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Uncertainty as the New Normal: Structural Constraints and Policy Pathways for MSMEs

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Abstract

In today's global economy, uncertainty is no longer a temporary disruption – it is a persistent condition that defines the operating environment for Micro-, Small-, and Medium-sized Enterprises (MSMEs). From inflationary shocks and trade wars to digital disruption and fragile supply chains, MSMEs face a complex and evolving risk landscape with limited buffers and constrained access to resources. This contribution explores how structural challenges – such as restricted credit, regulatory burden, and limited digital capacity – undermine MSME resilience. It highlights recent global policy initiatives, including deregulation efforts, AI support strategies, and inclusive financial tools aimed at enabling MSMEs to adapt and thrive under uncertainty. Drawing on comparative insights and national data from Poland, the paper argues that investing in MSME resilience is not just a response to crisis, but a foundational strategy for inclusive and sustainable economic growth. As uncertainty becomes the new normal, agile and targeted support for MSMEs must be central to future economic policy design.

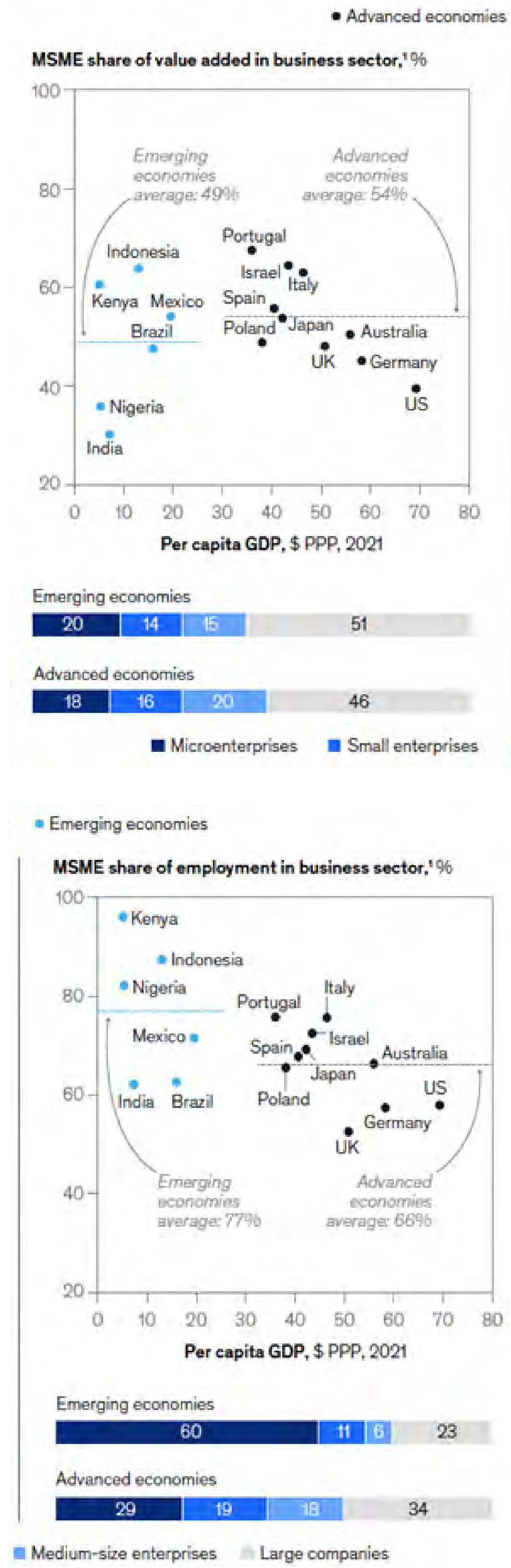
INTRODUCTION

In 2025, uncertainty is no longer an anomaly – it is the prevailing condition of global business. For Micro-, Small-, and Medium-sized Enterprises (MSMEs), this environment is shaped by overlapping disruptions such as geopolitical volatility, inflationary shocks, digital transformation, and fragile supply chains. These challenges do not merely cause episodic setbacks; they redefine how small businesses assess opportunity, allocate capital, and manage risk.

MSMEs represent over 90 percent of firms globally and account for a substantial share of employment and value creation across economies. In Poland, for instance, MSMEs generate 49 percent of business-sector value added and 65 percent of employment – figures that mirror global trends (refer to Figure 1). Yet, these enterprises often operate with thinner margins, smaller financial buffers, and more restricted access to external finance. Paradoxically, this vulnerability also fosters agility – MSMEs are frequently the first to adapt business models, explore niche markets, and adopt emergent technologies. Their responses to crisis – whether retrenchment or reinvention – offer vital clues about resilience under pressure.

Poland's experience underscores both the opportunity and the urgency. Despite contributing significantly to employment and output, Polish MSMEs remain only half as productive as their large-company counterparts – below the 60 percent benchmark in peer advanced economies. According to McKinsey's recent analysis, closing this productivity gap could unlock value equivalent to 6.5 percent of GDP [6]. Sectors such as trade, construction, and professional services offer particularly high-impact potential for scale and collaboration. Addressing these inefficiencies requires not just capital, but targeted interventions in infrastructure, policy, and digital capacity.

Figure 1. Share of Value Added and Employment in the Business Sector vs. Per Capita GDP, with Breakdown by Firm Size and Economy Type



Source: McKinsey Global Institute (2024), A Microscope on Small Businesses: Spotting Opportunities to Boost Productivity. Available at: https://www.

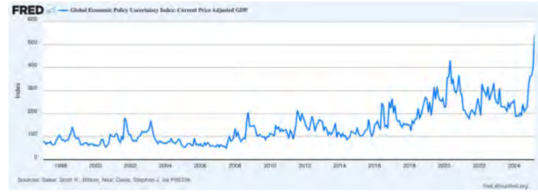
mckinsey.com/mgi/our-research/a-microscope-on-small-businesses-the-productivity-opportunity-by-country#/

Understanding MSME behavior under uncertainty is therefore not just a matter of capital flows; it is a strategic lens into economic development and recovery. Investing in MSMEs resilience and productivity – especially in uncertain environments – should be at the core of inclusive economic strategy.

UNCERTAINTY AS THE NEW NORMAL: GLOBAL TRENDS AND MSME IMPLICATIONS

Over the past decade, a global economic policy uncertainty has not only intensified but become a persistent feature of the business landscape. This trend is captured in the Global Economic Policy Uncertainty Index, which tries to quantify unpredictability by tracking media coverage of uncertainty-related terms across major economies. As illustrated in Figure 2, the index shows sharp spikes during major geopolitical and economic disruptions – such as the 2008 financial crisis, the COVID-19 pandemic, and the war in Ukraine – each of which has had profound implications for MSME investment behavior. These recurrent shocks underscore the urgency of understanding how uncertainty shapes decision-making at the enterprise level, especially for MSMEs that lack the buffers and tools of larger firms.

Figure 2. Global Economic Policy Uncertainty Index (1997–March 2025): Trends in Policy-Related Uncertainty Across Major Economies



Source: Federal Reserve Bank of St. Louis, FRED Database. Available at: https://fred.stlouisfed.org/series/GEPUCURRENT

Despite their critical role in both emerging and advanced economies, MSMEs remain disproportionately vulnerable to uncertainty due to a range of structural constraints. The following key factors outline the systemic challenges that limit their capacity to invest, adapt, and grow in volatile environments.

Limited Financial Buffers and Liquidity Constraints

MSMEs often operate with minimal financial reserves, making them particularly vulnerable during economic downturns. This fragility is compounded by persistent barriers to external financing, including limited access to credit, high collateral requirements, and underdeveloped financial markets [2], [10]. Empirical research confirms that MSMEs in both emerging and developed economies are disproportionately affected by liquidity shortages, especially during periods of macroeconomic instability [4]. For instance, in the United Kingdom, a report by Allica Bank highlighted a $114 billion lending gap in bank financing to SMEs, which represents approximately 3.38% of the UK's GDP [1]. Emerging markets face a larger absolute and relative financing gap for MSMEs compared to developed economies. In 2019, the credit gap for MSMEs in emerging markets and developing economies (EMDEs) was estimated at $5.7 trillion – equivalent to

19% of their combined GDP [2]. These structural constraints limit their ability to invest in resilience-building measures, such as digital transformation or workforce upskilling, further entrenching their exposure to risk. According to the World Bank's Financial Inclusion Overview [10], enhancing inclusive access to financial services is foundational for narrowing these financing gaps, particularly in low-capacity MSMEs.

Restricted Access to Credit and High Perceived Risk

Financial institutions frequently categorize MSMEs as high-risk borrowers, leading to more stringent lending criteria, elevated interest rates, and limited credit availability. These issues are particularly pronounced in emerging markets, where underdeveloped financial systems and weak credit infrastructures drive up transaction costs and restrict access to formal finance [2], [10]. Even when financing instruments exist, MSMEs often remain excluded due to eligibility barriers, lack of collateral, and risk-averse lending practices [4], [11].

In response, multilateral institutions and governments have introduced a range of complementary tools to address these financing gaps. These include guarantee schemes, public-private credit platforms, and insurance-based risk mitigation instruments aimed at reducing lender exposure [2]. The rise of fintech solutions – including digital credit scoring, peer-to-peer lending, and embedded finance – also plays a growing role in expanding access to credit for underserved MSME segments [2], [3]. While these innovations offer promise, the systemic trust gap between financial institutions and MSMEs remains a critical barrier that must be addressed through more inclusive financial policy design. The IFC's 2025 GPFI Action Plan reinforces this by calling for better-aligned financial instruments, scalable public-private partnerships, and digitally enabled credit access tailored to MSMEs in diverse markets [15].

Lower Capacity for Strategic Planning and Risk Management

Due to resource constraints, MSMEs often lack access to sophisticated risk assessment tools and long-term strategic planning capabilities. This limitation hampers their ability to anticipate, prepare for, and respond to complex disruptions. Several global reports emphasize that smaller firms are less likely to engage in formal contingency planning or use predictive financial modeling, increasing their exposure during crises [4], [11]. The World Bank and IMF underline the need for integrated support mechanisms, including access to fintech tools, risk advisory services, and tailored capacity-building programs to strengthen MSME preparedness in volatile environments [5], [12].

Limited Digital and Operational Resilience

The adoption of digital technologies among MSMEs is frequently hindered by financial constraints, skill shortages, and limited infrastructure. This digital divide reduces their ability to pivot operations, maintain business continuity, or access alternative markets during crises. The World Bank and UNCITRAL both highlight that digitalization – particularly in financial services – can significantly enhance MSME resilience by improving access to credit, streamlining operations, and expanding market reach [10], [11], [12], [13]. However, the implementation gap remains substantial, especially in low- and middle-income regions where MSMEs struggle to adopt digital tools without targeted support or policy incentives [11], [12]. Case studies further illustrate how lack of digital infrastructure, inadequate training, and institutional fragmentation create persistent barriers to adoption, even in relatively tech-ready markets [14].

Artificial Intelligence (AI) adoption among MSMEs is emerging as a critical factor in enhancing operational resilience. Leading countries such as South Korea, Denmark, and Sweden report AI adoption rates among enterprises exceeding 25 percent with innovation hubs like Midtjylland (Denmark) and the Brussels-Capital Region (Belgium) surpassing 30 percent. In knowledge-intensive sectors, Finland, Sweden, and Denmark have business adoption rates exceeding 66 percent and 45 percent, respectively. These nations have implemented comprehensive strategies combining robust AI infrastructure, skilled workforce development, and supportive regulatory environments to facilitate AI integration among MSMEs. [17]

In Poland, by contrast, only 13.9 percent of industrial enterprises with 10–49 employees reported using AI in 2023, compared to 42.3 percent of large firms. Among those that adopted AI, nearly half cited productivity gains, and 46 percent noted improved production efficiency – yet workforce benefits remained limited. This significant gap in adoption between small and large firms suggests that without targeted national AI support mechanisms, Polish MSMEs may struggle to keep pace with digital transitions at home and abroad. [9]

This significant gap in adoption between small and large firms suggests that without targeted national AI support mechanisms, may struggle to keep pace with digital transitions. Some countries have begun to bridge this divide through structured financial incentives. In Singapore, for example, the government supports AI adoption among SMEs through a combination of subsidies, grants, and low-interest loans designed to lower the entry cost of advanced technologies and mitigate adoption risk. These tools, along with tailored digital readiness programs, form a model for inclusive technological transition in the MSME sector. [7]

Policy and Regulatory Challenges

MSMEs frequently encounter difficulties navigating complex and often fragmented regulatory environments, a challenge that becomes more pronounced during periods of economic policy uncertainty. These issues can create a loss of confidence, confusion, increase compliance costs, and discourage formalization or investment. The UNCITRAL Legislative Guide underscores the critical role of coherent legal frameworks – especially in areas like credit reporting, collateral systems, and insolvency regimes – in expanding access to finance for small businesses [13]. Complementing this, the World Bank's Raising and Accelerating MSME Performance (RAMP) program highlights the importance of streamlining regulations and simplifying digital compliance tools to reduce the bureaucratic burden on MSMEs [11]. Moreover, recent policy discussions emphasize that agile, inclusive policy design – tailored to the realities of small enterprises – is essential to fostering both resilience and formal growth in uncertain environments [13]. For instance, Polish regulations are often more favorable to companies backed by foreign direct investment. Thus, in Poland, first major deregulation bill from 2025, introduced over 40 measures to simplify business regulations and reduce bureaucratic burdens on entrepreneurs – key mechanisms include a six-month grace period before new obligations take effect, a "one in, one out" rule for regulations, and mandatory review of each economic law after two years [8]. Deregulation to enhance investment efficiency, reduce compliance costs, and support MSMEs is urgently required – the importance of simplifying taxation laws, rationalizing labor regulations, and decriminalizing business laws to foster a more conducive environment for small businesses.

CONCLUDING REMARKS

As governments and institutions chart the next phase of recovery and growth, placing MSMEs at the center of policy design is both a strategic imperative and a moral one. To turn this vision into action, five priorities stand out: first, simplifying regulatory frameworks to reduce compliance burdens and improve the ease of doing business; second, closing the credit gap through well-designed financial instruments and digitally enabled lending tools; third, accelerating access to digital and AI technologies through targeted support and infrastructure investment; fourth, embedding MSMEs in national risk preparedness and economic continuity planning; and fifth, strengthening coordination across institutions to ensure that support measures are agile, scalable, and responsive to evolving challenges. These priorities form the foundation of a resilience strategy that enables MSMEs not only to withstand uncertainty, but to drive inclusive and sustainable growth in the years ahead.

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