



# Chapter 14

## MSME Responses to the COVID-19 Pandemic and Their Way Forward

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## Background

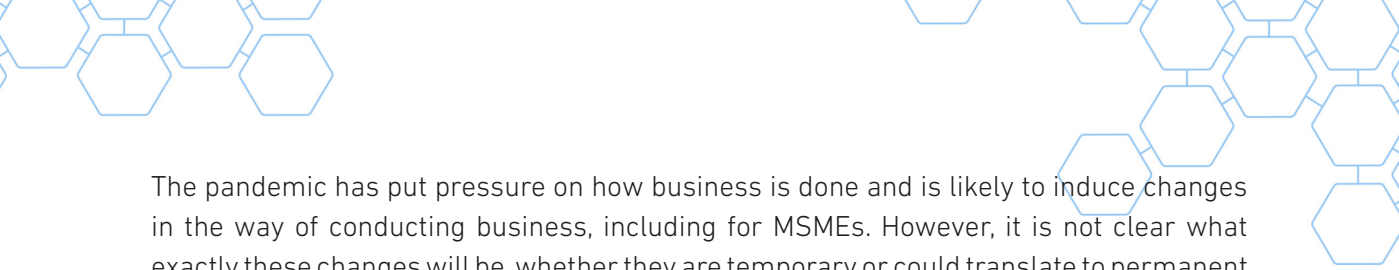
Micro, small, and medium-sized enterprises (MSMEs) play an important role in an economy and for the development of a country. They dominate the number of enterprises and provide jobs for a large portion of the labour force, although they are not the biggest contributor to output creation in aggregate. MSMEs are spread across all sectors of the economy, with a large number in manufacturing and services. In many developing countries, micro and small enterprises can absorb workers in the informal sector, making them agents for alleviating poverty through economic activities.

MSMEs are solid building blocks for industrial development, especially in the formation of industrial agglomerations and international production networks (IPNs). The enterprises, especially medium-sized ones and to some extent small ones, are critical for IPNs as they present themselves to multinational enterprises (MNEs) as arm's-length suppliers that maximise the combination of business transactions between the local economy and across country borders.<sup>1</sup> They are agents of industrial development, as the backward linkages established through their association with MNEs accelerate technology transfer amongst small and medium-sized enterprises (SMEs), especially those participating in IPNs. Deeper and more extensive participation of SMEs in IPNs over time improves competitiveness, which leads to higher participation of SMEs in the international market – expanding the contribution of SMEs in improving a country's trade balance.

The rapid spread of the coronavirus disease (COVID-19) from March 2020 plunged the world into the biggest global crisis since the early 1900s. The pandemic triggered border closings both between and within countries that, while necessary to manage the spread of the virus, halted the world economy. The lockdowns disturbed not only the supply side, through disruptions to production caused by the closing down of factories, but also the demand side. Strict limitations on the movement of people cut demand for various products and services, fuelling the contraction on the production side. As a result of these factors, the world economy saw a deep contraction in the second quarter of 2020 and had not yet fully recovered by the end of that year.

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<sup>1</sup> As in the two-dimensional fragmentation and industrial agglomeration model of Kimura and Ando (2005).



The pandemic has put pressure on how business is done and is likely to induce changes in the way of conducting business, including for MSMEs. However, it is not clear what exactly these changes will be, whether they are temporary or could translate to permanent changes in MSME models, and in which direction they will converge (or whether they will converge). This chapter attempts to provide answers to these questions, based on what we know so far and some evidence on the responses of MSMEs to the pandemic. The objective is for the Comprehensive Asia Development Plan 3.0 (CADP 3.0) to devise ideas on how policy could be geared towards assisting MSMEs more effectively in the future. Given the theme of CADP 3.0, special attention is given to elucidate the role of digitalisation in MSME development in the future.

The rest of this chapter is organised as follows. Section 2 outlines a general framework for a model of MSME responses to the pandemic crisis. It is important to contemplate potential responses of MSMEs during the crisis because of the pandemic.

Section 3 presents key messages from the Association of Southeast Asian Nations (ASEAN) SME Policy Index (ASPI) 2018, which should provide an indication of whether the pre-pandemic policy framework can support possible changes that will take place in the post-pandemic era. This section is limited to the ASEAN Member States (AMS). While this is not ideal – as it does not cover the ASEAN Plus Six countries<sup>2</sup> – it is acceptable as the AMS are the centre of gravity in East Asia economic integration and are the recipient countries of foreign direct investment (FDI) from the Plus Six countries. Section 4 presents policy responses introduced and implemented in selected countries during the pandemic. Section 5 concludes by presenting the lessons learned from the pandemic crisis for policy recommendations.

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<sup>2</sup> The ASEAN Plus Six countries are Japan, China, the Republic of Korea, Australia, New Zealand, and India.

## Analytical Framework: MSME Responses to the COVID-19 Pandemic

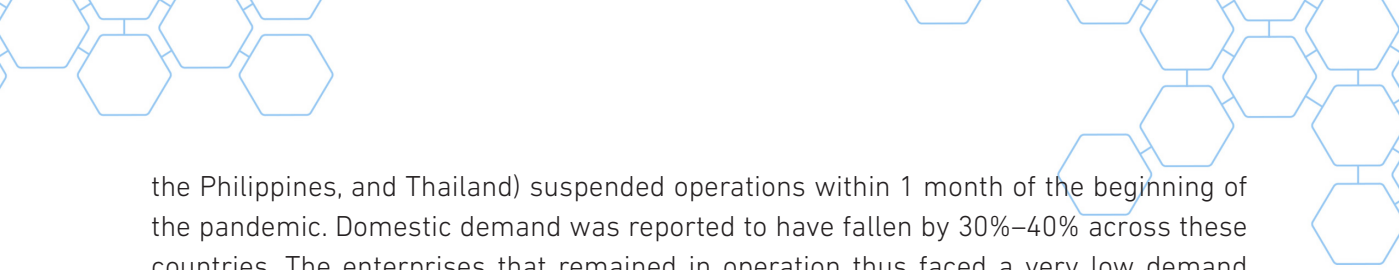
Factors affecting the performance of MSMEs come from two directions: the supply and demand sides. Supply-side factors are those that affect the productivity level or growth of the enterprises. Unlike large enterprises or MNEs, MSMEs are inherently less competitive than their larger counterparts, theoretically rooted in their inability to operate at a minimum efficient scale in a given industry. As typically argued in the literature (e.g. Tybout, 2000), however, the flexibility and nimbleness of MSMEs can compensate for the weakness coming from the scale effect, allowing MSMEs and large corporations to coexist.

The situation during the pandemic has been very different. The pandemic shock has affected both the supply and demand sides, as a result of large-scale social restriction policies since the beginning of the pandemic, including the closing of country borders. The lockdowns have limited both business operations and people's mobility, affecting the performance of all types of companies – especially MSMEs. Nevertheless, some have argued that the impact is far greater on the demand side (e.g. World Bank, 2021).

The supply side of MSMEs is adversely affected through two channels:

- (i) The reduction in the number of workers, as people were kept at home or workers have been unwell (OECD, 2020): The prolonged lockdown, including long quarantine measures for people travelling between countries, leads to further and more severe drops in capacity utilisation, reducing output even further.
- (ii) The unavailability of inputs produced overseas: As the production structure of modern companies tends to be globally connected along production value chains, an outbreak in one country will stop the supply of products/inputs from that country. For example, a drop in the production of manufacturing products in AMS very early in the pandemic was caused by a shortfall in the supply of inputs from China (ERIA et al., 2021).

In terms of the demand side, the drop in demand created a domino effect on MSME sales and other performance measures – eventually significantly increasing risks to their survival. Based on its survey during the peak of the crisis, ADB (2020) reported that most MSMEs in some AMS (i.e. Indonesia, the Lao People's Democratic Republic (Lao PDR),



the Philippines, and Thailand) suspended operations within 1 month of the beginning of the pandemic. Domestic demand was reported to have fallen by 30%–40% across these countries. The enterprises that remained in operation thus faced a very low demand situation, which imposed a high risk to their survival. A similar picture may be drawn from a survey of companies in 132 countries conducted by the International Trade Centre in 2020, in which nearly two-thirds of micro and small firms reported that the crisis strongly affected their business operations, compared with about 40% of large companies. One-fifth of SMEs said they risked shutting down permanently within 3 months (ITC, 2020).

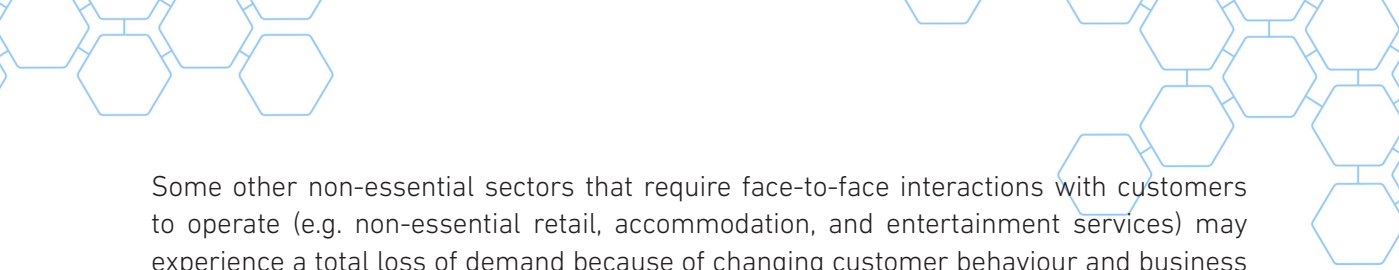
The pandemic has adversely affected employment. In 2020, two out of three MSMEs in some AMS reduced their workforce in March and April (ADB, 2020), and the same pattern persisted until the end of April (ILO, 2020). Job losses in MSMEs were apparent during the 2 months following the pandemic outbreak. Wage levels were also negatively impacted, as more than half of the MSMEs revealed that they deferred their workers' wages (ADB, 2020).

Regardless of the channels and the depth of the adverse impacts of the pandemic on MSMEs, some enterprises have been able to weather the crisis – surviving and even growing. It is important to understand why this was the case, or what led to this outcome. The following subsection attempts to set a framework for MSME responses to the pandemic crisis.

### **Business model pivoting**

MSMEs will not be able to survive in the longer term after the pandemic if they do not adjust to changes in the demand and supply situation. A recent World Bank survey of enterprises in Indonesia during the pandemic revealed that enterprises reach out to consumers by changing, diversifying, and switching product categories (World Bank, 2021) of final consumer products.

Since the onset of the pandemic, MSMEs have engaged in sectors whose products or services remained relevant despite physical distancing measures and operational restrictions, such as necessities. Indeed, they would need to have adapted their business model in reaching out to customers. Implementing digital sales and distribution channels, using electronic payment technology, and adjusting the product/service format may become business strategies to fulfil customer demands.



Some other non-essential sectors that require face-to-face interactions with customers to operate (e.g. non-essential retail, accommodation, and entertainment services) may experience a total loss of demand because of changing customer behaviour and business dynamics during the pandemic. For these sectors, a strategy to generate revenue could involve pivoting to new business models or even extending the business to new ventures.

### **Market access**

Reaching out to new customers is another survival strategy. This is a step further than business pivoting and leveraging the 'nimbleness' of a typical MSME. To do this, MSMEs can obtain wider access to market their products along the supply chain of a product or service instead of depending heavily on the retail market. For enterprises in Indonesia, a survey showed that 23% of medium-sized businesses received orders from other companies (subcontractors) as their marketing strategy during the pandemic (Bappenas, 2020). In exchange, governments can provide incentives or recognition for the successful implementation of such collaboration.

Another method for SMEs to reach new customers is through exports. SMEs are usually confined to domestic markets, but opportunities exist in export markets. However, some would argue that such opportunities are limited as many countries around the world, if not all, have experienced a pandemic-induced economic shock.

### **Financial relief**

Despite the economic stimuli introduced to facilitate credit to businesses, many MSMEs remain under-supported because of their inability to fulfil the conditions for access to credit from financial institutions, e.g. the lack of secured assets for collateral, informal business entities, or irregular cash flows. Therefore, a new type of credit line or short-term financing should be introduced to support MSMEs in surviving the crisis. Examples of this include loans to cover working capital, upgrading of business facilities, enabling the digitalisation of business models, and other efforts to improve MSME capability in meeting customer demands in the new normal.

Different programmes can be introduced to assist MSMEs in accessing cash and short-term financing, e.g. channelling liquidity to financial institutions so they can provide MSMEs with no or low-interest loans, offering partial credit guarantees on MSME loans, and subsidising interest payments on loans taken by MSMEs. Assisting MSMEs to cover their fixed costs is another important line of support. Providing subsidies on rent and utilities, as well as rebates on or deferrals of tax payments would also help ensure the survival of businesses. Various surveys have confirmed that the top financial support priorities of MSMEs during the pandemic were access to finance and deferral of bill payments (e.g. utility bills, social security premiums, and taxes) (ILO, 2020).

In implementing such programmes, policymakers should collaborate with financial institutions that have proven capability working with MSMEs to ensure robust risk management measures. During the current excess liquidity and low interest rate environment, it is also a good opportunity for established financial institutions to introduce corporate social responsibility programmes that focus on lending to the MSME segment.

In addition to the factors suggested by the analytical framework outlined above, it is important to recognise that the impact of the pandemic likely varies by sector. This has been observed in many countries, as documented in various publications. For example, a study by McKinsey & Company underlined the varying impact across sectors (Dua et al., 2020). Examining the impact of the COVID-19 pandemic on SMEs in the United States, McKinsey reported high risks of business closures amongst SMEs in services sectors such as accommodation, food, and education, due to changes in customer behaviour – especially the physical distancing and operational restrictions that began during the pandemic. Other small businesses may close because they were already at risk financially before the crisis. The most vulnerable small businesses face both financial and COVID-19 related challenges.

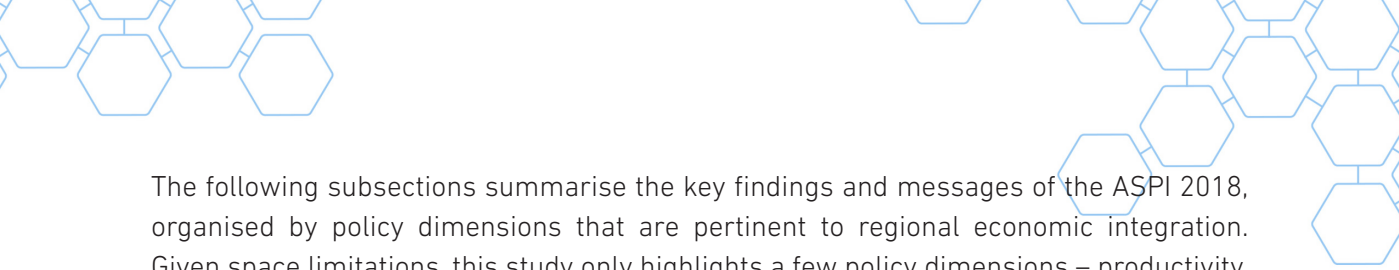
## ASEAN SME Policy Index 2018

To map the likely changes in MSME behaviour or performance in the post-pandemic period, it is useful to get some idea of the typical policy approach to MSMEs before the pandemic. One strategy is by looking at the policy situation in the literature, and a convenient source for this is the ASPI. This section draws on key facts and messages from the ASPI 2018 for this purpose (OECD/ERIA, 2018).

The ASPI 2018 surveyed and evaluated policy for MSME development in the 10 AMS up to 2016–2017. It adopted a methodology devised by the Organisation for Economic Co-operation and Development (OECD) that was refined by the Economic Research Institute for ASEAN and East Asia (ERIA) and OECD for the ASPI 2018. The methodology covers eight policy dimensions in the AMS, each of which is assessed by three components representing different stages of the policy cycle: (i) planning and design, (ii) implementation, and (iii) monitoring and evaluation.<sup>3</sup> OECD/ERIA (2018) discusses the policy assessment and draws key messages regarding policy and the way forward.

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<sup>3</sup> The policy dimensions and sub-policy dimensions, along with their concordance with the goals and desired outcomes of the ASEAN Strategic Action Plan for SME Development, 2016–2025, are presented in Appendix 1.



The following subsections summarise the key findings and messages of the ASPI 2018, organised by policy dimensions that are pertinent to regional economic integration. Given space limitations, this study only highlights a few policy dimensions – productivity, market access and internationalisation, and access to finance. The complete findings are in OECD/ERIA (2018).

## Productivity

The ability of firms to make capital investments, including upgrading technology, allows them to increase their productivity – thereby improving their competitiveness. The policy dimension in the ASPI addresses this subject by measuring the degree of government policy intervention to increase productivity and to improve the factors affecting the productivity of SMEs in AMS.

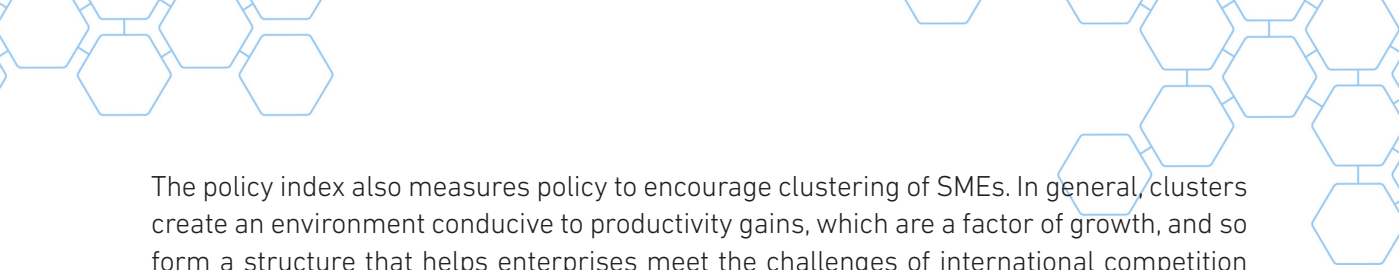
AMS have generally progressed considerably in this policy dimension, despite remaining challenges. The survey carried out for the ASPI 2018 found that SMEs across the ASEAN region have not contributed significantly to overall productivity gains in the region (OECD and ERIA, 2018).

The Strategic Action Plan for SME Development, 2016–2025 (ASEAN Secretariat, 2015) underlined the importance of capital investment as the objective of policy to improve the productivity growth of SMEs in the region. Capital investment programmes for SMEs exist in five AMS, but the implementation is generally small in scale in most cases and, except in Singapore and the Philippines, many of these programmes are not aligned with best practices – potentially leading to mismatched investments.

Further, although AMS scored quite high in the ASPI for productivity enhancement, they scored low for policy implementation. This is due to the limited number of capital investment programmes in half of the AMS.

There is a growing tendency to involve the private sector in providing capacity building. This is reflected in the role of business development services (BDS), which are important for SMEs as they provide information and advice to support enterprises in becoming more productive. AMS have made progress in the provision of information on and implementation of BDS since the publication of the previous ASPI (2014). Private BDS providers are increasingly available in ASEAN, and the region has a large number of BDS enablers (e.g. incubators, accelerators, and co-working spaces) often run by private sector providers.





The policy index also measures policy to encourage clustering of SMEs. In general, clusters create an environment conducive to productivity gains, which are a factor of growth, and so form a structure that helps enterprises meet the challenges of international competition (OECD, 2009). Here, SMEs play an important role by providing linkages to set off a chain reaction of broad-based industrial development in industrial clusters.

The ASPI 2018 found that SME participation in clusters was rather limited, despite well-established incentive policies for companies to cluster their operations – mostly fiscal incentives such as tax holidays for corporate income tax, value-added tax, withholding tax, etc. As part of the policies on clustering, the policy index also measures policy to provide facilities that encourage networking amongst innovative companies, such as science/industrial parks, competitive clusters, or technology centres. Here, there are disparities in terms of the level of development and sufficiency of facilities relative to the needs of a given country. Singapore and Malaysia have the most advanced facilities, especially in the digital economy (e.g. digital hubs and cyber centres), while the other AMS do not.

Despite improvements in the region, the policy index found that linkages in the cluster zones amongst SMEs and between SMEs and large enterprises are still not well established. The participation of SMEs in the clusters is still relatively small.

### **Market access and internationalisation**

With respect to access to international markets, there are wide differences in terms of policy implementation across AMS. Policy to promote exports in general is quite advanced in the ASEAN-5 or the older members of ASEAN (Indonesia, Malaysia, the Philippines, Singapore, and Thailand) relative to the younger members of the association (Cambodia, the Lao PDR, Myanmar, and Viet Nam). The ASEAN-5 typically have many types of programmes in place, which are fully operational and funded. The programmes tend to offer SMEs support across a wide range of areas, from trade policy information and market intelligence to complying with FTA rulings; moreover, they not only facilitate SME participation at major trade fairs but also support them with marketing, product development, and navigating export markets (OECD and ERIA, 2018).

In terms of SME participation in global value chains (GVCs), the policy index measures the sophistication and intensity of government programmes to promote linkages between SMEs and other firms, especially multinationals, exporters, or input suppliers in general. This includes the policy that promotes technology transfer from MNEs multinational to SMEs. Most of the ASEAN-5 and Viet Nam have programmes in place that promote the participation of SMEs in GVCs. These include business-matching programmes carried out through specialised industrial parks and FDI incentives. Cambodia and the Lao PDR are in the early stage of development in this policy area.

There is a wide range of policy approaches across the AMS – from the sophisticated market-driven model of collaboration between the government and MNEs (e.g. as in Singapore) to the middle ground of a standard partnership–facilitation between local SMEs and MNEs (e.g. as in Indonesia and the Philippines) or mandatory SME–MNE partnerships (e.g. as in Viet Nam).

It is important to highlight the policy towards e-commerce promotion for MSMEs in accessing markets in other countries (exports).<sup>4</sup> E-commerce has been growing, and continues to grow rapidly, in Southeast Asia. In Indonesia, for example, starting from a contribution of only 2% to total retail trade in 2016, e-commerce grew massively to a 20% contribution in 2020 (World Bank, 2021). Further growth is expected in the next decade or so, with some forecasting it to amount to a growth rate of around 32% per annum (World Bank, 2021). All this opens opportunities for MSMEs to use e-commerce to access non-traditional markets, including those in foreign countries, without overcoming their scale disadvantage.

Policy on e-commerce amongst AMS, and as in many countries in the world, is still in its infancy, although the ASEAN-5 seem to be the most advanced in the policy environment in increasing the use of e-commerce by MSMEs. They have clear legal instruments in place to govern e-commerce, e-payments, and consumer protection. These countries have also implemented nationwide e-commerce programmes that have included MSMEs as targets. The other AMS (i.e. Cambodia, Lao PDR, Myanmar, and Viet Nam) have not yet adopted a policy framework for MSMEs and e-commerce, and therefore are still very limited in their programmes to support MSME participation in e-commerce.

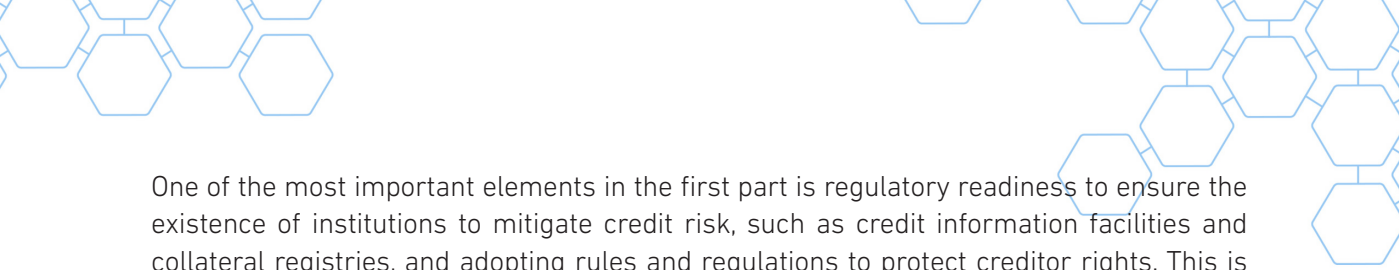
### **Access to finance**

Previous studies have established the idea that financing obstacles impede growth in smaller firms (e.g. Beck, Klapper, and Mendoza, 2010). SMEs often find it harder to access external financing because financial institutions are often reluctant to lend to this segment, given the higher risk profile associated with SMEs. Moreover, the extent of financial constraints for SMEs tends to be pronounced in developing countries, where SMEs may lack professional management and financial literacy skills, and where gaps may exist in the legal framework to protect creditor rights.

The ASPI, including its 2018 edition, has a policy dimension that attempts to measure the degree of sophistication and scope of government policies that can improve the access to, or availability of, financing for SMEs. This dimension has two parts: (i) to measure the regulatory system and framework, and (ii) to look at policy instruments to ensure the availability of diversified sources of financing for SMEs.

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<sup>4</sup> E-commerce is covered under the internationalisation aspect of SMEs in the ASPI 2018. It is not covered in the context of domestic markets, which seems to be equally important as the world is learning from survival efforts during the COVID-19 pandemic.



One of the most important elements in the first part is regulatory readiness to ensure the existence of institutions to mitigate credit risk, such as credit information facilities and collateral registries, and adopting rules and regulations to protect creditor rights. This is particularly important because the Strategic Action Plan for SME Development 2016–2025 lists the harmonisation of credit reporting, and potentially the creation of an ASEAN-level credit information system, as a strategic long-term goal. The findings of the ASPI 2018 suggest that important progress has taken place over the last 10 years in building up credit information systems across ASEAN. However, significant disparities remain in the breadth and depth of coverage across AMS that must be addressed as a first step (OECD and ERIA, 2018: 90).

As for credit guarantee schemes, as a major policy to reduce credit risk, the policy in ASEAN is still skewed towards the more developed AMS – five AMS (Indonesia, Malaysia, the Philippines, Thailand, and Viet Nam) have a public or public/private credit guarantee scheme in place, while six AMS have government-sponsored export financing schemes. Brunei Darussalam, Cambodia, the Lao PDR, and Myanmar have neither facility, though the necessity of a public guarantee scheme is limited in Brunei Darussalam given its small size and well-capitalised banking sector.

In terms of policy to ensure the availability of a diverse source of financing for SMEs, the impression is that many of the policies for bank loans for SMEs are channelled through state-owned entities. For instance, of the six AMS that have government-funded export financing schemes in place, five are run through export-import banks (in Indonesia, Malaysia, the Philippines, Thailand, and Viet Nam). This is a popular model in emerging and developing markets, where operational risks are generally higher, and thus the backing of a sovereign entity can facilitate financiers to take on a higher level of credit risk (OECD and ERIA, 2018: 96).

Another important policy instrument that is introduced to increase bank loans for SMEs is the provision of a credit line to banks for SME lending, which is currently provided in eight countries (all except Brunei Darussalam and Myanmar). In Cambodia, Indonesia, the Philippines, and Malaysia, interest rate subsidies are provided. In two AMS (Indonesia and the Philippines), mandatory lending programmes have been implemented (OECD and ERIA, 2018: 99).



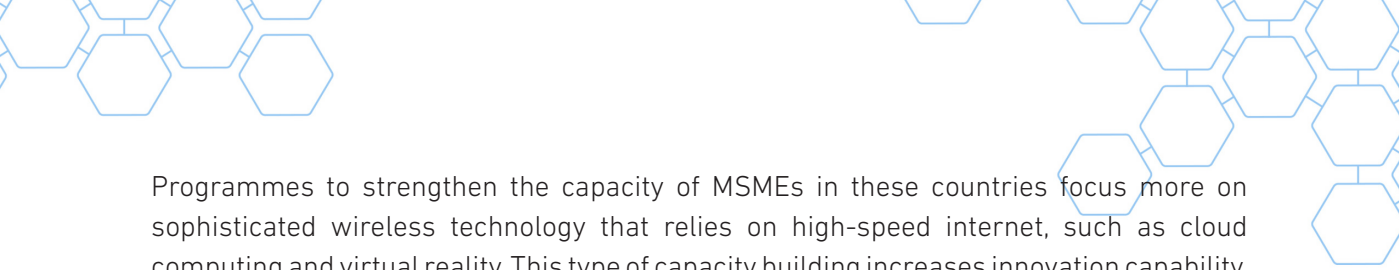
Access to stock market funding has started to become popular amongst SMEs in AMS. As reported in the ASPI 2018 (OECD/ERIA, 2018: 93), six AMS (Cambodia, Indonesia, Malaysia, the Philippines, Thailand, and Singapore) have also established junior board markets on which SMEs can list. Malaysia, Singapore, and Thailand have had such facilities in place for 10 years or more and have more than 100 listed firms. Indonesia launched its junior board, the IDX Incubator, in 2018, with the goal of listing 1,000 unicorn start-ups with a total market capitalisation of \$1 billion by 2020. In 2015, Cambodia launched its junior board, called the Growth Board, for the Cambodia Securities Exchange (CSX), and an Excellence Programme for building SME capacity to meet listing requirements, although the board remains relatively shallow and illiquid.

Funding from equity instruments is still at an early stage for the region, despite the high level of regulatory development in Singapore and Malaysia. The other countries are in line in terms of policy to raise capital from equity, namely Thailand, Indonesia, and Viet Nam, driven mainly by the very high demand for private equity/venture capital to these countries. Most of these deals are in the technology, media, and telecommunications sector (Preqin, 2017; Bhalla et al., 2012). This alternative source of funding for SMEs is not yet a common option offered in Brunei Darussalam, Cambodia, the Lao PDR, or Myanmar, given the lack or limited depth of stock exchanges in these countries.

## Programmes to Support MSMEs During the Pandemic

This section reviews the literature for successful programmes being implemented in several countries to support and sustain the survival of MSMEs during the pandemic. The review aims at drawing relevant and important information as reference, or as input, for designing support for the survival of MSMEs in the future should another crisis occur. It intends to learn from successful programmes in several countries, such as Australia, the Republic of Korea (henceforth, Korea), Malaysia, and Thailand.

The programmes outlined by these countries suggest that business pivoting has a higher chance of occurring because of the comprehensive capacity building programmes to support onboarding to e-commerce, digitalisation, and human capital development. This is obvious in the programmes implemented by Korea and Australia, for example, whereby capital accumulation in the digital sector, or digital infrastructure, typically is already at an advanced level. These types of programmes also exist in various formats in Malaysia.



Programmes to strengthen the capacity of MSMEs in these countries focus more on sophisticated wireless technology that relies on high-speed internet, such as cloud computing and virtual reality. This type of capacity building increases innovation capability, which will eventually allow the enterprises to create new products or services, permitting business pivoting to occur more swiftly.

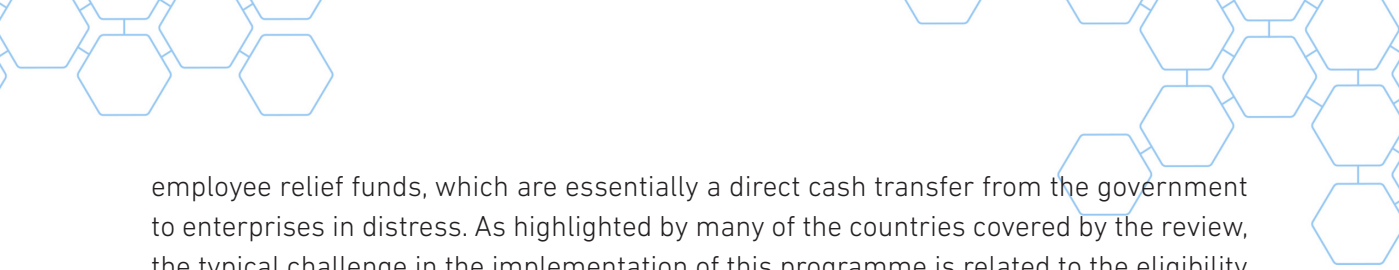
Obtaining greater market access through government procurement seems to be a widely acceptable programme. It appears in at least three countries under the review (Australia, Korea, and China). Government procurement programmes for MSMEs even exist in Germany and the European Union. These programmes typically set the official quota for MSME participation, introduce procedure simplification, and provide assistance for MSMEs to capture the captive market from the procurement. Government support is sometimes even stronger if the special allocation for MSMEs comes with a special/cheaper loan facility, as in Korea's procurement programme.

Resources allotted for MSMEs through procurement programmes always have a downside risk of being misused to gain political popularity for the regime in power. It is therefore important for the programme to be well connected to a robust monitoring and evaluation mechanism.

The high degree of variation in the quota set for MSMEs, or limitation of project size for MSMEs, highlight one of the challenges in the implementation of allocated procurement program for MSMEs, that is, the lack of clear guidance on the optimal level of MSME participation in procurement. In addition, there is a looming issue on the horizon for this type of programme as it is against the principle of equal treatment commonly adopted by free trade agreements (FTAs), especially the modern model of FTAs such as the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP).

Programmes to provide financial relief for MSMEs seem to be the most widely implemented programmes globally. These programmes are found in all countries covered by this literature review, and include a range of relief schemes covering workers' expenses, operating costs, tax obligations, and the cost of raising capital.

Wage subsidies are a common programme to reduce workers' expenses and to help MSMEs retain workers during low demand situations such as the current pandemic. At least three types of wage subsidies have been implemented in many countries – employee relief funds, employee leave subsidies, and strategic incentives. The most adopted type is



employee relief funds, which are essentially a direct cash transfer from the government to enterprises in distress. As highlighted by many of the countries covered by the review, the typical challenge in the implementation of this programme is related to the eligibility of the recipient – i.e. a subset of workers is not eligible to receive the subsidy, and poor programme design may lead to mis-targeting of the recipients.

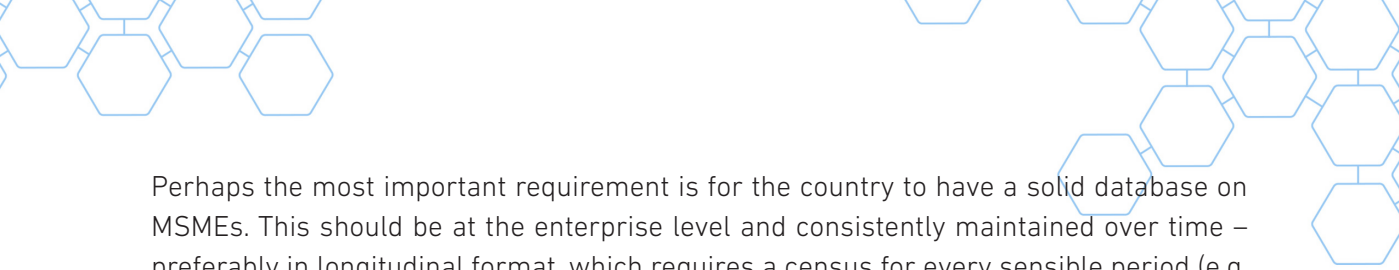
Financial relief to reduce operating costs usually takes the form of discounted prices for rent or utilities (e.g. electricity and water), while relief for the cost of raising capital takes the form of discounted interest rates for loans granted to MSMEs. In some cases, the facility for cheaper capital comes with other supporting features such as fast loan processing or very relaxed terms for loan repayments.

Another type of financial assistance that it is not directly targeted at MSMEs is voucher programmes. Voucher programmes are essentially a consumer subsidy and provide a discount on the price of a product. However, unlike conventional consumer cash subsidy programmes, the discount here is linked to several products or services sold exclusively by MSMEs. The expected impact is clear, that is, the lower prices for customers are expected to trigger or increase demand for certain goods or services from MSMEs.

The literature has indicated that cash vouchers have been the most popular type of voucher during the pandemic. Cash vouchers were found to have been implemented in China, Korea, Thailand, and Malaysia. More importantly, the size of resources allocated by the governments of these countries for cash vouchers is significant, suggesting a belief by these governments that such programmes have a strong impact on MSMEs. The statistics from Korea and China, for example, show that cash vouchers are a powerful programme to raise demand for MSMEs.

It is important to note that cash vouchers can be even more effective and powerful in the digital era than, for example, a decade ago. This is because they can be distributed easily via e-commerce platforms, which significantly increases the programmes' coverage – not only because these platforms open up access to larger market coverage but also because several e-commerce platforms operate in each country. This is another reason for the popularity of this type of programme.

For the purpose of policy implementation, it is important to try to understand the necessary conditions, or basic requirements, that warrant successful implementation of a programme to boost demand for MSMEs. While it is not easy to determine these from a literature review, some of them are indicated and are worth mentioning.



Perhaps the most important requirement is for the country to have a solid database on MSMEs. This should be at the enterprise level and consistently maintained over time – preferably in longitudinal format, which requires a census for every sensible period (e.g. once every 5 years or so). A robust database is critical for various reasons, including defining the optimal size of the resources allocated to MSMEs, targeting the enterprises, and determining the types of programme to match the enterprises' characteristics.

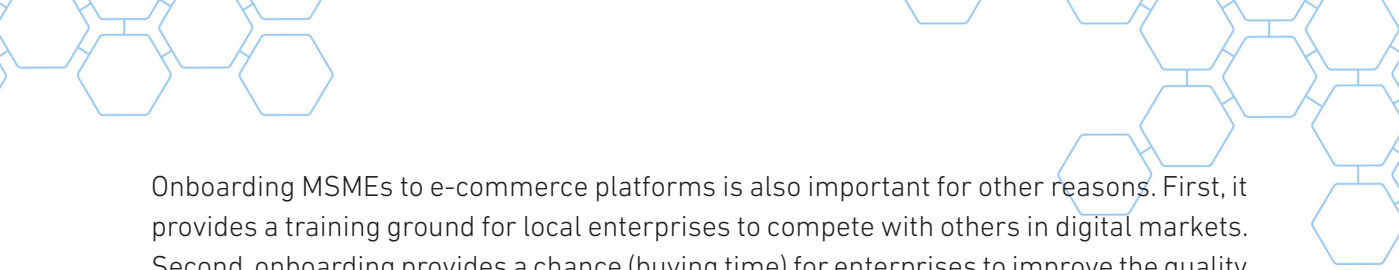
The second requirement is a well-established e-commerce industry and robust digital infrastructure. This is important considering the effectiveness of onboarding MSMEs to e-commerce platforms.

The next important condition is a solid regulatory framework, especially for programmes related to affirmative action, as in the resources allocated for MSMEs in government procurement and financial assistance programmes. Here, regulations need to cater to the interests of all parties involved in the programme to ensure transparency and good governance and to maintain contestability in the market granted by the state to MSMEs. All of these factors are important, but the latter is the most important for government procurement programmes because a guaranteed market share always invites vested interests to dominate the market.

## **Rounding Up: MSMEs in the Post-Pandemic Era**

The analysis in the previous sections describes lessons learned from the pandemic crisis for policy recommendations.

The first is to intensify and expand MSMEs' onboarding to e-commerce platforms. Onboarding e-commerce platforms is a popular strategic action promoted by governments and participated in by MSMEs in many countries during the pandemic crisis. This is because e-commerce can reach much wider markets that are not revealed because of social distancing during the pandemic. The intensive margin can take various forms, such as improving the quality of the product sold by enterprises or the quality of serving customers. As for the extensive margin, the recommendation is to expand programmes to as many e-commerce platforms as available in a country.



Onboarding MSMEs to e-commerce platforms is also important for other reasons. First, it provides a training ground for local enterprises to compete with others in digital markets. Second, onboarding provides a chance (buying time) for enterprises to improve the quality of the products or services they sell. Competing nationwide on large platforms is typically more demanding in many aspects, including product quality.

Onboarding MSMEs is not a straightforward action, however. There is a lot to do, especially since most of them (the micro and small ones) lack the necessary knowledge and capability to onboard the platforms for the first time. This is related to digital literacy issues for micro and small enterprises, which governments can help address. Another typical barrier is lack of digital infrastructure, especially in remote areas. It is clearly the responsibility of governments to address the issue through investment.

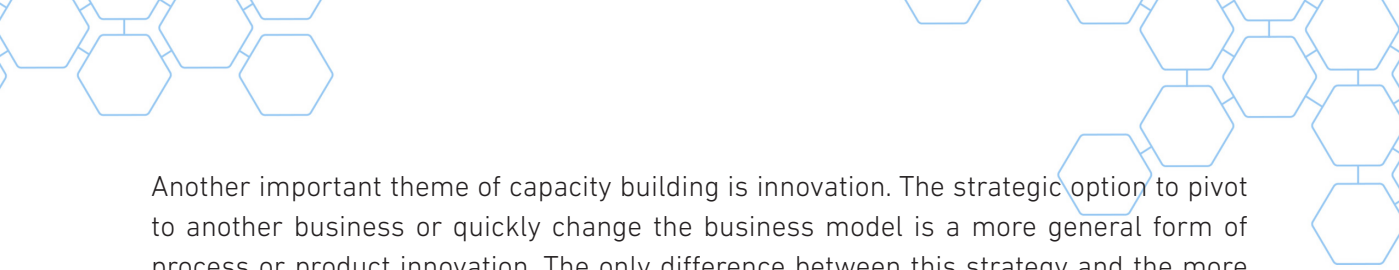
Finally, the use of discount vouchers, especially those disbursed digitally through the business process of e-commerce platforms, has had a positive impact on the survival of MSMEs. This is consistent with findings in many countries and the theory on the impact of discount vouchers. Therefore, it is justified if government plans to re-implement such a programme in the future especially in the event of an economic crisis. The challenge is how to design the mechanics of disbursing the funding for such vouchers. It is important to promote efforts to invent innovative ways to disburse the funding effectively and efficiently with minimised institutional barriers.

The second is to build the capacity of MSMEs. A smooth transition to a new business format requires capacity building support for MSMEs. Such capacity building programmes should involve partnership with multiple stakeholders, such as digital business players (e-commerce, marketplaces, digital payments, logistics, etc.), business associations, and corporations, to provide practical know-how and promote end-to-end impacts to the local economy.

The recommendation to improve capacity is consistent with the finding of the ASPI 2018, which indicates the weak implementation of many programmes to increase productivity in many AMS.

In the context of the pandemic crisis, capacity building could be more focused on trying to access the potential demand that exists but is not clearly revealed because of lockdowns or social distancing measures. The following are the key features of successful capacity building programmes: (i) coaching and mentoring with close interaction between trainers and entrepreneurs, (ii) the scope of the training covers end-to-end entrepreneurial/business acumen, and (iii) flexibility for different needs across enterprises.





Another important theme of capacity building is innovation. The strategic option to pivot to another business or quickly change the business model is a more general form of process or product innovation. The only difference between this strategy and the more general theoretical definition is that the strategy needs to be carried out quickly as the time dimension is critical during a crisis. As a lesson learned, it is worth mainstreaming innovation amongst MSMEs in a bid to hedge against another crisis in the future, and one way governments can do so is by providing capacity building programmes focusing on building the innovation capability of enterprises.

This can be done by applying the strategy at the cluster level, to achieve maximum impact as it is narrowly targeted to a specific group of MSMEs. The strategy then is to capitalise on established products and ecosystems. Specialisation in the production of one or a few products in a cluster should make it easier for the programme to upgrade the innovation capability of enterprises. The same logic applies for upgrading the capability for process innovation because there is typically an established business ecosystem in a cluster. Overall, targeting the programmes at clusters would be the most efficient approach if the intention is to increase innovation capability.

The third is to simplify the mechanism to provide financing for MSMEs. Financial assistance is very important for the survival of companies during an economic crisis, including the one created by the pandemic. The extent of the importance is even higher for MSMEs, as in general they are much less connected to the formal financial or banking system. Further, as reflected in the findings of the ASPI 2018, very few alternative financing (i.e. non-banking loans) policies or instruments are designed and created for MSMEs as the target consumers.

In the era of the accelerated digital economy during the pandemic, it is important to further develop fintech as an alternative source of financing for MSMEs. Fintech can provide other viable options of financing for MSMEs through its simpler mechanisms and quick processing times, enabled by the digitisation of back-end credit review processes. Provided that the cost of financing that fintech offers can be covered by the margin from operating revenues, fintech services can assist MSMEs in financing their working capital requirements.

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## Appendix. ASPI 2018 Assessment Framework

2018 ASPI dimensions and sub-dimensions	ASEAN SAP SMED strategic goals and desired outcomes
<b>1. Productivity, technology, and innovation</b>	<b>A. Productivity, technology, and innovation</b>
1.1 Productivity measures	A.1 Productivity will be enhanced
1.2 Business development services	A.2 Industry clusters will be enhanced
1.3 Productive agglomerations and clusters enhancement	A.3 Innovation will be promoted as a key competitive advantage
1.4 Technology and innovation promotion	
<b>2. Environmental policies and SMEs</b>	<b>A. Productivity, technology, and innovation</b>
2.1 Environmental policies targeting SMEs	A.3 Innovation will be promoted as a key competitive advantage
2.2 Incentives and instruments for greening SME operations	
<b>3. Access to finance</b>	<b>B. Increase access to finance</b>
3.1 Legal, regulatory, and institutional framework on access to finance	B.1 Institutional framework for access to finance will be developed and enhanced
3.2 Diversified sources of enterprise finance	B.2 Financial inclusion (and literacy) will be promoted, and the ability of MSMEs to engage in the financial system will be enhanced
3.3 Diversified sources of enterprise finance (microfinance component)	
<b>4. Access to market and internationalisation</b>	<b>C. Enhance market access and internationalisation</b>
4.1 Export promotion	C.1 Support schemes for market access and integration into the global supply chain will be further developed
4.2 Integration to global value chains	C.2 Export capacity will be promoted
4.3 Use of e-commerce	
4.4 Quality standards	
4.5 Trade facilitation	
<b>5. Institutional framework</b>	<b>D. Enhance policy framework and regulatory environment</b>
5.1 SME definition	D.1 Inter- and intra-governmental cooperation in terms of policy and regulation will be enhanced
5.2 Strategic planning, policy design, and coordination	
5.3 Measures to tackle the informal economy	D.3 Obtaining of permits and business registration will be streamlined

2018 ASPI dimensions and sub-dimensions	ASEAN SAP SMED strategic goals and desired outcomes
<b>6. Legislation, regulation, and tax</b>	<b>D. Enhance policy framework and regulatory environment</b>
6.1 Public-private consultations	D.2 MSMEs' interests will be promoted, and involvement in the decision-making processes will be enhanced
6.2 Legislative simplification and regulatory impact analysis 6.3 Company registration	D.3 Obtaining of permits and business registration will be streamlined
6.4 Ease of filing taxes	
6.5 E-government	
<b>7. Entrepreneurial education and skills</b>	<b>E. Promote entrepreneurship and human capital development</b>
7.1 Promotion of entrepreneurial education 7.2 Entrepreneurial skills	E.1 Entrepreneurial education and learning programmes will be instituted
<b>8. Social enterprises and inclusive SMEs</b>	<b>E. Promote entrepreneurship and human capital development</b>
8.1 Social enterprises 8.2 Inclusive SMEs	E.2 Human capital development for MSMEs will be enhanced, especially for women and youth

ASEAN = Association of Southeast Asian Nations; ASPI = ASEAN SME Policy Index; ERIA = Economic Research Institute for ASEAN and East Asia; MSMEs = micro, small, and medium-sized enterprises; OECD = Organisation for Economic Co-operation and Development; SAP = Strategic Action Plan; SMED = SME Development; SMEs = small and medium-sized enterprises.

Source: OECD/ERIA (2018).