

RESURGENCE OF MSMEs IN DEVELOPING ECONOMIES DURING THE COVID-19 FOG

Ann Susan Thomas

M.Phil Scholar,

University of Kerala, Karyavattom Campus, India

Arsha Hari

M.Phil Scholar,

University of Kerala, Karyavattom Campus, India

Abstract

The coronavirus (COVID-19) outbreak has acutely affected trade, investment, growth and employment around the world and has instigated a global economic slowdown. Estimates of labor income losses (before taking into account income support measures) suggest a global decline of 10.7 per cent during the first three quarters of 2020 compared with the corresponding period in 2019, which amounts to US\$3.5 trillion or 5.5 per cent of global gross domestic product (GDP) for the first three quarters of 2019. Likewise, as with any crisis, the condition has become even worse in developing countries, where the stability or growth for start-ups and MSME's has been significantly endangered. Every business or enterprises that drove to closure leads to multiple stories of unemployment, economic and social dislocation as well staggering uncertainty. It remains paramount that governments, in partnership with other public and private institutions, associations and bodies and various other stakeholders bestow their support to drive competitiveness of micro, small and medium enterprises (MSME's) with a particular focus on those small businesses in developing countries. In many countries, this interference has led to immediate and innovative approaches and models and also helped deploy resources and put up a timely and comprehensive response to the novel coronavirus disease. This study resorts to various MSME's in developing countries confronting and combating the difficult time caused by COVID-19 pandemic which can help monitor the evolving business climate to design workable and enforceable policy support for MSME development.

Keywords: MSMEs, Government, Revival

Introduction

According to the World Bank, Micro, Small and Medium Enterprises (MSMEs) are defined as follows – micro enterprises as business employing 1–9 employees, small enterprises as business employing 10–49 employees and medium enterprises as business employing 50–249 employees. However, the local definition of MSMEs vary from country to country,

and is based not only on number of employees, but also by inclusion of other variables such as turnaround and assets. In the majority of countries, SMEs are defined as firms employing between 10 and 250 people. SMEs are a source of employment, competition, economic dynamism, and innovation; they stimulate the entrepreneurial spirit and the

diffusion of skills. The notion of SME and entrepreneurship development was introduced into the growth and development landscape as early as the late 1940's with the introduction of targeted policies (grants, subsidized credits, special tax treatment, etc.) and the establishment of small business or SME support agencies by governments (e.g., publicly funded SME agencies were set up in 1948 in Japan, 1953 in USA, 1954 in India, 1966 in Tanzania, 1976 in Turkey) (OECD, 2004). The importance of the MSME sector is well recognized worldwide due to its significant contribution to gratifying various socio-economic objectives such as higher growth of employment, output, promotion of exports and fostering entrepreneurship. In developing countries, MSMEs create societal benefits that go beyond job creation and other economic gains. A significant number of these MSMEs are a source of employment for women.

The Micro, Small and Medium Enterprises (MSME) sector is the buttress of Asia's economy. South Asia's robust growth over the past 10 years has been underpinned by micro, small, and medium-sized enterprises (MSMEs). In the Asian region specifically, MSMEs account for 96% of total enterprises, employ 62% of the labour workforce and contribute an average of 42% of gross domestic product (GDP) (ADB, 2015). Asia is increasingly playing the role of a global growth pole, and is fast emerging as a manufacturing and information technology hub of the world economy. Asia's past economic expansion brought with its business opportunities for MSMEs to grow. Increased foreign direct investment inflows since the 2007–2008 global financial crisis encouraged the entry of large multinational firms into developing Asia, which created new demands for MSME domestic products and services—typically in supporting

industries or for parts and components suppliers. Accordingly, it was expected to improve labor productivity if MSMEs actively joined global value chains. However, the outbreak of the COVID-19 pandemic has not only led to a global health crisis and deep economic recession has also created a climate of profound uncertainty about the future outlook. With this background, the paper tries to study on the repercussions of the pandemic over the global MSME scenario. Further, the governmental role and the strategies adopted and initiated during the pandemic are delved into.

Objectives

- To explain the aftermaths of COVID-19 borne by the MSME sector in this backdrop of dwindling economic situation.
- The role of Government and related organizations to promote and reframe MSMEs.
- To delineate the strategies that the MSMEs should embrace to persevere through the COVID -19 pandemic.

Literature Review

Asia's robust and tenable economic activities has helped progress as well as alleviate poverty and transform many low income countries into middle-income economies. The growth momentum in developing Asia, however, has gradually decelerated since 2018 due to increasing global trade tensions, economic uncertainty, and the coronavirus disease (COVID-19) shock. The deep economic recession and downturn created by the pandemic has caused a number of social and economic consequences (Sonobe et al., 2021)

The economic slow-down stemming from COVID19 continues to take a toll on MSMEs primarily due to limited cash reserves. Even during normal times many MSMEs face obstacles that prevent

them from reaching their fullest potential. These include lack of relevant skills, knowledge about International markets, limited access to trade finance and experience, cumbersome regulations and border procedures. MSMEs generally have smaller inventories and they operate with relatively thin profit margins and smaller supplier networks. As these companies account for 90 per cent of all enterprises in African and Asian countries, the outbreak of COVID-19 and government actions that followed aggravated the situation in developing countries (Shafi et al., 2020). Similarly, we can find studies and reports on various deficiencies and obstacles MSMEs around the world had to encounter during the pandemic. And here we are focusing particularly on the South Asian region and the common regulatory measures adopted across the countries along with problem specific revival reforms to be initiated.

Methodology

The study is primarily descriptive in nature taking into account the MSME sector of the South Asian economy. Representatively four countries, namely Maldives, Nepal, Srilanka and India were chosen using the lottery method under random sampling method to identify the governmental measures undertaken in those countries. To support the research design, literature record of secondary data from journals, digital repositories, government publications, internet portals and scholarly articles that are related to the study are referred.

Aftermath of covid-19 on MSME sector
COVID-19 negatively affected supply and demand. The pandemic induced lockdowns in China, the European Union and the United States of America had major impacts on products, imports and exports which affected both big and small companies globally as these countries are

major sources of inputs for MSMEs in most developing countries. As a result, enterprises are faced with a decrease in demand, supply chain disruptions, cancellation of export orders, raw material shortages and transportation disruptions. Sourcing from new suppliers or absorbing price increases is more challenging for small firms with limited supply options and capital (World Trade Organization (WTO)). A study by United Nation Economic Commission for Africa on the impact of COVID-19 on MSMEs in Africa showed that most MSMEs are mainly concerned about the cash-flow outlook as a result of disruptions in supply and demand. Unlike bigger corporations, MSMEs in developing countries have limited access to alternative financing mainly because most of them are informal and some do not have assets that can be used as collateral for new credit lines with financial institutions.

The lockdowns and quarantine measures also caused a reduction of labour as most businesses which were regarded as ineffectual were forced to close by governments. MSMEs are generally labour intensive and the COVID-19 related restrictions on the movement of workers negatively affected the daily operations of these enterprises. The rise in unemployment is likely to intensify hunger and starvation in most of the developing economies. In India for instance, 90 per cent of the population is employed in the informal sector. With lockdown measures being imposed, they had to go back to the villages with no source of income to provide for their daily needs (Singh, 2020).

It is imperative to note that in developing countries, MSMEs are largely concentrated in the manufacturing, hospitality services and tourism sectors which sectors were the most affected by the

measures imposed by government to curb the spread of the virus. The travel bans that were imposed worldwide exposed MSMEs in the tourism and hospitality sector to the threat of closure thus rendering a significant number of people jobless. About a quarter of the businesses in the hospitality and tourism sector are reported to have closed between January and May 2020 with an increase to 50 per cent being reported in the aftermath. Women led firms operating in these sectors were the most affected and threatened with the high risk of permanent closure due to the pandemic – induced bankruptcy. This will negatively affect the progress that had been made towards gender equality and the financial inclusion of women in most countries. Also, an increasing number of governments introduced export or import restrictions notably on agricultural products which has exacerbated the situation, since these are an important source of income for many MSMEs. A significant number of MSMEs in developing countries depend on international trade for their activities either because they export their products through direct or indirect channels or because they import inputs to manufacture the products they sell domestically.

In trying to cushion themselves from the brunt effects of the pandemic, MSMEs had to employ a number of diverse strategies such as retreating, resilience and reframing. The businesses that retreated had to put in measures which include laying off employees, taking on debt and selling their assets. Some adopted a strategy of resilience which included measures such as altering businesses temporarily and adopting new strategies such as electronic commerce. Other enterprises had to completely transform their businesses by creating novel and new products such as masks, sanitizers and face shields. By and large, the effect of

COVID-19 remained adverse on MSMEs operations in most of the developing countries.

Governmental Interventions

The severity of the disease prompted governments to impose a number of COVID-19 containment measures to try and curb the spread of the virus. These measures included widespread lockdowns, travel bans, mobility restrictions, airline suspension, closure of businesses and curfews. As a result, the pandemic has generated a major economic crisis with a halt in production, a collapse in consumption and confidence and stock exchange markets responding negatively to heightened uncertainties. MALDIVES - Maldives is a small archipelagic state in the southern Asia. The business in the country is largely concentrated around the capital city Male and hence the government has been tapping the potential of MSMEs to create more employment opportunities, particularly in the outer atolls, there by achieving more resilient and diversified economic base. MSME in the country are mostly engaged in retail trade and the service industries in this sector contribute to around 79 % of the GDP (Sector assessment (summary): Micro, Small, and Medium-sized enterprises (RRP MLD 43566)). Most of the MSMEs in this country are unregistered and operate informally and represent the backbone of the domestic labour force. The general problems of MSME in this country includes limited access to financial resources, lack of support, legal and regulatory constraints, skill deficiencies etc.

Compared to rest of the Asian countries, the outbreak of pandemic has not affected the country in an intense way these created an impact for the business sector as a whole. COVID-19 severely affected the tourism sector of the country and had

an impact on the MSMEs particularly cafes, traders, restaurants, taxi service providers, event planners, dress makers, freelancers in art etc. Migrant workers, probation employees, casual workers and freelancers bore the brunt of the immediate employment adjustments brought about by the large majority of MSMEs (Impact of the COVID-19 crisis in the Maldives Rapid Livelihood Assessment Part III - Micro, Small and Medium enterprises).

In order to revive the situation, financial assistance was provided, the training needs of the important capacity were identified and business plans, marketing plans, business contingency plan was developed, marketing skills and basic internet banking and social media especially for entrepreneurs with little formal education and those based on atolls were provided. Potentiality for adoption of green practices was identified and was geared towards such practices. The government has established BCC (for business advisory and support services), SDFC (for MSME financing) and MFMC (for investment promotion and to unlock financing for innovation). A national dialogue series on combating the situation was launched by the government along with the BCC.

NEPAL - Nepal is an independent southern Asian Country. According to a study which was conducted in 2010, SMEs in Nepal employ around 57 percent of the total workforce in the country. In Nepal, 96 percent of the total industrial establishments are SMEs. SMEs in Nepal contribute to around 82 percent of export earnings, their contribution in agro sector is around 76 percent and in that of non-agro sector is 24 percent. The SMEs in Nepal suffer from poor access to finance, technology, inadequate knowledge regarding business opportunities and marketing etc. Due to the pandemic

over 80 percent of Nepal's MSMEs suffered from a crash in sales during the pandemic, a survey of IFC found. It is found that over half of the MSMEs faced the risk of permanently closing their operations (Small, Medium enterprises in Nepal severely impacted by COVID-19 pandemic: Survey Xinhuanet news).

Nepal has taken measures to cushion the economic fallouts of pandemic in the country, but they were unable to put them into effect for the SMEs when compared to other developing countries or developed countries due to the limitation on resources. The Government of Nepal took the initiatives or measures to ensure liquidity in the financial system to make support credit accessible to all SMEs advising banks and financial institutions to provide loans at a subsidized interest rate and to defer loan payment to business that are operating in key sectors hit by the spread of COVID pandemic. Specifically, the Nepal Rastra Bank (NRB) lowered its Cash Reserve Ratio from 4 to 3 percent and reduced the interest rate on the standing liquidity facility rate from 6 to 5 percent. The size of the Refinance fund has been increased to provide subsidized funding for banks willing to lend at a concessional rate to priority sectors which includes SMEs. It also required banks to extend at least 40 percent of their loans to the MSMEs and also various related lending programs.

SRI LANKA - Sri Lanka is formerly known as Ceylon a south Asian Island Country located in the Indian Ocean between the Laccadive Sea in the west and the Bay of Bengal in the east. The Micro Small and Medium Enterprises (MSME) play a vital role in the socio-economic development of the country. Around 52 percent of the GDP is contributed by the MSME and is considered to be the backbone of the economy. It is estimated that MSME accounts for over

90 percent of the total enterprise in non-agricultural sector and covers about 45 percent of the total employment.

With the outbreak of pandemic, the economic activities of the country were badly affected causing the MSMEs to face severe hardships. In order to revive the MSMEs from the pandemic crisis the Central Bank of Sri Lanka has decided to setup a Re-Financing facility as per decision taken by the cabinet ministers to introduce a wide range of fiscal and financial concessions for pandemic hit business including individual business. For the purpose the industries and business were categorized under the head eligible business sectors like business engaged in tourism and export, SMEs engaged in various activities like agriculture, construction, value addition etc. and self-employment business affected by pandemic. Concessions for existing performing and non-performing loans were given, new working capital or investment purpose loans were provided, and repayment of capital by banks under refinance scheme was initiated by the government. Financial institutions are expected to have a mechanism not to decline loan applications solely based on an adverse Credit Information Bureau (CIRB) record, Samurdhi Welfare Programme and loss of livelihood opportunities were introduced to curb the negative impact that the pandemic has caused to the MSME sector.

INDIA - India is the second most populous country and the seventh largest by area. India is the worst COVID hit country in south Asia. MSMEs in India are the second largest employment generator in the country and act as a breeding ground for entrepreneurs and innovators. They play a significant role in the socio economic development of the country through employment opportunities and development of backward areas

The unprecedented lockdown in the economy has brought about a state of disarray in the country. The measures adopted by Indian government for reviving Indian MSMEs post pandemic period includes reduction in GST for raw materials, initiatives exemption and reimbursement of fixed charges by the state governments, measures for eliminating delay in pending payments to MSME, credit support for MSMEs etc. which constitute the short term objectives. The long term strategy adopted by the government for the sustainability of MSME in the post pandemic period include: Smart Industrial Village Policy, promoting "Swadeshi" ideology via Policy & Strategy Drafting, providing Access to Information Technology Enabled Services (ITES), promotion of innovation and upscale MSME to withstand global competition, technological up gradation, Encouraging corporatization of MSME sector, Financial Assistance in the form of prioritize lending to MSME from banks by including small enterprises in the earmarked priority sector and raising sub-target limit to 10 % from 7.5%, collateral free and MUDRA small loans to encourage self-employment and relaxing ceiling on working capital by banks.

Reviewing the governmental activities in the above countries, we can see that governments had come up with means to try and alleviate the impact of COVID-19 on small business by introducing policies targeted at building their resilience. In essence, various stimulus packages including special credit lines, grants, debt relief, tax and social contribution relief, wage subsidies and extension of social protection. Governments also formulate trade expanding measures meant to facilitate trade during lockdowns and travel bans. These activities include deferrals and reductions of trade-related payment such as customs duties, freight charges and export

credits. Besides some measures were initiated to improve the business environment and enhance the ease of doing business amidst the global pandemic. These measures were related to corporate obligations such as taxes and audits. In short, all governments in the developing economies attempted to develop and implement timely measures so as to better relieve and ease the MSME sector during the COVID-19 crisis.

Reviving and transforming MSMEs

MSMEs are to become resilient not alone to protect their businesses but also to mitigate their uncertainties to be able to recover quickly which is essentially the cornerstone of business competitiveness. It is necessary to develop exceptional strategies and new business models that would enable MSME's to manage specific scenarios and also create agility and flexibility to cope with turbulent situation especially like the current high impact adversity like the COVID-19.

For MSMEs in developing economies to harness the potentials that result from the pandemic, governments should put in place policies and strategies that support MSMEs. Governments are inarguably an important player within the MSME ecosystem.

- One of the biggest obstacles that MSMEs face even during normal times relate to access to finance. The Asian Development Bank estimates the MSMEs trade finance gap to be at about US\$ 1.5 billion per year and is likely to increase due to COVID-19 effects on financial market confidence. A majority of MSMEs are concerned about access to finance and governments have tried to put in place stimulus packages to mitigate the plight of these enterprises. However, the sad reality is that most of these enterprises are not accessing the packages and some lack the relevant information on the processes. As a result,

the gap remains wide. Governments therefore have to come up with policies that encourage the financial inclusion for MSMEs for the broader post COVID economic recovery. Similar policies have been put in place in some developing countries such as Morocco, Nigeria, India and Lebanon. These policies can either be in the form of low interest rates or longer repayment periods.

- Another vital area should be digitalization as it poses a myriad of challenges for MSMEs. Online markets raise concerns regarding cybersecurity and data privacy. Another challenge relates to the digital divide and infrastructure. Most developing countries lack the required infrastructure to support e-commerce. Not all enterprises have the high technology required to operate their businesses virtually. Some lack the technological literacy to make use of the digital tools that are at their disposal. There are also issues relating to internet connectivity and access to data that bedevil most developing countries. Policy makers therefore have to initiate a comprehensive approach which helps MSMEs reap the benefits of digital technology while overcoming the challenges that the digital tools pose.

- Sound policies must be built that support and encourage MSMEs in adopting flexible employment models.

- Supplier management is a prerequisite for the startup to facilitate the availability of raw materials. Reinforcing supply channels can also help the MSMEs to ride out the storm. The MSMEs should attempt to diversify and localize their supply channels to restore the supply chain breakdown. Communicating with past suppliers and building new supply channels is imperative.

- A significant number of MSMEs in

developing countries depend on international trade for their activities either because they export their products through direct or indirect channels or because they import inputs to manufacture the products they sell domestically. It is necessary to deepen and diversify international connectivity.

MSMEs also have a part to play in promoting their resilience and survival post pandemic. There is need to build technical capacity and skills. The new normal post pandemic will be characterized by e-commerce and product diversification. MSMEs have to work out a growth mindset wherein they increase project-focused work to improve existing products and services or create new opportunities by leveraging this talent pool. MSMEs can also focus on key areas of competitiveness in their value chain, product, and/or operations and identify the best technology levers to enhance competitiveness. And this can be extended towards adjacent fields and industries.

Conclusion

Micro, small, and medium-sized enterprises (MSMEs) play a central role in recovering from economic contraction and promoting sustainable economic growth across the developing economies. With the COVID-19 pandemic roiling the global economy, MSMEs too have been struggling extensively with a heavy drop in productivity and a massive dent in profitability, liquidity and capital resources. As the wide-ranging effects of the pandemic are continuing to unfold, the sector is wavering under crisis and thus, the MSMEs need to strive against this economic turmoil by framing proper strategies and embracing technological changes to sustain during this turbulent period. Notwithstanding the negative impact that the pandemic had on MSMEs, it also augmented up a number of opportunities which if utilized would

lessen the costs of doing business and improve business operations. There is need for concerted effort from both the governments and private sector in ensuring that MSMEs harness the opportunities available for post economic recovery.

References

Anukarsh, S. (2020, November). What About India's MSME Sector: COVID-19 Pandemic and Indian MSME Sector Outlook. SSRN. https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3696778

Chidochashe, N. N. (2020, November). The impact of COVID-19 on MSMEs in Developing Countries. Cuts International Geneva. http://www.cuts-geneva.org/pdf/KP2020-RRN-MSMEs_and_Covid-19.pdf

Common Market for Eastern and Southern Africa. (2020, August). ECONOMIC IMPACT OF COVID-19 ON MICRO, SMALL AND MEDIUM. Tralac. <https://www.tralac.org/documents/resources/covid-19/region-al/4049-economic-impact-of-covid-19-on-msmes-in-africa-and-policy-options-for-mitigation-comesa-special-report-august-2020/file.html>.

Gunawardana, D. P. (2020, May). The Impact of COVID19 on the MSME Sector in Sri Lanka. Sustainable Development Goals. https://sustainabledevelopment.un.org/content/documents/26277Report_The_Impact_of_COVID19_to_MSME_sector_in_Sri_Lanka.pdf

International Chamber of Commerec. (2020). A Call to Action to Save Our SMEs. Iccwbo. <https://iccwbo.org/content/uploads/sites/3/2020/03/2020-sos-call-to-action-web.pdf>

International Monetary Fund. (n.d.). POLICY RESPONSES TO COVID 19. IMF. <https://www.imf.org/en/Topics/imf-and-covid19/Policy-Responses-to-COVID-19>

Jarle, H. (2020, June 22). Assessing the COVID-19 impact on SMEs and preparing for a new normal. International Trade Centre. <https://www.intracen.org/news/Assessing-the-COVID-19-impact-on-SMEs-and-preparing-for-a-new-normal/>

Ministry of Micro, Small and Medium Enterprises. (2021). COVID-19 Relief for MSME Sector. Msme.Gov.In. <https://msme.gov.in/sites/default/files/ActiononCOVID-19ReliefforMSMESector.pdf>

Rafael, M. M., & Folha De, S. P. (2020, July 10). How to support MSMEs so they overcome the COVID-19 shock. The World Bank. <https://www.worldbank.org/en/news/opinion/2020/07/10/brazil-how-support-micro-small-medium-enterprises-overcome-covid-19-coronavirus-shock>

Rcebricus. (2020, December 1). Asia Small and Medium-Sized Enterprise Monitor 2020. Adb.Org. <https://www.adb.org/publications/series/asia-small-medium-sized-enterprise-monitor>.

Singh, A. (2020, June 12). What About India's MSME Sector: COVID-19 Pandemic and Indian MSME Sector Outlook by Anukarsh Singh: SSRN. Ssrn. https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3696778.

Sipahi, D. R. E. (2020, June). COVID-19 and MSMEs: A Revival Framework. Research Gate. https://www.researchgate.net/publication/341992329_COV

ID-19_and_MSMEs_A_Revival_Framework

Sobir, R. (n.d.). Micro-, Small and Medium-sized Enterprises (MSMEs) and their role in achieving the Sustainable Development Goals. Sustainabledevelopment.Un.Org. https://sustainabledevelopment.un.org/content/documents/26073MSMEs_and_SDGs.pdf

Tetsushi, S., Asami, T., Susumu, Y., & Hoa, T. T. (2021, March). THE IMPACTS OF THE COVID-19 PANDEMIC ON MICRO, SMALL, AND MEDIUM ENTERPRISES IN ASIA AND THEIR DIGITALIZATION RESPONSES. Asian Development Bank Institute. <https://www.adb.org/sites/default/files/publication/692466/adbi-wp1241.pdf>

UNDP. (2020a, June 5). Rapid Livelihood Assessment: Impact of the COVID-19 Crisis in the Maldives. <https://www.undp.org/publications/rapid-livelihood-assessment-impact-covid-19-crisis-maldives-0>

UNDP. (2020b, August 25). IMPACT OF THE COVID-19 CRISIS IN THE MALDIVES. Undp.Org. <https://www1.undp.org/content/dam/undp/library/km-qap/UNDP-MV-Rapid-Livelihood-Assessment-Impact-of-COVID-19-Crisis-in-the-Maldives-2020-Part-III.pdf>.

UNDP Maldives. (2020, July 12). Launch of National Dialogues Series on MSME Response and Recovery Following COVID-19 Crisis. Mv.Undp. <https://www.mv.undp.org/content/maldives/en/home/press-center/pressreleases/2020/NationalDialoguesSeriesonMSMEResponseandRecoveryFollowingCOVID19Crisis/>

UNESCAP. (n.d.). SMEs IN ASIA AND THE PACIFIC. Unescap.Org. <https://www.unescap.org/sites/default/>

files/7%20-%201.%20SMEs%20IN%20ASIA%20AND%20THE%20PACIFIC.pdf

World Trade Organisation. (2020, September 24). HELPING MSMES NAVIGATE THE COVID-19 CRISIS1. https://www.wto.org/english/tratop_e/covid19_e/msmes_report_e.pdf

Xinhuanet news. (n.d.). Small, medium enterprises in Nepal severely impacted by COVID-19 pandemic: survey. Xinhuanet. http://www.xinhuanet.com/english/2020-09/23/c_139391562.htm