Supporting MSMEs and Entrepreneurs During the Covid-19 Crisis

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1.0 Executive Summary

This guide to "Supporting Micro, Small and Medium-sized Enterprises (MSMEs) and Entrepreneurs During the Covid-19 Crisis" has been commissioned by GIZ primarily to help the Sector Project to advise the Federal Ministry of Economic Cooperation and Development (BMZ) in the coming months and years, as the Covid-19 crisis unfolds. It also serves as a starting point for the provision of advice for/by the GIZ Sectoral Department, as well as for GIZ field staff implementing Private Sector Development (PSD) programmes and projects around the world, on how to respond to COVID-19.

This guide has been designed to be a succinct, simple and practical document which highlights the COVID-19-related issues confronting MSMEs based on the current level of knowledge, data and understanding of the impact and implications on the MSME sector as of 30 April 2020. It is explicitly acknowledged that the situation is highly fluid and that the knowledge base is rapidly growing.

The guide highlights the impact of COVID-19 on the MSMEs, including the informal sector of the economy, but the emphasis is primarily on presenting a typology of measures that could support MSMEs as the COVID-19 pandemic unfolds, since this is what practitioners need as a starting point.

In the last four months, the impact of the pandemic has been well-documented. Simply put, COVID-19 has resulted in the most catastrophic world economic situation in about a century. It is far worse than the 2007-9 Financial Crisis, World Wars I and II, and worse still than the Great Depression of the 1930s. It is the fastest and deepest economic crisis ever witnessed, it is being imposed by governments simultaneously and its impacts will continue, through phases, until a vaccine is developed. Its effect is extremely serious for formal MSMEs and potentially catastrophic for informal entrepreneurs. It threatens health, livelihoods, pensions, poverty, hunger, destitution, violence and death. Quite simply, if both informal and formal MSMEs are not supported, government tax revenues and thus public service provision, such as education and health will be undermined for years to come, seriously affecting the ability of nations to develop economically and reduce poverty and inequality.

In this context, GIZ commissioned an overview of possible measures to counteract the situation. The main types of measure are presented briefly in this guide as a means of setting out the options. The key ones are broadly the following:

- Boosting Demand and Preserving Value Chains;
- Accessing Finance;
- Protecting working capital / liquidity;
- Protecting Jobs and Employment.

The application of a particular measure or a combination of them depends on the context: the country, the policy, institutional and financial capacities, and the objectives of the GIZ programmes and projects.

The guide briefly addresses other important issues to provide guidance to programmes and projects. It sets out a basis for selecting and targeting MSMEs, both formal and informal, including the (sub)sectors requiring attention. COVID-19 may represent a deep and challenging crisis but it is also an opportunity to advance and accelerate specific developments in the formal and informal MSME sector, such as digital transformation, decarbonization, technology transfer and innovation.

The guide points out that, in this and subsequent waves of COVID-19 crises, it will be essential to use tools such as grants and voucher schemes to support targeted MSMEs. It sketches the basis for developing simple, rapid yet transparent grant/voucher schemes which still allow for targeting, avoiding fraud but maximising impact. It is for GIZ to issue policy guidance on how to formalize this.

2.0 Impact of the crisis on MSMEs and entrepreneurs

The **world has changed dramatically** in the past four months and so have the challenges and needs of Private Sector Development and Micro, Small and Medium-sized Enterprise (MSME) support.

Globally speaking, before the outbreak of COVID-19, the IMF was forecasting 3.3% global GDP growth, now it predicts a catastrophic **-3.0% deficit** (World Economic Outlook, 2020). Before, the stock markets, including commodity prices, were riding high, now they are experiencing turmoil and even negative oil prices. Before, the financial and the corporate sectors had put the Great Recession of 2007-9 behind them and were set for fair growth, now they are facing the **greatest challenges since the Great Depression of the 1930s**. Before, employment was at record lows and wages rising, now there are unprecedented unemployment rates, greater even than during the Great Depression. At the start of 2020, there was a fair wind for growth, employment, wages and poverty reduction. No longer.

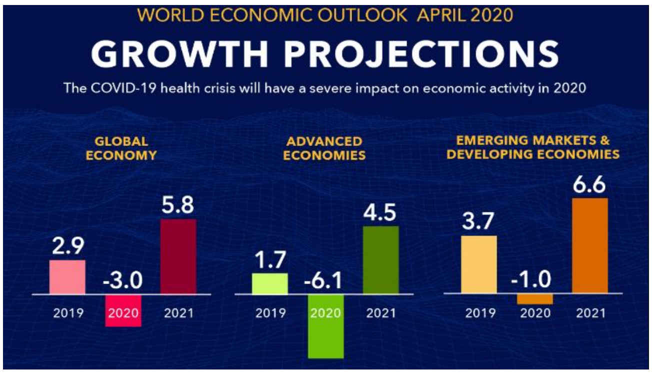
In **developing countries**, even before the outbreak of COVID-19, recent Sustainable Development Reports (2019) show that the world was not on track to attain the Sustainable Development Goals (SDGs). Certain regions, such as Africa and South Asia, where the development situation was already problematic, **will now experience greatly pronounced employment, wages, poverty, undernourishment, etc. challenges**.

In just four months, the Coronavirus / COVID-19 pandemic has spread across the world, resulting in large-scale infections, loss of life and human suffering. COVID-19 is the greatest public health challenge since the 1918 Flu Pandemic and has simultaneously precipitated a major economic crisis, triggered by the abrupt halt in production in countries all over the world, a collapse in consumption and investor confidence, and stock exchange panic due to heightened uncertainties and risk.

Unlike 2008, this was not caused by the corporate sector, financial speculators, ineffective regulation and the like. Rather, it has been engendered by **government-imposed curfews, lockdowns, social distancing measures and mass scale business closures** in order to slow the spread of the virus and protect lives. Putting people before business is absolutely correct but comes at the price of the most severe of impact on business activity, which has triggered economic meltdown across the world.

Massive Reductions in GDP and Employment

The IMF shows that the "Great Lockdown" (2020) will bring **global growth down to -3.0%**, compared with the pre-COVID-19 forecast of +3%, the most serious contraction in the post-war period. Emerging markets are expected to contact by -1.0% in 2020 which is very serious because of the lower resilience levels among such economies. **Developing regions will see variations**: Latin America and the Caribbean: -5.2%; Middle East and Central Asia -2.8%; Sub-Saharan Africa: -1.6%. The IMF´s prediction of a sharp rebound in growth in 2021, can be challenged given the uncertainties about the future, including the possibility of further economic disruption caused subsequent waves of COVID-19 resurgence and cautiousness by firms and consumers in terms of investment and spending.



Quarantines, regional lockdowns and social distancing measures to contain the pandemic curtailed mobility and **acutely affected economic sectors** that rely on social interactions (e.g. travel, tourism, hotels/restaurants/catering (HoReCa), entertainment, etc.). Widespread closures of workplaces disrupted supply chains and reduced productivity. Real or possible layoffs and wage reductions, fear of contagion and uncertainty made people spend less, triggering further firm closures and job losses.

The impact of the situation is vividly illustrated by the employment impacts. The International Labour Organisation (ILO, 2020) stresses that the employment impacts of COVID-19 are deep, far-reaching and unprecedented. As illustrated in the Table below, the ILO estimates that working hours will decline in the current quarter (Q2) by around 6.7%. This translates into about **200 million lost jobs**.

	Decline in working hours (%)	Full-time equivalent (40 hours, million)	Full-time equivalent (48 hours, million)
World	6.7	230	195
Low income	5.3	14	12
Lower-middle income	6.7	80	70
Upper-middle income	7.0	100	85
High income	6.5	36	30
Africa	4.9	22	19
Americas	6.3	29	24
Arab States	8.1	6	5
Asia and the Pacific	7.2	150	125
Europe and Central Asia	6.0	24	20
(Europe)	7.8	15	12

The ILO identifies the economic sectors suffering from a drastic fall in output as being accommodation and **food services, manufacturing, wholesale and retail trade, and real estate and business activities**. These are all labour intensive and employ millions of often low-paid, low-skilled workers which now face a severe decline in output, and thus high risk of lay-offs and furloughs. They employ 38% of the global workforce or 1.25 billion workers. Segments of **manufacturing**, which employs 463 million workers, has been hit hard, as factories close and global supply chains grind to a halt.

About **2 billion people work in the informal economy**, contributing to jobs, incomes and livelihoods. In many low- and middle-income countries the informal economy plays a major economic role but COVID-19 is affecting tens of millions of informal workers, for example in Nigeria, Brazil and India (the latter has 400 million alone) as **lockdowns risk them falling deeper into poverty**. The ILO (2018) notes that the vast majority of own-account workers and employers are informal (80.9%) in nature and that the figure is highest in Africa (92.4%) and the Arab States (90.8%). This groups tends to include the **younger and older population, the less educated, those in rural areas and men**.

Massive Reductions in FDI, Remittances and Commodity Prices

The World Economic Outlook 2020 shows that **commodity prices**, which are fundamentally important to many of the world´s economies, especially in developing countries, **have decreased sharply** since 2019. **The only exceptions are coffee, uranium and gold**. Since the COVID-19 outbreak, energy and metal prices have fallen sharply as measures to contain the pandemic, first in China and then worldwide, substantially reduced travel and dented global industrial activity. On 20 April 2020, oil prices slumped to -40$ per barrel. This is a most severe warning of the need for developing countries dependent on commodities, such as many African nations, to diversify their economies.

Other issues that are particularly problematic in a developing country context include the fact that Foreign Direct Investment **(FDI) levels are predicted to decline by -30% to -40%** in 2020 (UNCTAD, 2020). The volume of remittances dwarfs the levels of FDI and plays a critical role in poverty reduction. Yet the World Bank (2020a) predicts that **remittances to low and middle-income countries may fall by 19.7%** (Latin America: -19.3%; Middle East and North Africa: -19.6%: South Asia: -22.1% and Sub-Saharan Africa: -23.1%), a loss of a crucial financial lifeline for many vulnerable households.

Another alarming trend is the **potential for mass famine** due to lockdowns and supply chain disruption affecting prices for staple foods such as rice. According to the UN (2020a) the pandemic is **deepening pre-existing inequalities, exposing vulnerabilities in social, political and economic systems** which are in turn amplifying the impacts of the pandemic. The economic **impacts are felt especially by women and girls** who generally earn less, save less, hold insecure jobs or live close to poverty. **Gender-based violence is increasing**, with surges upwards of **25%** being reported in many countries with reporting systems in place and **doubling** in some others (UN, 2020b, p.13).

MSMEs on the Brink of Bankruptcy

There is limited comprehensive evidence of how COVID-19 impacts on the MSME sector but surveys by Business Membership Organisations and researchers point consistently to **abrupt, severe disruptions and escalating concerns on the part of MSMEs and entrepreneurs**. The evidence suggests that **over half of MSMEs face severe losses in revenues and a significant proportion fear imminent bankruptcy**, only having weeks´/months´ worth of financial reserves to withstand the COVID-19 crisis. Size matters. **Micro enterprises and self-employed are much more vulnerable** than larger enterprises. The same applies to **start-ups**, as they are new, vulnerable and need extra support to survive - around 20% die within the first year of operation. The Box below illustrates the impact of COVID-19 on MSMEs, based on selected countries.

Box 1: Illustrative Examples of COVID-19 Impacts on the MSME Sector

- **China**: one third of the surveyed MSMEs only had enough cash to cover fixed expenses for a month, with another third running out within two months. 60% of Chinese SMEs are back in business but face challenges due to reduced demand from other markets.
- **Italy**: 72% of the surveyed micro and small firms experienced a drop in demand or problems along the supply chain and/or transport and logistics. One third estimated a decrease in revenues greater than 15% and another 18% between 5-15%. The most affected firms were those in transport (98.9%), tourism (89.9%), fashion (79.9%) and agro-food (77.7%) due to a decrease in demand.
- **Ukraine**: One third experienced a reduction in revenues of 90-100% due to the lockdown and a reduction of up to half of the employees, mostly in micro firms (0-9 employees). SMEs saw a 25-50% reduction in turnover and 10-25% in staff (10-249 employees), 51% can withstand only one month of quarantine; 25% can continue for two to three months; 29% have suspended their activities for the quarantine period and 6% have already closed their business (mostly micro and small enterprises) and only 3% indicated that their business could be open for a long time.
- **Kenya:** 61% felt the effect of COVID-19 on their business. 82% of businesses reported losses of less than KES 5 million and 61% reported losses of less than 1 million KES. In the first two months of 2020, Kenya's imports from China declined by 37% and exports to China have experienced reduced demand (e.g. avocados, tea, coffee, etc.). Since 82% in the manufacturing sector either source inputs or export to China, they face the risk of supply chain disruption. Of the 18% who neither source inputs from nor export to China, 67% still face the risk of supply chain disruption since they purchase their raw materials from suppliers who do source them from China. 50% of tourism sector firms rate the extent of the impact on business activities from COVID-19 as high or very high.

Source: OECD (2020) SME Policy Responses; SUP (2020) COVID-19 Firm Survey; KEPSA (2020) Business Survey of COVID-19 Impact

Previous epidemiological shocks, such as SARS and Ebola (World Bank, 2020), show that the effects vary across sectors but access to capital is key. Most importantly, the evidence shows that **the duration of the effects goes well beyond the end of the crises**. The employment and productivity effects persist after revenues recover. This points to a need for MSME support during and after crises.

A Perfect Storm: simultaneous demand and supply shocks in all regions

The COVID-19 pandemic affects the economy, and MSMEs in particular, because of a **simultaneous demand and supply side shock**. On the **demand side**, there was an initial shock arising from China´s contraction in early 2020, followed by a wider shock to the global economy caused by lower consumer demand due to an increasing number of lockdowns, as well as the negative impact of uncertainty on investment plans. This resulted in an **abrupt and sometimes total loss of sales/revenue** (e.g. HoReCa, airlines, light industry, etc.) leading directly to acute liquidity constraints/ cash-flow problems for firms, especially the micro and small ones. At the same time, consumers experiencing a potential or actual loss of income, combined with fear of contagion and general uncertainty, further **reduced spending and consumption**. The sudden freezing of sales and receivables, combined with rapid accrual of liabilities (e.g. wages, loans, rents, taxes, etc.) led to immediate **cashflow problems**. MSMEs responded by reducing their variable costs (lay-offs, furloughs, investments,), amplifying the economic situation as well as the social consequences.

On the **supply side**, MSMEs experienced a **reduction in labour supply** (due to sickness, childcare, dependents, etc.). The various measures to contain the spread of COVID-19 (quarantines / lockdowns / social distancing / restricted movement) led to further and ever more severe **reductions in capacity utilisation**. There was a **decline in firm productivity** as workers adapt to new working hours and modalities of work that require adjustments to organizational or production processes. Simultaneously, the **supply chains were interrupted**, leading to shortages of parts, intermediate goods, etc. particularly for businesses relying on imported inputs, such as from China.

The economic impact could potentially **spill-over** into other spheres, such as the **financial markets**, further reducing confidence and ultimately leading to a credit crunch. Eventually, a **liquidity crisis** could become a wider **insolvency crisis**, resulting in widespread bankruptcies, permanent loss in human capital and reduced productive capacity. This could result in the accumulation of large stocks of bad loans, with implications for the banking sector and a potential reprise of the 2008-9 crisis.

There are two main **transmission mechanisms** of the crisis (ITC-ILO E-Campus (2020) Supporting SMEs during COVID-19). The **external mechanism** is the reduction in external demand for commodities, goods and services, the disruption in the value and supply chains, as well as logistical networks, and the reduction in the financial flows that lubricate business activity. It **affects mostly medium and large firms**. The **internal mechanism** is the direct result of the freezing of all non-essential economic activity and enforced lockdowns. It **affects the entire enterprise sector** (except essential goods and services such as groceries and pharmacies) but **especially the micro and small firms, including the self-employed, family and informal entrepreneurs**. Lack of income for even one week can potentially push the latter below subsistence levels and into poverty. The transmission mechanisms operating at the same time is the perfect storm, greatly amplifying the impact of crisis.

Unprecedented Supply and Value Chain Disruption

Disruption in the global supply and value chains is particularly important for developing countries such as Mauritius, Cambodia, Morocco, Kenya, Nigeria, etc. where the dominant transmission channel is the external one, namely the **reduction of export demand**. Export-oriented sectors normally comprise large as well as medium-sized enterprises, typically organised around clusters and production networks. An **abrupt fall drop in demand and/or disruption in the supply of inputs is rapidly felt throughout the production network**, resulting in a cash-flow crisis for the value chain.

In response to travel bans, school closures, social distancing and employees being forced to work at home, companies increasingly recognise the benefits of **fast-tracking digital transformation** and are rethinking their business model. This is not just about increasing productivity and staying ahead of competition. It is a matter of survival. There are many examples of this, such as restaurants using the internet to deliver and firms in the service sector using tools such as MS Teams and Zoom to continue operating with even a gain in productivity. The **costs and barriers of changing business models**, such as a shift to teleworking, may be **relatively higher for MSMEs** given their smaller size, financial, human and management capacity, as well the relatively low level of digitalisation and difficulties in accessing and adopting new technologies. The level of digital adoption by MSMEs has been quite low but COVID-19 has the potential to turbocharge the process. The same applies to other areas, such as **decarbonization, technology transfer, innovation**, etc. and are addressed in part three of the guide.

From an economic development perspective, the key entrepreneurial / MSME target groups to support include the **informal sector, self-employed, micro and small firms in particular sectors of activity**. Many types of support measure exist, including grants. These are discussed next.

3.0 MSME Support Measures

1-3 Year MSME Crisis

The previous section described the **"perfect economic storm"** for most, if not all, economies: supply and demand constraints, mass enterprise closure and rapidly increasing unemployment, and all at the same time and in all regions of the world. In the absence of a vaccine, which could take around 18 months to produce and longer to disseminate, **it is not possible to assume a rapid return to the status quo ante**. Countries that appear to be past the first COVID-19 peak (e.g. China, South Africa, Germany, etc.) are planning **phased relaxations instead of business as usual**. Without a COVID-19 vaccine, **multiple waves of pandemic-related disruption** are likely due to a lack of mass testing, tracing and follow-up systems. Further lockdowns (probably localised, regional and occasionally national) are likely and **on-going economic disruption is almost guaranteed for the next 3 years**, combined with recession, high unemployment and greatly reduced consumer / business confidence. Since national debts are increasing exponentially, a possible return to austerity cannot be ruled out.

COVID-19 impacts all firms but the **effect on MSMEs is especially severe** due to higher levels of vulnerability and lower robustness, related to size and informality. MSMEs are bearing the brunt of the reduction in global demand for products and services. **MSMEs are also less resilient** in responding to the costs and opportunities (e.g. digital transformation, going green, etc.) that shocks entail. If production is reduced or stopped, the costs of **underutilised labour and capital weigh much heavier** on MSMEs than on large firms and it is harder for them to gain relevant information, support or develop business strategies to diversify or moderate the shocks. They have more **limited resources and capacities**, yet face **greater obstacles in accessing capital** and so **can survive the shock over a shorter period**. This is especially the case with start-ups and informal activities.

There is a **high risk that large numbers of otherwise viable MSMEs will go bankrupt** during the lockdown period or soon afterwards, especially in the informal sector since they may also not be eligible for any state support for MSMEs and entrepreneurs. The **social and economic costs of letting SMEs go bankrupt are, almost certainly, going to be higher than the costs of well-designed and targeted MSME support measures**.

Typology of MSME Support Measures

Since January 2020, support for MSMEs during the crisis has been evident in developed countries (OECD, 2020) but this does not apply to almost all **developing countries**, where the **response has been slow and patchy**. The national priority has inevitably and rightly been to direct funds and other forms of emergency support to ensure that public health systems are not overwhelmed and infections / deaths are minimised. However, **no economy can survive for long without a private sector operating and paying salaries and taxes**, without which there can be no public expenditure.

Countries are in the process of rapidly, if idiosyncratically, creating a multiplicity of measures to support MSMEs. The **aim of this guide** is to be **a starting point for the provision of advice** for/by the GIZ Sectoral Department and field staff implementing MSME programmes and projects around the world, **on how to respond to COVID-19** in the form of a succinct, simple and practical document. The **Tables below** present a **typology of MSME measures** covering the following four themes:

- Boosting Demand and Preserving Value Chains;
- Accessing Finance;
- Protecting working capital / liquidity;
- Protecting Jobs and Employment.

The emphasis is to **present a range of measures that could support MSMEs** as the COVID-19 crisis unfolds, since practitioners need a **starting point in terms of what is possible to do**. The tables highlight **measures, objectives/policy intentions, implementers, type of enterprise** and attempt to classify the measures, in a very approximate manner, in terms of **cost intensity**.

Table 1: Typology of Demand Boosting and Value/Supply Chain Preserving MSME Measures

Measures	Objectives/policy intentions	Implementers	Type of Enterprise (target group)		
			Informal	MSMEs	Cost Intensity
Supporting demand for certain sectors or activities	Some may provide support to strategic, hard-hit, green, employment-rich, etc. sectors or sub-sectors. This can include incentives or promotional campaigns to attract clients in the aftermath of the virus, as well as training and upskilling of the workforce. These can be complemented with measures to provide liquidity to MSMEs or help them negotiate loan repayments with their banks. For example, **Iceland** provides those aged 18+ with a travel voucher to be spent for travelling inside the country as part of a campaign to encourage Icelanders and attract international tourists after the crisis. **Australia**, as part of its coronavirus stimulus package against job and investment losses, has tax deductions for commercial and industrial solar PV and firms are able to instantly write-off solar system assets. This gives businesses the incentive to purchase and install green equipment, while also securing continued demand for SMEs that are in the business of installing solar panels.	National, Regional and Local authorities, BMOs/BSOs, MSMEs, donors, IFIs		X	Medium
Boosting demand through public procurement	Governments can boost SME demand by giving them improved access to the public market, which comprises a significant portion of national GDP. MSMEs can be supported to bid on public tenders, minimising barriers for them to bid (e.g. size criteria), reducing bureaucracy or fast-tracking urgent supplies. Invest **India** has launched the Business Immunity and Covid-19 platforms to facilitate businesses to combat the crisis by connecting suppliers of essential commodities to prospective buyers since the demand for medical devices and equipment (e.g. masks, sanitizers) etc. is rising. **China** has provided direct support to companies that could produce medical and protective equipment's (ventilators, masks and other reusable items,) that are needed urgently. **Colombia** has made it easier for SMEs to bid and deliver medical materials. Some are abolishing penalties to SMEs for failure to comply with contracts concluded under public procurement during the crisis, while others are obliging public institutions to pay their bills to SMEs on time.	National, Regional and Local authorities		X	Low
Supply and value chain support	Governments may actively support enterprises that are facing disruptions to their supply / value chain. For SMEs highly dependent on external suppliers, the identification of local providers can be a solution. Business Support Agencies may help connect supply and demand, for instance through electronic platforms (marketplaces and B2B meetings), thereby increasing the use and exchange of products and knowledge. Collaborations can be stimulated through incentives, emergency funds, information and advice, and support for transfer of technology and know-how. **China** is encouraging large enterprises to cooperate with SMEs by increasing their support in supply chains, in terms of loan recovery, raw material supply and project outsourcing.	Business support agencies, BMOs/BSOs, NGOs, MSMEs		X	Medium
Acceleration of digital transformation	Governments may help SMEs to use digital tools in order to adjust their business models and processes in order to generate new products and services that can be developed and offered on-line. Social distancing has forced many MSMEs to develop digital business solutions from websites to on-line orders and take away in restaurants or shops to e-learning on non-traditional on-line topics, such as playing an instrument, handicrafts or languages. The crisis has accelerated the pace of digital entrepreneurship and some countries have been actively providing their MSMEs with solutions for shifting to the digital economy. **Argentina** has passed various measures including support to digitalise SMEs to facilitate teleworking. **China** has introduced subsidies for training and purchasing teleworking services, as well as accelerating the digital transformation of MSMEs. In **Mexico**, Fintech initiatives are being developed to support SME finance in the context of the crisis. The **Malaysia** Digital Economy Corporation, set-up by the government as part of the country's digital strategy, offers an extensive list of digital solutions for SMEs by Malaysian tech companies.	BMOs/BSOs, NGOs, MSMEs, donors, IFIs		X	Low
Direct support for teleworking and smart working	Employers are responsible for their employees´ physical health and safety, as well as their mental well-being, regardless of the location of work. SMEs should develop guidance on working from home to provide advice to workers. Government may support SMEs to introduce smart working conditions, provide free internet connections, increase bandwidth, deliver grants, loans for laptops, software, programming, training, etc.	National, Reg and Local authorities		X	Low
Involving SMEs in direct relief programmes	Countries that are obliged to impose a lockdown on vulnerable communities in order to contain the spread of the virus, may resort to direct relief programmes, ensuring that people have enough water, food and basic sanitation. When providing communities with essential products and services, there is a need to ensure that SMEs are used as providers. Local bakeries, farms, food processors and producers of sanitary products could experience a substantial boost in demand, especially if local governments prioritise procurement of products and services.	National, Regional and Local authorities		X	Low
Supporting continuity	Another measure to consider is supporting SMEs in business continuity management. Business disruptions can impact firms of any size in any location. Events connected with weather, power outages, political events, electronic or other virus outbreaks, etc. happen and firms must ensure that it remain productive while maintaining the necessary level of security and control over resources. It helps MSMEs stay afloat during the present crisis and it will mitigate future problems during other types of crisis. **Ireland** supports business continuity preparedness.	National, Regional and Local authorities		X	Low

Information and signposting	During the crisis, MSMEs should be aware and able to access the measures available. This could include a range of information activities from the drafting of guides, manuals and awareness materials, web-based information portals to more sophisticated initiatives, such us administrative support to signpost or general business advice on what solution could fit according to the nature of the business activity.	Local authorities, BMOs /BSOs	X	X	Low
Boosting supply and supporting value chains in the aftermath and in the medium term	Once the first phase of the crisis is over, SMEs will go through a recovery period. Some SMEs will be recently closed, others will be very weak and, in many cases, they will have accumulated debts. During the recovery phase, it is important to boost demand and support certain sectors/ sub-sectors or supply/value chains, for instance through promotional campaigns (tourism, transport, HoReCa, etc.), programmes supporting SMEs to look for new business models, processes and markets. Some may implement public investment programmes (light infrastructure rehabilitation, construction or re-adaptation of tourism and health facilities, new equipment, etc.) targeting MSMEs. Some may invest in the construction of energy efficient housing, renovation and greening of infrastructure. These need to be done in a sustainable manner in order not to distort the market but they can create jobs for local communities and sustain local MSMEs. During the recovery phase, some may seek to diversify the economy and boost strategic sectors or new processes among MSMEs (e.g. targeted measures for accelerating the digital transformation of companies, looking for new markets or new products/services). In **South Africa**, the Business Growth or Resilience Facility aims to enable continued participation of MSMEs in supply value chains, in particular those who manufacture locally or supply various products that are in demand, emanating from the current shortages due to COVID-19 pandemic.	National, Regional and Local authorities		X	High
Promoting firm innovation and productivity growth	There is a need to create or refocus SME support programmes and projects to promote firm and productivity growth, such as incentives for worker training, management training, Business Development Service use, technology adoption / transfer, incentives for investment in innovation and export. Tax deductions (e.g. 80% of expenses) up to a maximum limit (could be per firm based on turnover / employees) would deliver the necessary incentives. **China** encourages SMEs to engage in the innovation of technologies and products related to pandemic prevention and control.	Programmes, projects, BMOs/BSOs	X	X	High
Build business resilience	Forward-looking advice/guidance to support business resilience is important. Queensland, **Australia**, has created a mentoring programme and financial workshops to assist small companies to address further impacts on their businesses. **Belgium** has opened up existing instruments to support SME growth to help companies find new markets where demand from existing markets has slowed due to the outbreak. **China** has introduced measures to foster the adoption by enterprises of new technologies, business practices and business models.	Local authorities, BMOs /BSOs	X	X	Medium
Intermediate inputs/final goods	It is possible to reduce import restrictions (Non-Tariff Barriers, duties, etc.) on intermediate goods and on essential goods (e.g. agriculture, food, and medical materials). **Brazil, India and others** have temporarily reduced tariffs on various medical supplies.	Customs authorities		X	Low
Vouchers to MSMEs	Demand-side vouchers are light-touch public interventions aimed to nudge MSMEs to acquire many forms of services (creative services, research and development, business consulting, training, etc.) and thereby overcome systemic business constraints. They are characterised by lean administrative procedures and financially limited in scope. A voucher is issued by an intermediary organisation (funds, Regional Development Agency, etc.) and signals a commitment to reimburse the beneficiary MSME or the provider of the business service. In some schemes, MSMEs contribute a share of the costs of the voucher to strengthen their commitment to the collaborative project. In **Ireland**, Local Enterprise Offices provide vouchers of EUR 2,500 - EUR 10,000 with match funding for innovation, productivity and business continuity preparedness. Vouchers are a variant of grants discussed below.	Regions, municipalities, cities, projects, programmes, BSOs, NGOs, etc.	X	X	Low
Grants to MSMEs	The countries that have the financial capacity to do so offer grants to MSMEs affected by the crisis. Some grant schemes allow businesses to use the grant money as working capital to support payroll expenses, rent, mortgage payments, utility expenses or other expenses. Other schemes are conditional on the enterprise making certain investments. In the **UK**, the Small Business Grant Fund allows eligible firms to receive £10,000 and the Retail, Hospitality and Leisure Grant allows firms to receive up to £25,000. There are various non-refundable grants in **Germany**, such as 1-off grants of up to EUR 15,000 processed through the various states, which also have their own grant programmes. In **Turkey**, firms producing disinfectants, medical masks and other protection material for health workers will receive a grant of 6million TL by firm. In **Chile**, an existing programme of targeted subsidies to firms undergoing hardship will be extended to firms in the tourism sector. This paper addresses below the issue of making grants to MSMEs.	DBs, regions, municipalities, cities, projects, programmes, BSOs, NGOs, etc.	X	X	Medium
One-time support to formalise / help self-employed	An important policy objective is to assist informal enterprises / employees to formalise. A one-time grant for informal businesses that decide to formalize would help in this respect. Once formalised, other forms of support may also be available to such enterprises, thus creating additional incentives to formalise. A variant is a one-time income support transfer for the self-employed to reduce the effect of firm closure.	Projects, programmes, BSOs, NGOs.	X		Low
Reduce costs of ATMs, credit cards, mortgages, remittances, etc.	Various forms or small scale support have been introduced to reduce costs of obtaining small sums. The Central Bank of **Egypt** gave SMEs a six-month extension for credit repayments and cancelled ATM withdrawal fees for the same period. Commercial banks measures in the **UK** include mortgage holidays, 12-month capital repayment holidays for SMEs with existing loans above GBP 25000, refunds on credit card cash advance fees, temporary increases to credit card limits, and a suspension of borrowing fees.	CBs / BNFIs	X	X	Low

Table 2: Typology of Accessing Finance MSME Measures

Measures	Objectives/policy intentions	Implementers	Type of Enterprise (target group)		
			Informal	MSMEs	Cost Intensity
Reduce interest rates	Central Banks (CBs) may temporarily reduce base interest rates in order to make loans cheaper for Financial Institutions (FIs e.g. banks) and Non-Financial Institutions (NFIs) such as Micro Finance Institutions (MFIs) and hence also for businesses, such as those that have already taken out the loans. This helps businesses but lower monetary policy rates do not necessarily automatically translate into improved access to finance for SMEs. Central Banks may take additional measures to incentivize Financial Institutions (FIs) such as Development Banks (DBs), Commercial Banks (CBs) and others to keep lending to the targeted clientele (see next measure). For example, the CB of **Chile** reduced the interest rates from 1.75% to 1% in March. The Reserve Bank of **South Africa** cut the rate from 6.25% to 5.25%. Bank **Indonesia** cut interest rate by 25 basis points.	Central/Development Banks (CBs/DBs) / Financial Institutions (FIs), etc.		X	Medium
Banking regulatory changes	Financial Regulators have options at their disposal to incentivize banks to keep operating in the times of crisis. They may temporarily relax reserve requirements, affecting loan restructuring or bad debt provisions, reduce the capital adequacy rates for CBs and adjust liquidity management regulations. Other measures can affect ways of operating, for example, allowing usage of digital signatures, remote approval of credits, temporary easing of regulatory limits on mobile transactions, etc. Bank **Indonesia** lowered the rupiah reserve requirement ratio by 50 bps for banks involved in financing SMEs.	Financial regulators / DB / CBs		X	Low
Soft or zero interest loans	Governments may introduce direct financial support to SMEs, such as new credits granted by public development banks (**France**), zero-interest loans with no collateral (**Japan**), reducing the time required for banks to provide credit approval (**Israel**), sectoral support, especially for the tourism industry (e.g. **Chile and Indonesia**), etc. **Germany** is supporting through existing and new liquidity assistance, including COVID-19 loan programmes by Kreditanstalt für Wiederaufbau (KfW), Economic Stabilization Fund' (ESF) and regional programmes. The state-owned Federal Savings Bank of **Brazil** is extending USD 14.9 billion in credit lines to SMEs for working capital, etc. and has also cut interest rates on some types of credit and offered clients a grace period of 60 days. **Argentina, Columbia, Chile, India** and other developing countries have followed suit with direct lending to MSMEs.	DBs / CBs / Micro Financial Institutions (MFIs), etc.		X	High
Credit guarantees	Governments may increase the volume of guarantees provided by state-funded credit guarantee schemes. They may also reduce the collateral requirements, adjust the grace period for interest rates, establish lending quotas and simplify and accelerate the credit guarantee approval process. Alternatively, they may back-up available lines of credit to financial service providers through short-term liquidity guarantees providing that they increase their SME loan exposure, suspend principal repayments, expand existing credit lines or provide additional loans at a low/no interest. The rate and speed of take-up needs to be monitored closely. For example, the **UK** is offering GBP 330 billion of guarantees for up to 80% of loans, possibly to be increased to 90%, as in the case of **Germany**. Others. Such as **Columbia and Costa Rica**, have also introduced guarantee schemes.	DB / CBs / MFIs, etc.		X	Low
Liquidity support to financial institutions	Governments, such as the **Chinese** one, may provide liquidity support to commercial banks and other financial institutions. Liquidity injections may not automatically translate into improved access to finance for SMEs, such as in countries with a shallow financial market. It is necessary to design the rules for commercial banks and other financial institutions and monitoring progress closely.	CB / DB / CBs / MFIs, etc.		X	Low
Role of Credit Bureaus (CBus)	As companies' defaults increase during the crisis, their financial records in Credit Bureaus (CBus) are damaged, impeding their access to finance. Even if credit is available via commercia banks, it may be inaccessible to a large number of SMEs that are "blacklisted" in CBus. Governments may impose temporary moratoriums on negative reporting. If a client defaults on their loan during this period, this information will not be reported by CBus. It may, however, lead to inaccurate credit data and loan decisions, ultimately resulting in higher interest rates.	in Credit Bureaus (CBus) / CBs		X	Low
Role of Non-Bank Financial Institutions (NBFIs)	Non-Bank Financial Institutions (NBFIs) such as MFIs, financial cooperatives, credit unions or similar institutions catering to the MSEs play a key role in channelling funding to the most vulnerable populations and the smallest operators. For example, MFIs serve 140 million low-income people worldwide with savings and credit services. So, it is critical to keep MFIs and credit cooperatives solvent, enabling them to keep reaching micro and small enterprises, including informal ones. MFIs may be heavily affected since their target groups are typically the population segments which are most affected by the crisis. These FIs provide proximity services to communities so are impacted by travel restrictions, workers' sickness, security issues and related disruptions in the collection and disbursement of loans. Support policies should emphasize helping MFIs / credit unions and cooperatives to remain solvent during recovery, establish specific credit lines or other type of guarantees for MFIs, as well as creating support facilities. **Russia** is increasing subsidies to regional MFIs.	Non-Bank Financial Institutions (NBFIs) / Credit Unions / Cooperatives, etc.	X	X	Medium

Table 3: Typology of Working Capital / Liquidity Preserving MSME Measures

Measures	Objectives/policy intentions	Implementers	Type of Enterprise (target group)		
			Informal	MSMEs	Cost Intensity
Tax waivers / remissions / exemptions	To help MSMEs to protect their capital or liquidity, governments may introduce tax exemptions for the whole economy or for business of a certain size, certain sectors of the economy, etc. Certain types of tax exemptions also have the virtue of boosting demand for certain products. **Germany**'s Federal Ministry of Finance and the federal states are helping taxpayers who are significantly affected by deferral of tax payments (e.g. Personal and Corporate Income Tax) due by 31 December, reductions of certain tax advance payments by the end of 2020 (e.g. PIT, CIT and trade taxes), temporary waiver of enforcement measures until the end 2020 and remission of late-payment penalties from 19 March 2020 until 31 December 2020. In **India**, the date for filing income tax returns for 2018-9 was extended from 31 March to 31 June 2020 and a similar extension applies for the Goods and Services.	Tax authorities		X	High
Deferred tax payments	Businesses may be allowed to file and pay their taxes at a later date. The deferments may relate to Value Added Tax, to income tax and/or to other types of taxes. It does not mean that taxes do not need to be paid. Business owners will be obliged to settle these amounts after the end of the deferment period, often in a number of instalments. For example, **Guernsey** has deferred the payment of tax on real property for the remainder of 2020 for certain businesses. In **Norway**, advance tax payments for self-employed persons due on 15 March 2020 have been deferred until May and the date for payment of Value Added Tax for the 1st VAT term has been deferred to 10 June 2020.	Tax authorities		X	Low
Tax credits	Businesses may be allowed to subtract a certain amount of money from the amount of taxes they owe to the tax office. Tax credits can be used to incentivise certain business decisions, such as investment, compliance with certain standards or the greening of business. **Italy** has announced tax cuts as well as tax credits for companies that report a 25% drop in revenues. **Tunisia** has reduced refunding of tax credits to a maximum of one month.	Tax authorities		X	Low
Accelerated depreciation	Business may be allowed to register greater deductions in the earlier years of the life of an asset they purchased for income tax purposes. When a business buys an asset, it can depreciate the assets for tax purposes at a faster rate, reducing the amount of taxable income early in the life of an asset. **Australia** is accelerating depreciation deductions by introducing a time limit of 15 months, as an investment incentive.	Tax authorities		X	Low
Waivers for outstanding fiscal debts	Businesses may have their outstanding debts with the tax office waived, together with outstanding penalties and interest rate payments: This measure recognises the fact that MSMEs worldwide may have had outstanding debts with the tax office, even before the crisis began. Governments may waive a percentage or the full amount of debts for a certain type of enterprise, together with penalties and interest rate on late the payments of tax obligations. Countries that have introduced these include **Poland, Russia, Switzerland, Pakistan**, etc.	Tax authorities		X	Medium
Tax deductions	Business may be allowed to subtract certain expenses from gross income, thereby reducing taxable income. Deductions are typically expenses that the business incurs during the year, that can be subtracted from gross income before taxes. The difference between tax credits and tax deductions is that tax credits can be deducted from the amount of taxes to be paid, while tax deductions can be deducted from the amount of taxable income. **China** has issued tax deductions on donation expenditure, tax exemptions on specific imported materials and facilitated measures for tax administration and collection.	Tax authorities		X	Low
Acceleration of tax refunds	Tax offices pay tax refunds to business faster than they normally do. This usually refers to VAT credits in particular, but it may also involve refunds on income tax and other types of tax credits. **Greece** has accelerated tax refunds of amounts not exceeding €30,000. **Latvia** is also helping entrepreneurs.	Tax authorities		X	Low
Tax reductions	Business pay a lower tax rate, for instance on income tax. Tax reductions may come in the form of a decrease in the Corporate Income Tax rate or an increase in the income threshold for which a lower tax rate applies. There are many variants. On 25 February 2020, **Hong Kong** announced a reduction in Profits Tax by 100%, subject to a cap; **Thailand** has reduced the Withholding Tax from 3% to 1.5%; **Chile** has a Stamp Tax of 0% until September 2020.	Tax authorities		X	Medium
Property tax relief	Business rates (annual property tax) are paid if MSMEs use a building for non-domestic purposes (e.g. shops, offices, pubs, warehouses, and factories). The **UK** is helping business the maintain their liquidity by introducing a 100% discount to business rates in 2020 for retail, leisure and hospitality properties and venues in England. **Singapore** has introduced a rebate on property tax for selected enterprises.	Tax / local authorities		X	Medium
Registration, Licenses & Permits	Some countries waive the cost of operating licenses and other costs related to business registration. These measures are very useful and need to be coordinated with local governments, that are often responsible for certain licenses at the local level. For example, Nova Scotia, **Canada** has deferred small business renewal fees until June 2020, including business registration renewal fees. **Singapore** has waived various license fees e.g. hotels, travel agents and tourist guides. **Sri Lanka** has extended the deadline for renewal of driving licenses until 30.04.2020.	Local authorities		X	Low
Utility payments	The government may announce measures to support small businesses by providing subsidies to cover rent and utility payments, as well as waive or delay	Utility firms,		X	Medium

reductions and protection	payment. For example, the deadline to pay utility bills may be extended, such as in **Belgium**, which is considering a waiver of utility payments. **India** is considering allowing a grace period of 30-60 days for utility payments for affected industries and **Sri Lanka** extended the deadline to pay utility bills until 30.04.2020. **France** has deferred rents, water, electricity and gas bills for MSMEs eligible for solidarity funds financed by the State and the Regions.	National, Reg and Local authorities			
Rent reductions and protection	Under exceptional circumstances, such as events having a harmful impact on economic activity such as MSMEs experiencing temporary financial difficulties, the government may introduce rent waivers, reductions or subsidies, since these are a significant fixed cost for micro and small enterprises. **Thailand** plans a reduction of rental fees for state property. **China** has included short term measures to address liquidity shortages and financing difficulties such as reducing rents. **Vietnam** is planning a decree on deferral of the deadline for paying land rental fees.	National, Regional and Local authorities		X	Low
Amend insolvency framework	Urgently amending the insolvency framework with temporary measures can facilitate the ongoing operations of MSMEs to stop them going into liquidation. For micro and small businesses, increasing the debt threshold required for a creditor to initiate bankruptcy proceedings against a debtor or limiting access in modern personal bankruptcy systems to a debtor's petitions alone, for a fixed time period, will prevent the system from becoming one of debt collection during a pandemic and control the number of cases entering the overburdened court system. Ensuring that there are flexible options for repayment plans and debt rescheduling is particularly important during periods of uncertainty. **Italy**´s "Liquidity Decree" loosens insolvency proceedings.	Financial regulators		X	Low
Public procurement, contracts and payment delays	Some countries introduce measures on the timely payment to MSMEs in government contracting, public procurement and contracts with private companies at large. Timely payments to SMEs by their clients is a topic of great concern to MSMEs worldwide and more so in times of crisis. Since timely payment of public purchases and contracts is under the control of the Government, this should be the first area of attention. Some countries have passed legislation on timely payments by the private sector. **New Zealand** is asking customers to pay their bills to small businesses within 10 days. **Israel** is promoting local procurement by encouraging residents to buy from local SMEs by local authorities, through investments in marketing within the community, **South Korea** is simplifying procurement processes by limiting on-site inspections and **Poland** is abolishing penalties for failure to comply with public procurement contracts. **France** and **Belgium** have suspended penalties for payment delays on government contracts.	National, Regional and Local authorities		X	Low

Table 4: Typology of Job Protecting MSME Measures

Measures	**Objectives/policy intentions**
Extended sick leave benefits	Governments may adjust their social security system to allow for extended sickness benefits for sick, quarantined or self-quarantined workers during the outbreak by using existing social security schemes to allow workers to claim benefits beyond the normal maximum of sick leave days.
Deferred social security payment	Governments may extend the payment deadlines for social security contributions and/or offer instalment payment options for these contributions. Social security payments are deferred without interest or penalties without negative impacts on the social security benefits of the workers.
Partial unemployment benefits	Governments may offer partial unemployment benefits to workers whose hours have been reduced due to low of non-existing demand. This allows individuals who are employed for less hours than normal to collect unemployment benefits compensating fully or partially for their lost income. The purpose is to encourage employers to avoid layoffs by reducing the number of regularly scheduled hours of work for all, or a group of, individuals during disruptions to regular business activity. The support measures may also involve subsidies to help enterprises comply with their social security contributions for workers.
Work-sharing programmes	Work-sharing programmes are designed to help employers and employees avoid layoffs when there is a temporary reduction in the normal level of business activity that is beyond the control of the employer. These usually provide income support to employees involved in work-sharing arrangements. Work-sharing are three-party agreements involving Governments, employers and employees over a specified period of time.
Unemployment benefits	The above may be complemented by measures addressing the situation of unemployed workers, including elements of labour intermediation, training and subsidies for hiring workers. Some may target youth, women, migrants or vulnerable groups. Some governments may implement subsidy schemes for hiring young workers, which have a positive impact on SMEs in addressing labour demand and easing recruitment burdens.
Self-employment / programmes	Governments may offer self-employment and entrepreneurship programmes in the aftermath of a crisis. These programmes may be anchored in microfinance, without considering the need for business development services, training, technical assistance and support in business formalization. Without a comprehensive approach, there is a risk of swelling the ranks of informal micro-businesses.
Skills training	The period of stoppage and slowdown is a good opportunity to invest in human resource capacities, supporting re-skilling and up-skilling of workers, thereby boosting productivity and resilience of MSMEs in the longer term. Measures may include providing subsidies to MSMEs for workers' participation in training, free online trainings, strengthening and adapting national training systems to the needs of MSMEs, perhaps with a territorial and sectoral perspective. It is important for SME stakeholders to be engaged in the design of these skill development programmes.
Informal economy	Most of the above-mentioned measures to protect employment in SMEs exclusively support formal enterprises whose workers are duly registered with the relevant labour and social security authorities. Countries with a large informal economy, may not be able to protect jobs through these kinds of measures. They can opt for immediate relief measures such as cash transfers or in-kind benefits/vouchers/targeted cash transfers/one-off cash payments, etc. for people to receive food, medical care, creation of temporary employment/public works schemes, etc.

However, it is **neither an exhaustive list of measures nor prescriptive** about the application of the measures. **Each country is unique** in terms of the severity / phase of pandemic, the economic and financial scope, the quality of the implementing institutions, the degree of integration in the global economy, the sectoral, regional and local characteristics and multiple other factors. There will be competing pressures for limited state funding, however, measures that preserve and maintain the private sector and especially the productive sector will be a priority. **The same logic applies for the GIZ programmes / projects** being implemented: the objective, components, activities, outputs, resources, timeline, etc. of each project and programme activities are unique, as are the context, institutions, people, etc. Therefore, **it is up to each project manager to decide what makes sense**.

The Outbreak and the Recovery Phases

Nevertheless, it is useful to **distinguish two phases** in terms of the impact and policy responses in support of private sector firms in the context of the COVID-19 pandemic (World Bank, 2020b):

- *Phase I Outbreak*: countries are mostly at this stage and current scenarios assume that this phase could last **six months** until the spread of COVID-19 is contained, although this is subject to the epidemiological evolution of the virus, which will vary from country to country;
- *Phase II Recovery*: this concerns the challenges that firms will face once the epidemic is contained and economic conditions gradually return to their pre-crisis level. Mobility restrictions and mandatory lockdowns are gradually removed, allowing businesses to reopen. All firms, especially the informal ones, self-employed and micro, will have be facing the **risk of insolvency and the credit markets, supply chains and worker productivity will recover only gradually**. Most scenarios assume that Phase II extends for **18+ months** after the outbreak is contained.

Two points are worth making about the *Outbreak Phase*. Firstly, measures to **provide urgent liquidity, preserve human capital and retain productive capacity** are the top priorities during this time. Key considerations in providing support are that it must be **rapid, transparent and time-bound** to mitigate the impact of an unforeseen disruption, with a **focus on keeping viable firms alive and retaining jobs**. Secondly, **informal entrepreneurs** and MSMEs are highly dependent on social networks and family and community-based financing, and many of them are women-owned. They may be harder to reach but they **must not be forgotten** in the palette of MSME measures to be developed.

There is an **increasing number of examples of MSME measure**s as countries develop instruments suitable to their individual context, albeit mostly in developed countries. We refer the reader to the following sources for information about the nature, content and structure of possible measures:

- OECD SME Policy Responses;
- ITC-ILO E-Campus Supporting SMEs during COVID-19;
- LexMundi COVID-19 Government Support Measures;
- IMF Policy Responses to COVID-19.

The situation is highly fluid and rapidly changing. New initiatives are being announced daily and project managers will wish to explore the full palette of possible measures that might apply. We also refer the reader to **Annex 1** for further information **sources, toolkits, webinars**, etc.

The rest of this guide presents issues for consideration in the **selection and targeting** of support to MSMEs, as well as the application of **grant and voucher schemes** in support of SME development.

Targeted Support to MSMEs

The process of supporting MSMEs should be **as simple as possible** during the *Outbreak Phase* and **gradually evolve** during the *Recovery Phase* by considering changing circumstances and firms' characteristics. Targeting should **focus support to the firms most affected and more deserving** since resources are scarce and firms are supported in line with their immediate needs, given the short-term effect of the shock. Much depends on the context, as well as the policy intentions of the support to be provided to the MSMEs but **emphasis** could be placed on the following:

- **Informal enterprises**: few or no reserves; most likely to be forced into debt/poverty/destitution;
- **Start-ups/young firms**: less able to handle shocks; barriers to access support; high potential;
- **Self-employed**: few reserves; often in a precarious economic situation; limited access to support;
- **Micro family enterprises**: 2-4 weeks´ financial reserves; significant job/wage/family impact.

Cross-cutting target groups should be **women, youth and vulnerable groups**, due to the barriers faced, such as availability of capital, access to finance, level of human capital, social position, etc. Medium-sized firms (up to 249 employees), high-growth and large enterprises would not be prioritised during the *Outbreak Phase* by programmes and projects, unless this is their specific target group. These require customised, medium-term interventions supplemented with major funding and specialist technical assistance. They are normally supported by national/IFI/development bank initiatives.

Whenever possible, **the focus should be on the (sub)sectors most affected** by the COVID-19 crisis. The Diagram below illustrates those sectors by region, informality, etc.

Note: Sectors considered at high risk of disruption are accommodation and food service activities; manufacturing; real estate, business and administrative activities; and wholesale and retail trade, repair of motor vehicles and motorcycles.

Source: ILOSTAT, ILO modelled estimates, November 2019; ILO, *World Social Protection Report 2017-19*; ILO, *Women and men in the informal economy: A statistical picture*, Third edition; and European Centre for Disease Prevention and Control.

The sectors most at risk are generally **accommodation and food services, segments of manufacturing, wholesale and retail trade, and real estate and business activities**. They are labour intensive and employ millions of often low-paid, low-skilled workers, particularly in **accommodation, food services and retail**. Segments of manufacturing have been hit hard by quarantine, factory closure and global supply chain disruption, such as **automobiles, textiles, clothing, leather and footwear**. **Transport and warehousing** are also affected, in addition to the airline industry. The **Arts, Entertainment, Recreation and Other Services (including tourism)** sector also falls into the medium to high risk category (see ILO, 2020). It is possible to analyse the most affected (sub)sectors in a country / region / local level through a combination of quantitative and qualitative means, such as **official statistics, surveys, discussions, focus groups**, etc.

In the *Recovery Phase*, there should be a shift to helping firms **return to their pre-crisis production and employment levels** and set the foundations for **longer-term and productivity-driven growth**, including addressing **pre-crisis constraints** on firm development. Credit and tax support, as well as technical assistance measures should be focused on improving the **business environment and investment climate, promoting investment and reactivating supply and value chains**. Measures should be geared towards **economic diversification, promoting use of Business Development Services, assisting growth in productivity, export, innovation, technology transfer**, etc.

Scope to Promote Specific Activities

The COVID-19 crisis creates **scope to rapidly promote certain activities** that are consistent with achievement of the Sustainable Development Goals (SDGs), such as the need to promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all (SDG 8), build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation (SDG 9) and take urgent action to combat climate change and its impacts (SDG 13).

Three issues are worth highlighting in relation to new opportunities arising from the COVID-19 crisis:

- **Digital transformation**: the outbreak and rapid spread of COVID-19 is an unprecedented challenge to MSMEs. However, it has spurred rapid and mass adoption of new business models via collaboration tools, video conferencing, e-commerce delivery and payment, and cybersecurity. There is much scope for business innovation, such as direct marketing and reaching customers, as well as new solutions (virtual events/classrooms, community help, etc.). The target groups need financial and technical support to fine-tune or create new business models via simple and low cost solutions, such as websites / Facebook pages, linkage to local delivery platforms (e.g. taxi apps), and low cost marketing and advertising using social media;
- **Innovation and technology transfer**: the crisis is forcing MSMEs to utilize technology in order to adjust to new market conditions, overcome diseconomies of scale and produce innovations which enable differentiation from competitors. MSMEs have limited resources and capacities to absorb the costs and risks associated with in-house technology development but can make use of technology transfer to reap benefits, including from innovation. These can be supported by policies and tools designed to help MSMEs, such as tax provisions, loans, grants and vouchers;
- **Sustainable growth and decarbonization**: MSMEs are hampered by a lack of awareness and information, as well as limited access to finance and know-how. Subsidies can achieve certain objectives, such as stimulating investment in green technologies, and come in various forms, such as tax provisions, soft loans, guarantees, grants/vouchers and charging below the cost price for public services. For example, there are many initiatives to raise the energy efficiency / decarbonization capacity of MSMEs through tax incentives, loans and grants for affordable equipment upgrades and exposure to good practice. Simple, low or no cost measures can reduce energy bills significantly in the short term, freeing-up much needed capital for MSMEs to innovate and boost investment in low carbon technologies. Information-based measures include environmental valuations, energy audits, eco-labelling, certification schemes, etc. complementing other instruments, such as awareness raising, education and training for MSMEs.

4.0 MSME Grants and Vouchers

Direct Grants

Direct grants are **non-repayable cash payments to MSMEs** for various purposes, such as to offset initial start-up costs, increase survivability, promote research and development (R&D), build knowledge and skills, promote technology transfer and innovation, stimulate female/youth entrepreneurship, catalyse export, stimulate going green, etc. It is inevitable that governments and GIZ projects and programmes will explore the option of providing grants to MSMEs during both phases of COVID-19 crisis. It is an important and suitable policy tool, given the existentialist crisis that the target MSMEs are facing. **Grants are simple to understand, fast to deliver, low cost to administer and enable wide outreach to new / micro / informal / family businesses**. However, grants and subsidies to MSMEs **require careful consideration**.

Many governments are unlikely to have the financial capacity to offer grants to MSMEs so **donors/IFIs and others could potentially add value here**. Although grant provision is a standard development tool for donors, IFIs, and most countries, there are important **preconditions in the provision of grants to MSME**:

- **Do the research**: framework conditions, legal, market, risk and institutional analysis;
- **Prepare well**: partner selection, role definition, contract, documentation and approval;
- **Avoid distortion**: subsidised MSMEs should not be strengthened in relation to competing market participants and/or given an advantage in direct competition on the market solely as a result of the grant/subsidy.

For context, the European Union´s de minimis threshold of maximum state aid is **EUR 200,000 per MSME over a three year period** in order to avoid market distortion. Non-EU countries are not required to comply with this rule and this guide advocates significantly small mini grants. Still, the use of grants needs to be considered carefully, especially if they are large, due to the potential to distort the market. Other considerations include **transparency, avoiding fraud and maximising impact**.

In the COVID-19 world, where massive numbers of businesses can and potentially will die rather quickly, GIZ and others will need to adopt a **nuanced policy**, which allows for **rapid responses** in the processing and approval of MSME support in a transparent, non-market distorting manner, which delivers desperately-needed support to targeted enterprises in an impactful manner. For suitable programmes and projects, these following **principles** could be deployed:

- **Sliding scale grants**: up to EUR 20,000 per MSME, depending on type/sector/impact, phased;
- **Target groups**: informal/self-employed/micro/young enterprises; women, youth & vulnerable;
- **Sector(s)**: most affected (sub)sectors (see Targeting Support to MSMEs);
- **Goal**: to be determined on a case-by-case basis, depending on the focus of the project(s);
- **Administration**: rapid response, simple application, transparent /independent evaluation;
- **M&E and reporting**: sufficient data collection and reporting to avoid fraud and determine impact.

For information on the **basic operationalisation of mini grants** based on the above principles, see **Annex 2**. The necessary operational guidance and procedures would need to be developed by GIZ.

Voucher Schemes

Consideration should also be given to the use of **vouchers**, which basically **helps MSMEs to purchase services from expert knowledge providers** to support activities such as knowledge transfer, access to R&D, contacts between entrepreneurs and others, education and training, etc.

Voucher schemes consist of economic incentives granted by local, regional and national governments to private firms with the aim of addressing pre-defined goals, thus incentivising MSMEs to perform certain functions, such as:

- **Innovation/technology transfer**: assist companies to invest in innovative solutions and services, the acquisition of machinery that will facilitate innovation, etc.;
- **Digital transformation**: assist companies to invest in digital solutions, services, acquisition of machinery that will facilitate the digitisation of the MSME, etc.;
- **Human Capital Formation**: strengthen the basic or advanced skills of employees and/or citizens;
- **Other**: specialised and targeted assistance to address a particular situation / activity related to, for example, ICT, productivity, decarbonization, export, etc.

Vouchers are a type of grant and the same principles discussed in the preceding section broadly apply. They have the advantage of being **fast and simple to administer and implement**. However, there are still **issues to consider**, such as the ones previously discussed for grants. There is no evidence to suggest that the risk of fraud is higher in a voucher scheme compared to any other form of MSME support (OECD, 2013).

5.0 Concluding Remarks

"You never want a serious crisis to go to waste. ... This crisis provides the opportunity for us to do things that you could not before." Rahm Emanuel, Wall Street Journal, 19 November 2008

The Covid-19 global pandemic is a greater **disruptive event** than the Great Depression and World Wars I and II. Nevertheless, this crisis provides resourceful policy-makers and programme/project managers the **opportunity to do "development" things which they perhaps could not before**, and to **go further and faster** in doing so. For example, digital transformation by MSMEs in happening and a previously unimaginable scale and pace.

Many MSMEs have already perished, many more will become bankrupt and millions of entrepreneurs, not least the most vulnerable informal ones, will be greatly impacted.

Now is the time to act and to act quickly to counteract these destructive forces.

Many different measures are being applied to support MSMEs throughout the world, as highlighted in this guide, including greater use of grant and voucher instruments.

It is up to GIZ and other policy-makers and for Programme / Project Managers to derive policy implications and determine **customised, simple, rapid and practical solutions** during the **Outbreak Phase**. They must test, monitor and evaluate these MSME measures and keep refining them to ensure that the economic, social and environmental benefits are maximised.

In the **Recovery Phase**, the emphasis must shift to helping MSMEs to **return to their pre-crisis production and employment levels** and the foundations must be set for longer-term and productivity-driven growth, such as via supply and value chain support, an emphasis on firm productivity, etc.

Annex 1: References, Webinars and Resources

1. References

ADB (2016) Technology and Innovation Policies for Small and Medium-Sized Enterprises in East Asia

Bertelsmann Stiftung (2019) Sustainable Development Report 2019

BMZ (undated) Der Marshallplan mit Afrika in der Umsetzung

Community Tool Box (undated) Chapter 44: Section 2. Establishing Micro-grant Programs

Economist (2020) The changes covid-19 is forcing on to business, 11 April 2020

Greenovate! Europe (2011) Guide to Green Innovation Vouchers

ILO (2009) Protecting Your Employees and Business from Pandemic Human Influenza: Action manual for small and medium-sized enterprises

ILO (2018) Women and men in the informal economy: A statistical picture

ILO (2020) ILO Monitor: COVID-19 and the world of work. 2nd ed Updated estimates and analysis

IMF (2020) World Economic Outlook

IMF (2020) Country Policy tracker

KEPSA (2020) Business Survey of COVID-19 Impact

LexMundi (2020) COVID-19 Government Support Measures

OECD (2013) Private Sector Development Project Insights: Implementing a Pilot SME Voucher Scheme in Montenegro

OECD (2020) Policy responses towards SMEs in the context of the COVID-19 virus outbreak, OECD Centre for Entrepreneurship, SMEs, Regions and Cities

OECD (2020) COVID-19 Crisis Response in EU Eastern Partnership Countries

SUP (2020) COVID-19 Firm Survey

UN (2020a) Shared Responsibility, Global Solidarity: Responding to the socio-economic impacts of COVID-19

UN (2020b) Policy Brief: The Impact of COVID-19 on Women

UNCTAD (2020) Investment Trends Monitor: Impact of the COVID-19 Pandemic on Global FDI and GVCs

UNIDO (2011) UNIDO Green Industry Policies for supporting Green Industry

World Bank (2020a) Migration and Development Brief 32 April 2020, COVID-19 Crisis Through a Migration Lens

World Bank (2020b) Assessing the impact and policy responses in support of private-sector firms in the context of the COVID-19 pandemic

2. Online trainings and webinars

Below is a set of links for various on-line webinars, courses, etc.:

ITC-ILO E-Campus Supporting SMEs during COVID-19: https://ecampus.itcilo.org/

Covid-19 Business Survival Bootcamp https://www.africanmanagers.org/covidwebinars/

Government lending to small businesses during COVID-19—Why? How? And will it work? https://www.brookings.edu/events/government-lending-to-small-businesses-during-covid-19-why-how-and-will-it-work/

SBDC Leadership Institute Webinars for Small Businesses https://calendar.google.com/calendar/embed?color=%239fe1e7&src=asbdcleadershipinstitute@gmail.com

Sustainable Development Network Covid-19 Response https://www.unsdsn.org/covid-19-webinar

USC Marshall School of Business COVID-19: Challenges and Opportunities for Business https://www.marshall.usc.edu/covid-19-challenges-and-opportunities-for-business

World Bank Development Policy and COVID-19 eSeminar Series: https://www.worldbank.org/en/research/brief/development-policy-covid-19-eseminar

YouTube: there are many COVID-19-related MSME / small business webinars on www.YouTube.com

3. Other Resources

Below is a set of links for a multiplicity of other resources, including by donors and IFIs:

Business Fights Poverty – Business & COVID-19: https://businessfightspoverty.org/articles/covid-19-response-centre/

DCED Private Sector Development and COVID-19: https://www.enterprise-development.org/private-sector-development-and-covid-19/

EBRD and Coronavirus pandemic: https://www.ebrd.com/what-we-do/coronavirus

IFC: https://www.ifc.org/wps/wcm/connect/news_ext_content/ifc_external_corporate_site/news+and+events/news/insights/smes-covid-19

ILO (2020) COVID-19 and Enterprises Briefing Note: https://www.ilo.org/wcmsp5/groups/public/---ed_emp/---emp_ent/documents/publication/wcms_740915.pdf

ILO COVID-19 and the world of work https://www.ilo.org/global/topics/coronavirus/lang--en/index.htm

IMF Country Policy tracker: https://www.imf.org/en/Topics/imf-and-covid19/Policy-Responses-to-COVID-19

IMF and Covid-19: https://www.imf.org/en/Topics/imf-and-covid19

ITC Covid-19 and Small Businesses: http://www.intracen.org/covid19/

McKinsey Coronavirus crisis https://www.mckinsey.com/featured-insights/coronavirus-leading-through-the-crisis

MSCI Coronavirus and financial markets https://www.msci.com/coronavirus

Next Billion Enterprise in the Time of Coronavirus https://nextbillion.net/nextbillion-series/enterprise-in-the-time-of-coronavirus/?web=1

ODI Coronavirus tracker: https://set.odi.org/coronavirus-economic-vulnerability-economic-impact-and-economic-policy-response-tracker/

OECD (2020) Country policy http://www.oecd.org/coronavirus/en/

PwC Covid-19 Navigator: https://www.pwc.com/gx/en/issues/crisis-solutions/covid-19/response-navigator.html

TMF Government support schemes for COVID-19 https://www.tmf-group.com/en/news-insights/coronavirus/government-support-schemes/#APAC

UNCTAD COVID-19: News, Analysis and Resources https://unctad.org/en/Pages/coronavirus.aspx

UNIDO Responding to the Crisis https://www.unido.org/unidos-comprehensive-response-covid-19

UN Global Compact Uniting Business to Respond to COVID-19 https://unglobalcompact.org/take-action/20th-anniversary-campaign/uniting-business-to-tackle-covid-19

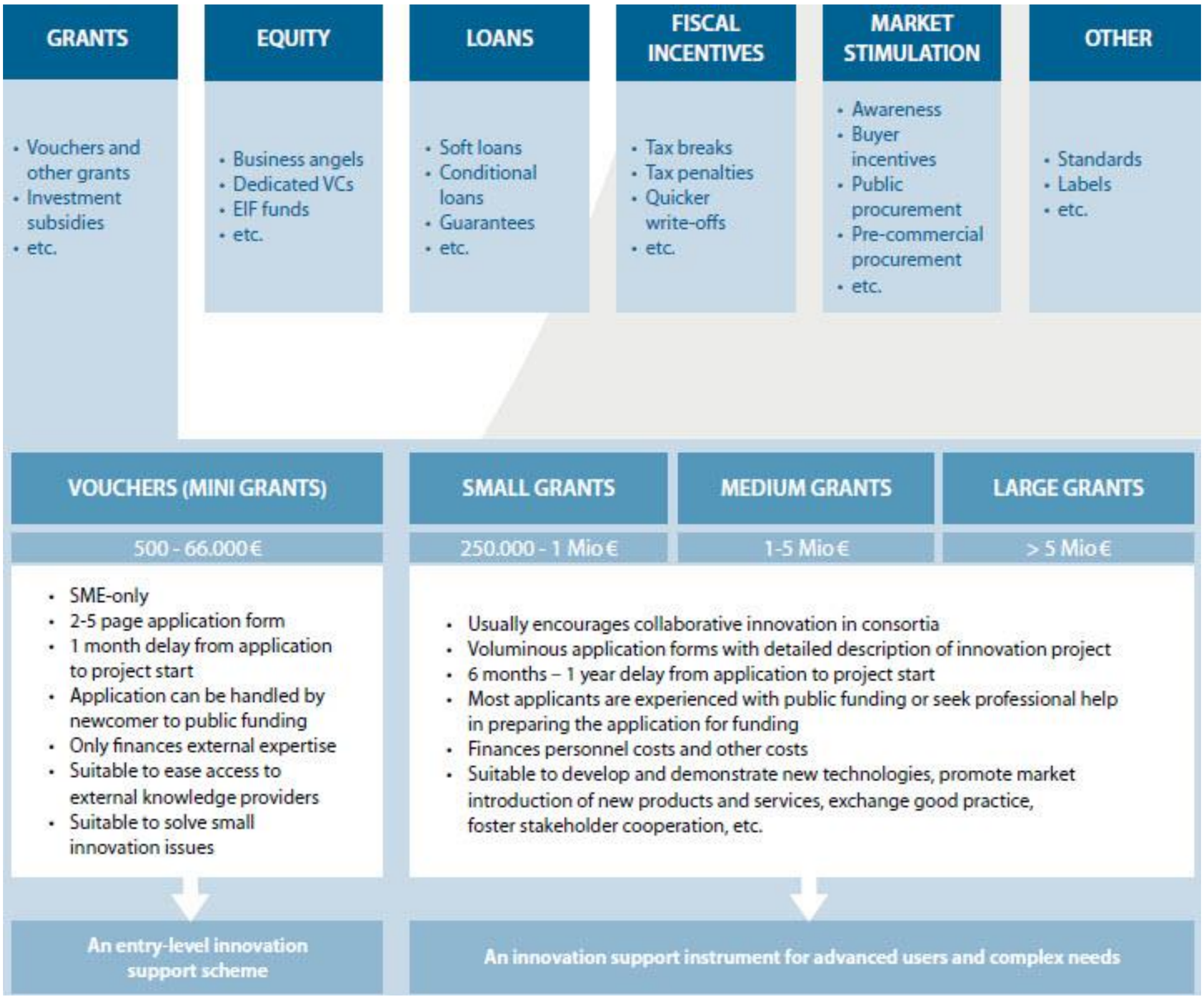
World Bank Group and Covid-19: https://www.worldbank.org/en/who-we-are/news/coronavirus-covid19

COVID-19 and world trade: https://www.wto.org/english/tratop_e/covid19_e/covid19_e.htm

Annex 2: Basics of Grant Making

Types of MSME Support & Mini Grants

There are many forms of support for MSMEs. The Diagram below illustrates different instruments, including grants with a focus on supporting MSMEs to innovate. It highlights the key differences between mini grants / voucher schemes and other forms of SME grant. The defining feature of grants is that they are intended to encourage particular activities (e.g. start-up, innovation, digitisation, decarbonisation, recovery, technology transfer, etc.), ideally using simple procedures to administer.



Source: Greenovate! Europe (2011) Guide to Green Innovation Vouchers

Grant Implementation: Basic Principles

Below we set out the basic principles involved in implementing a simple grant scheme, which allows for MSME targeting, transparency, monitoring and evaluation and refinement via different cycles, thus enabling impact to increase over time. The grant scheme process set out below (based on Community Tool Box) would take a few months to complete, depending on the degree of complexity involved:

1. Month 1: Prepare guidelines, application and establish administrative and review groups.
2. Month 2: Announce availability of micro-grants, deadline, short list and visit/interview.
3. Month 3: Notify winners, contract, disburse funds and ensure visibility.
4. Month 4: Monitor, report, evaluate, review and refine grant scheme; repeat cycle.

- **Goal**: determine if the GIZ programme/project can help the target group using grants and what precisely to provide grants for, the target group and the desired outcome(s).
- **Budget**: determine the funds available via the GIZ programme/project. The first cycle should involve relatively small sums as a pilot. The level of grant would depend on the type and size of enterprise / sector / severity of impact / phase of the pandemic, etc. Once the MSME measure(s) have been tested and refined, the ambitions / grant size may increase.
- **Establish Groups**: the “planning” group will create guidelines, publicise the grant, receive applications, monitor grant activities and oversee and report on the whole instrument. The “review” group will have the necessary expertise to impartially review the grant applications, select and keep an eye on the monitoring and evaluation aspects.
- **Guidelines**: should be simple, short and contain the following: overall purpose, eligible activities, activities, if any, to receive funding priority, types of applicants who can apply (target group, (sub)sector(s), geography, gender, ethnicity, etc.), minimum and maximum size of grant, eligible use of grant (e.g. supplies, salaries, investment (e.g. equipment, programming, etc.), application process, evaluation criteria and points system, deadline, instructions for filling out and submitting application form, name / address / contact details for information, contracting requirements, payment schedule (upfront/during/after completion), data and reporting requirements, etc. The guideline should be a few pages long. It is desirable to provide help to fill out application, visit firms and require oral presentation for evaluation.
- **Application Form**: should be short (few pages) and should include: contact details, planned activities, procedure for carrying out the activity, desired inputs, outputs, KPIs and outcome, amount of money being applied for, amount of money to be spent, monitoring and evaluation information. This could be in the form of an electronic application including eSignature.
- **Awareness Raising**: via newspaper, flyers, websites, email, social media, word-of-mouth etc.
- **Check Applications**: after the deadline, the planning group selects the eligible applications and ranks them according to the criteria and points system determined in the application guidelines. The review group, which will include experienced businesspeople, reviews the applications, carries out interviews (if any) and ranks the applications based on the points system. Questions/gaps are clarified by the applicant/planning group.
- **Announce Winners**: based on the review group´s work, there may be issues to clarify and a written document (Contact/ Memorandum of Cooperation based on the content of the Grant Guidelines) will be signed by the grant recipients to formalise, ensure common expectations and secure accountability. Visibility and publicity will be ensured with the involvement of the grant recipients, for example, at the beginning and at the end of the grant scheme.
- **Monitoring**: after the grant award, the planning group initiates implementation, keeps the project on track, collects Key Performance Indicators (KPIs) and other information, and provides support to the beneficiary to avoid fraud, secure value for money and ensure impact.
- **Interim / Final Report**: to monitor progress and evaluate how well the grant instrument has performed, the grant recipients prepare interim/final reports using pre-defined templates by a set date(s). These obligations, including expenditure verification, must be clear in advance.
- **Evaluate impact**: evaluate how the grant instrument performed, whether it met expectations, whether benefits justify the effort and money, the changes required to the target group, level of grant, type of eligible expenditure, procedures, including avoiding fraud, guidelines, application, evaluation of applications, monitoring and reporting to increase impact in the next cycle and the one after that too. This should be performed by an independent evaluator.
- **Refine and Repeat**: make the refinements, refine the level of funding and implement the next grant cycle. The grant cycle is the period from announcement of the grants until the recipients are notified and awarded the money. It is possible to have several different application cycles (e.g. 3-4 times a year), depending on the urgency of the policy intention, the complexity involved, the administrative capacities available and the size of the budget.