Navigating through Pandemic Times: Challenges and Opportunities for MSMEs

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Outline of the Presentation

I. Context and Relevance

II. The Pandemic Impact

III. Opportunities and Challenges
I. Context and Relevance

• Micro, Small and Medium size Enterprises (MSMEs) play a vital role in the Macedonian economy, with an important contribution to employment, innovation and competitiveness, economic activity, social well-being, and environmental footprint.

• They are potentially strong drivers of inclusive and green growth
  • Inclusive growth: prosperity shared by large portion of the population
  • Green growth: Economic growth that is environmentally sustainable
Importance

- MSMEs engage 74.1% of all employees in the business sector in MK

- 99.7% of all enterprises are MSMEs
Limitations

• Limitations by definition
  • Smallness: Limited resources make them particularly vulnerable to internal and external shocks (e.g., loss of a critically important employee)
  • Newness: New organizations often suffer difficult access to finance and have a greater risk of failure.

• Pandemic-related limitations
  • Reduced revenue: The negative shock to MSMEs sales (turnover) has been large and is creating significant cash-flow problems
  • Near-survival: MSMEs are currently operating in a very difficult and uncertain environment, and some of them are following a near-survival strategy.
  • Liquidity support: Most of the government financial support has been used by the large enterprises
Vulnerabilities among MSMEs

- Even before the pandemic outbreak, MSMEs showed signs of vulnerability (UNDP’s Socio-Economic Impact Assessment)
- Many micro- and small enterprises were heavily indebted

Source: Central Registry (2021).
Vulnerabilities among MSMEs

- Low liquidity and negative net working capital of micro-enterprises.
- Widespread losses among micro-enterprises.

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Source: Central Registry (2021).
Limiting Factors for Access to Finance

- Major obstacles for access to finance in MK
  - Interest rates on loans too high
  - Insufficient collateral or guarantee
  - Too much paperwork

Summary of Problems

• **Demand decline** for firms’ products
• **Poor access to finance** (credit lines, overdrafts, and government subsidies as the most important sources of external financing).
• **Payment delays** or inter-enterprise arrears.
• **Regulatory obstacles** or administrative burdens.
• **Lack of customer demand for their products** (particularly, for environment-friendly (green) products).
• **Uncertainty about future trends and digital standards.**
• About one in five MSMEs mention **lack of skills of their employees** among the barriers to engage in more sustainable practices, digitalize, and innovate.
II. The Pandemic Impact

- The economy is likely to return to the pre-crisis trajectory by the end of 2022.
- The cumulative output losses for 2020 and 2021 are estimated to at least at 3.7 Billion U.S. dollars.
The Pandemic Impact

- Medium-sized enterprises hardest hit (-36%)
- Retailers experienced a decline of 22% as opposed to other services (-36%).
- Domestic hit harder than foreign ones

Economic sectors with more MSMEs hit hardest
The Pandemic-Induced Crisis and the Government Financial Support

- 71% of the firms experienced delays in payments from customers.

- Government support has reached about 40% of the firms.

- 95% of firms received some form of wage subsidies.

Source: Survey by Rating (August 2020).
Adapting to the New Normal

- MSMEs are over-represented in economic sectors that have been strongly hit by the pandemic-induced crisis.

- A large survey of 600 SMEs was conducted in July 2020 by a public poll agency within the UNDP’s Socio-Economic Impact Assessment (SEIA) Project and in September 2020 by World Bank.

- Question: “How are you adapting to the new normal?”
A Favorable Self-Image

- 40% of the surveyed companies in MK consider themselves as high-growth ones.

- By regional and European standards, this is a high percentage of MSMEs.

- Only 17% of SMEs in EU-27 consider them as high-growth ones.

III. Opportunities and Challenges

• Fortunately, during the current crisis, many businesses have worked faster and better than they dreamed possible just a few months ago (McKinsey 2021).

#1: Going Digital

• Transition to Online Sales and Delivery
• Use of Artificial Intelligence and Machine Learning Algorithms
• Online courses for the clients and/or the employees
• Improvement of the existing digital platforms.
Going Digital
Transition to Online Shopping and Delivery

Paket.mk; Fashion Group; Reptil markets; Frotirka; Sport-M…
III. Opportunities and Challenges

# 2: Green Transition

- Green Jobs and Green Economy
- Transition to Low-Carbon, Resource-Efficient Economy facilitated by EU funds and donor support from international development partners
  - Energy: Decarbonization (e.g., solar energy)
  - Materials: Disposal of unwelcome components and waste (UNDP)
# 2: Green Transition
A Transition to Low-Carbon, Resource-Efficient Economy

- The ‘Compensation’ Argument: Less Developed Can Pollute?
  - The argument: We are less developed, and we have other priorities than environment.
  - COVID-19 crisis is pushing the industrial lobby for a reduction in environmental requirements or a postponement of climate policies.
  - However, the transition to low-carbon economy is inevitable
  - Guidelines of the European Commission (EC) for the implementation of the Green Agenda for the Western Balkans (GAWB), to which our country adhered, on November 10, 2020.

- The Pandemic as a Green opportunity?
  - Creation of so-called “green” jobs
# 2: Green Transition
A Transition to Low-Carbon, Resource-Efficient Economy

- Greening-related cost reductions for SMEs (OECD, 2018):
  - **Process efficiency:** By optimizing current processes or introducing new more efficient ones, SMEs minimize the required inputs and waste production.
  - **Product design:** SMEs can re-design their products to reduce the required inputs without sacrificing the product’s utility.
  - **Waste disposal:** In addition to reducing waste by improving process efficiency, SMEs can reuse already-generate waste or pass it along to other companies. This reduces cost of waste disposal.
  - **Source of raw material:** SMEs can reduce cost of raw materials by switching to re-cycled materials.
  - **Infrastructure efficiency:** SMEs can generate savings associated with energy-efficiency lighting, building insulation, and heating systems efficiency.
  - **Packaging and transport:** By reducing the volume of packaging and switching to local suppliers to decreasing shipping distances, SMEs can further reduce costs.
# 3: Women Empowerment and MSMEs

Women could play a vital role in post-pandemic recovery

- A separate government financial package with allocations for women-led firms
- Government incentives so small women-led companies avoid layoffs in hard-hit sectors;
- Invest in women’s access to and participation in technology
- Provide digital skills training for women entrepreneurs
- Fully integrate gender equality in digital strategies and initiatives;
- Encourage greater representation of women in leadership.
# 4: Internationalization of MSMEs

- Global markets are an important source of growth for small and medium-sized enterprises.

- The internationalization of SMEs is facilitated by the greater use of digital tools and e-commerce.

- An estimated 90% of global growth will originate outside the EU in the coming years (European Commission, 2021).

- Developing and emerging markets are expected to account for 60% of world GDP by 2030.
# 5: Government Support

• **Broad support** (not specifically targeted to women) in the form of:
  • **active labor market measures**, administered through the Agency for Employment (with significant involvement of UNDP);
  • **innovation grants** from the Fund for Innovation and Technological Development,
  • **Support for entrepreneurship** from the Ministry of Economy
  • **small-scale trainings** offered through the Agency for Support of Entrepreneurship.

• **Gender-targeted public funding** in the form of grants for existing micro-entities, small and medium enterprises managed by female entrepreneurs.
  • This support is administered through the Ministry of Economy.
  • Small-scale consultancy trainings for female entrepreneurship are also being organized by the Agency for Support of Entrepreneurship.