

## HELPING MSMEs NAVIGATE THE COVID-19 CRISIS

### INFORMATION NOTE<sup>1</sup>

#### KEY POINTS

- Micro, small and medium-sized enterprises (MSMEs) are the backbone of many economies, representing 95 per cent of all companies worldwide and accounting for 60 per cent of employment. Many MSMEs 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 that they sell domestically. They are major employers of women and young people, and a key driver of innovation.
- MSMEs are particularly exposed to the COVID-19 pandemic's economic impact because of limited financial resources and borrowing capacity, and because of their disproportionate presence in economic sectors affected by social distancing measures and transport disruptions. MSMEs are also particularly exposed to trade restrictions on agricultural products.
- Where MSMEs are highly integrated into global value chains (GVCs), supply chain disruptions can create an existential risk for MSME importers and exporters, either because of shortages of necessary parts, or through shocks to demand.
- The pandemic-related challenges add on to the existing, well-known trade obstacles encountered by MSMEs, and therefore undermine progress towards more inclusive trade.
- Governments have primarily introduced urgent stimulus and backstop measures for MSMEs, such as liquidity support to address cash flow issues, with the aim of preserving jobs and ensuring business continuity, as well as measures to expand trade opportunities for MSMEs. A few governments have also introduced measures aimed at developing the resilience of MSMEs and building their capacity to overcome future shocks to demand and supply chains.
- To limit the impact of the current crisis on MSMEs and to build their resilience, it is critical that MSMEs have better access to regulatory and market information and affordable trade finance, as well as to streamlined customs procedures and requirements. Greater use of digital tools and e-commerce would also benefit MSMEs.
- The WTO can contribute to supporting MSMEs in several ways, such as: through transparency mechanisms in WTO committees and bodies, as well as in the Informal Working Group on MSMEs; through the exchange of good practices in terms of MSME support measures; through full implementation of the Trade Facilitation Agreement; through continued efforts in enhancing access for MSMEs to trade finance; by harnessing transparent, fair and open procurement markets; and by supporting trade digitalization efforts, including through the development of e-commerce rules.

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<sup>1</sup> This document has been prepared under the WTO Secretariat's own responsibility and is without prejudice to the positions of members or to their rights and obligations under the WTO.

## 1 HOW ARE MSMEs AFFECTED BY THE COVID-19 CRISIS?

MSMEs are the backbone of the world economy. Today, 95 per cent of companies across the globe are MSMEs, accounting for 60 per cent of the world's total employment. MSMEs contribute to around 35 per cent of GDP in developing countries and around 50 per cent in developed countries, according to the 2016 *World Trade Report* (WTO, 2016). MSMEs are thus vital for preserving jobs and productivity.

A large number of MSMEs depend on international trade for their activities, either because they export their products through direct or indirect channels, or because they rely on imported inputs to manufacture the products they sell domestically.

MSMEs are among those facing some of the greatest economic difficulties from COVID-19. For example, MSMEs are over-represented in economic sectors that have been disproportionately affected by the massive shocks to demand and supply resulting from COVID-19. Moreover, MSMEs have less resilience and flexibility in dealing with the costs these shocks entail because of their size, which makes it more challenging for them to survive the crisis than larger firms. A recent survey of the Korean Federation of MSMEs showed that, of the 407 surveyed SMEs, 42.1 per cent can continue business for no more than three months under the current quarantine conditions, and 70.1 per cent for no longer than six months. Likewise, a survey by Tsinghua University and Peking University of 995 SMEs in China found that 85 per cent could not survive quarantine conditions for more than three months (OECD, 2020a).

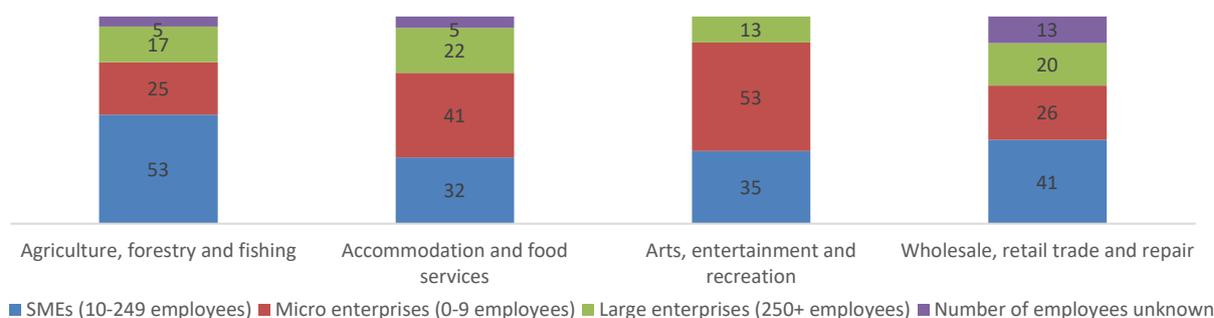
How MSMEs will be able to navigate this economic downturn will determine the extent to which jobs, productivity and trade can be preserved. According to Lindsay et al., (2020), 50 per cent of MSMEs in the United States have already shut down or have laid off or furloughed employees, and 27 per cent stated that they will be obliged to take such measures in the next few weeks if the situation does not improve.

### MSMEs are prevalent in the economic sectors most affected by demand shocks

MSMEs are disproportionately affected by the COVID-19 pandemic because of their prevalence in the economic sectors most affected by demand shocks caused by the pandemic. These sectors include accommodation and food services, cultural and creative sectors, and wholesale and retail services (OECD, 2020b). Data for OECD and some non-OECD economies show that MSMEs export more than large firms in these sectors (see Figure 1). Partial or full quarantine measures, as well as disruptions to international means of transport, will clearly lead to a dramatic loss of demand and revenue in these areas for both domestic and trade activities.

In addition to these quarantine measures, an increasing number of governments are introducing export or import restrictions, notably on agricultural products (see the recent WTO information note on [export prohibitions and restrictions](#)), which provide an important source of income for many MSMEs (see Figure 1).

**Figure 1: Share of direct export sales (percentage), by sector and size of firm, in 2012**



Source: WTO (2016) based on OECD Trade by Enterprise.

Note: Data include 26 OECD and 6 non-OECD economies.

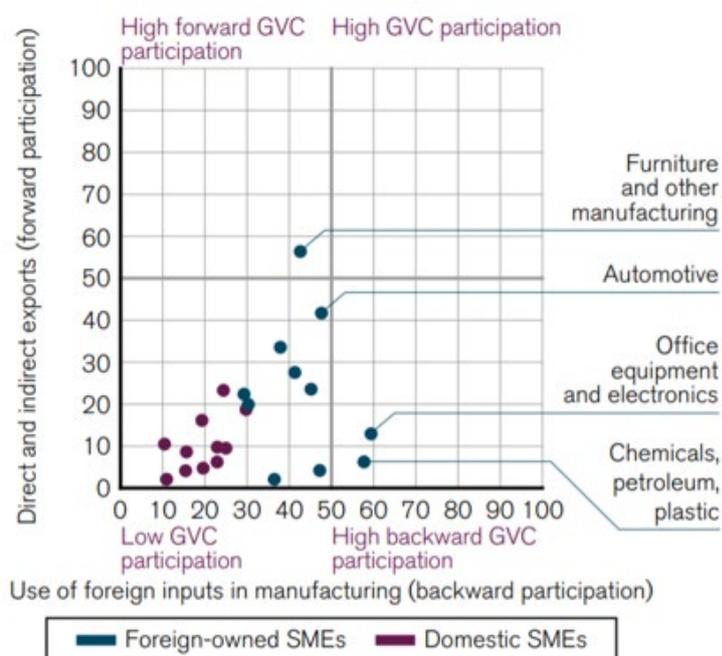
## The impact of supply chain disruptions on MSMEs varies across countries and sectors

Supply chain disruptions may affect MSMEs that are integrated into GVCs either through shortages of parts and intermediate goods or through shocks to the demand for trade in intermediate goods produced by MSMEs. These disruptions create delays in delivery or even business interruption risks. In the case of the Republic of Korea, for instance, of the 191 firms surveyed by the Korean Federation of SMEs, 71.8 per cent expected to be affected by the outbreak, with more than half of these firms stating that they were unable to meet delivery dates due to factory closures in China (OECD, 2020a).

However, the impact of supply chain disruptions on MSMEs varies across economies. Although in some economies, MSMEs are highly integrated into GVCs, the majority are not (WTO, 2016). The impact of supply chain disruptions on MSMEs also varies across economic sectors. Current disruptions disproportionately affect sectors in which MSMEs are highly integrated into GVCs. For example, in office equipment, electronics, chemicals, petroleum and plastic sectors, MSMEs import almost 60 per cent of total inputs from foreign countries (backward participation), while in the automotive and furniture sectors, MSMEs – especially foreign-owned MSMEs – export more than 40 per cent of their total sales through direct or indirect trade channels (forward participation) (see Figure 2). Indeed, MSMEs in least-developed countries have a high share of direct exports in the furniture-making sector (WTO, 2016).

In several other manufacturing sectors, MSMEs export more products than large firms through GVCs (indirect GVC participation), including equipment and machinery products, publishing and printing products, paper-based products and transport equipment (WTO, 2016). All of these are exports which may experience particularly negative impacts from the pandemic.

**Figure 2: Backward and forward participation of MSMEs in GVCs, by sector and ownership (share in total sales and share in total inputs, percentage)**



Source: WTO (2016) based on World Bank Enterprise Surveys.

Note: Each square represents the average GVC participation of SMEs in a given developing economy.

## **MSMEs face greater difficulties because of their size**

MSMEs are also greatly exposed to the economic downturn resulting from COVID-19 because of their size. For example, they typically have relatively low cash reserves and thus only a small cushion with which to weather an economic shock. Of the 147 MSMEs in the Asia-Pacific region surveyed by the Asia-Pacific MSME Trade Coalition, almost 50 per cent have less than a month or just a month of cash reserves (AMTC, 2020). Moreover, MSMEs have generally smaller inventories and supplier networks. Sourcing from new suppliers, or absorbing price increases, is more challenging for a smaller firm with limited supply options and capital, meaning that supply chain disruptions can impact MSMEs faster and harder than large firms.

Lastly, MSMEs have limited resources with which to navigate the current rapid changes in government policies and to deal with application requirements to access COVID-19 business resources. The current crisis exacerbates these challenges. New trade measures are being taken by governments every day in response to COVID-19. If the different actors engaged in supply chains are not aware of these new requirements, they can struggle to adapt to the new conditions.

## **The pandemic-related challenges undermine progress towards more inclusive trade**

The pandemic-related challenges add to the existing, well-known trade obstacles encountered by MSMEs. The participation of MSMEs in international trade continues to be limited. Firms with fewer than 250 employees account for only 34 per cent of exports in developed countries, according to WTO (2016). In developing countries, MSMEs' exports amount to only 7.6 per cent of total sales in the manufacturing sector. Reasons commonly invoked to explain the low participation of MSMEs in international trade include lack of relevant skills, lack of knowledge about international markets, and cumbersome regulations and border procedures, as well as limited access to trade finance.

The MSME trade finance gap, which is estimated at about US\$ 1.5 trillion per year by the Asian Development Bank, is likely to increase given the negative effects of COVID-19 on financial market confidence. This offers especially negative prospects for firms in developing countries where a lack of trade finance can severely hinder trade opportunities.

## **2 GOVERNMENT RESPONSES TO SUPPORT MSMEs**

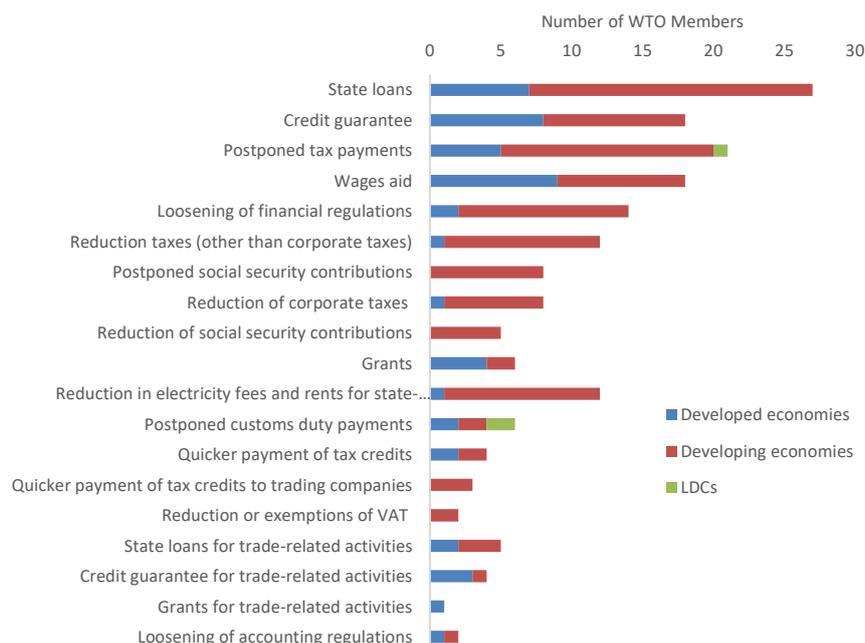
### **Urgent stimulus and backstop measures**

Supporting MSMEs is vital for preserving jobs and productivity. Governments have introduced a wide range of urgent stimulus and backstop measures for businesses, and especially for MSMEs. These measures, which are often time-limited, mostly include direct and indirect liquidity support measures meant to address the cash flow issues MSMEs are currently experiencing. According to WTO data, 44 WTO members<sup>2</sup> had introduced urgent stimulus and backstop measures for MSMEs by April 2020. These measures essentially comprise liquidity support, particularly state loans, credit guarantees, wage subsidies, and the deferring of tax payments, such as value-added/goods and services taxes (see Figure 3).

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<sup>2</sup> Counting the European Union as one.

**Figure 3: Liquidity support measures introduced by WTO members (April 2020 data)**

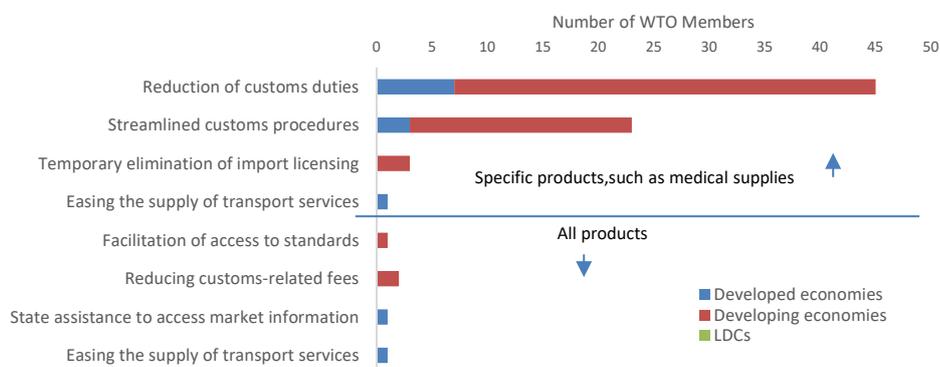


Source: WTO Secretariat.

### Trade-expanding measures

Beyond support for overcoming cash flow problems, some WTO members have also introduced measures to expand trade opportunities for MSMEs. These trade-expanding measures essentially comprise customs-related measures, such as the streamlining of customs procedures or the reduction of customs duties, in particular on medical supplies and agricultural products (see Figure 4). A few governments are also supporting the supply of transport services for some of these products, or access to standards related to COVID-19 essential products. Some governments have also introduced trade-expanding measures applicable to all products. The Australian International Freight Assistance Mechanism, for instance, provides government-led freight flights for perishable agriculture and fish products, with return flights bringing back vital medical supplies (Australian Trade and Investment Commission, 2020). Regarding standards, the Brazilian Federal Health Regulatory Agency makes its standards freely available for the production and importation of certain low-risk products essential to combat COVID-19 (Agencia Nacional de Vigilância Sanitária, 2020).

**Figure 4: Trade-related measures to expand trade opportunities for MSMEs (April 2020 data)**



Source: WTO Secretariat.

## Long-term-oriented measures

Building MSMEs' resilience is critical to help them face future economic downturns. Digitalization, for instance, can help MSMEs overcome damaged supply chains by tapping into a wider range of international buyers and alternate suppliers. According to WTO (2016), 97 per cent of internet-enabled MSMEs export, on average, while export participation rates for traditional MSMEs range between 2 and 28 per cent in most countries. MSMEs using digital technologies, such as e-commerce, may be better suited to adapt to the COVID-19 pandemic (Baldwin and Di Mauro, 2020). A handful of WTO members have introduced measures meant to incentivize MSMEs to adopt information and communication technologies to improve their resilience against economic downturns and help them diversify their value chain partners.<sup>3</sup>

## 3 THE WTO, MSMEs AND THE COVID-19 CRISIS

International trade provides MSMEs with an opportunity to diversify their revenue stream and better navigate the COVID-19 crisis. At this time, MSMEs need [transparency](#) more than ever. Access to information is critical for MSMEs to navigate the current rapid changes in policies, to effectively use available support measures, and to identify new market opportunities.

Moreover, access to affordable trade finance is of utmost importance to ensure that cash-less MSMEs can trade. Streamlined customs procedures, rapid clearance of customs, and support of trade digitalization efforts are also conditions for success in international trade.

In these contexts, the WTO provides a forum for supporting MSMEs in several ways detailed below.

### Informal Working Group on MSMEs

The WTO Informal Working Group on MSMEs, launched in December 2017, now counts over 90 members. Its principal aim is to address obstacles to MSME participation in international trade.

The Group has been actively promoting transparency schemes to support MSMEs. One ongoing project is the development of an online platform with links to practical tools for both MSMEs (such as online courses and market analysis tools) and policy-makers (including useful studies and information on good practices). Moreover, the Group is supporting the prompt operationalization of the Global Trade Helpdesk, a joint initiative by the International Trade Centre (ITC), the United Nations Conference on Trade and Development (UNCTAD) and the WTO, aimed at synthesizing market- and trade-related information.

Other proposals on which the Group has been working include calls to its members to submit MSME-related information in their trade policy reviews, to promote the exchange of good practices on trade facilitation and trade finance, and to encourage members to consider the specific needs of MSMEs in domestic regulatory development, such as through MSME consultation. In response to the COVID-19 crisis, members of the Group are voluntarily submitting information on their government measures to support MSMEs, with a view to enhancing transparency and helping to identify good practices.

### Transparency and exchange of good practices

The [transparency](#) of general trade-related measures taken in response to the current crisis is also of utmost importance to help MSMEs navigate the fast-changing policy environment. The WTO closely monitors such trade developments.<sup>4</sup> The proliferation of trade-restrictive measures disrupts well-functioning supply chains and undermines the ability of MSMEs to

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<sup>3</sup> Members identified include Japan, Malaysia, Singapore and the United Kingdom.

<sup>4</sup> For the most recent list of COVID-19-related measures taken by governments, see: [https://www.wto.org/english/tratop\\_e/covid19\\_e/trade\\_related\\_goods\\_measure\\_e.htm](https://www.wto.org/english/tratop_e/covid19_e/trade_related_goods_measure_e.htm)

continue exporting their products. Of particular concern for MSMEs are restrictions imposed on agricultural products. Reviewing and – where possible – removing COVID-19-related emergency measures will be essential to limiting their impact on supply chains and MSMEs.

### **Trade facilitation**

Trade facilitation can contribute to keeping global supply chains and trade lines open and free of encumbrances, thereby keeping market opportunities available to MSMEs. The current crisis is an opportunity to reiterate the importance and urgency of implementing the Trade Facilitation Agreement in order to reduce trade costs related to the movement, release and clearance of goods, including goods in transit. Also, continued engagement on projects of the Standards and Trade Development Facility (STDF) and Enhanced Integrated Framework (EIF) will benefit MSMEs in developing and least developed economies by helping them to build their capacity to trade.

### **Trade finance**

For several years now, the WTO has worked with other international agencies, particularly multilateral development banks, to address problems and call the attention of the international community to trade finance shortages. This strategy aims to (i) support the trade finance facilitation programmes of multilateral development banks by way of advocacy and mobilization; (ii) reduce the knowledge gap regarding trade finance products and regulations through on-site training or e-learning; and (iii) increase dialogue with trade finance regulators. Continued engagement on this front is needed to support MSMEs in overcoming the increased trade finance gap to be expected as a result of the pandemic.

### **Government procurement**

Governments around the world have responded to the COVID-19 pandemic with emergency purchasing of essential health-related goods and services, which may have created business opportunities for MSMEs. Once the focus shifts to economic recovery, government spending, and thus government procurement, may also play an important role. The plurilateral WTO Agreement on Government Procurement (GPA) helps to ensure fair, transparent and non-discriminatory conditions of competition for suppliers participating in government procurement tenders covered by the GPA (Nicholas and Muller, 2017). It requires minimum transparency in government procurement, which is of great significance for MSMEs, as they are particularly impacted by lack of information about tendering opportunities. Electronic procurement, which is encouraged under the GPA, also enhances transparency.

Furthermore, the GPA's good governance and anti-corruption provisions, and the domestic challenge mechanisms that these provisions require to be put in place, can give MSMEs confidence about tendering for public contracts. Good international practices relating to MSME participation in government procurement are currently being discussed in a dedicated work programme (see [GPA/WPS/SME/38/Rev.1](#)).

### **E-commerce**

COVID-19 has showcased the importance of the internet and [e-commerce](#) to mitigate the impact of the pandemic, not only on people's lives, but on economic activity as well. The fact that consumers and businesses have increasingly resorted to online platforms during periods of shutdown has increased awareness of e-commerce, including in discussions at the WTO, and particularly with regard to the importance of ensuring that the benefits of e-commerce extend to MSMEs and developing countries.

### **Private sector collaboration**

Collaboration with the private sector, and especially with MSMEs, helps to identify effective solutions to support MSMEs both in the short and long term. The private sector can help identify where trade flows and production chains are being affected, as well as propose solutions that maximize health outcomes while minimizing trade distortions and economic damage. The International Chamber of Commerce and the WTO issued a [joint statement](#)

on 2 April 2020 underscoring the role of the private sector as an important partner in responding to the pandemic. Both the WTO [Trade Dialogues](#) and the Informal Working Group on MSMEs provide a venue for the private sector to collaborate with WTO members on MSME-related issues.

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