

Impact of COVID-19 Pandemic on Micro, Small, and Medium-Sized Enterprises in South-East Asia: Coping Strategies, Government Measures and Policy Implications

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Abstract: In South-East Asian (SEA) economies of Brunei Darussalam, Cambodia, Indonesia, the Lao PDR, Malaysia, Myanmar, the Philippines, Thailand, and Viet Nam, the recent economic growth has contributed to significant poverty reduction and led some countries to attain the rank of middle-income economies. However, SEA's economic growth has declined from 5.9% in 2018 to 5.1% in 2019 due to global trade conflicts and economic uncertainty. COVID-19 pandemic induced lockdowns have contracted the SEA's economic growth by 0.1% in 2020, which is likely to rebound to 6.2% in 2021. COVID-19 pandemic shocks require a new development model to address the challenges and to reap the opportunities for building resilient economies. In this context, the micro, small, and medium-sized enterprises (MSMEs) can play a dominant role in economic recovery and global competitiveness of the SEA economies. Against above backdrop, the paper intends to analyze the impact of COVID-19 pandemic on MSMEs in SEA economies, the coping mechanisms adopted and the governments' support measures to MSMEs and to draw policy implications for agile and resilient MSMEs in the region. On average, the MSMEs constituted about 97% of all enterprises, generated nearly 69% of employment and contributed around 41% of gross domestic product in SEA economies. Recent economic growth and foreign direct investment (FDI) inflows have contributed immensely to the growth of MSMEs through improved labor productivity and global value chains. However, COVID-19 pandemic induced shocks have adversely impacted MSME growth due to adverse internal and external factors, which forced most MSMEs to adopt unsustainable coping mechanisms including business closures. Some SMEs adopted agile and resilient business strategies including switching to digital economy and survived the crisis. Governments of SEA countries have also announced fiscal and monetary measures to support MSMEs, which eased their financial situation temporarily. Therefore, MSMEs need robust policy support and new business model to achieve inclusive growth and economic integration along with global competitiveness in the context of the Industry 4.0, and FDI inflows.

Keywords: COVID-19 pandemic, Micro, small, and medium-sized enterprises, coping strategies, government measures, policy implications, South-East Asia

1. Introduction

COVID-19 crisis has substantially impacted micro, small, and medium-sized enterprises (MSMEs) (Eggers, 2020) and caused severe economic uncertainties

(Bonadio *et al.*, 2020). Workers engaged in MSMEs have suffered immense job losses (Bartik *et al.*, 2020; Lindsay *et al.*, 2020). MSMEs have faced significant difficulties in sustaining their business operations (ILO [International Labour Organization], 2020; OECD [Organisation for Economic Cooperation and Development], 2020a) due to demand disruptions (OECD, 2020b) and economic slowdown (AMTC [Asia Pacific MSME Trade Coalition], 2020). COVID-19 pandemic has led to severe financial and managerial constraints to MSMEs (Bartik *et al.*, 2020; Eggers, 2020). Many MSMEs have been temporarily closed their business activities (Bartik *et al.*, 2020) due to liquidity crisis (OECD, 2020a) and may become bankrupt and face business closures (OECD, 2020c).

In the developing economies of Asia, the recent economic growth has facilitated in substantial poverty reduction. Some low income Asian economies have become middle-income economies. However, global trade conflicts and economic slowdown has led to decline in economic growth to 5.1% in 2019 from 5.9% in 2018 in developing Asia. The COVID-19 pandemic and worldwide lockdowns have caused a decline of 0.1% in growth in developing Asia 2020. Economic growth is expected to bounce back to 6.2% in developing Asia in 2021 (ADB, 2020a). This calls for a new model to reduce the pandemic impacts and exploit the opportunities to gain and recover from the crisis in agile and resilient manner. In this context, the important role of the MSMEs is not over-emphasized for speedier economic recovery and sustainable economic growth.

After global financial crisis, economic growth has created new opportunities for MSMEs through greater inflows of foreign direct investment (FDI) and consequent increase in number of large multinational firms (MNEs) into Asian region. All this led to substantial increase in demand of products and services of the MSME domestic in developing Asia. This is particularly true for complementary enterprises and parts and components firms. The integration of MSMEs into global value chains (GVCs) was expected to significantly enhance the labor productivity in developing Asia. However, the COVID-19 crisis has created immense business distress to Asian's MSME growth due to substantial demand disruptions in both the domestic and foreign markets alongside significant decline in investment.

Asia's emphasis on inclusive growth requires reorienting the MSME development policy to face the complex challenges posed by COVID-19 pandemic induced domestic and external business environment. The recent liberalized trade and investment regimes have led to significant economic integration in developing Asian economies. New technologies have supported the much needed structural change for development of MSME business model. This has created impetus for reorienting the focus from domestic business environment to global competitive economy. All this calls for new MSME policy options to support the already vibrant MSME sector in Asian economies. The emergence of the Fourth Industrial Revolution (4IR), also called the Industry 4.0, along with substantial inflows of FDI are expected to provide immense opportunities for development of MSMEs in the region. The 4IR refers to

emergence of new scientific and technological knowledge which disrupted business environment across countries and needing robust regulatory frameworks. Along with the challenges posed by the Industry 4.0, the COVID-19 induced business disruptions calls for suitable policy support for survival of MSMEs and their speedier recovery in agile and sustainable manner. Against the above backdrop, the paper intends to analyze the impact of COVID-19 pandemic on MSMEs in the south-east Asian (SEA) economies, the coping mechanisms adopted and the governments' support measures to MSMEs and to draw policy implications for agile and resilient MSMEs in the region.

2. Methodology

The present study is based on the secondary data derived from the Asia Small and Medium-Sized Enterprise Monitor (ASM) 2020, which is a very informative data sharing platform on MSME development in the Asia-Pacific. The ASM 2020 is an annual review of MSME landscape including financial and non-financial health of the MSMEs in each of the Asia-Pacific countries and by sub-regions, The main objectives of the ASM 2020 includes deeper understanding of the MSMEs, financial development, and policy options; sharing of best practices and knowledge on MSME development including financial and non-financial statistics on development of the MSMEs. The data used for the present study is confined to the SEA economies of Brunei Darussalam, Cambodia, Indonesia, Lao People Democratic Republic (Lao PDR), Malaysia, Philippines, Singapore, Thailand, and Viet Nam. Efforts have been made to analyze the data in comparative perspective, subject to the availability of the same. The data triangulation method has been used to analyze the objectives of the study. The simple descriptive statistics has been used to analyze the data used in the study.

3. Results of the Study

3.1. MSMEs Development in the SEA Region

MSMEs play a very significant role in the SEA economies by generating domestic demand, creating employment, stimulating innovation, and enhancing competition. The increase in global trade conflict and economic uncertainty has led to decline in economic growth in SEA region to 4.4% in 2019 from 5.3% in 2017. COVID-19 pandemic induced demand and supply disruptions have reduced economic growth by 2.7% in 2020 (ADB, 2020a). MSMEs have been widely affected by COVID-19 shocks. During 2010-2019, MSMEs have contributed 41.1% of a country's GDP in the region at a CGAR of 2.3%. In 2018, MSMEs have contributed substantially to GDP (61.1%) in Indonesia at CGAR of 14.2% during 2010-2018. MSMEs contributed relatively low at about 35%-45% of GDP at CAGR of 2.8%-9.1% in Brunei Darussalam, Malaysia, Thailand, and Singapore. The contribution of MSME GDP to national GDP has increased sharply in Indonesia, Thailand, and Malaysia and declined

in Singapore. In 2018, MSMEs contributed \$592 billion to GDP followed by Thailand, Singapore, and Malaysia at \$216 billion, \$149 billion, and \$126 billion respectively. In 2018, services contributed significantly to MSME GDP in the range of 60% to 71% of an individual country in the region. Therefore, underpinning the development of MSMEs can contribute significantly to economic recovery of the SEA economies from the COVID-19 crisis.

Figure 1 show that the MSMEs constitute 97% of all businesses and employ about 69% of workforce, but contribute only 41% of gross domestic product (GDP) in developing Asia during 2010-2019. During 2010–2019, contribution of the MSMEs to total enterprises has declined at a compound annual growth rate (CAGR) of 0.3% in the SEA, while the share of MSME employees to total employees increased by 0.8%, and MSMEs' share in GDP increased by CAGR of 2.3%. MSMEs contribution to average export value also experienced a decline of CGAR of 0.05%.

3.2. Formal Financing to MSMEs in SEA Region

MSMEs lack access to formal finance for their growth and development in developed and developing countries alike and the SEA economies are no exception. Inadequate access to formal financing hampers growth and development of MSME in SEA region. Figure 3 and figure 4 show that on average, bank credit to MSMEs stood at 14.8% of a country's GDP in SEA, which contracted at CGAR of 1.3% during 2010–2019, while bank finance stood at 16.9% of total bank lending, which also contracted at CGAR of 0.3% during the same period. The credit market for MSME remained small in SEA region and shows slower growth, which also reflect slow economic growth of SEA

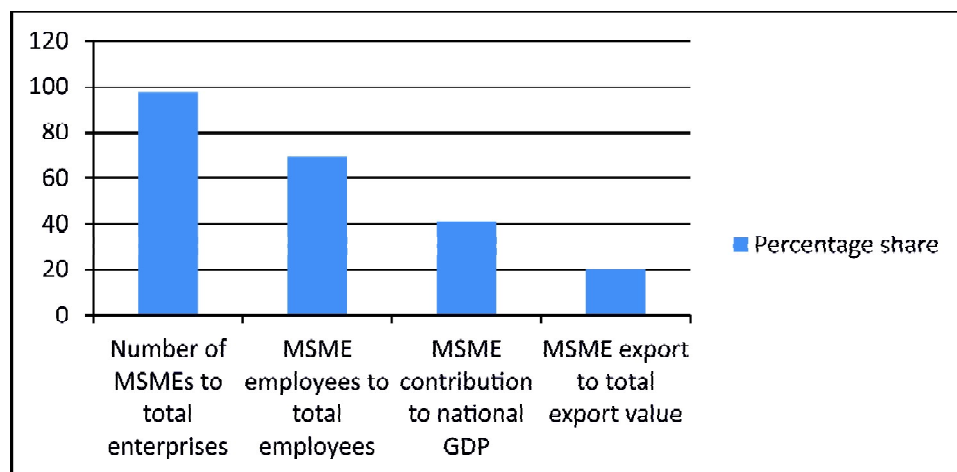


Figure 1: MSMEs in Southeast Asia, 2010–2019

Note: The data for MSME export to total export value refers to 2010–2018.

Source: Author's creation based on Asia SME Monitor 2020 (ADB, 202b).

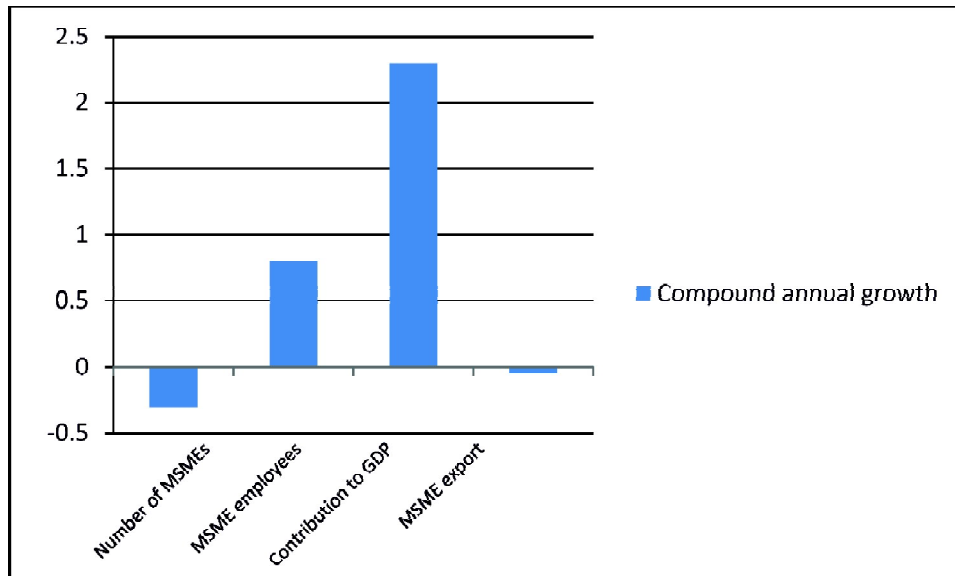


Figure 2: MSME landscape in SEA, 2010-2019 (CGAR %)

Note: The data for MSME export refers to 2010–2018.

Source: Author's creation based on Asia SME Monitor 2020 (ADB, 202b).

countries. On average, MSME non-performing loans (NPLs) stood at 4.1% of total outstanding bank loans to MSME, which contracted at CGAR of 2.5%, however remained higher than NPL ratio of 2% for total bank lending, which also contracted at CGAR of 0.7% during 2010–2019.

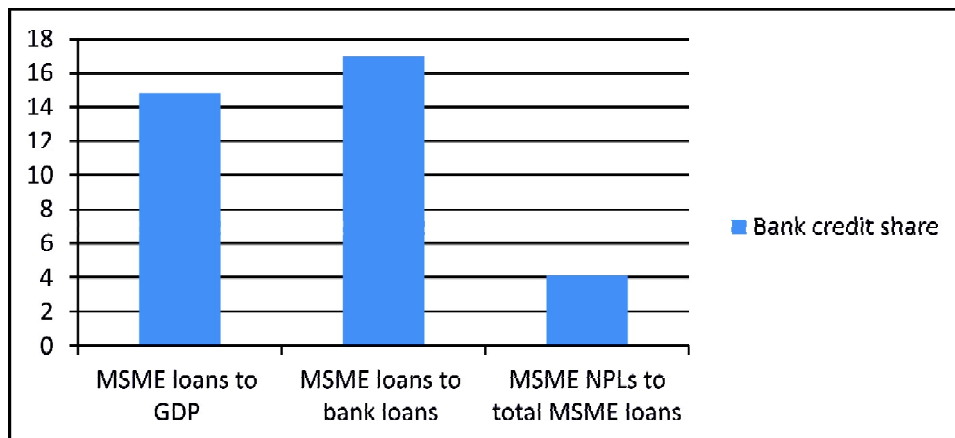


Figure 3: Bank credit share to MSME loans in SEA region (%)

Source: Author's creation based on Asia SME Monitor 2020 (ADB, 202b).

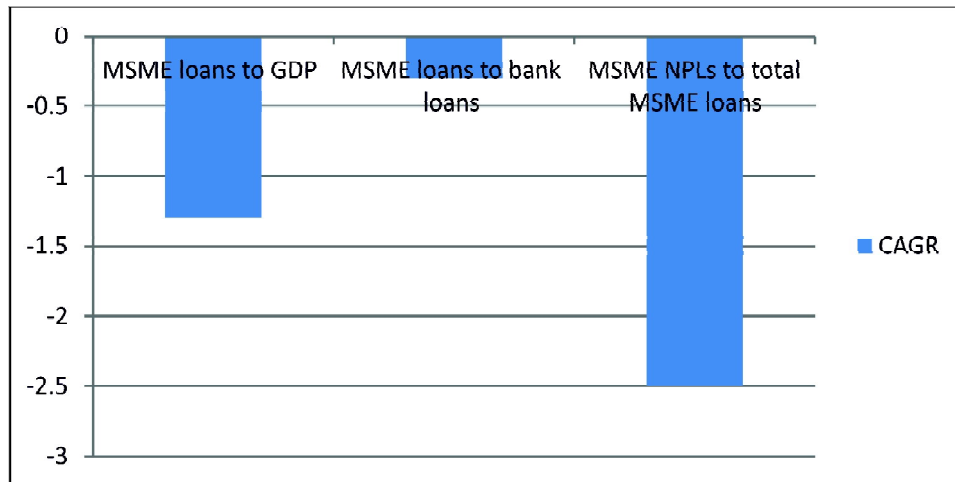


Figure 4: CAGR of bank credit to MSME loans in SEA Region (%)

Source: Author's creation based on Asia SME Monitor 2020 (ADB, 202b).

The non-bank finance sector is relatively small but shown increasing trend. The non-bank finance institutions (NBFIs) refer to microfinance institutions, credit cooperatives, finance companies, pawnshops, and leasing companies. In SEA region, the NBFIs have provided a significant venue for financing MSME working capital. Figure 5 and figure 6 show that on average, the NBF financing stood at 3.9% of a country's GDP, which increased at a CGAR of 13.1% during 2010–2019 and comprised of 8.6% of total bank lending in the SEA region. The proportional share of NPLs to total NBF financing stood at

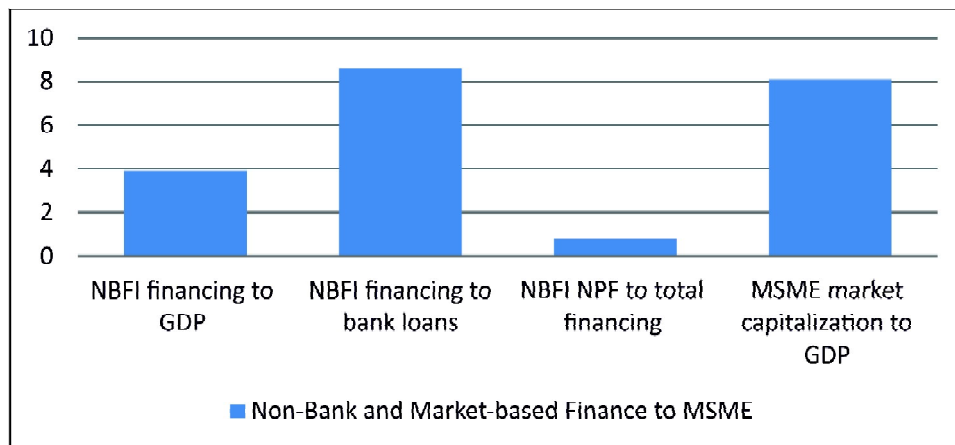


Figure 5: Non-bank and market-based financing to MSME in SEA region (%)

Source: Author's creation based on Asia SME Monitor 2020 (ADB, 202b).

just 0.8%, which increased at a CGAR of 0.7% during 2010–2019. In SEA region, equity markets remained small but growing slowly. The economies such as Indonesia, Malaysia, the Philippines, and Thailand have developed a dedicated MSME stock market to provide alternative financing to viable and innovative MSMEs. On average, capital market provide financing to MSMEs to the tune of 8.1% GDP in SEA region, which increased at a CGAR of 1.0% during 2010–2019. The penetration of the digital finance is significant across the SEA region, which can provide additional financing to the MSMEs (ADB, 2020a).

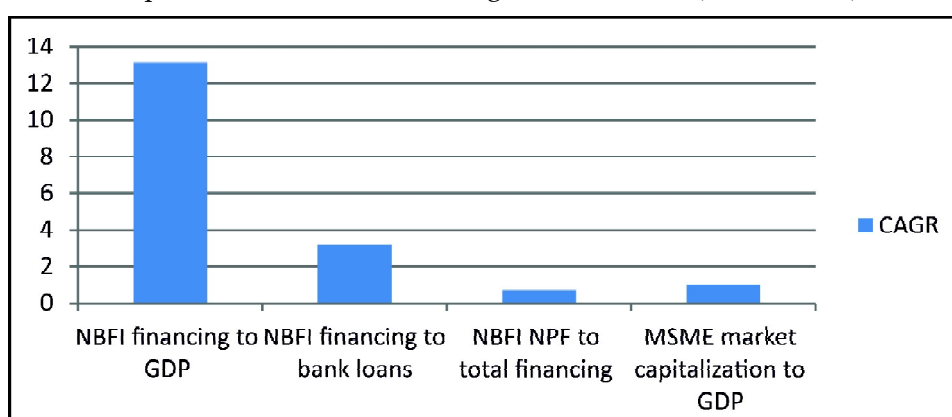


Figure 6: CGAR of non-bank and market-based finance to MSME in SEA region (%)

Source: Author's creation based on Asia SME Monitor 2020 (ADB, 202b).

In the SEA region, development of MSMEs is essential for inclusive growth. The monetary authorities have strategies and plans to support financial inclusion as a part of broader goal of inclusive growth through development of MSMEs. In tune with ASEAN's long-term MSME development strategy, many SEA economies have robust long-term development policies and strategies for MSME development. Broader regional strategy have targets to increase productivity, technology, and innovation; greater financial and market access; robust regulatory framework, sound entrepreneurship and human capital development. SEA economies also have better policy coordination and financial access at country and regional levels.

3.3. Scale of MSMEs in SEA Economies

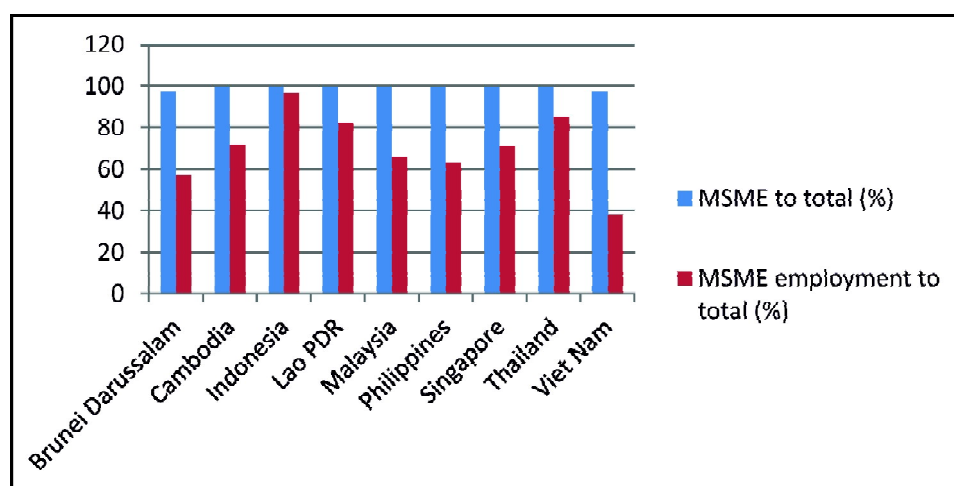
In SEA, MSMEs are defined using a mix of four criteria viz. number of employees, assets, turnover, and capital invested. Table 1 shows that employment criterion has been used in all SEA economies, while some SEA countries have used sales turnover, assets, and Viet Nam has used additional criterion of capital investment. The level of employment, assets, turnover, and capital investment differs across countries such as Cambodia, Lao PDR, Malaysia, Thailand, and Viet Nam. Therefore, different definition of MSMEs across SEA countries reflect lack of a standardized definition in the region

Table 1: MSME definition in SEA Countries

Country	Employees	Asset	Turnover	Capital
Brunei Darussalam	Yes	Yes	Yes	
Cambodia	Yes	Yes		
Indonesia	Yes	Yes	Yes	
Lao PDR	Yes	Yes	Yes	
Malaysia	Yes		Yes	
Philippines	Yes	Yes		
Singapore	Yes		Yes	
Thailand	Yes		Yes	
Viet Nam	Yes		Yes	Yes

Source: Author's creation based on Asia SME Monitor 2020 (ADB, 202b).

MSMEs dominate the business environment in the SEA economies. Figure 7 shows MSMEs in SEA economies remained more than 97% of total enterprises. MSMEs increased rapidly in Viet Nam at CAGR of 13.8%, followed by Cambodia at 6.4%, and Malaysia at 4.3%. MSME employment to total employment varied significantly across SEA economies. During 2010-2019, employment in MSMEs has surged sharply in Viet Nam at CGAR of 6.4%, followed by Lao PDR at 5.9%, the Philippines at 4.6%, Thailand at 4.2%, and Cambodia at 4.1%. In 2018, MSMEs provided employment to 97% of labor force in Indonesia, followed by Thailand at 85.5% and Lao PDR at 82.4%, whereas MSMEs in Viet Nam provided only 38% of employment. Except Brunei Darussalam and Viet Nam, share of MSME employment to total employment stood above 63%.

**Figure 7:** MSME to total and MSME employment to total in SEA economies (%)

Source: Author's creation based on Asia SME Monitor 2020 (ADB, 202b).

Figure 8 shows that about 61%–89% of MSMEs in SEA countries are engaged in wholesale and retail trade services including accommodation and food services. Manufacturing including agriculture based food processing stood at about 5%–17% of MSMEs in individual country. In SEA countries, majority of MSMEs are engaged in low-technology business operations and confined to domestic markets and remained less growth oriented. A very low proportion of MSMEs in SEA economies are operated by young entrepreneurs, start-ups, and technology-based firms. However, these MSMEs are highly growth oriented, innovative, and open to global markets. Therefore, it is essential to support these growth oriented MSMEs to become more agile and resilient to promote inclusive economic growth in SEA economies. About 72%–85% of MSMEs the MSMEs are confined to rural areas and just 15%–28% of MSMEs are located in capital cities of the respective SEA country.

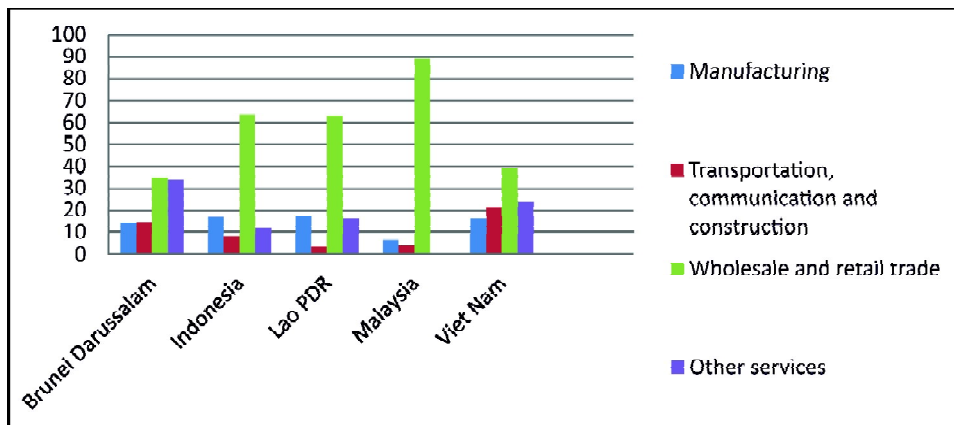


Figure 8: MSMEs by sector in SEA countries

Source: Author's creation based on Asia SME Monitor 2020 (ADB, 202b).

3.4. MSME GDP by sector in SEA economies

Figure 9 shows the contribution of MSME to GDP by sector in SEA countries. The services sector contributes substantially to GDP in SEA countries. For instance, the wholesale and retail trade contributes 62.4% to GDP in Malaysia, followed by 47.8% in Indonesia and 31.4% in Thailand. Other services contribute significantly to GDP of Thailand (41.1%) followed by Indonesia (20.6%) and just 1.6% in Malaysia. The contribution of manufacturing including agriculture based food processing industries to GDP remains above one-fourth in Indonesia, Malaysia, and Thailand, whereas the transportation, communication, and construction remain below 6% in these countries during 2010-2019.

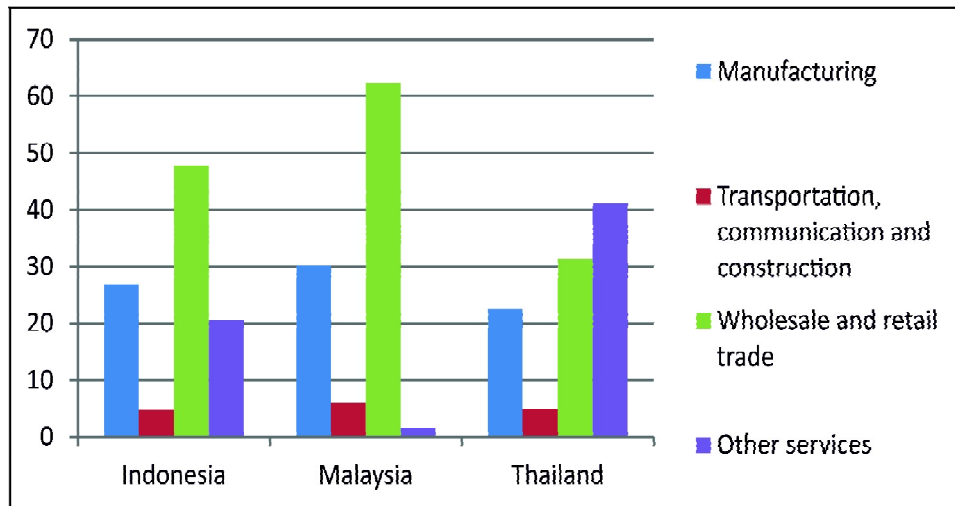


Figure 9: MSME GDP by sector in SEA economies (%)

Source: Author's creation based on Asia SME Monitor 2020 (ADB, 202b).

MSME development significantly contributes to economic diversification in SEA economies. However, many SEA countries lack basic infrastructure like adequate electricity and transportation, which is essential for development of rural enterprises. Rural areas also lack digital infrastructure like the Internet, which is highly essential for promotion of innovative rural enterprises. In most SEA countries, informal MSMEs dominate, which poses additional barrier to MSME development in an individual country. In recent years, concerted reforms have been introduced for increasing the coverage of registered MSMEs in Lao PDR and Viet Nam.

3.5. MSME Employment by Sector in SEA Economies

Figure 10 shows that majority of MSME workers are engaged in services, which provide employment to 44%–85% of the workforce in SEA economies. Manufacturing sector provides employment to 10%–26% of workers in MSMEs by country. For instance, manufacturing provides employment to more than 25% of the workers in Viet Nam. In individual country in the region, MSME employment is concentrated outside the capital city, which is similar to MSMEs concentration in rural areas. About 70%–84% of MSME workforce is confined to rural areas and just 16%–30% of the MSME workers are reported in capital city. Thus, MSMEs have high potential to generate new jobs for the unemployed youth or informal workers in SEA countries. It calls for strengthening the basic infrastructure like electricity, the Internet, and transportation in rural areas to draw highly skilled and talented workforce to rural based MSMEs.

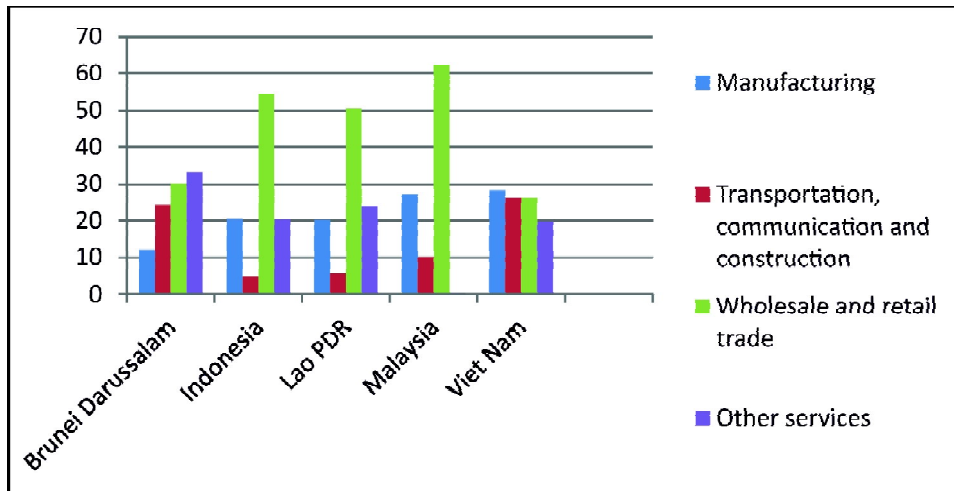


Figure 10: MSME employment by sector (%)

Source: Author’s creation based on Asia SME Monitor 2020 (ADB, 202b).

3.6. Market Access of MSMEs in SEA Economies

Majority of MSMEs in SEA countries are confined to service sector and function within the domestic markets without much links to other enterprises. A small proportion of MSMEs are linked to external markets, therefore, their integration with global value chains (GVCs) is restricted. During 2010–2018, MSMEs’ contribution to an individual country’s export value stood at 20.4%, which increased at CAGR of just 0.05%. Figure 11 shows that MSMEs contributed 17.3% of export value in Malaysia followed by 14.4% in Indonesia in 2018 and

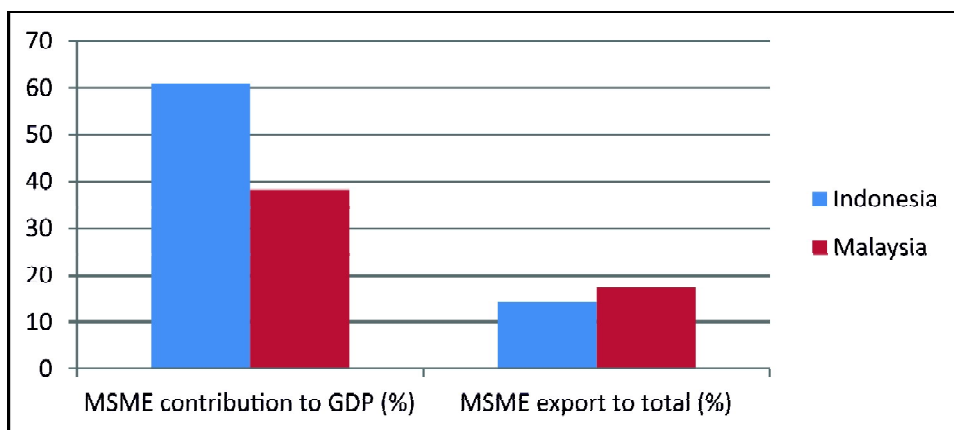


Figure 11: MSME contribution to GDP and exports to total (%)

Source: Author’s creation based on Asia SME Monitor 2020 (ADB, 202b).

increased at CGAR of 7.7% and 4.9% respectively in Indonesia and Malaysia. Since 2017, the contribution of MSME export to total export has decline marginally and remain volatile due to global trade conflicts.

Various SEA countries have supported internationalization of MSMEs by increasing their participation in GVCs. In Thailand, industrial clusters have been promoted in various manufacturing activities including automotive and parts, electronics, and digital industries. Malaysia has also promoted internationalization of MSMEs through different policy initiatives. In Indonesia, export business clusters have been developed for handicrafts and wooden furniture industries. Viet Nam offered export training to domestic MSMEs for integrating them to GVCs. Other countries such as Brunei Darussalam and Philippines have promoted food processing industries for strengthening agricultural value chains. MSMEs have also been promoted to participate in government procurement for construction projects.

3.7. Digital Technology and MSMEs in SEA Economies

Digital technology contributed significantly to MSME growth in SEA economies and facilitated development of new and innovative enterprises. Access to the Internet and mobile phone has improved rapidly in SEA countries and stood at above 119 mobile cellular subscriptions per 100 people. Brunei Darussalam has highest proportion of individual internet users. However, mobile cellular subscriptions as well as individual internet users are reportedly low in Lao PDR. Increased access to digital technology has led to e-commerce development and also created new opportunities for start-ups and MSMEs. Some of the important domestic e-commerce firms in SEA region include Lazada (Singapore) and Tokopedia (Indonesia). Lao PDR has limited internet connectivity, which caused slow development of e-commerce and digital industry. Some SEA countries have facilitated technology adaptation for e-commerce development through innovative programs such as the Techno Startup Center in Cambodia, E-Smart IKM program in Indonesia, and e-Commerce Adoption program in Malaysia.

3.8. Formal Financing to MSMEs in SEA Economies

Figure 12 shows that MSME bank loans to total bank lending stood at 19.8% in Lao PDR, followed by 19.6% in Indonesia and just 6.1% in Philippines and 0.2% in Brunei Darussalam in 2019. Bank lending to MSMEs stood at 8.5% in Lao PDR, followed by 7% in Indonesia, 3.2% in Philippines, and as low as 0.1% in Brunei Darussalam. Except Lao PDR, bank credit to MSMEs has increased in SEA economies. For instance, CAGR stood at 11.7% in Indonesia during 2011–2019, 7.3% in Philippines during 2008–2019), 6.7% in Malaysia during 2007–2019, and 6.1% in Singapore during 2010–2019, while CAGR in Lao PDR declined by 1.4% during 2015–2019. However, proportion of MSME loans to GDP and total bank loans have been declining, except Indonesia. Similarly, share of NBFI

financing to bank loans stood at 27.9% in Brunei Darussalam, followed by 11.3% in Indonesia, 8.5% in Lao PDR and just 2.2% in Philippines, while share of NBFi financing to GDP stood at 8.4% in Brunei Darussalam, followed by 3.7% in Lao PDR, 3.2% in Indonesia and just 1.1% in Philippines.

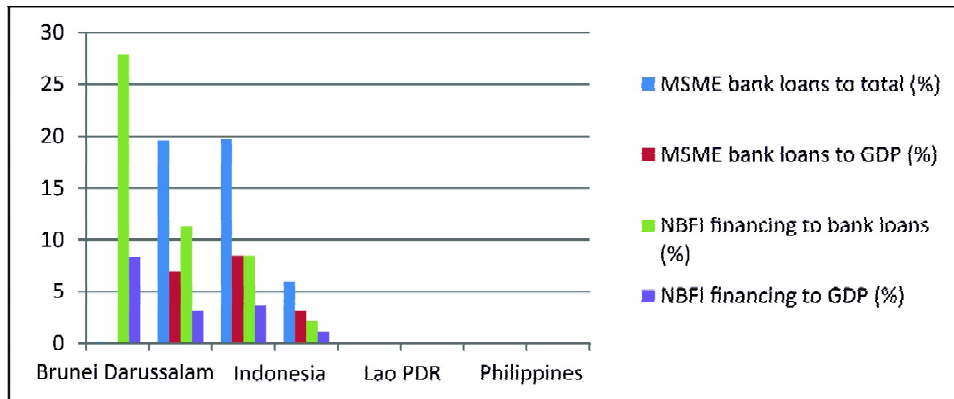


Figure 12: MSME access to bank and non-bank financing (%)

Source: Author’s creation based on Asia SME Monitor 2020 (ADB, 202b).

Figure 13 shows that MSME lending stood at \$80 billion in Indonesia, followed by \$68 billion in Malaysia, \$57 billion Singapore, \$12 billion in Philippines, and just \$1.6 billion in Lao PDR in 2019. It is evident that high-income economy of Singapore and upper middle-income economies of Indonesia and Malaysia provided relatively substantial bank financing to MSMEs, while share of NBFi financing to total financing to MSME stood substantially very high in Malaysia compared to the combined NBFi financing to Brunei Darussalam, Indonesia, Lao PDR, Philippines, and Singapore.

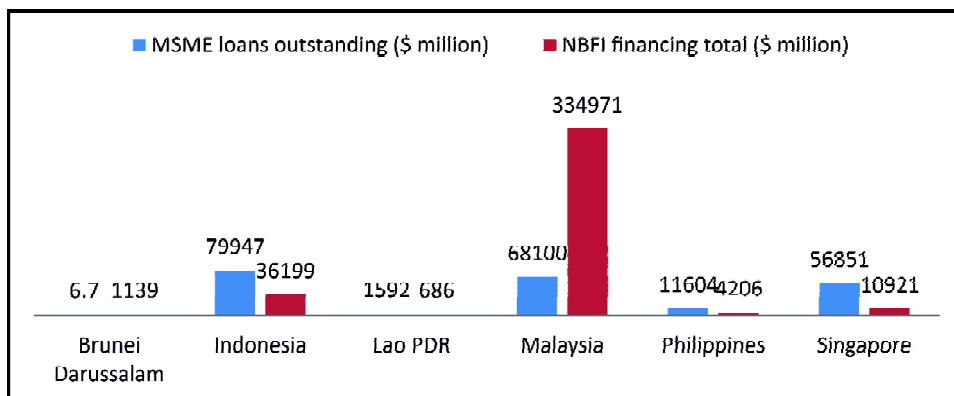


Figure 13: MSME access to bank and non-bank financing (\$)

Source: Author’s creation based on Asia SME Monitor 2020 (ADB, 202b).

3.9. Formal Financing to MSMEs by Sector in SEA Economies

In SEA, services sector predominantly borrowed from banking sector in the range of 53%–67% followed by manufacturing sector in the range of just 8%–30% in 2019. Commercial banks used collateral for loans in the forms of real estate security including movable assets. Figure 14 shows that MSMEs in services sector have greater access to bank credit in SEA economies than manufacturing and other services with significant variation across countries. For instance, services sector in Malaysia receive substantial share of MSME bank financing (65.7%) followed by Indonesia (49.3%), Lao PDR (37%), Thailand (28.3%), and Brunei Darussalam (24.6%) during 2010-2019. Manufacturing sector receives substantial bank financing (42.4%), followed by Malaysia (20.7%), Thailand (20.4%), Indonesia (19.9%), and Lao PDR (11.7%). It is significant to note that services other than wholesale and retail trade as well as transportation, communication and construction have also received substantial bank credit in Thailand (44.8%) compared to Brunei Darussalam (31.4%), Lao PDR (29.6%), Indonesia (20.3%) and just 1.1% in Indonesia.

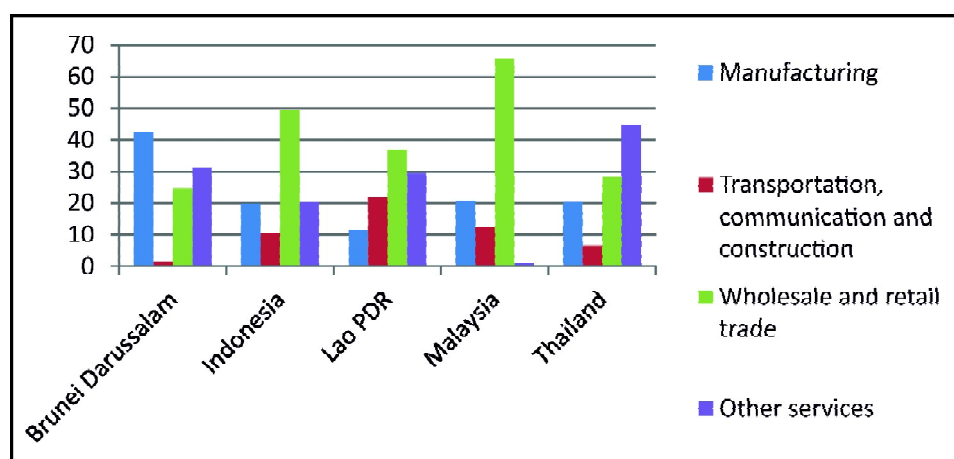


Figure 14: MSME bank loan by sector in SEA economies (%)

Source: Author's creation based on Asia SME Monitor 2020 (ADB, 202b).

Figure 15 shows the NBFI financing to MSME by sector. MSMEs engaged in other services received considerable NBFI financing and its share stood at 58.6% in Lao PDR and 55.7% in Indonesia. The share of NBFI financing in wholesale and retail trade stood at 25.5% and 19.9% respectively in Lao PDR and Indonesia. MSMEs in manufacturing sector receive about 13.2% of NBFI financing in both Indonesia and Lao PDR.

In 2019, the share of MSME non-performing loans (NPLs) to total MSME loans has been significantly higher compared to non-MSMEs NPLs in SEA economies. MSME NPL ratio stood in the range of 3.6% (Indonesia) to 5.8%

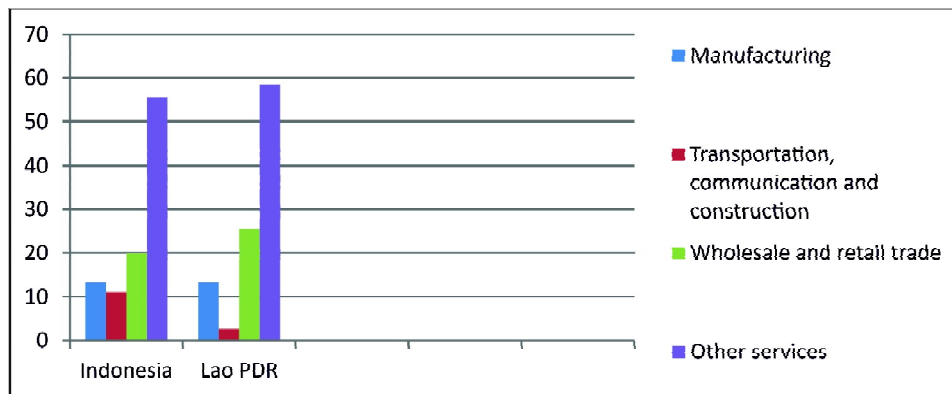


Figure 15: NBFI financing by sector in SEA economies (%)

Source: Author's creation based on Asia SME Monitor 2020 (ADB, 202b).

(Philippines). MSME NPL ratio stood significantly higher than overall NPL ratio for banks. Overall, MSME NPLs ratios have increased in SEA economies except Malaysia. CAGR of MSME NPLs ranges between 2.3% in Thailand during to 2009–2019 to 19.7% in Singapore during 2010–2019, while Malaysia experience a decline of 1.2% during 2007–2019. The finance gap between formal credit and non-formal financing remains significant in public financing of MSMEs in SEA countries. Public financing plays an important role in bridging the financing gap faced by MSMEs. Public financing plays a significant role in direct or indirect lending to MSMEs through banking system including soft loans and refinancing. Women-owned MSMEs, agri-enterprises, technology based start-ups and rural firms have also attracted significant financing from government supported financial assistance.

4. Coping Strategies Adopted by MSMEs in SEA Economies

MSMEs in SEA region have adopted various coping strategies to tackle the COVID-19 impacts to survive and thrive from the crisis. Some MSMEs have used retreating strategies and closed down. Most MSMEs have remained agile and resilient and temporarily closed down to resume their operations once the situation improves. Some MSMEs have faced severe liquidity crunch and bankruptcy and require support of the government to recover and meet routine expenses such as workers' salaries and domestic requirements. Demand disruptions have adversely impacted the MSMEs who preferred to remain open after relaxation of lockdown and other restrictions. Supply disruptions have also been substantial during nation-wide lockdown in almost all countries in the region. MSMEs engaged in services sector have faced more difficulties due to extended restrictions and mandatory compliance. Most MSMEs have rehired the same workers after resuming the normal business activities and also paid partial wages to workers.

Many MSMEs have resorted to governments' financial assistance to recover their business operations. However, informal MSMEs have not been covered under government support packages and suffered the most on triple fronts: demand slowdown, supply disruptions and financial constraints. Many MSMEs have adopted resilient coping strategies by switching to digital marketing. Business optimism remained high to recover from the impact of the pandemic in the future. However, level of government support also determines the speed of recovery from the crisis. Despite existing challenges, most MSMEs have reopened with easing of lockdown restrictions and resumed their business operations though slowly. However, innovation and technology savvy MSMEs have considerably used the digital platform and recovered faster than technology deficit MSMEs. Thus, there is need to speed up the process of the Industry 4.0 by integrating the innovative MSMEs to the digital economy in SEA region.

5. Government Support Measures for MSMEs in SEA Economies

In order to mitigate the impact of the COVID-19 crisis, the governments of national economies in SEA region have adopted various financial policy support measures, which are shown in Figures 16, 17, and 18. Figure 16 shows the bank and non-bank finance support measures for MSMEs in SEA economies. Bank finance support measures for MSMEs included refinancing

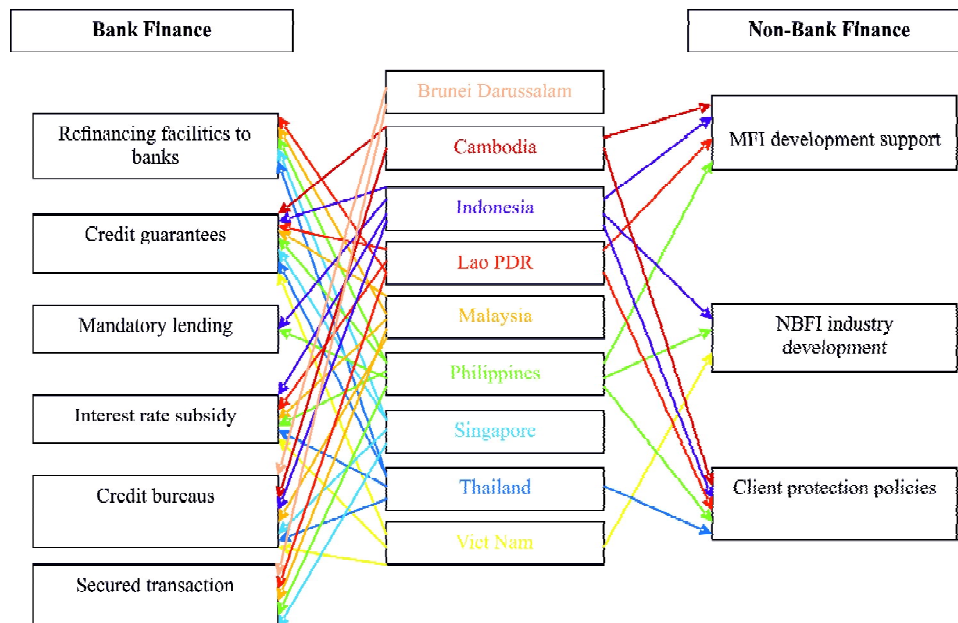


Figure 16: Bank and non-bank finance support measures for MSMEs in SEA economies

Source: Author's creation based on Asia SME Monitor 2020 (ADB, 202b).

facilities to banks, credit guarantees, mandatory lending, interest rate subsidy, credit bureaus, and secured transaction, while non-bank finance measures included micro finance institution (MFI) development support, NBFIs industry development, and client protection policies.

Figure 17 shows digital finance and capital market support measures for MSMEs in SEA economies. Digital finance measures included peer to peer (P2P) lending regulations, equity crowdfunding regulations for MSMEs, and digital infrastructure development, while capital market measures included equity market for MSMEs, venture capital, and tax incentives including promotion of financial literacy and financial inclusion. Most SEA economies have created a specialized public bank to support MSMEs, for instance Cambodia SME Bank, and Vietnam Development Bank. Many SEA countries offer soft loan programs for MSMEs, for instance Lao PDR's SME Promotion Fund, Access of Small Enterprises to Sound Lending Opportunity program for MSMEs in Philippines, and Enterprise Financing Scheme in Singapore. Mandatory lending scheme for promotion of MSME has also been implemented such as intermediation loan programs in Indonesia and Philippine Innovation

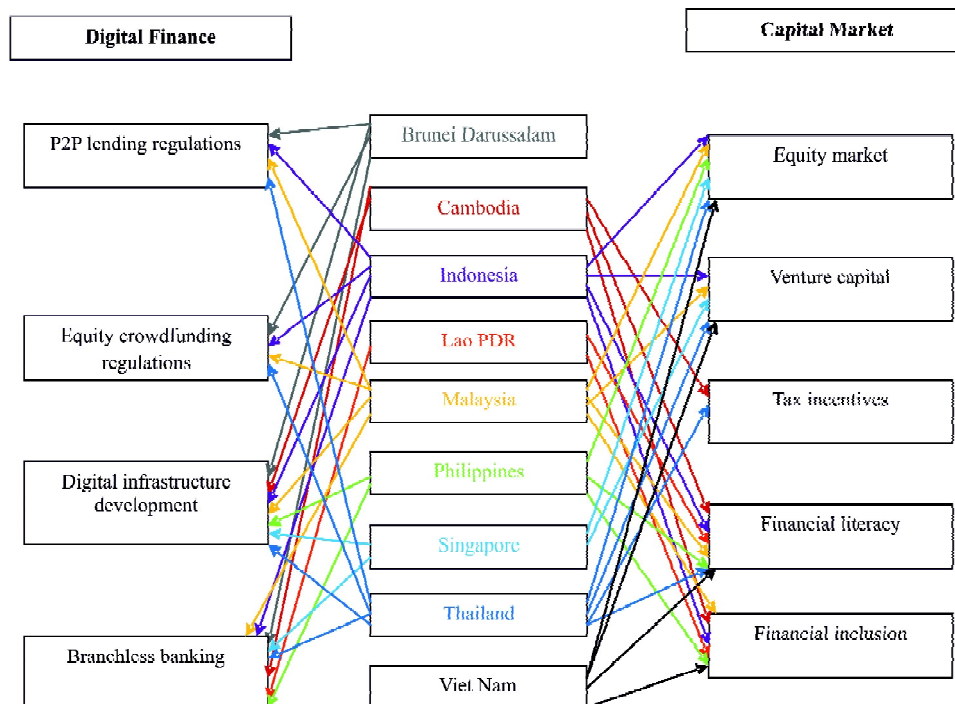


Figure 17: Digital finance and capital market support measures for MSMEs in SEA economies

Source: Author's creation based on Asia SME Monitor 2020 (ADB, 202b).

Act. Credit guarantees have been implemented to fill the MSME financing gaps, for example Credit Guarantee Corporation Malaysia, Thai Credit Guarantee Corporation, and Credit Guarantee Fund for MSMEs in Viet Nam.

Figure 18 shows emergency financial assistance to MSMEs in response to the COVID-19 crisis. Public financing measures have been implemented to rescue MSMEs from the adverse impacts of the pandemic. Governments of national economies in SEA region have implemented various stimulus packages to curb the economic disruption and support faster recovery of MSMEs. For instance, Indonesia has implemented various emergency fiscal stimulus measures to support MSMEs. Various governments in SEA region have offered tax relief, debt restructuring, and new loans to MSMEs, besides an emergency subsidy program to supplement wages of workers in MSMEs. For example, Thailand offered tax relief, cash handouts to workers, and debt restructuring including new MSME lending. Most MSMEs preferred to temporarily close down in Philippines, Lao PDR, Indonesia, and Thailand due to the COVID-19 induced national-wide quarantine measures and

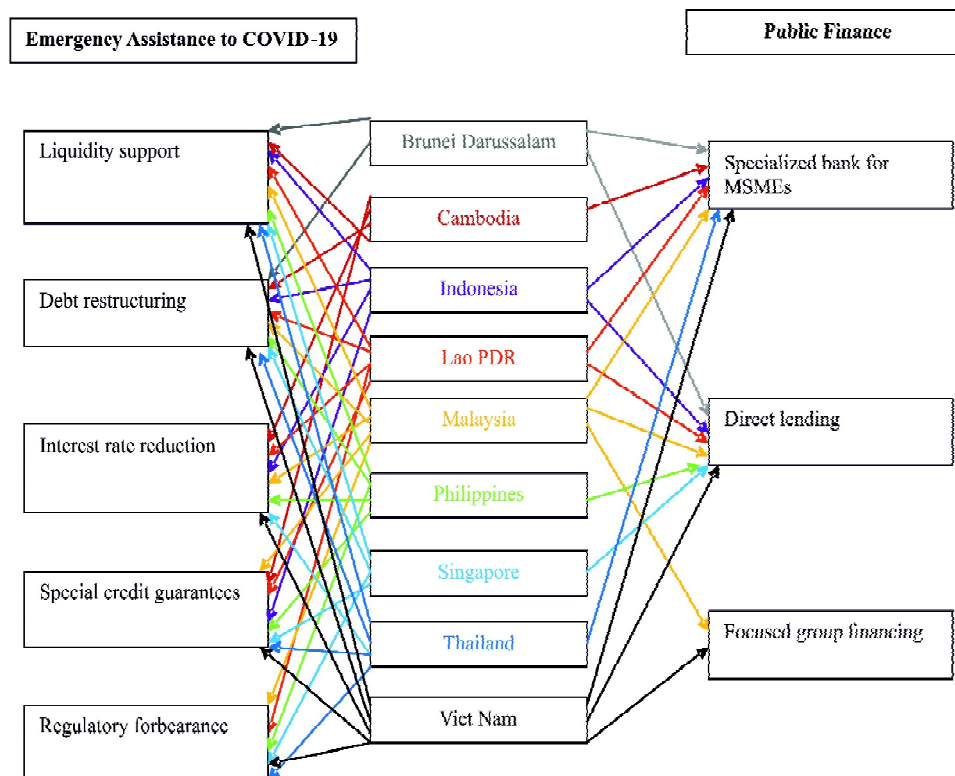


Figure 18: Government support measures for MSMEs in SEA economies

Source: Author's creation based on Asia SME Monitor 2020 (ADB, 202b).

consequent supply and demand disruptions. All this led to severe financial constraints to sustain business operations. This compels the central banks and monetary authorities to inject quick liquidity in banking sector via policy rate cuts. Banks resorted to debt restructuring of MSMEs via increasing loan tenures, interest rates reduction, and deferring debt repayments. Banks also provided new credit to support MSMEs through refinancing facilities and special credit guarantee schemes.

6. Policy Implications

MSME development is essential to accelerate the process of economic diversification and inclusive growth in SEA region. Long-term policies for MSME development should be compatible with economic development policies and priorities. Central banks should give impetus to larger financial inclusion in tune with broader inclusive growth. Long-term MSME development framework in SEA economies includes SME Development Policy (2020–2024) in Cambodia; SME Development Plan (2021–2025) in Lao PDR; National Entrepreneurship Policy (2030) in Malaysia; MSME Development Plan (2017–2022) in Philippines; and SMEs Promotion Plan (2017–2021) in Thailand. All these policies for MSME development should promote entrepreneurship, facilitate technology and innovation, stimulate internationalization of MSMEs, foster human capital, and increase access to formal finance. This calls for strengthening of Entrepreneurship Development Fund, Skill Development Fund, and SME Promotion Fund. A holistic approach should be evolved by integrating all the concerned ministries in the national economies of SEA. Regional cooperation and integration should be strengthened to integrate MSMEs into regional value chains through promotion of digital economy and the Industry 4.0. Financial inclusion process in SEA region should be enhanced through promotion of innovative financial instruments for development of MSMEs. Fin-tech innovation should be strengthened for promotion of branchless banking through greater financial literacy. Existing financial infrastructure should be strengthened for promotion of youth and women entrepreneurship. Non-bank financial institutions should be promoted for greater inclusive finance. MSMEs should be incentivized for building business linkages, networking, and skill training. Private sector participation in enterprise development should be supported by substantial financial assistance and necessary business services.

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