

# ICSB Gazette

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## Policy measures supporting informal Micro, Small and Medium Enterprises (MSMEs) in developing countries during the Covid-19 Pandemic

Written By: Department of Economic and Social Affairs (DESA) Division for Sustainable Develop (DSDG)



### Policy can support informal MSMEs during the COVID-19 Pandemic

Micro, small and medium enterprises (MSMEs) are important economic engines globally. Representing over 50% of all enterprises around the world, they contribute to more than 70% employment and 50% of GDP growth in developing countries. With the employment, income and livelihood opportunities they provide, MSMEs possess strong potential to act as a catalyst towards the progress towards the Sustainable Development Goals (SDGs) in multiple areas, including poverty eradication, zero hunger,

decent job creation and the stimulation of entrepreneurship and innovations among vulnerable groups, including women and youth. In the Political Declaration of the 2019 SDG Summit, MSMEs were endorsed by heads of states as important forces for achieving sustainable development.

But, as is well known, in many poorer countries, the majority of MSMEs are informal those which have not registered their businesses with government authorities. MSME informality is a prominent feature of the MSME sector, especially in developing countries. They are the smallest economic units, including self-employed workers and micro enterprises, often hiring less than ten people. Despite their small business scales, collectively, informal MSMEs provide substantial employment and livelihood opportunities. According to an ILO report, about 2 billion workers are hired by the informal economy, consisting mainly of informal MSMEs, which accounts for 90 percent of employment in low-income countries and 67 percent in middle-income countries[ii]. The informal sector also provides 75 percent of non-agricultural employment and 72 per cent of overall employment in sub-Saharan Africa.[iii] Frequently, employment with informal MSMEs provides critical livelihood opportunities for women, youth, migrants and refugees and their families. In the pre Covid-19 crisis pandemic period, informal MSMEs in developing countries faced multiple challenges, particularly, limited access to financial resources and markets of higher value. Employees in informal MSMEs, particularly in developing countries, suffer little basic social protections. Rapid urbanization in developing countries often means that informal MSMEs are located in overcrowded and often peripheral areas without adequate access to utilities, hygiene and other services.

### **Challenges of Informal MSMEs during the Covid-19 pandemic**

Most informal MSMEs in developing countries operate in the manufacturing, services and tourism sectors that are highly susceptible to challenges brought forth by the Covid-19 pandemic. These include not only loss of customers, but also interrupted supply chains and cash-flow pressures. Without being registered, informal MSMEs cannot access economic stimulus packages released by national governments. Employees of informal MSMEs are not covered by social protection programmes. Unlike formal and large enterprises, informal MSMEs rely heavily on customer foot traffic for business continuity. They have minimum capital or savings to survive the loss of customers due to the lockdown and social distancing policies that aim to prevent the Covid-19 pandemic spreading. All these could exacerbate the challenges informal MSMEs face and affect their business continuity. The closure of informal MSMEs due to the Covid-19 pandemic could inflict loss of employment and income on vulnerable groups and constrain the hard-won gains made towards achieving the SDGs in developing countries.

When the global economy re-opens, it remains unclear how the market restructuring would affect the viability of informal MSMEs, especially when they are not equipped with diversified skills and sufficient financial resources to align business models with different market structures. Effective policy measures specifically designed for the challenges and demands of informal MSMEs would be crucial to maintain their business continuity, including the jobs and incomes provided by the informal economy.

### **Policy measures supporting informal MSMEs during the Covid-19 pandemic**

A number of fiscal stimulus measures have been launched by national governments to support economic growth during the Covid-19 pandemic. These include concessional and emergency loans, debt relief, tax breaks and exemptions as well as utility payments and subsidies. Unfortunately, informal MSMEs, as unregistered business entities, are unable to access these measures. Data deficiency of informal MSMEs in developing countries makes it more difficult to deliver policies tailored to their demands. But government authorities could provide, for example, wage subsidies and payment for utilities, workshop rentals as well as contributions to social protections to informal MSMEs and their employees. In addition, personal protection equipment (PPE) may also be provided to employees of informal MSMEs and their families to reduce health and safety risks. To ensure rapid delivery of the measures, policymakers may consider partnering with organizations working closely with informal MSMEs, including business development service providers, chambers of commerce and MSME associations.

In addition to direct payment and subsidies as the immediate response, it would be useful to consider policy measures in the medium and long terms, especially during the market restructuring after the Covid-19 pandemic. These could include training and webinars on e-commerce and online marketing skills which could help diversify products and business models of informal MSMEs in line with the market restructuring. In addition, training on the application of occupational safety and health (OSH) standards in workplaces would also be important to improve resilience of informal MSMEs to health risks during the business re-opening phase. Government authorities may also consider engaging mentors, providing continuous support that could help informal MSME entrepreneurs conceptualize, construct and operate the models and standards during a longer period of time.



MSME formalization would expand access to business development services, financial resources, technologies and linkages with markets of higher value. It would strengthen contributions of MSMEs to sustainable development and improve their resilience to external shocks, including the Covid-19 outbreak. However, policy frameworks for business formalization in developing countries are often fragmented and overlapping, which entail substantial transaction costs that provide no incentives for MSME entrepreneurs to register their businesses. To promote formalization and improve resilience of informal MSMEs, it would be important to optimize the policy environment and build coherent and simplified business registration mechanisms. Governments of developing countries are working to build one-stop business registration mechanisms for promoting MSME formalization.

### **Box 1: Simplification of Business Registration in Cambodia**

Since 2018, the Ministry of Industry and Handicraft of Cambodia (MIH) has started to roll out the One-Roof Service (ORS) policy for improving coherent MSME registration. The ORS policy aims to provide a one-stop service for MSME entrepreneurs to register their businesses, and to promote efficiency and transparency of the environment of doing businesses in Cambodia. Together with 18 government departments related to MSME registration, the General Department of SMEs in the Ministry would coordinate implementation of the ORS policy and promote its digitized delivery towards MSME

entrepreneurs throughout the country. For that purpose, MIH endeavors to strengthen collaboration with the most essential government departments related to MSME registration. These include the General Department of Taxation (GDT), the Ministry of Commerce (MoC) and the Ministry of Labor and Vocational Training (MLVT). The manufacturing sector, of which the MIH is directly in charge, has been prioritized as the pilot for implementing the ORS policy.

### **Box 2: Simplification of Business Registration in Nigeria**

As part of the efforts to enhance the ease of doing business in Nigeria, and in an effort to facilitate operations and simplify processes for MSMEs, the Federal Government is in the process of opening one-stop shops for the registration and administration of MSMEs across the country. The one-stop-shop is aimed at bridging the information and investment gap between micro and small investors and regulatory agencies of government<sup>[iv]</sup>. It is envisaged that the initiative will make it possible for local entrepreneurs to interact with relevant regulatory agencies in one location, and will also provide opportunities for them to update their knowledge on current practices in business. It should also ensure seamless collaboration of the agencies on improving the ease of doing business in the country.

The one-stop mechanisms would help substantially reduce costs related to business formalization by providing a clear roadmap and wholesale information on procedures and requirements to complete business registration. To further promote MSME formalization, policymakers may also consider connecting the one-stop mechanism with incentives, such as tax exemptions, provision of small grants and subsidies for purchasing equipment or training for business skill development. Moreover, coverage of the simplified registration mechanism should not only be confined to urban and economically active areas. It also needs to be expanded and reach informal MSMEs operating in poor and remote areas. Digitized delivery of registration services, such as online portal and mobile applications, could be considered to expand the coverage. In countries with limited internet and mobile connections, government authorities may consider working with business associations and their local branches to expand coverage of the simplified registration services. Moreover, the value of informal MSMEs as enduring institutions at the time of crisis such as the Covid-19 pandemic cannot be ignored. There have been interesting examples where micro and small enterprises came through the crisis by themselves with innovations, localized supplies and niche markets. Their experience could be useful to inform policy making processes for better supporting MSMEs at the time of crisis.

### **BOX 3: MSME innovation in Ghana for the COVID-19 crisis**

In Ghana a young entrepreneur has invented a sensor handwashing station, powered by Solar Energy. The sink has a double tap, one for liquid soap and the other for water and the cistern is made from a recycled barrel. The sink pours out soap and water upon detection and then begins to sound an alarm to get the individual ready for the outflow of water. The sink has been programmed such that as soon as the alarm goes off, water flows out for 25 seconds, enough to get hands thoroughly cleaned. The system is created with a two way channel, one to pump clean water and the other to drain soapy water, after which it flows out from a tap beneath the sink. This invention has solved the problem of having to open and close taps, thereby re-staining hands with germs.

#### **Box 4: MSME resilience to the Covid-19 crisis in Sri Lanka Improving resilience of informal MSMEs to external shocks, including the Covid-19 pandemic**

Informal MSMEs are an important segment of the MSME sector which provides a large number of employment opportunities in developing countries, especially to vulnerable groups. Improving their resilience to external shocks including the Covid-19 pandemic is highly relevant to protect jobs, income and the achievement of the SDGs in developing countries. As unregistered business entities, their inaccessibility to financial resources, market and policy support are perhaps among the prominent challenges that informal MSMEs face. Very few informal MSMEs in developing countries are able to access policy support launched by governments in the emergency response to the Covid-19 pandemic.

It is encouraging to note that governments of developing countries are launching measures to promote formalization of MSMEs, which would expand their access to resources and support. The role of informal MSMEs as a part of the MSME ecosystem must be underscored, as they provide important space for entrepreneurship growth, especially among women and youth in a low-income context. More policy measures would need to be delivered to support resilience of informal MSMEs, in addition to measures for formalization.

*[i] This paper was prepared under the project supported by the 2030 Agenda for Sustainable Development Sub-Fund of the UN Peace and Development Fund (UNPDF), of which the People's Republic of China is a major contributor*

*[ii] International Labour Organisation (ILO) (2018). Women and Men in the Informal Economy: A Statistical Picture. International Labour Organization, Geneva.*

*[iii] International Labour Organisation (ILO) (2016). Transforming Jobs to End Poverty, World Employment Social Outlook (WESO). International Labour Organization, Geneva.*

*[iv] Nigeria to launch one-stop shops to spur small-scale enterprises, 5 September, 2017,*

*<http://footprint2africa.com/topics/smes/nigeria-launch-one-stop-shops-spur-small-scale-enterprises/>*



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### **Skye Blanks**

Editor, ICSB Gazette

Skye is the Junior Project Manager at the International Council for Small Business (ICSB) in Washington, D.C. and an Editor of the ICSB Gazette.

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