



## ► Policy Brief

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# Enabling Environment for Sustainable Enterprises and the Post-COVID-19 Rapid Response

Moving beyond the immediate crisis created by the COVID-19 pandemic, governments will consider the ways they can reconfigure their policy settings toward a more resilient and robust economy driven by sustainable micro, small and medium enterprises and more productive and decent employment<sup>1</sup>. This brief provides guidance to policymakers on how to address reform priorities in the medium- to long-term<sup>2</sup>.

## ► 1. Introduction

### 1.1 COVID-19 pandemic impact on sustainable enterprises

The economic and labour crisis created by the coronavirus (COVID-19) pandemic has far-reaching effects on micro, small and medium enterprises (MSMEs) around the world, undermining the development of sustainable enterprises and the creation of decent and productive employment<sup>3</sup>. Efforts to contain the spread of the virus have disrupted production flows, reduced demand for non-essential goods and services and forced enterprises to suspend or scale down operations. Economists estimate that somewhere between 40 and 60 million people globally will be forced into extreme poverty as a result of the crisis--the first increase in global poverty since 1998 (Mahler et al. 2020).

Approximately 436 million enterprises worldwide, operate in the four economic sectors hardest hit by the crisis. These are manufacturing, accommodation and food services, wholesale and retail trade, and real estate and business sector activities. Together, these sectors account for more than 30 per cent of Gross Domestic Product on average. In the retail sector alone,

own-account workers and microenterprises represent around 70 per cent of global employment, and 60 per cent in the accommodation and food services sector. This reflects the severe vulnerability of these sectors in the current economic crisis (ILO 2020a).

### 1.2. Enabling environment for sustainable enterprises

The ILO recognises the primary role sustainable enterprises play in achieving decent work and improving living and social conditions. Sustainable MSMEs create more productive employment and decent work than any other enterprise size class, while helping to reduce poverty and inequality (International Labour Conference, ILC 2015b). However, these enterprises are extremely vulnerable to external shocks and poor business environments. The ILC (2007) identified the conditions required for sustainable enterprises, highlighting the need for policymakers to respond to the economic, social and environmental demands placed upon them. This recognises the role of MSMEs as well as cooperatives and the social and solidarity economy as a principal source of economic growth and job creation.

1 This policy brief focuses exclusively on MSMEs. Policy recommendations regarding larger enterprises can be found in other ILO documents, such as the earlier ILO brief on [“Interventions to support enterprises during the COVID-19 pandemic and recovery”](#)

2 Additional resources on response to the crisis by MSMEs, and in particular enterprise level support are available at [www.ilo.org/sme](http://www.ilo.org/sme)

3 World Health Organization indicates [the outbreak of the severe acute respiratory syndrome coronavirus 2 \(SARS-CoV-2\) is responsible for the coronavirus disease \(COVID-19\)](#).

The conditions identified by the ILC are severely challenged in the current crisis created by the COVID-19 pandemic.

### 1.3. Reforms toward a more resilient and robust economy

This document provides policymakers with practical advice on the key business environment issues affected by the COVID-19 crisis and how to develop a medium-term strategic response beyond the immediate crisis of the pandemic<sup>4</sup>. While the transition out of social containment and other business restrictions designed to reduce the infection rate will not always be smooth, governments need to think carefully about how to manage this period and establish the right policy settings for a sustainable and resilient recovery.

In the midst of the crisis, many governments extended, waived or reduced business payments associated with business registration and licensing, while delaying the deadlines for business reporting, such as tax and social security filing, and financial statement submissions<sup>5</sup>. This created a breathing space for many firms that were in financial stress. Coming out of the immediate response, governments now need to consider how to

restart the economy and establish a new post-COVID-19 normal.

A crisis such as this provides an opportunity for reforms that will significantly improve the conditions for sustainable enterprises to recover and flourish. The Organization for Economic Cooperation and Development (OECD 2010), drawing from case studies of policy responses to previous national and international crises, finds that regulatory reforms are ‘an attractive policy option to stimulate recovery from a crisis, particularly when other policy alternatives face fiscal constraints.’ These reforms produce short- and long-term economic benefits, leading to higher productivity, consumer surplus, foreign direct investment, and employment. Moreover, a crisis such as this creates a once in a lifetime opportunity for governments to ‘build back better’. Pre-COVID-19 ‘business as usual’ models of economic growth are unlikely to re-emerge. At the very least, governments will want to ensure greater economic resilience and a stronger, more robust business sector. There are also opportunities for the economic recovery to be more inclusive and sustainable. This includes reforms that encourage economic transformation towards a green, low-carbon economy along with the stronger social safety nets and better employment policies and labour laws for MSME employers and workers.

## ► 2. Framework for policy reform

### 2.1. Shifting from immediate responses to medium and long-term reforms

Many of the problems experienced by MSMEs as a result of this pandemic are not due to mismanagement, overcrowded markets or a failure in market systems. Instead, they are derived from the policy responses taken by governments to an urgent global health threat. Now, more than ever, government policy must continue to protect society and to guide the economy back towards a more resilient and sustainable future.

As the crisis hit, many businesses were required to quickly adapt and employ contingency measures to reduce or temporarily suspend their operations. As containment policies are eased, businesses can recommence or expand their operations. However, many MSMEs have fewer financial resources to draw from and may have been required to shed or temporarily suspend staff. As a result, they will be unable to quickly

gear up to full-speed and may be subjected to further market and policy systems disruptions.

Containment policies will be eased over time, as governments monitor the situation and manage the dangers of new infection outbreaks (i.e., to avoid or lessen the impact of ‘second wave’ coronavirus infections). As a result, businesses will operate under various forms of continuing constraint to their normal operations. These restrictions will vary by business sector and business productivity will continue to be constrained by a number of legal and regulatory measures (e.g., social distancing and other public health measures) as well as by reduced incomes and changing consumer preferences.

<sup>4</sup> The ILO has identified three distinct phases of the COVID-19 crisis: (1) general reduction in economic activity due to measures to prevent spreading; (2) re-activation of business activity once the virus is contained; and (3) recovery of economic growth, promoting enterprise sustainability and resilience (International Labour Organization 2020d).

<sup>5</sup> For example, see: ILO (2020d) and World Bank Group (2020b).

## 2.2. Principles to guide reforms

There are a number of key principles policymakers should consider when formulating medium- to long-term economic, enterprise and employment responses to the coronavirus pandemic.

- **Strengthen the private sector's capacity to respond to disrupted markets.** The crisis presents challenges to businesses to reconsider their products, services and business models in light of market disruptions. To do this, MSMEs require a conducive business environment and a supportive entrepreneurial and innovation ecosystem. One that promotes productivity and better working conditions for MSMEs. Governments should prioritise reforms and other support measures that promote growth and innovation by MSMEs in order to help pull the country out of the economic and social crisis created by the pandemic. This includes reforms that promote greater economic resilience to external shocks (e.g., environmental shocks).<sup>6</sup>
- **Assess the impact of crisis on the MSME community and critical market systems.** Collate up-to-date and relevant data on how the crisis has and is likely to affect selected markets and market actors. This evidence, which may be difficult to obtain in developing countries and may require data drawn from international agencies, should be used by policymakers to define the nature and scope of the medium-term reforms that are required. Going forward, policymakers should explore the opportunities for better and innovative ways of data collection and analysis (OECD 2017).<sup>7</sup>
- **Facilitate the engagement of market actors in recovery planning.** It is important for the voice of private sector employers and workers to be heard when designing, implementing and monitoring an economic recovery. This requires new innovative approaches that harness the potential of new technologies and digital platforms to enhance public-private dialogue and social dialogue mechanisms and engage essential market actors, including Employers' and Workers' Organisations, when identifying reform priorities (ILC 2019).
- **Build back better.** The crisis creates an opportunity for broader reforms. For reformers, the high impact created by the pandemic creates an opportunity to refocus government efforts that strengthen the economy, creating a more resilient MSME sector and stimulating growth that is more inclusive and sustainable (e.g., environmentally sensitive, low-carbon economy).

## 2.3. Vulnerable groups

A number of social groups are particularly vulnerable to the impacts of crisis. Policymakers should pay careful attention to these groups and develop responses that ensure their protection.

While older people with pre-existing health conditions were more at risk in the immediate crisis—in terms of developing health problems—persons with disabilities and young people, who already face higher unemployment and underemployment rates worldwide, are more exposed to a fall in labour demand. Women, too, are disproportionately at risk of negative outcomes arising from the pandemic. They are over-represented in low salaried or insecure employment relative to men and are at greater risk of a financial shortfalls and insufficient health coverage (ILO 2020e). More broadly, women have less access to social protection and are overrepresented in the informal service sector and in the labour-intensive manufacturing sector.

Refugees and migrant workers, especially those engaged as domestic workers and working in construction, manufacturing and agriculture, are also particularly vulnerable. While travel restrictions affect migrant workers and limit their ability to reach their place of work or to return to their families, these groups also face disadvantages when returning to the labour market or establishing a small business.

The crisis will create many challenges to labour markets and legal and regulatory framework in which MSME employ staff. It is critical to reaffirm the importance and relevance of International Labour Standards within this context, recognising how this crisis contributes to the changing patterns of the world of work. This includes protecting MSME workers and accommodating the needs of sustainable enterprises (ILC 2019). Nurturing the effective presentation of MSME employers and workers is essential, as is the need for effective Social Dialogue mechanisms that can be used to facilitate an agreed response to the employment challenges created by the pandemic.

Informal enterprises and their workers, being among the most vulnerable to the impacts of the crisis, have been hit hard.<sup>8</sup> Along with the dramatic loss of revenue for informal firms, an expansion in the size of the informal economy is expected as newly unemployed people enter self-employment and as formal firms are pushed into informality (ILO 2020c). Thus, it is important to identify how the crisis has driven informality in the economy because this analysis will inform the response.

<sup>6</sup> This may include reforms that internalise environmental externalities in the costs of doing business.

<sup>7</sup> This is likely to include the use of 'big data'. For example, see Kshetri (2014)

<sup>8</sup> Even in the early stages of the global pandemic, the almost 1.6 billion informal economy workers were significantly impacted by lockdown measures or working in the hardest-hit sectors. In the first month of crisis it was estimated that the earnings of informal workers declined by 60 per cent globally. See ILO (2020b).

## ► 3. Priority areas for reform

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### 3.1. Business regulation reform: making it easier to start, grow and close a business

In the wake of this unprecedented crisis, governments should consider reforms that make it easier for people to start, grow and close a business. These reforms are primarily concerned with the ability of businesspeople to innovate in response to changing post-COVID-19 markets and to change their business products, services and models (i.e., ways of doing business). Governments and their social partners can create legal and regulatory frameworks and innovation ecosystems that are more conducive to entrepreneurship and innovation. This will require attending to the following priorities.

#### Reduce compliance costs on business

Wherever possible, find ways to encourage the flow of private investment towards productive activities and employment by making it easier and cheaper to do business. This requires a focus on eliminating unnecessary procedures and reducing the costs associated with regulatory compliance wherever possible, especially those related to enterprise establishment, reporting and changing business models. Reforms that reduce compliance costs on business include waiving, freezing, reducing or delaying fees related to business registration, licensing, work permits, change of use permits, customs documents, tourism fees, penalties for late filing, land use fees, land transfer fees, utility bills, etc. Moving beyond the short-term nature of the policy response, policymakers should consider the government's capacity to quickly reintroduce policy measures that help business deal with external shock. This may include extending the deadlines for business reporting, such as tax and social security filing, business licenses and permits and financial statement submissions.

#### Simplify administration procedures

Reforms that simplify administration procedures make it easier for businesses to comply and encourage firms to focus on the issues that affect their overall competitiveness. Coming out of the immediate crisis, efforts to improve administration will reduce the

pressures on government agencies and regulators, while lessening physical contact and administration costs, and reducing the time and financial burdens placed on businesses. These reforms include the simplification of administration procedures for registration and reporting, such as the introduction of online registration and reporting mechanisms that are easy to follow, more transparent, and require less personal interaction.

#### Review insolvency provisions

Reforms should focus on simplifying the procedures associated with business re-structuring and closure. In a system-wide crisis such as this, credit and product market disruptions affect the ability of the insolvency system to direct formal, viable firms into reorganisation and non-viable firms into liquidation. The scramble for liquidity created by the crisis increases the risk of pushing viable firms into liquidation, especially vulnerable MSMEs. In the midst of the crisis, several countries established short-term insolvency-focused measures to help ensure all firms and consumers have breathing space until the markets could be stabilised and to allow business viability assessments to be made.<sup>9</sup> Policymakers should continue to monitor this situation. The World Bank Group (2020a) describes three phases to this process: (1) Preventing viable firms from prematurely being pushed into insolvency; (2) Responding to the increased number of firms that will not survive this crisis without going through an insolvency process; and (3) Addressing individual financial distress resulting from the crisis. Beyond the need to review and, where necessary, address insolvency and bankruptcy issues, MSMEs also need to access financial services. This is discussed further below.

#### Improve employment conditions in micro and small enterprises

Many micro and small enterprise (MSE) workers-- including self-employed and own-account workers-- have experienced financial hardship as a result of the crisis. Indeed, many people have lost their jobs and livelihoods. Moving beyond the immediate crisis and into the medium-term, policymakers should consider the labour policy, legal and regulatory provisions that protect MSE workers and help employers and workers

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<sup>9</sup> For example, [in India](#), regulatory changes were made to the Indian Bankruptcy Code to prevent insolvency proceedings against MSMEs resulting from COVID-19.

to manage in the economic recovery. This would include the use of regulations that are adapted to the particular needs of MSEs, taking into account the distinctive features of the national labour market, the national system of industrial relations and the national legal framework. Care should also be taken to avoid the danger of 'growth traps' where MSE-specific regulations become a disincentive for growth (Reinecke and White 2004). Policymakers should support social dialogue mechanisms and work with their Social Partners to find innovative ways to improve MSE employment that promotes job quality (i.e., Decent Work) as well as economic growth and formalisation of micro and small enterprises. This, in turn, can lead to further consolidation and improvement of job quality for micro and small enterprise workers (Fenwick et al. 2007).

## Fast-track approval processes

While the regulatory requirements for businesses to start-up, change or close should be based on clearly defined rules and objective criteria, policymakers can also explore public measures to stimulate business investments associated with essential or strategic industry sectors. For example, governments can find ways to fast-track the regulatory processes associated with professional licensing, accreditation, and issuing visa and work permits for healthcare professionals. Reforms are also likely to involve simplifying license requirements and fast-tracking approvals for manufacturers of essential health-emergency products, such as personal protective equipment and pharmaceutical production and medical services.

Fast-tracking reforms should be combined with efforts to improve public procurement policies and procedures. While this may initially focus on medical and related procurement, in the longer term, efficient procurement will be an important part of the economic stimulus and contribute to speeding up the economic recovery. This is discussed further below.

From an investment promotion perspective, it is important to fast-track investment authorisations on priority areas and streamline the review of public-private investment projects. This includes approving and providing access to technical production specifications for urgently needed products and services, and temporarily adapting competition provisions, including

temporary licenses on intellectual property and short-term temporary emergency pricing mechanisms (ILO 2020d).<sup>10</sup> The need to maintain competition over the longer-term is discussed further below.

## 3.2. Digital reforms: based on digitisation and new technologies

The digitalisation of legal and regulatory compliance requirements is a critical strategy for achieving many meaningful reforms for sustainable enterprises. Indeed, many businesses have quickly adopted new digital technologies in the face of the pandemic (see Baig et al. 2020). Digital and online platforms can be used to improve business registration and licensing, taxation registration and reporting, land title and property records, as well as the payment of fees and taxes, among many other regulatory delivery and administration requirements.

### Bring the business environment online

The drive to make regulatory compliance simpler and cheaper increasingly involves digitising legal and regulatory administration arrangements. These reforms make business registration, licensing, taxation and reporting faster, more accessible, transparent and rule-based. They also remove or significantly reduce the need for physical contact and can increase the access MSMEs and their workers in remote areas have to government services. For example, the United Nations Conference on Trade and Development's (UNCTAD's) e-government platform, known as e-registrations, has allowed for the continuation of essential services during the COVID-19 pandemic and for the online distribution of funds from governments to MSMEs while offices were closed (UNCTAD 2020).

### Retain investors through online communication

As international investments stall, governments are refocusing the efforts of investment promotion agencies away from investment attraction to the retention of existing investors by strengthening communication and bolstering aftercare services (World Bank Group

<sup>10</sup> Quality infrastructure plays a particularly important role in the fight against the global pandemic and in the promotion of inclusive and sustainable industrial development. Quality infrastructure refers to the system comprising the organisations (public and private) together with the policies, relevant legal and regulatory framework, and practices needed to support and enhance the quality, safety and environmental soundness of goods, services and processes. Due to its focus on health systems, the COVID-19 pandemic highlights the need for quality infrastructure in the manufacturing and distribution of medical equipment and services. However, beyond the immediate impacts of the crisis on health systems, there is a need for policymakers to strengthen the national systems for quality assurance and standards. As MSMEs around the world struggle to maintain their operations and adopt business continuity measures, those involved in global supply chains, continue to rely on international standards and best practices. Moreover, private sector employers are also required to apply appropriate standards and good practices to prevent the spread of the disease at production facilities and offices (United Nations Industrial Development Organization 2020).

2020b).<sup>11</sup> The COVID-19 response has drastically accelerated the trend towards greater digitisation of investment agencies. Many services, previously provided in person, can be provided digitally in the medium to long term. As direct visits may be cancelled, and the generation of new investor leads are rendered more difficult or costly, digital applications and platforms allow agencies to continue servicing and identifying future clients. This requires access to different information and communication technology tools, ranging from videoconferencing and virtual site-visit facilities, robust customer relations management and communication tools, and relevant data and artificial intelligence-business solutions (OECD 2020b).

## Strengthen e-commerce platforms

As COVID-19 hit, many of the benefits of e-commerce quickly became apparent. Firms that were able to pivot to online transactions were more likely to survive the crisis, notwithstanding the problems experienced with cross border transportation and delivery services. Moving forward, policymakers should prioritise the strengthening of e-commerce platforms.<sup>12</sup> This would involve working closely with telecommunication and internet service providers to enhance affordable internet access.<sup>13</sup> It will also focus on reforms to online and mobile payment regulations providing robust payment solutions and facilitating mobile financial transactions, while providing support for improving transportation networks and easier cross border trade regimes.

## Facilitate international trade with paperless transactions

Online, paperless transactions can be used to strengthen international trade and transport facilitation both in the critical periods of the crisis as well as in the medium- to long-term. These reforms provide 'an easy and quick way to eliminate physical interactions and dematerialise' trade administration. There are also

long-term benefits such as lower costs and improved efficiencies. Physical contact between people can be minimised through the use of electronic submissions and paperless transactions, allowing traders to electronically submit applications for permits and licences, and obtain the corresponding certificates from border regulating agencies.<sup>14</sup>

## Enhance opportunities for remote working

The coronavirus pandemic has caused an unprecedented shift towards working from home, forcing many office workers to quickly adapt to remote work and collaboration. This has included MSMEs and their workers. Indeed, many MSMEs, especially smaller firms, are home-based. Many self-employed and professional freelancers also operate from home and use digital communication networks to obtain labour market opportunities and information, while attempting to reduce their social isolation, maintain professional norms, access support and advice, and create feelings of community.<sup>15</sup> While the pandemic has heightened the general awareness of homebased or remote working, policymakers should consider the future implications of this accelerated trend.<sup>16</sup> This includes policy considerations such as home-business licensing, internet access and connectivity, and the organisation and representation of own-account and MSME workers.<sup>17</sup>

## Make greater use of digital identities

Almost one billion people globally lack an official identity document, and many are without bank accounts (Desi, Diofasi, and Lu 2020). This has exacerbated problems with financial transfers to individuals and firms in the midst of the COVID-19 crisis. Thus, moving forward, policymakers should consider ways to introduce or

11 For example, InvestKorea and InvestIndia have set up daily web-based updates on COVID-19 cases and policy responses related to foreign investors. Specific investment aftercare services include: identifying and directly contacting with at-risk firms according to number of employees, region or sector; brokering solutions to their specific issues; and advocating for urgent government actions to solve these issues more systematically to benefit other similar investors (World Bank Group 2020b)

12 For example, [MarketPlaceAFRICA.com](https://www.marketplaceafrica.com) is global e-commerce retailer with a platform, app and payment system that allows online consumers to shop directly from African small businesses, select from familiar payment methods, and have the products shipped to their home.

13 This is in line with Sustainable Development Goal 9: Build resilient infrastructure, promote sustainable industrialization and foster innovation; Target 9.C: Universal access to information and communications technology (i.e., significantly increase access to information and communications technology and strive to provide universal and affordable access to the Internet in least developed countries by 2020).

14 UNCTAD (2020) COVID-19: A 10-point action plan to strengthen international trade and transport facilitation in times of pandemic, Policy Brief No. 79, April, UNCTAD, Geneva

15 The ILO has identified the concerns raised by the increasing level of 'crowdwork' employment generated through online platforms. See ILO (2018) *Digital labour platforms and the future of work: Towards decent work in the online world*, ILO, Geneva

16 There are a growing number of examples of online peer-to-peer platforms that are collectively owned and governed by members who depend on and participate in it (e.g., Fairmondo, Loconoics, Stocksy, and WorkerTech).

17 In the United Kingdom, the Royal Society for the encouragement of Arts, Manufactures and Commerce (RSA) has done some very interesting and relevant work on the challenges of self-employment and the need for policy reform. The RSA calls for a 'movement of mass self-organising among the self-employed' and set out a number of policy reforms and grassroot organising ideas (Dellot and Wallace-Stephens 2017).

expand the use of new, appropriate forms of identity that are more accessible to MSMEs and especially informal enterprises and their workers.

Digital identification, or 'digital ID,' allows for individuals and firms to be authenticated unambiguously through a digital channel, unlocking access to banking, government benefits, education, and many other critical services. A digital ID enables individuals to unlock value and benefit as they interact with firms, governments and other individuals in six roles: as consumers, workers, microenterprises, taxpayers and beneficiaries, civically engaged individuals, and asset owners (McKinsey Global Institute 2019). Establishing a digital identity may involve the triangulation of information from various sources (e.g., social media, email accounts and SIM cards), along with the identification provided by municipalities, local community centres and associations.

Mobile technology is already being used in multiple ways to provide better access to identity-linked services. For example, in Rwanda it is only possible for an individual to access the e-government portal, Irempo, if they provide a mobile number that is registered using their national identity number. This ensures users are able to remotely validate their identity when registering on the platform, receive SMS notifications whenever their profiles are used to access new services or submit applications, and pay associated service fees using their mobile money wallet (GSMA Association 2019).

## Take public-private dialogue online

Public-private dialogue and social dialogue are essential tools for policymakers when designing a post-COVID-19 reform strategy. However, COVID-19 highlights the importance of finding new, more diverse ways for government and MSME employers and workers to interact and form and monitor agreements. Policy makers should consider engaging Social Partners and other stakeholders through different technologies. Platforms such as WhatsApp and other social messaging applications, allow for communication through both text and audio messages, while mobile networks can support hotlines, phone trees or simple phone calls (Oxfam 2020). Similarly, open source software, such as Rapid Pro, can also be used to create chatbots and interactive voice response, virtual support mechanisms.<sup>18</sup> Both Employers' and Workers' Organisations can be supported in their efforts to transition towards more online methods of member engagement, consultation and social dialogue.

## Strengthen e-finance solutions

Reforms should support the digitisation of the economy and the use of internet financing platforms that increase opportunities for e-commerce and the expanded use of finance platforms to provide financial services to MSMEs. Compared with traditional commercial bank loans, internet fintech platforms have relatively complete credit rating systems specifically for MSMEs and individual e-commerce sellers. They provide real-time monitoring of debtors and induce lending practices that are free from geographical restrictions, providing financial services to MSMEs on a larger scale. Fintech applications can significantly reduce operational volatility and improve the survival rate of MSMEs, particularly after natural disasters (Huang et al. 2020).

### 3.3. Financial reforms: making it easier for MSMEs to access relevant financial services

The crisis created by the COVID-19 pandemic has compounded the problems many MSMEs face in accessing finance.<sup>19</sup> The major challenge for firms created by the crisis is the lack of liquidity for MSME financing. This inhibits the ability of MSMEs to manage cashflow constraints in these depressed conditions or to recommence business, expand or readjust their business models. Thus, financial support for MSMEs is a core part of most state aid packages related to COVID-19. These measures include the guaranteed recovery of delayed payments, indirect financing to suppliers through their buyers, tax credits and other fiscal benefits to firms, co-financing of development programmes, and the direct provision of financing to local firms (United National Conference on Trade and Development, UNCTAD 2020c).

## Facilitate MSME lending through financial regulation reform

In the midst of the crisis, many governments introduced and extended measures that encourage central banks to lift the reserve requirements for banks to allow an increase in their lending to small business (OECD 2020c). Wherever possible, while ensuring prudent lending practices, governments should ensure sufficient liquidity remains available to businesses to preserve the continuity of economic activity after the COVID-19 outbreak (OECD 2020a). Policymakers should consider reforms to financial market regulations and supervision, whether temporarily or in the long-term,

<sup>18</sup> Rapid Pro website: <https://rapidpro.io>

<sup>19</sup> For an overview see: Bruhn, et al, (2017) who estimate the potential demand for MSME finance in developing economies is around US\$8.9 trillion, compared to the current, pre-COVID-19 credit supply of US\$3.7 trillion.

to encourage the extensions of loan maturities and the reconfiguration of loan requirements (see Gopinath 2020).

## Improve mechanisms for online transfers

The crisis has highlighted the benefits of government-to-person (G2P) payment ecosystems. During the crisis, many governments searched for ways to direct financial transfers to households and small businesses outside of traditional social protection mechanisms. While countries with well-established G2P payment ecosystems were able to push transfers out 'with lightning speed', others found it more difficult<sup>20</sup>. Thus, policymakers should give urgent attention to the modernisation of payment regulations and the scaling up of G2P regulatory infrastructure. Significant results can be quickly achieved by making regulatory changes, such as allowing existing non-bank e-money providers to provide cash-out services and fast-tracking the entry of new players through enabling regulatory frameworks and interoperability (Rutkowski et al. 2020).<sup>21</sup>

## Strengthen cash-in cash-out networks

Cash-in cash-out (CICO) mechanisms provide a critical infrastructure for delivering digital financial services in most parts of the world.<sup>22</sup> In the immediate crisis, CICOs provided a crucial interface between poor communities and those trying to provide financial relief. However, this has led to a number of stresses as finance providers try to manage liquidity surges and agents try to stay open despite the risks to their health. Moving forward, governments can introduce reforms that strengthen these networks and improve the licensing arrangements for e-money issuers (Bull 2020, 16 April).

## 3.4. Taxation Reform: using taxation support formalisation and industry growth

While the immediate efforts taken by governments to ease the tax pressures on MSMEs have been useful (e.g., deferral of payments and the removal of interest on payment due), longer-term reforms should be considered as the situation normalises. Many countries will experience constraints to their fiscal capacity as a result of the pandemic and will need to raise revenue. Thus, tax reforms that support MSME development should be based on a clear cost-benefit analysis. Tax policy reform typically involves reducing the complexity of procedures and the multiplicity of taxes, while addressing the lack of information about tax obligations. Reform strategies include the introduction of special tax regimes for MSMEs, the simplification of accounting standards, reporting requirements and payment facilities within the general tax regime, providing better information and technical assistance to enterprises, and improving inspection to reduce tax evasion.

### Simplify taxation administration

An important element in reforms towards a more enabling environment for sustainable enterprise concerns the need to ensure taxation administration procedures are simpler and easier to comply with. The ILC (2015a) encourages Members to simplify tax and reduce compliance costs by introducing simplified contributions assessment and payment regimes.

### Use taxation to support formalisation

Prior to the COVID-19 pandemic, inappropriate taxation systems were found to encourage informality. For many MSMEs, the tax system is too complex, expensive and opaque. Many are simply not aware of their tax obligations or fearful of the tax system. These challenges are exacerbated by the COVID-19 crisis, making the need for reform more urgent. As MSMEs have been among the hardest hit by the crisis, special consideration should be given to the issue of enterprise size in tax administration without creating enterprise growth traps or otherwise inhibiting business expansion

20 For example, in Chile, the national ID-linked basic account, Cuenta Rut, which covers most low-income people allowed April payments of the 'Bono COVID-19' directly into the bank accounts of more than two million vulnerable Chileans. In Peru, authorities leveraged on earlier successes in channelling G2P through accounts to increase payments to old and new beneficiaries during the emergency and are expanding the set of financial service providers—to include private banks and mobile money providers like BIM—to reach additional beneficiaries (Rutkowski et al. 2020).

21 An interesting example of e-payment platforms that have emerged in the midst of the crisis comes from Dakar, Senegal. PayDunya, an e-payment solution company, run by Ms Youma Dieng Fall, which has picked up a record number of new clients since the crisis began. This new business model 'is helping west African businesses limit financial loss from the crisis and advance financial inclusion in a region where more people have mobile money accounts than bank accounts'. See: UNCTAD 'COVID-19: Senegalese e-payment company shows resilience in a time of crisis', 30 April 2020.

22 These networks have over one billion registered users and process more than \$2 billion in daily transactions worldwide Bull (2020, 16 April).



(ILO 2014). These reforms should be complemented by other policy measures that improve the capacity of informal firms to compete and grow, including incentives that improve access to skills training and financial services (ILO 2013; ILC 2015a).

## Create tax incentives to stimulate new industry development

Tax reform can also be used to stimulate the economic recovery and transition towards new industries. As the ILC (2007) says, tax incentives and regulations, including public procurement procedures, can be used to promote consumption and production patterns that are compatible with the requirements of sustainable development. Coming out of the immediate COVID-19 crisis, tax reforms can be used to support the transition to a low-carbon economy, the promotion of green enterprises and the adoption of green technologies. Possible reforms include the introduction of incentives to write-down business investments in green technology or other technologies that reduce carbon emissions.

### 3.5. Trade reforms: improving trade and supply chains

The crisis will have a profound effect on global trade and supply chains. It is possible that global trade investments will decline by 30-40 per cent in 2020 as a result of COVID-19 (UNCTAD 2020b). Thus, policymakers should consider reforms to stem this disruption and explore the opportunities for facilitating the revitalisation of trading patterns.

## Improve firm competitiveness in open markets

While immediate action in response to COVID-19 has generally sought to safeguard the domestic private sector and build its resilience, policymakers should avoid weakening future competitiveness (World Bank Group 2020b). Markets should be kept open and respect competitive neutrality principles. It is important to ensure that any industry or business support measures adopted are transparent and temporary and that positive effects from state measures do not outweigh the negative ones derived from the distortion of competition (OECD 2020a). Thus, policymakers should review any recent cases where the crisis led to supporting specific companies and consider whether this support needs to continue in the medium- to long-term. In order to maintain competitiveness in

the economy, governments should tailor their support measures to solve specific problems on a temporary (i.e., time-bound) basis only and carefully monitor these interventions.

Moving into the medium and long-term, governments should strengthen the policy tools focused on industry clustering, place-based and mission-oriented innovation over those that shield companies from competition. An interesting example is Ruta N, which was created as a public-private initiative in 2009 in Medellin, Colombia, to support the transition from an industrial to a knowledge city (Morisson and Doussineau 2019).<sup>23</sup>

## Review investment policies

In immediate response to the pandemic, many governments reached out to foreign investors and kept them informed of their approaches to the pandemic. Moving forward, governments should review their investment policy regime to improve its responsiveness to investor concerns. It may be necessary to reinforce and solidify restrictive admission policies for foreign investment in strategic industries. This is because the pandemic may lead to more competition for attracting investment in other industries as economies strive to recover from the crisis and disrupted supply chains are re-established (UNCTAD 2020c).

## Improve cross border trade procedures and arrangements

Long established as a need for reform, the importance of recommencing cross-border trade as social containment policies are lifted cannot be overlooked. As with all reforms in this field, efforts to reduce the costs and time associated with trading across borders is essential--minimising 'unnecessary controls and burdensome procedures associated with clearance' (UNCTAD 2020a). However, in light of the nature of the pandemic, further consideration should be given to the use of online administrative approval procedures for investors and staff (UNCTAD 2020c).

<sup>23</sup> Ruta N is currently pursuing the challenge to build a \$1,000 ventilator (Orth 2020).

### 3.6. Economic reforms: boosting the role of MSMEs in the economic stimulus

The crisis created by COVID-19 has dramatically changed the macroeconomic settings in which businesses now operate. It has affected the levels of public and private debt, reduced financial stability and increased credit and investment risk and uncertainty, among other things. Thus, policymakers have to carefully reassess the macroeconomic conditions affecting MSME development and the need for reforms that boost the role of MSME in economic development.

When boosting the role of MSMEs in the COVID-19 economic stimulus, attention should be given to promoting sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all. This requires macroeconomic policies that have these aims as their central objective, along with trade, industrial and sectoral policies that promote decent work, and enhance productivity (ILC 2019). Similarly, appropriate policies and regulations are required to support improved working conditions in MSMEs and the transition of informal economy operators to the formal economy and economic and social development (ILC 2007).

Operating in a limited fiscal space, developing countries have introduced fiscal stimulus to expand national health services and protect households, along with fiscal or credit help to keep MSMEs afloat and help pay workers' salaries. However, many governments are heavily constrained and some have been recently downgraded by international ratings agencies (Hamel and Kristofer 2020). Beyond the immediate crisis, governments are considering the ways they can stimulate an economic recovery through public spending and with increased support and investment from donor and development agencies and international development finance mechanisms. This often involves bringing forward infrastructure development programmes that will increase the demand for products and services, especially in the construction sector.

#### Improve public procurement policies and procedures

Reforms should be introduced to fast-track public procurement procedures and simplify them to facilitate more tenders from MSMEs. This can include the use of local and MSME preferential policies. One such example is South Korea, where the Korean Public Procurement Service Authority has adopted several measures to increase small business participation in government procurement, through the Korea On-line E-Procurement System (Donor Committee for Enterprise Development

2017). These reforms would expand the market opportunities available to MSMEs coming out of the initial crisis, providing a path for enterprise growth and local job creation, while using the procurement system to promote innovation among MSMEs. Governments are encouraged to establish a coherent, comprehensive and coordinated legal and regulatory framework to support the functioning of the public procurement system as a whole. This should include the centralising of government e-procurement portals and provisions to ensure the prompt payment of MSME-suppliers.

#### Strengthen supply chains and national capabilities

The coronavirus crisis has revealed the fragility of modern global supply chains. A likely consequence is that multinational enterprises and large networked firms will diversify their supply chains in the future, which may see the emergence of new manufacturing hubs in places such as Bangladesh, India, Mexico, and Vietnam. This will have a major impact on the market opportunities for MSMEs operating in these supply chains. As a result, it will be important to look at how policy interventions can be used to stimulate markets, including local markets, and their connections with global supply chains. More broadly, there is likely to be increasing efforts towards the decentralisation of manufacturing capacity and changes to supply chain management practices (e.g., less just-in-time stock control and more stockpiling). Policymakers may be increasingly pressured to consider whether certain products need to be manufactured in the country or the region (Lin and Lanng 2020). This should include the establishment of industrial policies aimed at promoting smooth industrial restructuring and a dynamic industrial ecosystem that integrates competitive and productive MSMEs.

#### Strengthen agricultural value chains and agri-businesses

Governments should customise their financial stimulus packages to address the needs of agri-businesses. While the most pressing needs for MSMEs in agricultural value chains are cash flow and liquidity, the crisis affects all firms in the value chain, including larger buyers. Thus, governments should consider coherent measures along these value chains and involving all market actors, such as commercial and development banks, ministries of finance, trade, agriculture, chambers of commerce, development partners, large domestic food companies, and MSME representative organisations ensuring that tools are customised to the needs of recipients (Food and Agriculture Organization of the United Nations, FAO 2020).

## Refocus intellectual property rights

While intellectual property (IP) rights protection encourages pharmaceutical research and development (R&D), the current crisis has led to the introduction of new legal provisions to facilitate the joint use of IP-protected technologies. This speeds-up R&D and the mass production of needed treatments, diagnostics and vaccines. Some countries have issued legislative acts that recognise the pandemic as a health emergency

and facilitate the granting of non-voluntary licenses to make use of existing technologies (e.g., Canada, Chile, Ecuador). The reforms encourage IP rights holders to contribute their rights to a pool and to enable researchers and companies to undertake further R&D as well as production and supply of anti-COVID-19 products under reasonable license terms (UNCTAD 2020c).

### Summary key messages

- ▶ **Develop a medium-term strategic response beyond the immediate crisis created by the coronavirus (COVID-19) pandemic.** Following the social containment and other business restrictions designed to reduce the infection rate, governments need to think carefully about how to manage the recovery while promoting decent and productive private sector employment.
- ▶ **MSMEs are particularly vulnerable to the impact of the crisis.** Many MSMEs will have a reduced capacity to recover and survive. With fewer financial resources to draw from many MSMEs will need to access resources and enhance their capacity to respond to disrupted markets.
- ▶ **The economic crisis created by the COVID-19 pandemic is the result of necessary policy responses taken by governments in the face of a major health threat and not a failure of markets.** The economic recovery creates an opportunity for policy reforms that ensure sustainability and greater economic resilience along with a more productive business sector.
- ▶ **Build back better.** The impact created by the pandemic creates an opportunity to refocus government efforts and introduce measures that strengthen the economy, creating a more resilient MSME sector, while boosting firm productivity and stimulating growth that is more inclusive and sustainable (e.g., environmentally sensitive, low-carbon economy).
- ▶ **Support entrepreneurial and innovative responses.** Reforms should be introduced to create conditions that make it easier to start, expand or close a business (i.e., business insolvency). This includes systems that allow for business to reconfigure their product or service offerings and their business models in response to the crisis.
- ▶ **Introduce digital reforms to the business environment.** The digitalisation of legal and regulatory procedures make compliance more accessible, transparent and rule-based, while reducing the cost of compliance to businesses. They also allow better access to markets and digital trading while removing or significantly reducing the need for physical contact and can increase the access MSMEs and their workers in remote areas have to government services.
- ▶ **Make it easier for MSMEs to access relevant financial services.** The closing of the economy has created a financial crisis, among other crises, in many countries and policymakers should consider how financial sector reforms can be used to increase liquidity for MSME financing, while improving mechanism that extend online payments.
- ▶ **Support tax reforms that encourage formalisation and stimulate new industry development.** While many governments introduced tax relief measures for businesses in the immediate crisis, new improvements to tax administration can be introduced in the medium-term, making procedures simpler, more transparent and easier to follow and comply with for micro and small enterprises.
- ▶ **Engage MSMEs in the economic recovery.** Bring forward infrastructure development and industry transition programmes that will increase the demand for products and services, while improving public procurement policies and procedures that enhance MSME participation.
- ▶ **Improve trade and supply chains by keeping markets open and maintaining market competition.** Look for opportunities to support MSMEs operating in global and national supply chains, improving their competitiveness and access to new markets. This will include the strengthening of industrial clusters and support for place-based and mission-oriented innovation. It also includes the strengthening of industrial ecosystems in which MSME productivity and access to markets is enhanced.

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