms during and after the lock-down period. For instance, the Wage Assistance Scheme allowed businesses to keep on their employees while moratoriums on loan repayments, which have been extended until 30th June 2021, helped reduce their financial burden. Closures, temporary or otherwise, were mainly observed with respect to micro-enterprises which were most likely sole-proprietorships and heavily dependent on tourism. Of note, all firms not forming part of SMEs (9.6% of repondents with annual turnover exceeding MUR 50 million) indicated being currently open for business. This is in line with the fact that generally larger enterprises have ample cash-flow to sustain business operations over a longer period when compared to smaller businesses. Due to their small scale of business operation, micro and small enterprises often depend on specific clients paying for their orders to be able to fulfil their recurrent financial obligations such as employees' salary and interest payments for loans. The COVID-19 pandemic has thus shed light on the weaknesses associated with such a business model and with small-scale entrepreneurship since a fall in consumer demand due to the pandemic has left SMEs in a precarious situation whereby business survival is uncertain in the absence of support measures from the government.

b. Challenges faced by local businesses in 2020

As most countries around the world, Mauritius was also subject to a country-wide lockdown during the second quarter of 2020 to prevent the virus from spreading at an alarming pace. The Mauritian borders have only recently been open to international tourists whereby the latter are allowed to enter the country subject to a 2-week self-paid mandatory quarantine. These actions helped in mitigating the health impact of COVID-19 but had and, are still having, a devastating effect on businesses across most sectors of the economy. Many firms were either operating on a reduced scale or were unable to operate for nearly 3 months or more, with those directly related to the tourism sector most likely still operating on a very small scale.



Source: MCCI Survey

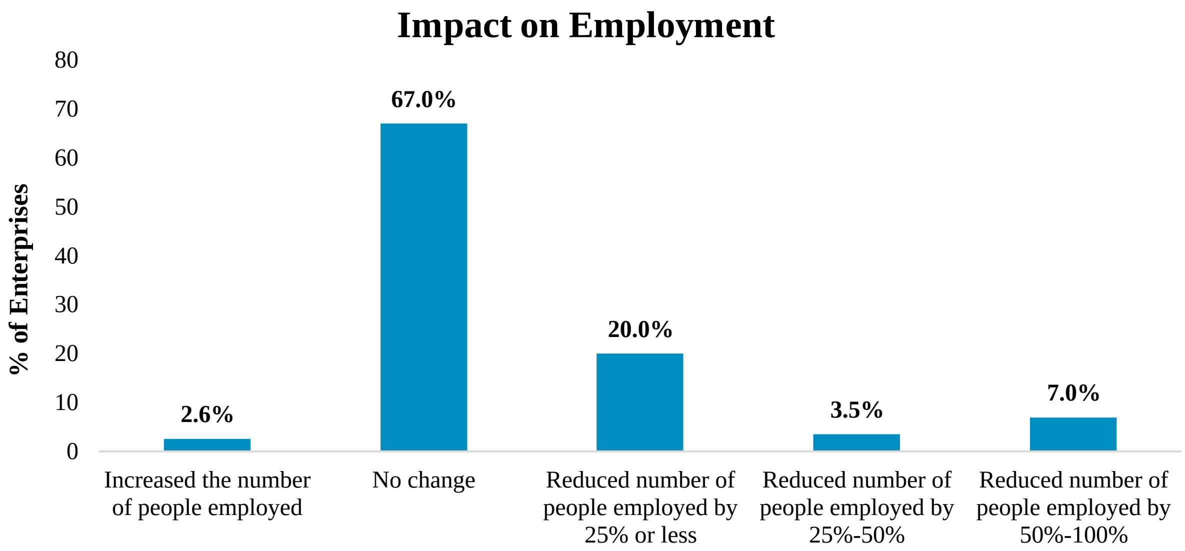
The main problem faced by SMEs was ***access to finance***. 66% of those firms which experienced difficulties in accessing finance were micro and small enterprises with an annual turnover less than MUR 10 million. Through the open-ended question in the survey, businesses specified that accessibility to financing options is quite low in Mauritius. SMEs mentioned finding it difficult to benefit from loans from commercial banks, the Development Bank of Mauritius (DBM) or even crowdfunding platforms due to their sectors of business being perceived as "high risk" or because they lack adequate collaterals. For instance, commercial banks generally require immovable collateral which many micro and small enterprises might not possess, thereby reducing their chances of obtaining bank credit. This prevents them from getting support to ensure business continuity during this difficult period and also highlights the need for improvement in the process of granting loans to smaller businesses while bringing changes as to what can be considered as collateral depending on the nature of business activity in Mauritius.

Around 37% of respondents also reported facing ***reduced investment in their business*** and emphasised the importance of increased support in terms of loans at more attractive interest rates, schemes to facilitate their purchase of equipment, training programmes for up-skilling or re-skilling of employees as well as ease of getting new contracts from the government. 57.1% of those encountering this problem were micro and small enterprises.

In addition to the above, around 32% of respondents faced ***supply chain problems*** owing to reduced air and maritime traffic together with strict containment measures implemented globally. The relatively low percentage of firms affected by disruptions in supply chains can be attributed to the fact that 93.9% of respondents have Mauritius as their main market with 53.7% of these firms engaged in international trade in terms of importing or exporting goods and services.

Issues faced by respondents regarding ***transport and delivery*** were centred around freight costs, especially due to COVID-19, being too high for them to maintain competitiveness. The importance of more freight services through new shipping routes and higher collaboration between relevant countries was also highlighted. In general, respondents indicated the need for alternative and more accessible transportation routes together with a revision of trade barriers to boost competitiveness and better penetrate regional and international markets.

In terms of ***failing to meet orders or customer demands***, 52.4% of those encountering this issue also encountered supply chain problems. In general, due to respondents serving mainly the Mauritian population, this was not as problematic, particularly after restrictions on movement locally were lifted. Similarly, only 14% of firms were impacted by a ***lack of staff***, most likely due to support measures discouraging laying off of employees which coincides with the following:

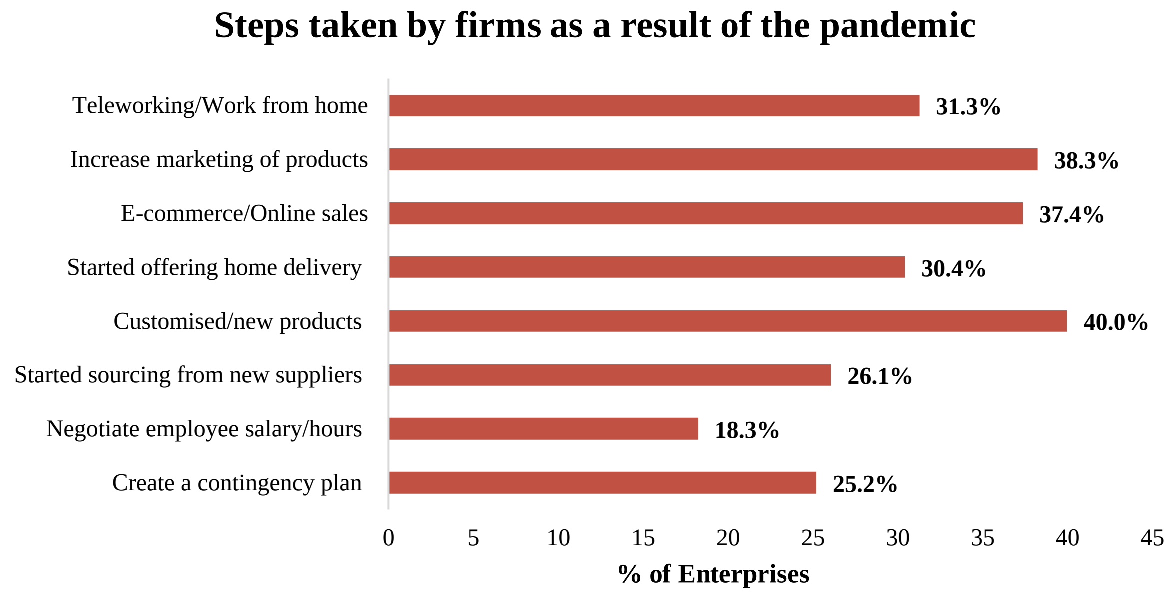


Source: MCCI Survey

As shown, around 30% of enterprises reduced the number of people they were employing due to the negative effects of the pandemic. A large proportion (60%) of the enterprises which decreased their staff count operate in the Manufacturing sector which englobes a significant part of the economy due to its inter-linkages with many other sectors. Nearly 70% of all the enterprises surveyed, out of which 64% were micro and small firms, did not make their employees redundant, most likely to be eligible for the Wage Assistance Scheme. Thus, the support measures taken to combat the negative repercussions of the pandemic helped in preventing a huge surge in unemployment in the short-run.

c. Measures adopted by local businesses

Due to the pandemic, the business community has had to re-invent the way in which business activities were being conducted. To ensure business continuity, a number of measures, which also served to accelerate the process of digitalisation in the country, had to be implemented rapidly.



Source: MCCI Survey

Among the possible actions taken to lessen the negative effect of the pandemic, a large proportion of respondents indicated that they had started providing ***new products*** which were more adapted to the changing needs of consumers following the pandemic so as to be in a position to continue operations. Many firms also engaged in more ***aggressive marketing*** of their products together with ***online sales*** through newly created websites or via social media platforms. The pandemic led to a surge in e-commerce and accelerated the adoption of digital methods such as online ordering and payments by consumers. However, this needs to be accompanied by a proper regulatory framework regarding e-commerce to protect the interests of both online buyers and sellers.

Only around 31% of enterprises indicated that they were ***working from home***. This might essentially be due to the fact that SMEs often do not have the digital means or expertise to quickly adapt to teleworking. Regarding ***home delivery***, 48.6% of businesses that started offering this service operated in the Manufacturing sector while 20% and 14.3% were in the Wholesale & Retail Trade and Agriculture sectors, respectively. Around 26% of firms had ***started procuring materials from new suppliers*** for their business operations. These new suppliers are likely to be local due to disruptions in international trade for a prolonged period of time, thereby highlighting the gradual shift towards a local supply chain which has the potential to lower Mauritius' import dependence. While firms also engaged in ***creating contingency plans*** to be better prepared in terms of logistics in the event of further crises or lockdown situations, the proportion of firms having done so (25.2%) was rather low considering the devasting economic effects of the pandemic worldwide. Similarly, less than 20% of respondents indicated having ***negotiated the salary or working hours*** of their employees. The latter two lower percentages might be on account of swift Government actions in Mauritius which provided a financial cushion to local firms.

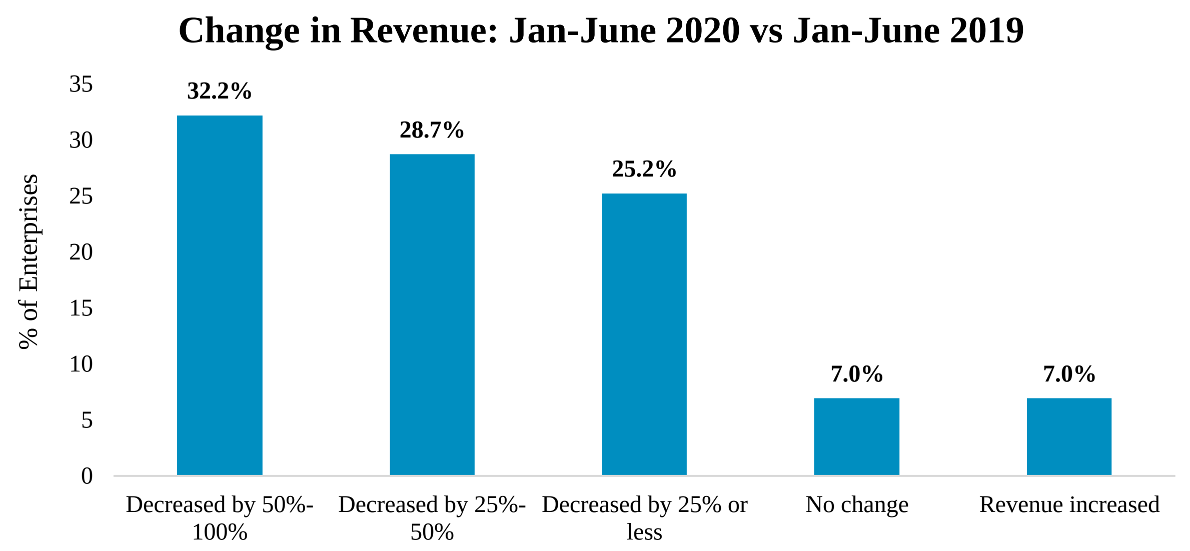
The following table provides a snapshot of the top actions taken by firms, categorised by sector of activity, to mitigate the impact of COVID-19. Certain sectors like Fishing, Education and Transportation did not make use of all these common measures due to the nature of the business and the products being put on the market. For instance, the Fishing and Transportation industries lack scope for much customisation of their respective outputs. Similarly, firms operating in the Financial & Insurance sector in Mauritius generally already have a well-developed online presence.

Sector	Customised/New products	Increased marketing	E-commerce/Online sales	Teleworking/Work from home
Accommodation and Food service	0%	43%	29%	14%
Fishing	0%	0%	0%	100%
Education	0%	0%	0%	100%
Financial and Insurance	0%	100%	0%	0%
Transportation	0%	0%	0%	50%
Construction	11%	22%	44%	44%
Arts and Entertainment	25%	25%	75%	25%
Wholesale and Retail Trade	36%	55%	45%	9%
Information and Communication	40%	60%	20%	80%
Agriculture	44%	67%	67%	22%
Manufacturing	51%	35%	35%	24%
Other	60%	30%	30%	70%

Source: MCCI Survey

d. Change in Revenue: January-June 2020 vs January-June 2019

It is expected that the revenue of enterprises during the first 6 months of 2020 was negatively impacted, especially when compared to the revenue obtained during the same period in 2019. The following provides a comparative view of the effect of COVID-19 on the revenue of firms:



Source: MCCI Survey

As shown, 86% of enterprises faced a reduction in their revenue during the first semester of 2020 in comparison to the revenue generated by their business during the same period in 2019. The sectoral distribution of the semester-on-semester change in revenue is shown through the following table:

Sector	Decrease in Revenue	Increase in Revenue	No Change
Accommodation and Food service	71.4%	14.3%	14.3%
Fishing	100.0%	0.0%	0.0%
Education	100.0%	0.0%	0.0%
Financial and Insurance	100.0%	0.0%	0.0%
Transportation	100.0%	0.0%	0.0%
Construction	88.9%	11.1%	0.0%
Arts and Entertainment	100.0%	0.0%	0.0%
Wholesale and Retail Trade	90.9%	9.1%	0.0%
Information and Communication	80.0%	0.0%	20.0%
Agriculture	66.7%	33.3%	0.0%
Manufacturing	87.3%	1.8%	10.9%
Other	90.0%	10.0%	0.0%

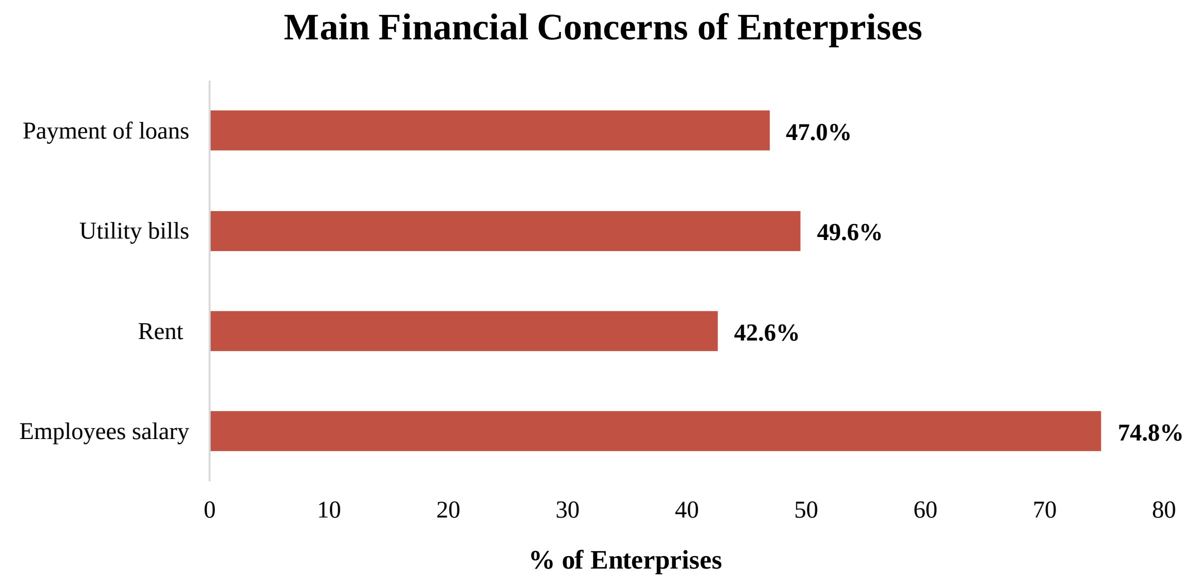
Source: MCCI Survey

Of note, all respondents in the Arts and Entertainment sector registered a 50%-100% decline in their revenue due to their business activities being directly linked to the tourism sector. Most of them operate in the crafts industry and, in the absence of international tourists to purchase their products, have suggested the creation of sale points at strategic locations or the setting up of a central point of sales for artists or those engaged in handicrafts. At the same time, a higher percentage of firms in Agriculture witnessed an increase in their revenue in 2020, possibly on account of a temporary scarcity of agricultural produce during the lock-down period.

In general, SMEs indicated the need for greater support from relevant institutions such as commercial banks and for Mauritius to become more local business friendly. Thus, the promotion of local products is deemed necessary to encourage people to purchase locally rather than import from other countries. Enterprises also highlighted the importance of better collaboration and communication with entrepreneurs to understand their needs and address the most pressing issues accordingly.

e. Main financial concerns

SMEs were also asked about the main financial concerns that they had regarding their business operations. The main worry reported by firms was the payment of employees' salary with around 75% of enterprises concerned about this. This indicates that while currently government schemes and moratoriums by commercial banks have helped mitigate a sudden rise in unemployment, measures must be taken to support firms with paying their employees to prevent a high redundancy level.



Source: MCCI Survey

The following illustrates the main financial concerns faced by each industry group:

Sector	Employees salary	Rent	Utility bills	Payment of loans
Accommodation and Food service	43%	43%	71%	43%
Fishing	100%	0%	0%	0%
Education	100%	0%	0%	0%
Financial and Insurance	100%	100%	100%	0%
Transportation	100%	0%	0%	50%
Construction	78%	44%	56%	67%

Arts and Entertainment	50%	25%	25%	0%
Wholesale and Retail Trade	73%	55%	55%	27%
Information and Communication	100%	80%	20%	20%
Agriculture	78%	44%	67%	56%
Manufacturing	78%	40%	51%	58%
Other	60%	40%	40%	30%

Source: MCCI Survey

For enterprises operating in the primary sector (Agriculture and Fishing), the main issue was paying their employees and their utility bills while secondary sector (Manufacturing and Construction) firms expressed their concern predominantly over their employees' salary and the payment of loans. For tertiary sector (Accommodation & Food service, Education, Financial & Insurance, Transportation, Arts & Entertainment, Wholesale & Retail Trade and Information & Communication) businesses, on the other hand, the payment of their employees' salary and rent were the main financial problems.

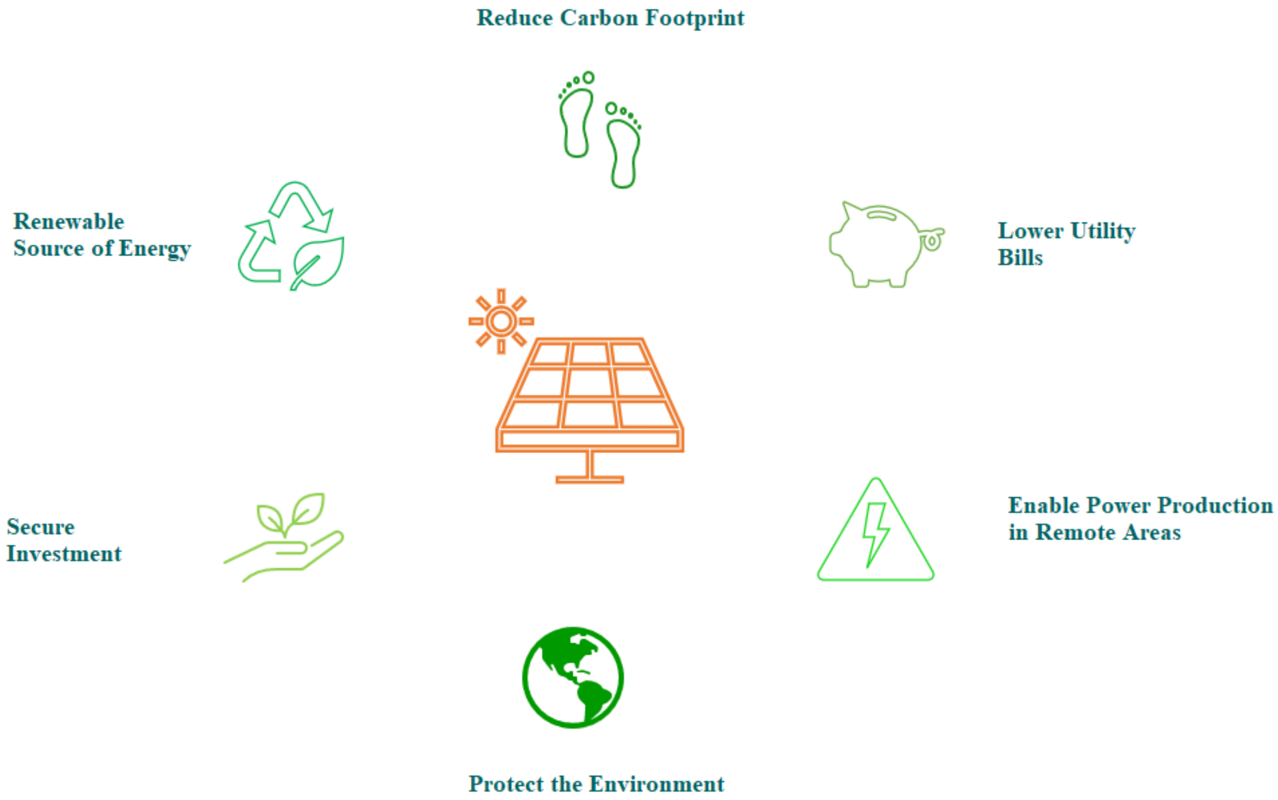
(iii) Green Energy Transition of Businesses in Mauritius

As part of the survey, emphasis has also been laid on the cost structure of SMEs, particularly in terms of the contribution of their utility bills to their total operational expenses. The cost of electricity is quite high for many businesses in Mauritius and this, in turn, affects their profitability. At the same time, climate change has highlighted the importance of reducing dependence on fossil fuels and transitioning to renewable sources of energy.

Thus, in line with the Mauritian Government's vision and long-term energy strategy of increasing the share of renewable energy in the national energy mix to 35% by 2025, the MCCI aimed at, through this survey, creating awareness about green energy sources and, in particular, the use of photovoltaic (PV) panels by SMEs to generate electricity for their business operations and to accompany them towards installing PV panels on their own/leased premises. As at 2019, only around 21.7% of the total amount of electricity generated in Mauritius was from renewable sources (hydro, wind, landfill gas, fuelwood, bagasse and photovoltaic). In contrast, in 2019, the energy sector accounted for the largest share of Greenhouse Gas (GHG) emissions in Mauritius (74.2%), followed by the waste sector (23.0%). Within the energy sector, the sub-sector that contributed the most towards GHG emissions was electricity generation accounting for 57.1% of total emissions.

Consequently, it is vital for the electricity generation sector to shift to greener and renewable energy sources. In turn, the adoption of green solutions such as PV panels is expected to have a direct impact on the operational costs of small businesses and, in the long run, enable them to be more cost competitive through considerable savings on their monthly electricity bills. Simultaneously, since approximately 99% of all enterprises in Mauritius are SMEs, the adoption of green energy solutions such as PV panels would help reduce dependence on fossil energy while contributing to the preservation of the environment.

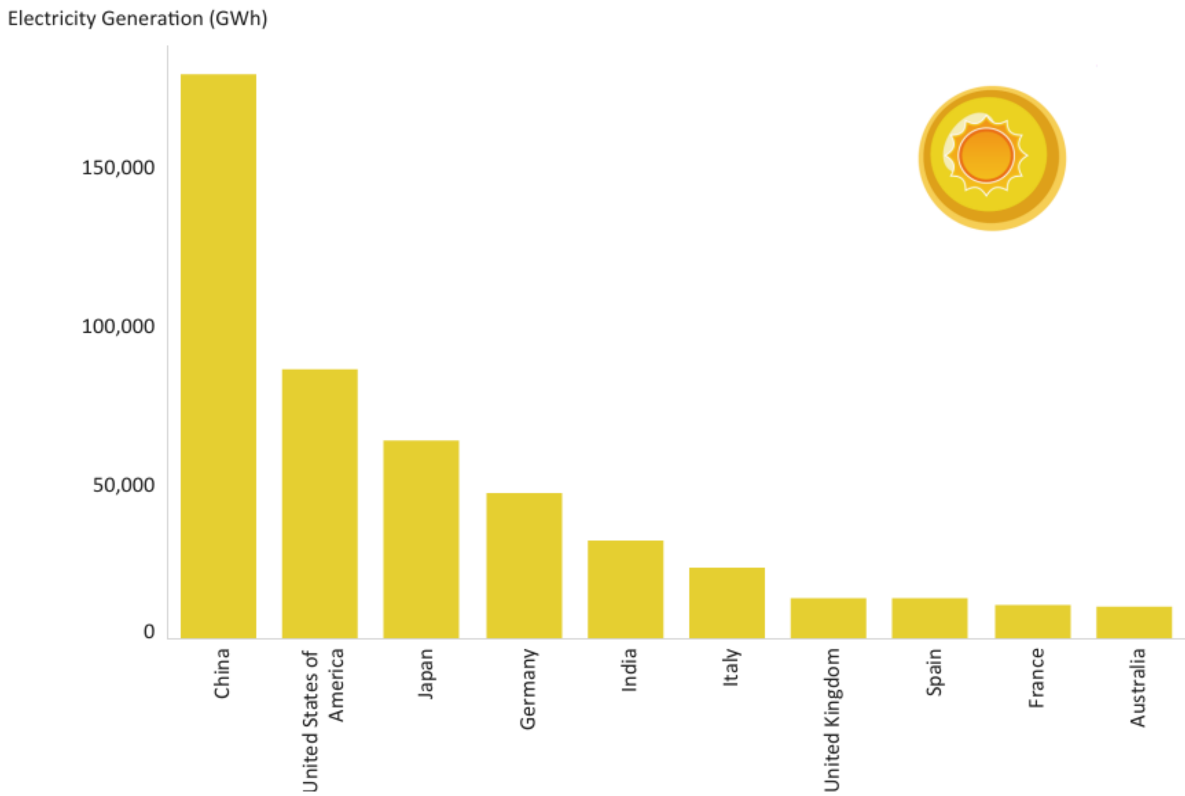
Figure 3: Why go solar?



Source: MCCI

While the diagram provides a snapshot of the benefits associated with switching to PV panels for electricity generation, the returns of such an investment go beyond this and are usually long-term in nature. The adoption of such a renewable source of energy on a large scale has the potential to create value in terms of increased income, improved trade balance, contribution to industrial development and creation of jobs, thereby enabling countries to achieve higher economic growth. The potential for domestic value creation depends largely on the level of development of a country's renewable energy sector with countries at the beginning of renewable energy development having a medium to high potential for domestic value creation in activities such as operation and maintenance and grid connection. With the development of a local industry, many more opportunities for domestic value creation should arise along all segments of the value chain and along supporting services such as research and development and consulting.

Globally, according to the International Renewable Energy Agency (IRENA), in 2018, the top 10 countries generating electricity using solar energy were the following:



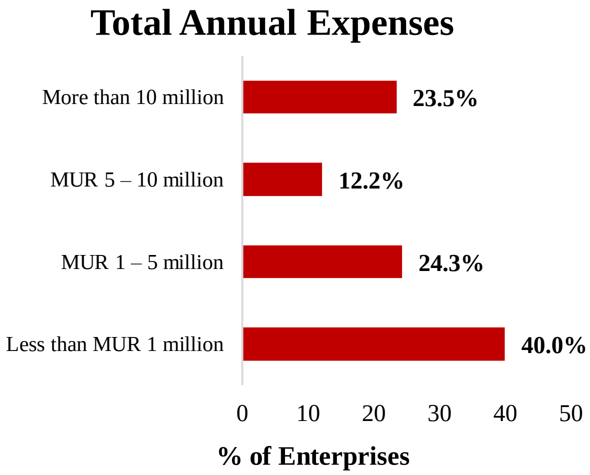
Source: IRENA

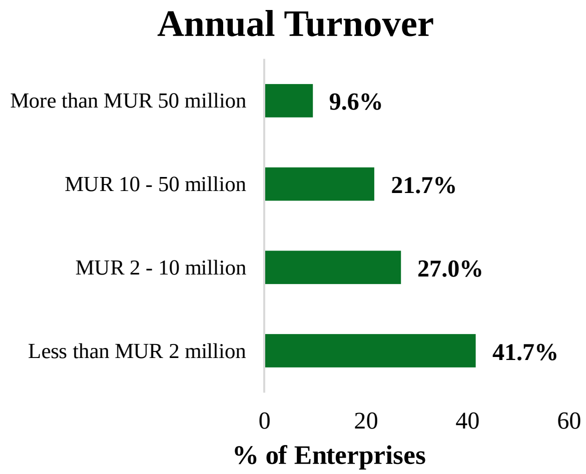
While African countries did not feature among the top producers of electricity using solar energy, they are endowed with substantial renewable energy resources which put Africa in a position to adopt innovative and sustainable technologies and to play a leading role in helping the world shape a sustainable energy future. According to IRENA, clean, indigenous, and affordable renewable energy solutions offer the African continent the opportunity to achieve its economic, social, environmental and climate objectives. Green development and use of the continent's massive biomass, geothermal, hydropower, solar and wind power have the potential to rapidly change Africa's current situation. Since around 600 million people in Africa have no access to power, representing around 48% of the continent's population, increasing access to reliable, affordable and clean energy resources is a priority, particularly in sub-Saharan Africa (Organisation for Economic Co-operation and Development International Energy Agency, 2017).

Hence, through the aforementioned survey, the MCCI also endeavoured to create awareness about the use of PV panels to generate electricity for SMEs and to provide information about the various schemes available to help them transition to PV panels, an initiative which would allow them to reduce both their operational costs and the world's dependence on non-renewable energy sources. The aim is to make SMEs take into consideration their long-term prospects or sustainability and to encourage the uptake of the schemes available to support them in becoming more energy-efficient and cost-competitive.

a. Annual Business Expenses

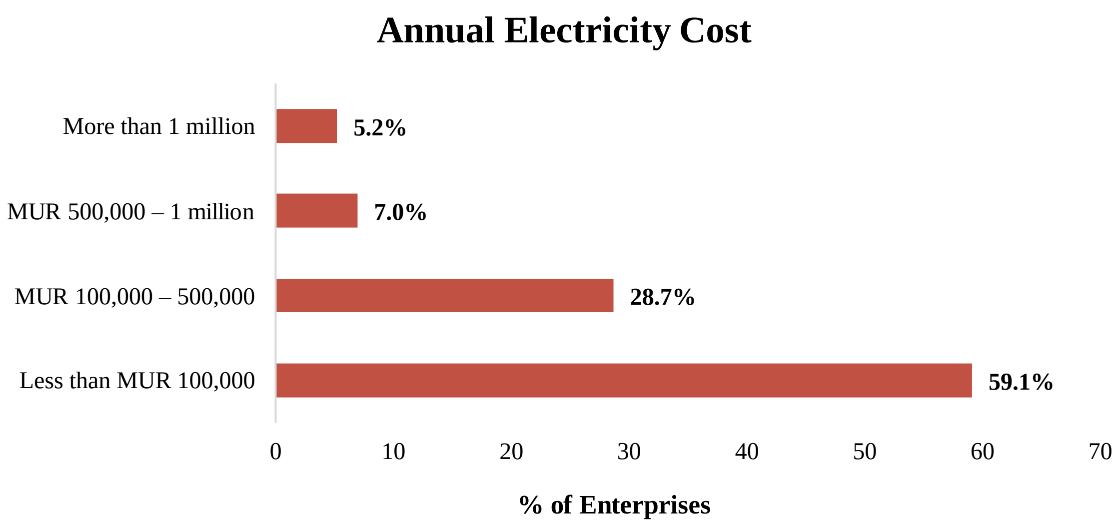
High operational cost is one of the hindrances to growth and sustainability for SMEs. The following illustrates the cost structure of the survey respondents:





Source: MCCI Survey

The cost of operations of 40% of respondents is less than MUR 1 million, coinciding with the fact that 42% of firms' annual turnover is less than MUR 2 million (micro enterprise). The remaining 60% of firms have expenses exceeding MUR 1 million with the costs for more than 35% of them surpassing MUR 5 million. In contrast, only around 30% of firms have annual revenues above MUR 10 million. This indicates the need for businesses to improve their cost competitiveness. To gain more insight on this and, in line with the solar panel initiative of the MCCI, businesses were asked to provide information on their annual electricity costs.



Source: MCCI Survey

The following provides a snapshot of the annual electricity costs of survey respondents according to the size of their business.

Firm Size	Less than MUR 100,000	MUR 100,000 – 500,000	MUR 500,000 – 1 million	More than 1 million
Micro (41.7% of firms)	90%	10%	0%	0%
Small (27% of firms)	58%	39%	3%	0%
Medium (21.7% of firms)	24%	52%	24%	0%
Large (9.6% of firms)	9%	27%	9%	55%

Source: MCCI Survey

Only Large enterprises had an annual power usage costing more than MUR 1 million. In general, the yearly electricity cost distribution shown above coincides with the firms' classification with the larger ones having costs at the higher end of the scale. In contrast, most micro enterprises' electricity bills were less than MUR 100,000. Among SMEs, more than 50% of the firms in the Accommodation & Food service, Transportation, Construction, Wholesale & Retail Trade, and Information & Communication sectors had a yearly electricity bill exceeding MUR 100,000 going up to MUR 1 million. A general overview of the electricity bill of firms according to their main sector of activity is provided below:

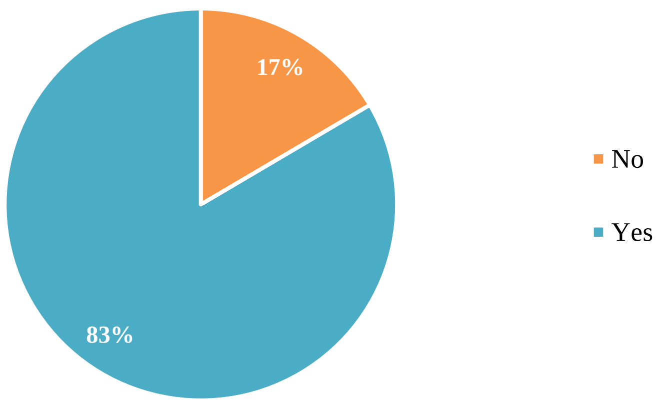
Sector	Less than MUR 100,000	MUR 100,000 – 500,000	MUR 500,000 – 1 million	More than 1 million
Accommodation and Food service	43%	57%	0%	0%
Fishing	0%	0%	0%	100%
Education	100%	0%	0%	0%
Financial and Insurance	100%	0%	0%	0%
Transportation	0%	50%	50%	0%
Construction	44%	44%	11%	0%
Arts and Entertainment	100%	0%	0%	0%
Wholesale and Retail Trade	36%	45%	18%	0%
Information and Communication	40%	60%	0%	0%
Agriculture	67%	22%	11%	0%
Manufacturing	65%	22%	5%	7%
Other	70%	20%	10%	0%

Source: MCCI Survey

b. Awareness of and Willingness to Switch to PV Panels

Through the survey, businesses were informed about the use of PV panels to capture the sun's energy and convert it into electricity and were asked about whether they were aware of this renewable method of producing electricity.

Awareness of the use of PV panels to generate electricity

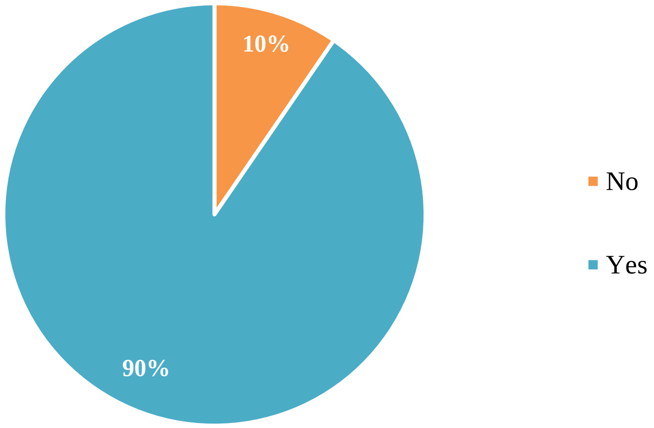


Source: MCCI Survey

While the survey responses showed a high awareness of PV panels, the related open-ended question highlighted that less than 1% of respondents used this energy-efficient method. Subsequently, to create greater awareness about PV panels as a means of producing electricity and to encourage the adoption of this method, respondents were informed about the various schemes and incentives available. For example, brief details of the CEB Green Energy Scheme for SMEs and of the Eco/Green loans provided by commercial banks at competitive interest rates were provided. Businesses were also questioned as to whether they were interested in switching to PV panels to generate electricity for business purposes.

95% of all those firms which were unaware of the use of PV panels to generate electricity for their business were inclined to switch to this renewable source of energy. As shown in the following diagram, only a small percentage of survey respondents indicated that they did not wish to switch from their current electricity source. The 10% of firms which did not wish to make such a change mentioned reasons such as an already low power usage/electricity bill and the unwillingness to take new loans or engage in a lengthy process with the CEB during this difficult period.

Willingness to switch to PV panels to generate electricity



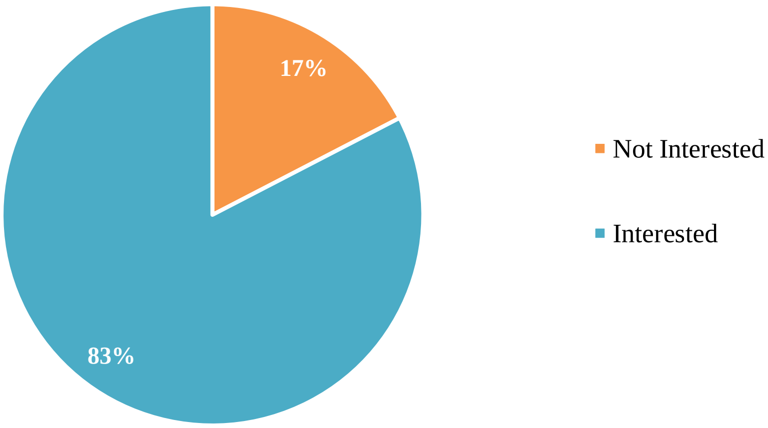
Source: MCCI Survey

50% of the firms which indicated their willingness to switch to PV panels had listed the payment of utility bills as one of their main financial concerns and approximately 14% of them had annual electricity bills exceeding MUR 500,000.

c. Interest in PV Panel Training Programme

The renewable energy initiative of the MCCI also includes providing a training programme to teach people, especially women and youngsters who are believed to be the most disadvantaged group due to COVID-19, about PV panel installation and maintenance. This has the potential to generate a new employment stream in the renewable energy sector which is thriving across the world due to commitments made by various countries to reduce their dependence on fossil fuels and move towards a greener economy.

Interest in PV Panel Training Programme



Source: MCCI Survey

A high proportion of firms were interested in participating in this training, either to gain more information about the use of PV panels or to explore another potential source of income and employment during this period of high uncertainty. 80% of those not interested in this training opportunity had annual electricity costs less than MUR 100,000 with only 25% of them citing utility bills as one of their main financial concerns.

Nevertheless, the cost of energy is a significant concern for many small businesses and can be a barrier to business growth. While most small businesses have demonstrated an awareness of the use of solar energy to generate electricity and are willing to switch to this to generate power for their business, many are unable to finance such as investment. Similarly, while more than 80% have expressed their interest in getting trained to install and maintain PV panels, it is very likely that they would be unable to invest in such capacity building on their own. Thus, financial incentives, together with strong awareness campaigns, are necessary to boost SMEs' uptake of this renewable way of generating electricity while simultaneously lowering cost of operations.

d. Recommendations to Promote Green Energy Transition

Green growth has become a policy focus for countries worldwide with the current crisis representing an opportunity to promote green initiatives as part of business support and economic revival measures. In Mauritius as well, with a target of 35% renewable energy usage by 2025 and a current achievement level of 21.7% as at 2019, it is imperative to take actions and put forward strategic measures that would help Mauritius achieve its goals.

- **Introduction of a set of financial incentives**

Schemes to boost the transition to both green energy sources and green business practices should be made more attractive. For instance, renewable energy equipment can be provided with tax exemptions such as the VAT to boost the consumption of green energy solutions. Such exemptions would directly impact on renewable energy production technologies such as wind farms, biogas production facilities, PV panels, and a range of other solar-powered technologies like water heaters, lamp kits and streetlamps. Energy certificate schemes financed by taxes on the energy consumption by end-users or by international support can also be considered.

- **Creation of national systems of innovation**

Government support is crucial to design national systems of innovation incorporating mechanisms for the dissemination of green technology such as agricultural extension services for green agricultural technologies and similar mechanisms to spread knowledge about better building practices to households and construction firms, and about energy-saving technologies to SMEs, particularly manufacturing firms. Such systems would also require greater public, academic and private research and development as well as engineering teams that adapt imported technology to the local context and contribute to its higher adoption and usage.

- **Development of global institutional arrangements**

Given that most developing countries, especially Small Island Developing States such as Mauritius, are technology followers, it is vital for them to form part of global arrangements that increase international cooperation and collaboration on research and development in all areas relevant for green growth so as to accelerate the spread and adoption of those technologies. Partnerships with international institutions such as the AFD (through its green finance label SUNREF) which can provide green financing tools should also be reinforced.

- **Review of trade policies**

Changing trade patterns might help the green transition of businesses and the economy as a whole. For instance, by lowering tariff and non-tariff barriers for goods such as wind turbines and efficient light bulbs, and services such as environmental engineering, the uptake of green solutions might increase in developing countries like Mauritius.

- **Awareness campaigns and public-private partnerships**

Both the private and public sectors have to work together to sensitise the population on new regulations surrounding the greening of the economy while promoting the usage of green energy solutions. Such strong campaigns are vital to increase the export potential of developing economies as well since environment-related product and process standards and regulatory regimes and restrictions are becoming increasingly common in industrial countries. At the same time, private buyers are also forming a parallel set of standards and codes. Thus, the Government should work with the private sector to enable exporters meet such requirements through effective communication and by helping firms identify, acquire and assimilate the relevant green solutions. Additionally, awareness campaigns should also emphasise the various financing tools available especially for SMEs largely concerned about cost reduction.

- **Green job skills development strategies**

While countries, including Mauritius, have drafted environmental policies, few have put in place job skills development strategies to implement them. Targeted labour market and skills policies are vital to facilitate a green energy transition. New employment opportunities can lead to sustainable and inclusive growth if critical issues relating to the development of appropriate skills are taken into account. For green energy solutions to be widely accepted, supply must meet demand rapidly. Evidence from other countries has shown that skills bottlenecks, where supply does not meet demand, can be a serious impediment to green investment and growth.

Conclusion

The outbreak of the COVID-19 pandemic has aggravated the already challenging situation faced by Micro, Small and Medium-sized Enterprises (MSMEs), especially in developing countries. These firms are perceived to be the most affected by lockdowns imposed in most countries across the world, travel restrictions and other stringent measures taken by governments to contain the virus. This is predominantly on account of such firms having limited savings lasting only a few months at most compared to larger enterprises which make cash-flow provisions for a longer timeframe. While SMEs are considered the backbone of countries through their contribution towards employment creation and GDP growth, they, nevertheless, face a multitude of problems related to financial inclusion and lengthy regulations and paperwork. These obstacles have been accentuated by the COVID-19 pandemic.

The efforts of governments to curtail the adverse effects of the pandemic on the economy have hugely and negatively impacted smaller firms mainly because they operate on very thin profit margins and are often heavily concentrated in the most affected service sectors such as tourism and hospitality. While governments worldwide have put in place strategies to cushion businesses from the impact of the pandemic, these might be not sufficient over the long run. In Mauritius as well, numerous schemes were put forward by the relevant authorities. For instance, the government provided the Wage Assistance Scheme and is continuing this provision for certain sectors like tourism. It has also recently announced undertaking the payment of the salary compensation for relevant SMEs as from January 2021. The Bank of Mauritius, on the other hand, made available a line of credit through commercial banks to meet the working capital and cash-flow needs of firms while providing moratoriums on loan and interest repayments. SME Mauritius also came forward with schemes such as the Internal Capability Development Scheme, Technology and Innovation Scheme and SME Utility Connection Assistance Scheme amongst others to assist SMEs.

Such support measures helped to temporarily alleviate the financial constraints of smaller enterprises. However, there is a need to formulate additional measures promoting SME resilience for post COVID-19 economic recovery. MSMEs, especially, micro and small enterprises, have to be better equipped so as to properly exploit the opportunities that presented themselves during the pandemic, for example, in the digital sphere. To ensure that they fully reap the benefits, governments in developing economies should put in place policies bridging the digital gap. Smaller businesses also have to work towards capacity building so as to develop stronger resilience against future economic downturns.

The core issue, however, lies in the fact that small entrepreneurs often do not have the expertise, time, or capital to invest in capacity building or engage in efficiency measures for their business. For instance, while training of employees can make them more productive and endow them with transferable skills, smaller enterprises might not possess the required funds to provide such opportunities. Similarly, while often utility bills can account for a high proportion of the total expenses of a small business, many business owners or their employees are ill-equipped to identify and manage energy savings projects. Given that SMEs are generally focused on the basic service of the business and on ensuring business sustainability over the short term, energy efficiency is rarely a priority considering their competing demands and challenges. Additionally, such enterprises might only have slim profit margins and poor cash-flow, which makes it difficult for them to invest in or finance costly efficiency upgrades. While the inclination to switch to more efficient practices might be present, as evidenced by the MCCI's survey, the relatively high upfront capital investment acts as an impediment.

It is, therefore, imperative for the government and energy suppliers to contribute towards ensuring that small businesses can proceed with efficiency measures to reduce their energy consumption costs. Many small businesses do not have the capital to invest upfront in energy efficiency or sustainability measures, such as smart meters or solar panels but do possess the appetite to be more energy-efficient so as to lower the cost of doing business and help the government achieve its long-term vision of a greener economy. However, for SMEs to adopt energy-efficient measures, they need the payback to be quick and the upfront costs to be small. There has to be a tangible business benefit, a low risk to their investment and a simple and clear process. As such, policy-makers need to provide a clear, long-term policy agenda that works for firms, particularly small ones. For instance, a longer-term approach should incentivise energy companies to offer help and support to small businesses. To boost small businesses' adoption of renewable energy, it is crucial to address the question of cost. If the upfront cost is high, the government and other relevant stakeholders should consider promoting renewable and low-carbon energy installations to small businesses through enhanced capital allowances and financial incentives such as subsidies on installations or free installation and maintenance over a specified period of time. The process for switching electricity generation techniques and completing all the requisite installations should also be less bureaucratic.

There is thus a need for a sufficiently large pool of people trained to install and carry out regular maintenance of PV panels. A lack of skilled workers in this domain is likely to delay the whole process and, at the same time, make it more costly. These would act as disincentives for individuals and firms wishing to adopt greener practices. In line with this, the MCCI is organising a free training programme to teach people, mainly women and young people perceived as most vulnerable to COVID-19 due to their high employment levels in sectors like tourism and hospitality, about PV panel installations and maintenance. The aim of this initiative is to create a new source of employment in a growing sector while encouraging people to transition to solar panels knowing that they would be able to conduct the regular maintenance themselves and outsource their services in the future. At the same time, through this survey, the MCCI wishes to highlight the importance of relevant institutions better supporting SMEs through energy-efficient and cost-reducing initiatives such as these, especially after the evidence detailed throughout this report on the negative repercussions of the pandemic on businesses and the high level of willingness to switch to alternative renewable energy sources.

On a concluding note, it is worthwhile to highlight that given the diversity among the survey respondents in terms of turnover and line of business, caution must be maintained when using the data from this study to make extrapolations about all businesses. Nevertheless, through this MCCI survey and report, an attempt has been made to provide insights into the actions that businesses, particularly SMEs in Mauritius, are taking to mitigate the negative effects of the pandemic and the issues that they are continuously facing which are, in turn, acting as hindrances to business survival. The report has also endeavoured to shed light on the cost challenges faced by SMEs and how switching to energy-efficient methods like PV panels might help them achieve longer-term sustainability while enabling the Government to achieve its energy efficiency goals.

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