Micro-, Small and medium-sized enterprises (MSMEs) in developing countries: improving their resilience in the face of the COVID-19 outbreak
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Summary

As the economic and social impacts of the COVID-19 pandemic continue to make themselves felt across the world, micro-, small and medium-sized enterprises (MSMEs) and their employees are experiencing its effect. MSMEs are an important engine for progress towards achieving the Sustainable Development Goals (SDGs) in developing countries. Often, most business entities in developing countries belong to the category of MSMEs, which account for significant shares of employment and gross domestic product (GDP). Under normal circumstances, MSMEs in developing countries face multiple challenges, including those associated with informality, and limited access to mainstream finance and global value chains. COVID-19 relief measures, including stimulus measures, need to promote inclusiveness during and after the COVID-19 outbreak in order to benefit both informal and formal MSMEs. Unfortunately, the informal status of MSMEs limits their access to emergency relief measures, which renders informal MSMEs even more vulnerable to the downturn ushered in by the COVID-19 pandemic. Not only is MSME informality in developing countries an issue of business registration but its effects are felt also in the area of labour relations, particularly in cases where informal MSME employees have little or no basic social protection. While the economic and social impacts of the outbreak have been severe, policies for enhancing MSME resilience could help prevent the shock from triggering a long-term crisis, particularly a jobs crisis. The more resilient small businesses of the future will help safeguard the gains reaped through achievement of the SDGs, particularly the goals of poverty eradication and creation of decent jobs.
Micro-, Small and Medium-sized Enterprises (MSMEs) in developing countries: Improving their Resilience in the Face of the COVID-19 Outbreak

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1. Introduction

The COVID-19 pandemic has had sweeping consequences for economic growth, employment and wages (United Nations, 2020a). The imperative of curbing the spread of the novel coronavirus has entailed a range of measures, including partial or full lockdowns of countries, people and all businesses, as well as travel restrictions. The global economy shrank by 4.3 per cent in 2020 – the largest contraction in output since the Great Depression (United Nations, 2021). Economic activity in most sectors slowed, with severe impacts on many micro-, small and medium-sized enterprises (MSMEs) and their employees.

The pandemic is a crisis of global dimensions. Most developing countries have limited fiscal space for boosting spending on social services and support to businesses. This is especially true for countries of sub-Saharan Africa, least developed countries and small island developing States. While stimulus spending per capita averaged nearly US$ 10,000 in the developed countries, it amounted to less than US$ 20 per capita in least developed countries (United Nations, 2021). The Economic Commission for Africa (ECA) estimates that a full lockdown of businesses and people across Africa for one month would cost the continent about 2.5 per cent of its annual gross domestic product (GDP), or about $65.7 billion per month (United Nations, Economic Commission for Africa, 2020). In this regard, equitable access to COVID-19 vaccines is critical to economic recovery. Successful vaccine roll-out programmes in all countries will boost global economic growth, enable renewal of trade and release pent-up demand. Moreover, research suggests that not assisting developing countries in vaccinating their populations could depress growth globally, given the interlinked nature of the global economy (Çakmakli and others, 2021). Hence, programmes such as the Access to COVID-19 Tools (ACT) Accelerator partnership, which strives to provide developing countries with pandemic resources, are critical to reducing barriers to rebuilding and recovery in developing countries. The ACT Accelerator has secured commitments of US$ 11 billion towards its US$ 38 billion target (World Health Organization, 2021).

MSMEs are an important engine for progress towards achieving the SDGs in developing countries. Often, most business entities in developing countries belong to the category of MSMEs, which account for significant shares of employment and gross domestic product (see figure I). Most MSMEs in developing countries are informal in nature. The total number of informal MSMEs is about 340 million (International Finance Corporation, 2016); and informal MSMEs are the backbone of economies across Africa (Mwanza and Benedict, 2018). The informal sector provides about 75 per cent of non-agricultural employment and 72 per cent of overall employment in sub-Saharan Africa (International Labour Organization, 2016).

Under normal circumstances, MSMEs in developing country contexts face multiple challenges, including the challenges of informality and limited access to mainstream finance and global value chains (Asian Development Bank, 2020).

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1 Division for Sustainable Development Goals, Department of Economic and Social Affairs. This brief was prepared under the project “Enhancing national capacities for unleashing full potential of micro-, small- and medium-sized enterprises in achieving the SDGs in developing countries”, funded by the United Nations Peace and Development Trust Fund, with substantial support from the People’s Republic of China.

2 COVAX, a joint platform of GAVI, the World Health Organization (WHO) and other entities, aims towards ensuring that 2 billion doses are made available by the end of 2021 to all participating countries, regardless of income levels. See www.gavi.org/vaccineswork/covax-explained.
According to International Labour Organization (ILO) estimates, there are some 800 million people who either work in microenterprises or are self-employed in sectors susceptible to COVID-19 closures, including manufacturing, accommodation and food, and the retail trade (ILO, 2020). It is estimated that micro-, small and medium-sized enterprises make up 80 per cent of the global tourism sector which employs approximately 123 million people worldwide (United Nations, 2020b). Travel restrictions have had a devastating impact on the tourism sector, especially in small island developing States (United Nations, 2021). Unlike bigger enterprises, MSMEs lack sufficient cash reserves to weather external shocks, including interruptions in revenue inflows. An estimated 65 million firms, or 40 per cent of formal micro-, small and medium-sized enterprises in developing countries, have an unmet financing need of $5.2 trillion every year. Similarly, MSMEs are less able to tap emergency credit, where it is available. Informal and unregistered enterprises are left with very few avenues for accessing support. Further, many workers in the informal sector have low earnings, are subjected to inadequate working conditions and lack access to social protection and health insurance.

The present brief seeks to provide an overview of policy measures adopted by countries to support MSMEs in response to the COVID-19 outbreak. It draws primarily on those measures adopted by selected developing countries that may offer lessons and potential policy options for other countries faced with similar circumstances. The brief also focuses on measures that could enhance MSME resilience for building back better in the post-COVID-19 era.

2. Overview of policy measures enacted in response to the COVID-19 outbreak

The present section offers a summary of selected policy measures adopted by developing countries. A key characteristic of MSMEs in developing countries is informality, which can limit access to emergency relief measures and long-term financing and other support programmes. Many informal MSMEs are owned by women, young people, the working poor and people in vulnerable situations. With almost 1 billion people lacking a legal identity, identifying informal business owners is not merely a registration issue. Not only is MSME informality in developing countries

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4 This issue illustrates the interlinkages among the SDGs, with SDG 16.9 calling for the provision of legal identity for all, including birth registrations.
an issue of business registration but its effects are felt also in the area of labour relations, particularly in cases where informal MSME employees have little or no basic social protection.

During the emergency response phase of the COVID-19 pandemic, countries around the world announced or put in place fiscal stimulus packages, with the majority containing measures enacted to address liquidity pressure among MSMEs immediately following the onset of the crisis (United Nations, 2020a; International Monetary Fund, 2020). The United Nations has identified support for MSMEs and vulnerable workers in the informal economy as a component of one of the five streams of work for country-level responses to the pandemic (United Nations, 2020c).

Measures intended to benefit MSMEs can generally be categorized as follows: (a) debt relief, including deferred loan repayment and interest rate abatement; (b) emergency loans to small businesses, sometimes at concessional rates; (c) varieties of tax breaks, such as income and profit tax exemptions; and (d) regulatory measures and subsidies for social security, rent and utilities payments. Targeted measures aimed at MSMEs are combined with other policies such as extended unemployment insurance, unemployment top-ups and direct cash transfers, which work to prop up demand for MSME products and services (table 1).

The effectiveness of stimulus measures is heavily influenced by the structure and composition of MSME sectors. For instance, in a region or country where the majority of enterprises operate informally at the microscale, debt relief and expanded access to credit will be of limited benefit. Direct cash transfers and other means of propping up demand will be of more use to enterprises under these conditions. Interventions such as awareness-raising and streamlined procedures influence the impact of support measures. Communication is key: MSMEs need to be made aware of the available measures, as well as how to avail themselves of the support on offer. Unnecessarily complex rules and regulations can hamper uptake by MSMEs.

With gradual reopening of businesses starting from the latter half of 2020, MSME-supporting policies are shifting from emergency liquidity support to long-term measures for enhancing resilience. Expansion of access of MSMEs to credit and support for the pivoting of businesses have become two priorities within the context of the chronic challenges that are exacerbating the vulnerability of MSMEs during the pandemic. National Governments have increased direct loans to MSMEs with concessional terms. For example, the Central Bank of Malaysia has provided US$ 1.25 billion in collateral-free special loans at an annual rate of 3.5 per cent to finance the working capital of MSMEs. Along the same lines, the South Africa Small Enterprise Development Agency has put in place a business growth resilience facility which finances the working capital and equipment of MSMEs, thereby enabling their continued operations and production of materials for which there is a shortage during the pandemic.

Enhanced access to credit may be expected to benefit larger or established enterprises, which can register their operations. If informal MSMEs are to fully access emergency support measures, policymakers should consider implementation of processes to fast-track approvals and to relax requirements associated with collateral and guarantees. In the current crisis situation, small businesses should not find themselves entangled in red tape. Application processes should be straightforward and eligibility criteria clearly defined and widely publicized. Given the extreme uncertainty as regards future economic prospects, small business owners may be reluctant to take on debt, even at concessional rates. There is thus an argument to be made for including a grant window for microenterprises.

Box I: China

From mid-February 2021 onward, the Government of China launched a series of policy measures to support MSMEs during the COVID-19 outbreak. The State Council encouraged commercial banks to postpone loan interest repayment by MSMEs until the end of June 2020. A US$ 70 billion refinancing facility was launched to increase by 30 per cent the loans available to MSMEs from commercial banks in the first half of 2020. The National Development and Reform Commission launched a MSME digitization campaign whose goal, in pursuance of a digital economy, is to provide online training and services to facilitate digital transformation of MSMEs and nurture innovative business models.
A considerable proportion of grants are delivered through government-funded training and platforms aimed at supporting MSME business pivoting during the pandemic. As developed by the Ministry of Economy, Development and Tourism, the Digitalize your SME Programme in Chile has provided MSME entrepreneurs with training on how to harness digital technologies to increase online sales, reduce costs and strengthen networks with customers. Under the country’s digital strategy, the Malaysia Digital Economy Corporation was established to provide online business and investment solutions to MSMEs. In China, MSMEs are offered grants for the purchase of cloud technology for teleworking and video conferencing, as well as for conducting research on the generation of innovative prevention and control techniques related to the COVID-19 pandemic. Such training programmes could accelerate the digital transformation of MSMEs, which would strengthen their long-term resilience in a global market increasingly shaped by digital technology. Inclusiveness of scope needs to be mainstreamed in the planning and delivery of the training programmes, which should be open to both formal and informal MSMEs, particularly those owned by people in vulnerable situations.

There are a range of other measures, such as wage subsidy payments, intended to enable enterprises to retain employees. Government authorities have instituted regulatory measures, such as the placing of a moratorium on evictions for a stated period of time.

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Box II: Cambodia
MSMEs accounted for over 90 per cent of all business entities, providing 70 per cent of employment and contributing 58 per cent of GDP in 2018. Most MSMEs in Cambodia are concentrated within the agriculture, manufacturing and tourism sectors. The Ministry of Commerce delivered a six-month incubation programme designed to help MSMEs adopt e-commerce models which enable expansion of sales to national and overseas markets. E-commerce has been recognized as a pillar of the country’s economic recovery.
3. Conclusions and policy recommendations for improving MSME resilience

The measures outlined in this brief can serve as a point of reference for policy options designed to support MSMEs that are coping with challenges in the recovery phase of the COVID-19 outbreak, especially cash flow pressures. They could also generate further positive benefits by improving MSME resilience towards external shocks in the medium to long term.

- Credit relief to MSMEs should be made available through expedited, diversified channels. Extension of loan guarantees to commercial banks for credit to MSMEs is a policy option that has been adopted. Central banks and regulators could put in place regulatory changes to incentivize extension of credit to MSMEs, such as reclassifications related to how loans to such enterprises are to be accounted for. The urgency of the situation may call for central banks to guarantee a first “loss tranche” to MSMEs.
- Given the importance of microfinance providers to MSMEs, it is recommended that national Governments launch policies aimed at maintaining solvency of microfinance providers in the context of the COVID-19 outbreak. Simultaneous action will be required to bring relief to clients of microlenders.
- Many MSMEs provide goods and services to larger enterprises, which are managing cash flow by extending payments on invoices to service providers. With small cash cushions, MSMEs are at a disadvantage if payment is delayed. One option is for larger enterprises to be required to settle invoices of MSMEs in an expedited manner, as a condition for accessing relief measures. Government departments should also consider expanding access of MSMEs to public procurement opportunities.
- Women and youth entrepreneurs, many of whom own their informal MSMEs, are among the hardest hit by the COVID-19 outbreak owing to the informality of their businesses and the resultant inability to access emergency support measures. Socioeconomic assessments and response frameworks prepared by United Nations country teams address the plight of MSMEs and vulnerable workers, complementing national response strategies. To promote inclusive growth and recovery from the pandemic, stimulus packages and training programmes should be structured to benefit women and youth entrepreneurs and others who are vulnerable or marginalized.
- Policy measures designed for both the emergency response and recovery phases need to address the demands of formal and informal MSMEs. Governments could consider partnerships with the private sector and blended finance mechanisms for the upscaling of technical and financial resources. Support could be provided through non-bank lenders, which can reach informal MSMEs because unlike banks, their lending models are not based on collateral or surety.
- To survive future crises, MSMEs need support to transition to leveraging the benefits provided by e-commerce, including with respect to procurement of inputs and selling. This will require concerted efforts to close the digital divide, in terms of expanding access to digital devices and the coverage of digital infrastructure, strengthening online marketing skills and reducing barriers to offline logistics activities.

The pandemic will have a prolonged effect on MSMEs and long-term policies would therefore be needed to strengthen MSME resilience. Without such policies, enterprises with marketable products and services and otherwise viable business plans will be forced to struggle to survive. When such enterprises go under, there is a loss of economic vitality, innovation and productivity. The post-pandemic world will offer new business opportunities, as related, for example, to greener technologies and the circular economy.

Governments can foster an enabling environment for MSME formalization, including by simplifying registration processes for small enterprises. There are good practices for formalization among developing countries (United Nations Commission on International Trade Law (UNCITRAL), 2019). Access to support - as well as access to services such as training on improvement of marketing skills, product development and digitization - can serve as an incentive
for business registration. A key objective should be to implement interventions that can make MSMEs more resilient and enable them to build back better and to shift to the formal economy.

Lessons learned during the emergency response can help inform policies devised for the recovery phase. For example, policymakers could consider merging credit guarantees provided during the emergency phase with funds leveraging access of MSMEs to financial resources in the long term. And as economies reopen, consistent and clearly communicated guidance on health and safety measures can assist enterprises, while also promoting the health and safety of employees and customers.

There is an opportunity for knowledge-sharing among and within developing countries on effective policy support to MSMEs. Entities of the United Nations system, including the Department of Economic and Social Affairs of the United Nations Secretariat, can play a role in fostering South-South, North-South and triangular cooperation as a means of promoting the exchange of knowledge and skills and facilitating the transfer of technology on mutually agreed terms.5 At the national level, umbrella organizations, such as chambers of industry and commerce, can continue to share information on response measures with their members.

While the channeling of support to larger enterprises is an easier task, policymakers need both to ensure that measures targeted at MSMEs are subject to continuous review and to consider in that regard the particularities of the sector in their country. While the economic and social impact of the novel coronavirus outbreak is likely to be severe, policies for enhancing MSME resilience could help prevent the shock from triggering a long-term crisis, particularly a global economic recession and jobs crisis. More resilient micro-, small and medium-sized enterprises of the future will help safeguard the gains reaped through achievement of the SDGs.

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5 See, for example, the project entitled “Enhancing national capacities for unleashing full potential of micro-, small and medium-sized enterprises in achieving the SDGs in developing countries”.
References


