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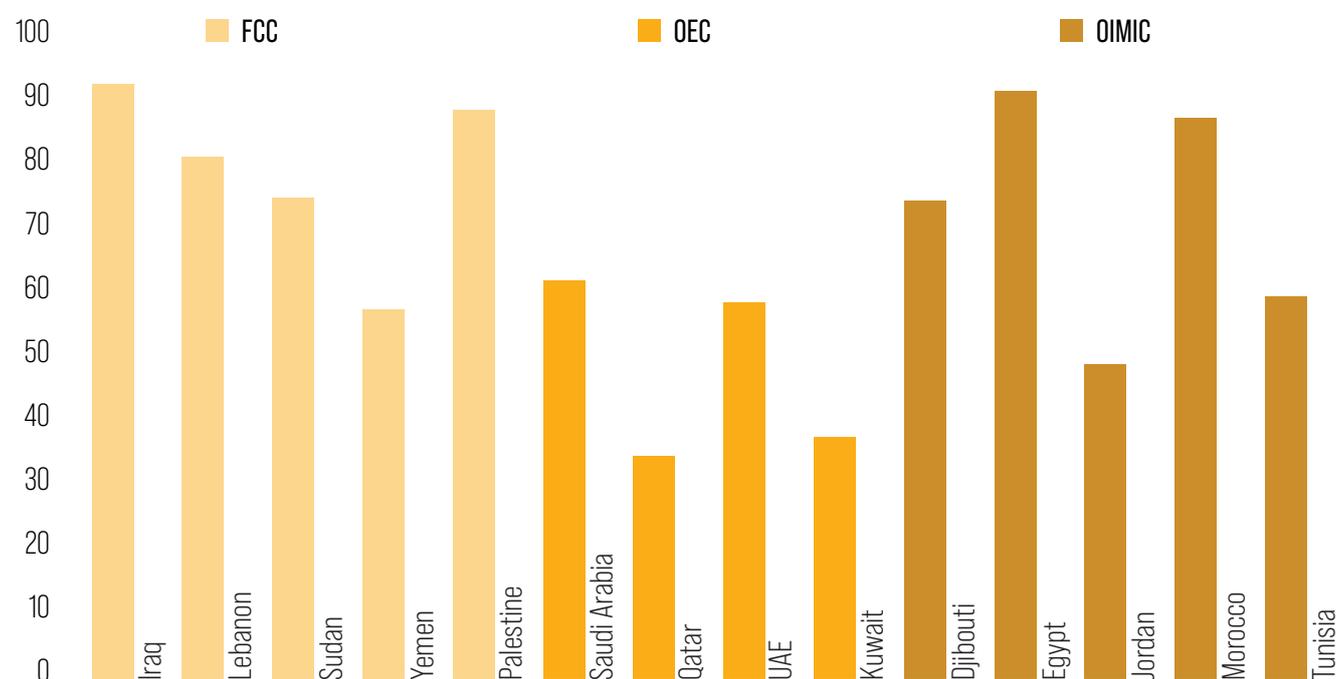
Impacts on MSMEs

Background

The contribution of micro, small and medium enterprises (MSMEs)¹ to economic growth, the creation of decent jobs, and the provision of goods and services, as well as to poverty alleviation and reduced inequality,

is well acknowledged. It is estimated that SMEs contribute as much as 40 percent of the GDP of Arab countries.² MSMEs and SMEs are estimated to account for 97 percent and over 90 percent, respectively, of all

Figure 6.1 MSMEs contribution to private sector employment (%)



Source: enterprise data (Lebanon, Yemen, Sudan, Palestine, Djibouti); national sources (Iraq, Jordan, Kuwait, Saudi Arabia, UAE); MSME-EI data [recent available data].

- 1 There is no standard definition of MSMEs that applies to all countries in the region and therefore comparison across countries is difficult. For example, in Egypt enterprises employing more than 99 persons are considered large, while in Saudi Arabia, Oman and Tunisia enterprises are considered 'large' if they employ 200+ people. In Iraq, large enterprises are those enterprises with more than 29 employees. SME Finance Forum, "MSME Economic Indicators", n.d., <https://www.smefinanceforum.org/data-sites/msme-country-indicators/>.
- 2 Stepanyan, V., G. Abajyan, A. Ndoye and M. Alnasaa, "Enhancing the Role of SMEs in the Arab World—Some Key Considerations", IMF Policy Papers, 13 December 2019, <https://www.imf.org/en/Publications/Policy-Papers/Issues/2019/12/13/Enhancing-the-Role-of-SMEs-in-the-Arab-World-Some-Key-Considerations-48873/>.

businesses in the Arab countries and provide a major source of new job creation in the region.³ This number could be higher when the estimated contributions of MSMEs operating in the informal sector are taken into consideration. The contribution of MSMEs to private sector employment in some countries of the region is indicated in Figure 6.1.⁴ While all enterprises are affected by COVID-19, MSMEs are particularly

vulnerable due to their fewer assets and limited cash reserves, which make it difficult for them to cushion against liquidity shortages induced by social distancing measures introduced as a means to combat the pandemic. The effect of the pandemic on the Arab economies would be significant if countries fail to protect MSMEs, given their substantial role in terms of employment as well as their contribution to GDP.

Impact of COVID-19 and low oil prices

Channels of transmission

COVID-19 can affect SMEs in two main ways.⁵ First, it reduces the supply of labour, mainly due to restriction of movement and quarantines, which lead to a drop in capacity utilization and the inability of firms that rely on supply chains to obtain raw materials. Such disruptions contribute to a rise in business costs and constitute a negative productivity shock, reducing economic activity. Second, due to loss of income, fear of disease transmission and heightened uncertainty, people tend to spend less. This leads to further job losses. Some sectors – such as tourism, which constitutes a significant share of GDP in some countries in the Arab region (as discussed in Chapter 3) – are affected more than others. In addition to the sectoral effects, worsening consumer and business sentiment can lead firms to reduce their spending and investment, which, in turn, can lead to business closures and job losses. This may result in financial vulnerabilities, as business fail to pay back loans, also leading to unemployment and loss of income.⁶

Not all enterprises are affected equally by, or suffer from, the consequences of demand and supply side constraints. The extent of the effects varies, among other things, by the sector in which the enterprises operate, the flexibility with which enterprises can telecommute, and the pre-existing conditions of the enterprises

(especially the existing financial standing of enterprises). Enterprises that can conduct their businesses online, for example, may not have to suffer from supply side shocks due to reductions in the supply of labour. A case in point is e-commerce enterprises. For such enterprises, demand issues are more important than supply issues. The effects on enterprises, jobs and incomes will be more severe in FCCs, given that workers in these countries have limited access to social protection and the majority of businesses in these countries are within the informal economy.⁷

Regional impacts

The COVID-19 outbreak is severely impacting the private sector across the region, with some sectors such as tourism, logistics, and retail suffering the most.⁸ Given that about 97 percent of private businesses in the region are MSMEs, such enterprises stand to lose the most. MSMEs and most workers in Arab countries are typically employed in the sectors that are particularly exposed to the effects of the pandemic, such as tourism, transportation and retail trade. Enterprises working in accommodation and food service activities; manufacturing; real estate, business and administrative activities; wholesale and retail trade; and repair of motor vehicles and motorcycles, are at risk of high disruption due to the COVID-19 Crisis.⁹ In Arab countries, these

3 Ibid.

4 Data indicated in the figure should not be compared, as it comes from different sources and there is no standard definition of MSMEs across all countries. It should be interpreted within the given national context.

5 Gopinath, G., "Limiting the Economic Fallout of the Coronavirus with Large Targeted Policies", IMF, 9 March 2020, https://blogs.imf.org/2020/03/09/limiting-the-economic-fallout-of-the-coronavirus-with-large-targeted-policies/?utm_medium=email&utm_source=govdelivery/.

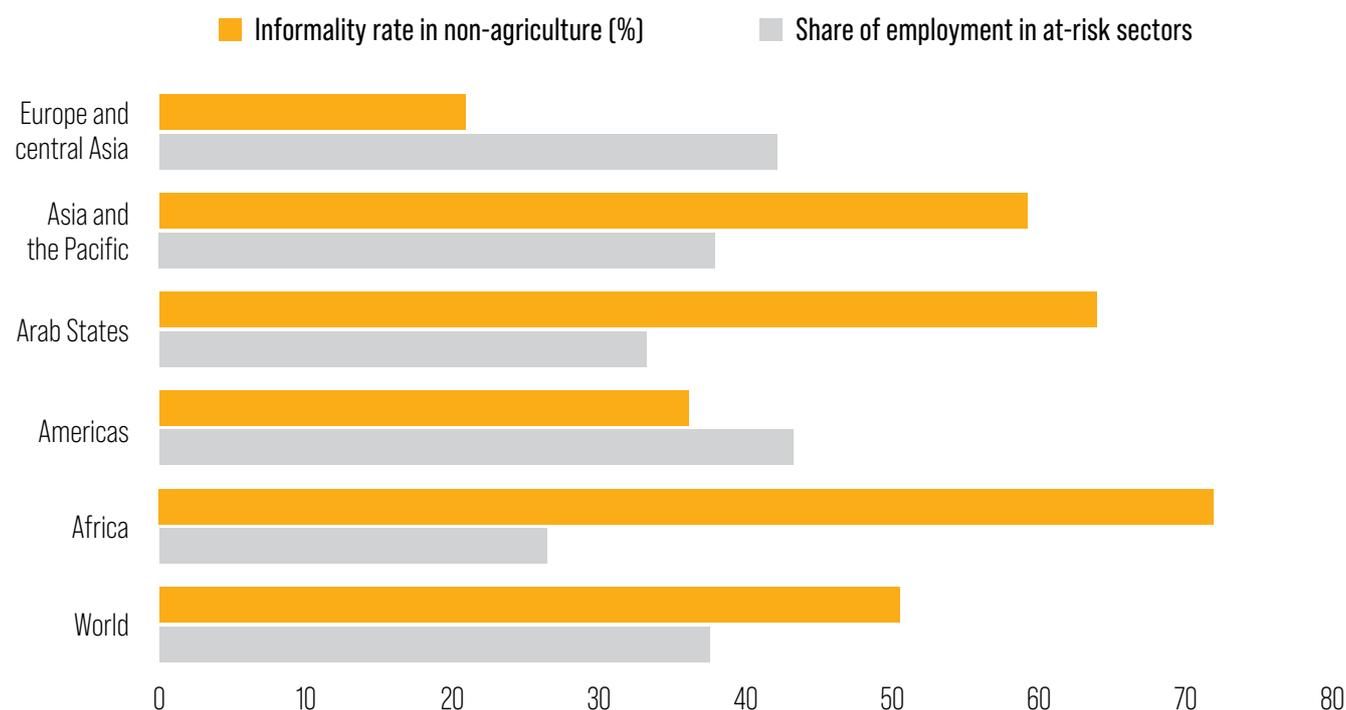
6 ILO, "What we know about how economies react to (health) crisis, what this means for MSMEs and what comes after?" 26 May 2020, https://www.ilo.org/empent/units/boosting-employment-through-small-enterprise-development/resilience/WCMS_745912/lang-en/index.htm/.

7 ILO, "A policy framework for responding to the COVID-19 crisis", 18 May 2020, https://www.ilo.org/global/topics/coronavirus/impacts-and-responses/WCMS_739047/lang-en/index.htm/.

8 IFC (2020). COVID-19 Economic Impact: Middle East and North Africa. 29 May 2020. Available at https://www.ifc.org/wps/wcm/connect/publications_ext_content/ifc_external_publication_site/publications_listing_page/covid-19-response-brief-mena; Accessed 02 June 2020.

9 ILO, "ILO Monitor: COVID-19 and the world of work. Second edition Updated estimates and analysis", 7 April 2020, https://www.ilo.org/global/about-the-ilo/WCMS_740877/lang-it/index.htm/.

Figure 6.2 Workers at risk of informality (%)



Source: based on “ILO Monitor: COVID-19 and the world of work. Second edition Updated estimates and analysis”, 7 April 2020, https://www.ilo.org/global/about-the-ilo/WCMS_740877/lang--it/index.htm/.

Note: the Arab countries reported here do not include countries in Africa but only the following: Bahrain, Iraq, Jordan, KSA, Kuwait, Lebanon, Oman, State of Palestine, Qatar, Syria, UAE and Yemen.

high-risk sectors (which face a severe decline in output and a high risk of workforce displacement) constitute almost one third of employment. About two thirds of employment in high-risk, non-agricultural sectors in the region work in the informal sector (second highest informality rate in the world)¹⁰ (See Figure 6.2).

Even during normal times, MSMEs face various challenges leading to lower utilization of capacity — challenges that can only worsen during times of crisis. The challenges that are expected, in a protracted lockdown scenario, relate to liquidity constraints (including inability to honour debt obligations) and lack of access to affordable financial products and services; disruption in supply chains leading to inability to meet production deadlines; delays in customs processing of export goods and restrictions on import and export transactions; lack of access to social protection for employees; and inability to meet tax payment deadlines.

Although it may not be representative, the preliminary results of a survey of 247 start-ups in the MENA regarding “the impact of COVID-19 outbreak on the entrepreneurship ecosystem”, undertaken during 16

April 2020–3 May 2020, show the crisis has had negative impacts “on 71 percent of the start-ups, of which 22 percent have suspended operations and 21 percent are witnessing a high decrease in demand resulting in significant losses”.¹¹ The report also shows that in the UAE, Saudi Arabia and Egypt, 67.5 percent, 66.7 percent and 83.9 percent of respondents, respectively, reported that the crisis had negative impacts on start-ups. The same report also shows almost half of the start-ups surveyed in the region stated that they are likely to run out of cash in less than six months and, without adequate financial support, are at risk of shrinking further over the coming months. In response to the crisis, at the time of the survey, 58.8 percent of the respondents were working remotely, 32.2 percent had postponed expansion plans, 25.7 percent had reduced prices/introduced offers, and 18.4 percent had reduced salaries. Not all were negatively affected, however. The report also shows that some start-ups, like online groceries (e-groceries) and food tech start-ups, experienced an increase in demand and revenues.

In oil-exporting countries, declines in oil prices during a crisis such as COVID-19 will have serious

¹⁰ Ibid.

¹¹ WAMDA and Arabnet, *The Impact of the COVID-19 Outbreak on the Entrepreneurship Ecosystem*, 2020, p. 8.

consequences, as the measures taken by governments to reduce expenditure and increase revenue will likely affect the operation of MSMEs. Examples of government actions in similar periods of oil price decline include: increasing charges on services (for example renewal of business licenses, fees to add new business activities, etc.); increasing interest rates and charges on services delivered by banks and financial institutions; declines in the availability of financing for MSMEs as government projects are prioritized; delayed payment for existing government contracts with MSMEs, which affects the liquidity of these enterprises; cancellation of government projects, which affects the demand for MSME products; and increases in work visa fees for expatriates. Such actions affect the level of employment among both expatriates and citizens. Experience, however, shows that governments have not embarked on such measures, and in fact they have instituted fiscal and monetary policy measures that are more favourable to MSMEs than the actions they might have taken in a business-as-usual scenario. Whether or not these countries would take measures such as spending reductions and fee increases that affect MSMEs during the recovery is yet to be seen. The main challenge associated with continued oil price declines in the face of a prolonged COVID-19 crisis would be the decline in the fiscal capacities of the oil-exporting countries, which would affect MSMEs negatively through reduced stimulus packages.

In oil-importing countries, all other things be equal, declines in oil prices could have advantages for MSMEs – especially those engaged in exporting. To the extent that global oil price declines translate into lower local fuel prices, low oil prices could also result in declines in the cost of energy, potentially enabling MSMEs to become more competitive. However, due to COVID-19, enterprises would not be able to take advantage of such a situation, as businesses are not fully operational due to social distancing measures.

Country-level impacts

A comprehensive and comparable study on the impact of the twin crises on MSMEs at country level is not yet available. Though they may not be statistically representative, a few brief surveys that have been undertaken in countries focusing on the impact of the pandemic show that MSMEs have been hit hard by the crisis, resulting in reductions in both production and sales, liquidity constraints, reductions in working

hours, shortages and increased cost of raw materials, as well as reductions both in the number of employees and in salaries. The following examples from Jordan, Egypt, Iraq, Yemen, Lebanon, the State of Palestine and Kuwait highlight the magnitude of the effects on MSMEs. While comparisons between the results from different countries is difficult owing to their differing definitions of what constitute MSMEs, they all report significant reductions in production and sales, as well as significant challenges ensuring uninterrupted access to raw materials.

In Jordan, the findings from a joint ILO–UNDP rapid assessment of 1,190 enterprises (including home-based businesses as well as larger enterprises) across Jordan during the lockdown show that:

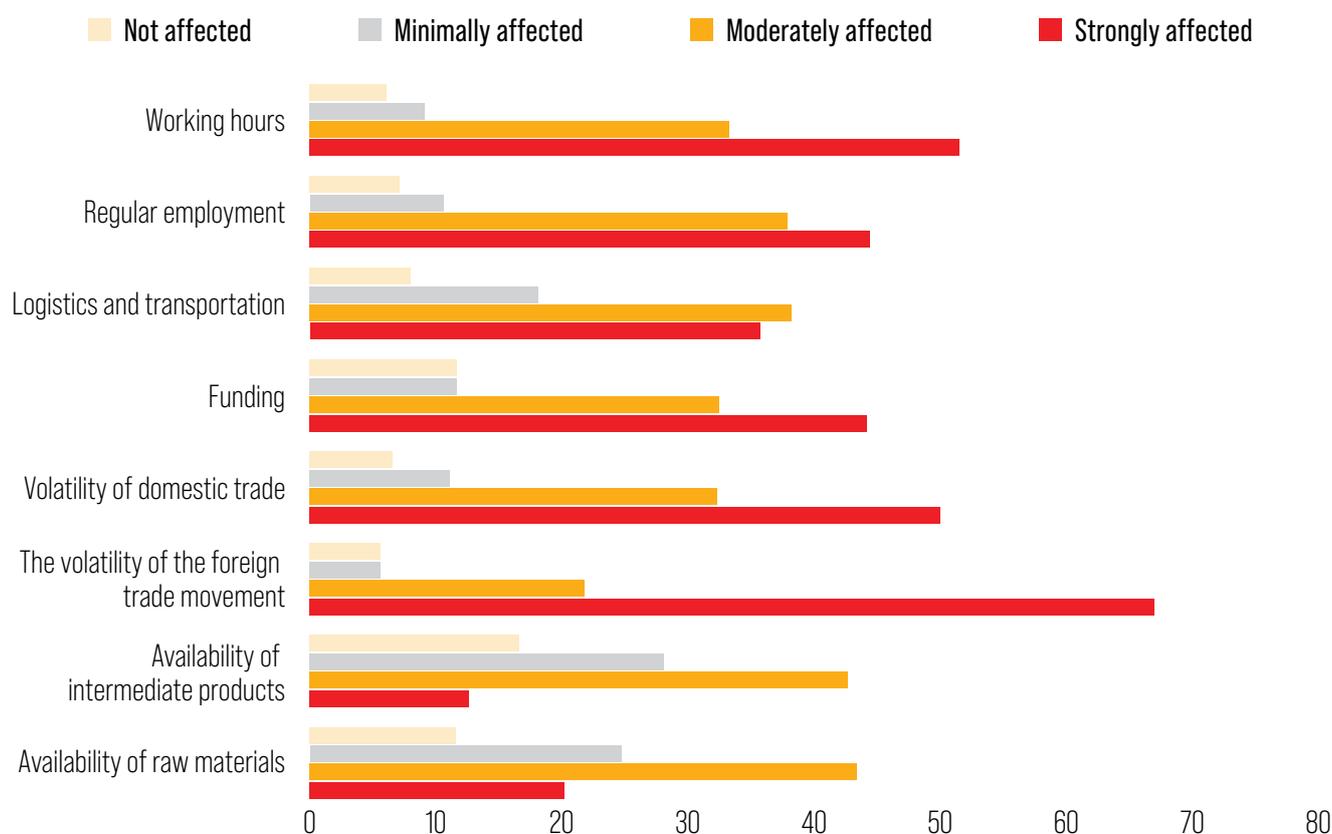
All surveyed enterprises reported challenges in terms of cash flow, reduced demand and supply, and disruption in the value chains as a result of measures responding to COVID-19 ... only 7 percent of the enterprises surveyed reported regular operations; 42 percent indicated the ability to continue paying salaries to all workers for less than one month, while another 42 percent would be able to pay for less than three months ... 30 percent of enterprises indicated that they would remain operational for 1–3 months if the condition at the time of the survey prevails, while 26 percent indicated that they could stay operational for up to a month ... 52 percent of the respondents expressed confidence that they could weather the crisis and resume profitability, while 20 percent were not so confident. 67 percent indicated that they were unaware of any support packages or measures available to help them to help mitigate the impact of the crisis ... 53 percent of businesses considered direct financial support as essential to cope with the situation ... and 42 percent suggested wage subsidies, rising to 68 percent amongst companies of more than 100 workers, are essential to cope with the situation.¹²

In Egypt, 94.9 percent of 139 SMEs and 57 large enterprises surveyed by the Industrial Modernization Center (IMC) of the Ministry of Trade and Industry of Egypt regarding the effect of COVID-19 on production and exports in the industrial sector reported that their operation had been affected by the current crisis or the accompanying containment measures. While the survey may not be representative, the preliminary findings also show that 90.8¹³ percent of respondents indicated that

¹² ILO, Fafo and UNDP, *Impact of the COVID-19 pandemic on enterprises in Jordan*, 2020, pp. ii–iii, https://www.ilo.org/beirut/publications/WCMS_749136/lang--en/index.htm/.

¹³ Authors' calculations, based on Industrial Modernization Center (survey results).

Figure 6.3 Proportion of enterprises reporting constraints to continued operation of their businesses (Egypt)



Source: authors' calculation based on data from Ministry of Trade and Industry of Egypt, Industrial Modernization Center (survey results).

they had encountered disruption in production process due to one or more of the following: disruptions in supply of raw materials or intermediate products; volatile external and internal trade; funding constraints; logistics and transportation; regular employment and decreases in working hours (see Figure 6.3).

Although it might not be statistically representative, another survey from Egypt undertaken by the EBRD (European Bank for Reconstruction and Development)¹⁴ in April 2020 among 110 SMEs engaged in various sectors and drawn mainly from Cairo and Alexandria, shows that 23.1 percent of respondents have stopped operation entirely, 66.7 percent were partially operational, while the remaining were unaffected (business as usual). About 77.8 percent indicated no change in number of employees, while 22.2 percent had decreased the number of employees. In response to the crisis, 71.8 percent put in place health and safety standards, 67.3 percent applied remote working

arrangements, 51.8 percent opted for online solutions, 33.6 percent sought financial/credit solutions, and 30.9 percent implemented crisis management protocols. In terms of new opportunities from which businesses might benefit during the ongoing crisis, the respondents identified: developing digital channels (55.5 percent); collaboration with others (51.8 percent); developing new products (50.9 percent); and digitizing business processes (44.5 percent).

In FCCs such as Yemen, MSMEs have faced difficult situations for years, operating at low profit margins, mainly due to the ongoing conflict. They are not able to withstand the current shock posed by COVID-19. Social distancing measures are likely to have far-reaching impacts on what are mainly informal enterprises. Given the limited access to credit by MSMEs and poor liquidity, "business owners with no financial cushion such as savings or credit lines may be forced to use their business capital for consumption",¹⁵ which may

¹⁴ European Bank for Reconstruction and Development (EBRD), "Egypt Crisis Response Survey: Response Analysis" (not published), Advice for Small Businesses, n.d.

¹⁵ UNDP (2020). A Synthesis Report on Micro, Small and Medium Enterprises in Yemen with Potential COVID -19 Impact Analysis. Supporting Resilient Livelihoods and Food Security in Yemen: A Joint Programme. Available at: <https://www.ye.undp.org/content/yemen/en/home/library/a-synthesis-report-on-micro--small-and-medium-enterprises-in-yem.html>; Accessed 06/06/2020.

ultimately lead to closure of the businesses, especially informal businesses. “This will lead to loss of jobs and incomes for both owners and employees, with decreased consumption and demand having spiralling effects on production decline, shortages, price increases, further loss of income, lasting damage to the economic fabric and deepening poverty, in a vicious circle”.¹⁶

In Palestine, the findings from an online survey conducted by UN Women on the impact of COVID-19 on women-led MSMEs employing up to 95 employees, tells a similar story. Twenty-seven percent of the enterprises reported closure of their business, 95 percent reported that their businesses are being negatively impacted by the pandemic, 73 percent of them reported that they could only sustain their businesses during the current situation from one to four months, 53 percent of women reported that they are considering laying off their employees, and 42 percent of the respondents reported a decrease in demand.¹⁷

Similarly, in Iraq, the results from a survey undertaken by IOM in April 2020 on the impact of COVID-19 on SMEs operating in construction and manufacturing, food and agriculture, retail and wholesale and service sectors, show that the pandemic is having a significant negative impact on the operations of these enterprises. Effects on sales and production among firms have been the most acute.¹⁸ According to the report, “Ninety-four percent reported the crisis has affected sales ... 18 percent reported expiry (loss) of inventory, stocks or raw materials ... only 37 percent reported having employees working consistently ... and 51 percent reported that they would not be in a position to cover rental cost for the month during which data was collected, which is 24 March to 21 April”.¹⁹ The report also states that, during the period under investigation, the affected businesses have experienced, on average, a 52 percent reduction in level of production; a 71 percent reduction in sales (of those SMEs that reported sales and production have been affected), a 40 percent reduction in employment, and a 36 percent reduction in salaries of employees. Sixty-two percent of the surveyed enterprises see financial support as an essential intervention for their

survival during the crisis, while 59 percent said it was essential to ensure their future recovery.

In Lebanon, a report from a survey of 363 small-scale enterprises conducted in April 2020 shows that 51 percent have stopped production temporarily, 40 percent have reduced working hours, 36 percent have reduced employees (permanently as well as temporarily), 40 percent reported liquidity constraints, 28 percent reported increased production costs and 59 percent reported stopping hiring new workers.²⁰ Lebanon was already undergoing serious financial and economic crises before COVID-19 and it is likely that the pandemic will exacerbate the already deteriorating conditions caused by the financial and economic crises.

In Kuwait – although not specifically targeted to MSMEs²¹ – in a survey of 498 enterprises²² with at least one year of operation and which had recorded a profit in 2019, conducted between April 24 and April 28, 45 percent of respondents reported suspending or shutting down their businesses, with almost all of the remaining (53 percent) reporting that their revenue had dropped. Reported drops in revenue ranged from five percent to 80 percent. Twenty-six percent of the respondents indicated that their revenue had dropped by 80 percent. Similar to what has been observed elsewhere, impacts vary by sector of operation. Of the total which suspended or shut down operations: 27 percent were engaged in retail; 18 percent in construction, contracting and architecture; and 15 percent were engaged in professional services. The main reasons for closure of the enterprises were: inability to deliver due to the lockdown (32 percent), disruption of supply-side logistics (19 percent), upstream/downstream chain disruption (16 percent) and lack of access to personal protective equipment (9 percent). The survey was conducted during the partial curfew period before the full lockdown came into effect. As a result, the impact could be worse than indicated above. For example, 43 percent of respondents indicated that they would exit the market if the lockdown policies continue for another six months. With the conditions prevailing during the time of the survey, 80 percent of the enterprises indicated that they would not be able to cover more than six months’ worth of fixed costs.

16 Ibid; p20.

17 UN Women, “Impact of COVID-19 on women-led MSME’s in Palestine”, 2020, <https://arabstates.unwomen.org/en/digital-library/publications/2020/04/impact-of-covid-19-on-women-led-msmes-in-palestine/>.

18 International Organization for Migration (IOM), “Impact of COVID-19 on Small and Medium-sized Enterprises in Iraq”, June 2020 <https://iraq.iom.int/publications/impact-covid-19-smes-iraq/>.

19 Ibid. pp 7–8.

20 ILO and Fafo, “Facing Multiple Crises: Rapid assessment of the impact of COVID-19 on vulnerable workers and small-scale enterprises in Lebanon”, May 2020, https://www.ilo.org/wcmsp5/groups/public/---arabstates/---ro-beirut/documents/publication/wcms_747070.pdf/.

21 In Kuwait, 90 percent of enterprises are believed to be MSMEs.

22 Bensirri Public Relations, “COVID-19 Kuwait Business Impact Survey”, <https://www.prnewswire.com/news-releases/kuwait-covid-19-business-impact-survey-finds-45-of-businesses-have-shut-down-since-february-301060491.html>

Policy review

Countries in the region have implemented fiscal and monetary policy measures to combat the spread of the disease, while addressing the social and economic effects of measures taken to contain the disease (Table 6.1). MSMEs, in particular, received heightened attention due to the large number of people they employ. Such measures are important to avoid or limit massive job losses and the collapse of enterprises, and to prevent lasting damage to economies. The main type of support targeting MSMEs and other enterprises in the Arab region is related to easing challenges related to the liquidity (financial needs) of enterprises, followed by tax/fee payment deferrals and employment protection schemes.

The disparity in the scope and depth of response between FCCs on the one hand, and the other groups

of countries on the other is noticeable. While both oil-exporting and oil-importing middle-income countries have put in place mechanisms that directly support MSMEs to save enterprises from closure and protect jobs, a look at some of the measures taken by FCCs²³ shows that they have largely focused on saving jobs through regulatory means (e.g., by making it illegal to reduce employment) or by providing relief support to those affected, instead of direct support to enterprises – such as maintaining liquidity, tax deferrals, and providing subsidies on recurring expenses such as rent, electricity, salaries and raw materials – which were mostly implemented in oil-exporting countries. This could obviously be attributed to the weak fiscal space of FCCs, but ensuring the survival of the enterprises during the crisis will require support related to recurring expenditures.

Table 6.1 Policy responses implemented in the region to support enterprises

Response measures taken	OECs (7 countries)	OIMICs (5 countries)	FCCs (8 countries)
Financing/liquidity related support	Algeria, Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, UAE	Egypt, Jordan, Morocco, Tunisia	Somalia, Lebanon, Palestine,
Tax and fee payment deferrals	Algeria, Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, UAE	Egypt, Jordan, Morocco, Tunisia	Lebanon, Palestine, Yemen
Employment protection/retention schemes	Bahrain, Qatar, Saudi Arabia, UAE	Egypt, Jordan, Morocco, Tunisia	Sudan, Iraq
Lowering (subsidizing) prices of utilities (such as electricity bills) and rents	Qatar, Saudi Arabia, Bahrain	Egypt, Djibouti	Lebanon, Yemen

Source: Based on information obtained from: ILO, “COVID-19 and the World of Work: Country policy responses”, <https://www.ilo.org/global/topics/coronavirus/country-responses/lang--en/index.htm#UN/>; and OECD, “COVID-19 crisis response in MENA countries”, updated 9 June 2020, <http://www.oecd.org/coronavirus/policy-responses/covid-19-crisis-response-in-mena-countries-4b366396/#back-endnotea0z26/>.

23 For detailed policy responses by governments, see: ILO, “COVID-19 and the World of Work: Country policy responses”, <https://www.ilo.org/global/topics/coronavirus/country-responses/lang--en/index.htm#UN/>; and OECD, “COVID-19 crisis response in MENA countries”, updated 9 June 2020, <http://www.oecd.org/coronavirus/policy-responses/covid-19-crisis-response-in-mena-countries-4b366396/#back-endnotea0z26/>.

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Policy recommendations

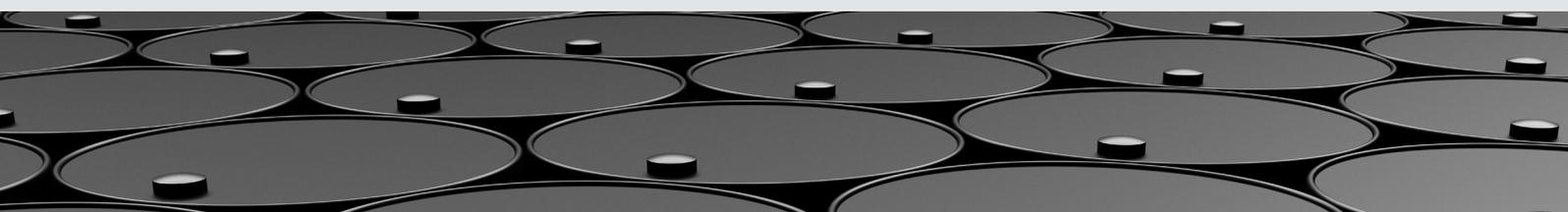
If the crisis continues, MSMEs face the risk of significant decline in revenues and job losses. Under the prevailing situation of uncertainty, “enterprises in general are likely to delay investments, purchases of goods and services, and hiring of workers”,²⁴ which may lead to downsizing and closure of enterprises. A recent ILO Score Global COVID-19 Enterprise Survey shows that measures such as deferring payments of utilities, social security contributions, loans or taxes; access to cash/short-term finance; expanding access to social protection for workers; business development services; and controlling prices of critical goods, are some of the interventions that are prioritized by the MSMEs for implementation by government.²⁵ Such measures are also often recommended to mitigate the impact of COVID-19 on SMEs and have been implemented extensively both in the Arab region and beyond.²⁶ As seen in Table 6.1, however, there are disparities among countries. While the oil-exporting countries and oil-importing middle-income countries have put in place such measures – with varying depth and scope – these are areas where FCCs have not done much so far, and where urgent interventions are needed.

In the short-term, as long as the health crisis continues and businesses operations remain affected due to social distancing measures, MSMEs will continue to rely on government support to prevent the collapse of enterprises. This will require a continuation of current interventions, yet with a significantly increased scale of implementation. Given that these enterprises are varied in their type and size, and since there is no one-

24 COVID-19: Opportunities to Improve Jordan’s Terms of Trade – Jordan Strategy Forum 2020 Report; page 3

25 ILO, “ILO SCORE Global Covid-19 Enterprise Survey: How are enterprises affected and how can we support them?”. 15 May 2020, https://www.ilo.org/wcmsp5/groups/public/@ed_emp/@emp_ent/documents/presentation/wcms_745097.pdf/.

26 ILO, “ILO Enterprise Brief: Interventions to support enterprises during the COVID-19 pandemic and recovery”, 16 April 2020, <https://www.ilo.org/empent/areas/covid-19/lang-en/index.htm>; IMF (2020). Regional Economic Outlook: Middle East and East Asia. April, 2020. Available at <https://www.imf.org/en/Publications/REO/MECA/Issues/2020/04/15/regional-economic-outlook-middle-east-central-asia-report>; Accessed 25/05/2020; OECD, “Coronavirus (COVID-19): SME Policy Responses”, 15 July 2020, https://read.oecd-ilibrary.org/view/?ref=119_119680-di6h3qgi4x&title=Covid-19_SME_Policy_Responses/.



size-fits-all solution, the measures should be tailored to their needs and priorities as much as is possible. Weaknesses observed – such as lack of awareness about government support programmes in some countries – need to be addressed.

In the medium to long term, actions could include:

- a. Looking for systems or strategies to broaden the fiscal space of FCCs. Unless governments have adequate financial capacity, they will not be able to put in place – let alone maintain – large-scale fiscal stimulus measures that can protect jobs and enterprises from falling for an extended period.
- b. More than ever before, countries require holistic policy approaches that address the gaps in enabling business environments for the establishment and operation of MSMEs, and upgrades to human capital and infrastructure. MSMEs require support from governments in expanding market opportunities; for example, by providing information, facilitating standardization and the provision of technical assistance
- c. This is an opportunity to re-examine not only the specific challenges posed by the twin crises themselves, but also to address key constraints in the enabling environment and enhance the resilience of these enterprises to shocks. It is the ideal time to look at factors constraining the development and expansion of not only MSMEs but the private sector in general.
- d. Existing weaknesses identified in the sector should be addressed, such as the need to expand access to social protection to the employees of MSMEs.
- e. Even under normal circumstances, MSMEs face challenges in accessing finance—a problem which will worsen due to COVID-19. Their recovery will strongly benefit from services such as continued access to affordable finance to ensure liquidity; business development services; and support in terms of facilitating market linkages and product distributions channels. Access to finance is key to the survival of enterprises. Financial aid, whether in the form of investment, loans or bill waivers, are necessary to support the recovery and development of enterprises.
- f. MSMEs need to develop the capacity to harness digital opportunities, making them more agile and responsive. Online marketing provides an opportunity for many to reach out to clients during periods of crisis such as the present COVID-19 pandemic. Major interventions in telecommunication can support marketing strategies and provide opportunities in the recovery stage.
- g. More fundamentally, governments need to reduce the so-called “dualism” in these economies, by allowing SMEs to grow, noting that a key characteristic of the private sectors in most countries is their “missing middle”, which is largely related to the unfair competition that mid-size firms face from large – and often politically connected (but inefficient) – firms and SOEs.

