

SUPPORTING SMALL BUSINESSES THROUGH THE COVID-19 CRISIS AND TOWARDS THE FUTURE

The COVID-19 pandemic is an unprecedented global crisis that is affecting human health and economic welfare across the globe. The COVID-19 pandemic is first and foremost a health crisis: according to the latest figures from the WHO there have been 2,686,785 confirmed cases of COVID-19 (including 184,681 deaths) worldwide, and these figures continue to rise.ⁱ The health crisis has placed severe pressure on national health systems, which face shortages of medical staff, hospital beds and equipment, such as ventilators, personal protective equipment (or PPE) and testing kits. In response, governments of 132 countries have ordered “lockdowns” – i.e. restrictions on non-essential movement of people and, occasionally, travel bans – to prevent the spread of the disease and to ease the pressure on health systems.ⁱⁱ In some cases, economic activities have been able to continue, as people and businesses adopt remote working arrangements and technologies, but in those instances where personal interaction is unavoidable, these activities have ground to a halt. This combination of an acute health crisis and an abrupt economic slowdown is having, and will continue to have, a major impact on the global economy. In its *World Economic Outlook* released this month, the IMF forecasts an aggregate contraction of 3 per cent across the globe in 2020, but goes on to warn of “severe risks of a worse outcome” if the pandemic does not fade in the second half of 2020.ⁱⁱⁱ UNCTAD estimates that cross-border investment flows will plunge by as much as 30 to 40 per cent in 2020-2021.^{iv} The International Labour Organization estimates that the crisis has caused a decline in aggregate working hours of 6.7 per cent in the second quarter of 2020, equivalent to the loss of 195 million full-time jobs.^v

MSMEs in developing and transition economies that are reliant on international trade flows are particularly vulnerable to the negative repercussions of the crisis. ITC is dedicated to supporting the competitiveness of MSMEs in international markets, seeking thereby to create job opportunities and raise incomes, especially for women, young people and poor communities. ITC is therefore uniquely aware of the impacts that the crisis will have on those MSMEs that are based in developing and transition economies and that depend on imports or exports to keep their businesses going. The nature of these business makes them particularly susceptible to the crisis in three ways:

1. *MSMEs have less inbuilt resilience to economic shocks*

MSMEs are facing a variety of problems as a result of the crisis: on the supply-side, they include movement restrictions on workers or a constricted supply of inputs due to supply chain disruptions; on the demand-side, they include weak consumer confidence or government-imposed stoppages that have cut off access to customers. Although these problems are similar to those faced by larger businesses, MSMEs are much more vulnerable to them. MSMEs are overrepresented in sectors that have been hit the hardest by the crisis, such as transport, manufacturing, construction, wholesale and retail trade, tourism, hospitality, real estate, professional services, and other personal services (e.g. hairdressing).^{vi} MSMEs tend to rely on a narrower supply base and are less able to switch suppliers quickly if the COVID-19 response prevents them from accessing essential inputs. They also tend to have fewer assets and less cash than larger businesses and find it more difficult to access credit, meaning that sudden and prolonged drops in revenue can rapidly turn into a cash crunch.^{vii} For similar reasons, MSMEs may be unwilling to invest in the technologies required to continue operations during a lock-down (e.g. IT software & hardware, digitisation of work processes, video-conferencing facilities), reducing their resilience even further. In light of these challenges, the OECD has predicted that “over 50% of SMEs will not survive the next few months”.^{viii} These figures are backed by ITC’s own survey results finding that one quarter of MSMEs risks business closure within 3 months of time and another quarter within 6 months.

2. *MSMEs in developing and transition economies will face greater disruption over a longer period.*

In developing and transition economies, the policy response to COVID-19 may be undermined by fragile, under-funded health systems and limited institutional capacity within government to enforce social distancing measures, rendering it much more difficult to manage the disease. Developing and transition economies are also more exposed to the economic fallout from the crisis, including falling commodity prices, capital flight, a collapse in remittances (as the diaspora in developed countries lose their jobs) and resulting balance-of-payments crises.^{ix} This macroeconomic squeeze will inhibit the scope for borrowing and fiscal stimulus in these countries as well as limiting the availability of hard currencies for businesses that trade internationally. Developing and transition economies are further disadvantaged by high rates of informality: 69.9 per cent of their workers and 82.5 per cent of their businesses are informal, according to the most recent statistics collected by the ILO (2018).^x Informal workers can be laid off more easily and are generally not protected by unemployment insurance or other social safety nets, while informal businesses may find it hard or even impossible to access government-sponsored support programmes for MSMEs. Business-owners in developing countries will have to navigate all these challenges to safeguard the health and well-being of their personnel while preserving the viability of their business and protecting their market-shares at home and abroad.

3. *MSMEs that rely on imports and / or exports will face a more challenging trade environment.*

World merchandise trade is set to plummet by between 13 and 32 per cent in 2020, according to WTO estimates, exacerbating the 0.1 per cent decrease in volume terms that the world experienced in 2019.^{xi} International trade in services will also crash as a result of government-imposed restrictions on movement and the closure of retail and hospitality establishments; in 2017, almost 40 per cent of world trade in commercial services was accounted for by transport, tourism, and distribution services, all of which have been hamstrung by the crisis.^{xii} The global pandemic is driving these trends on the demand side, as consumers and businesses tighten their belts in response to rising unemployment, economic uncertainty and revenue losses, but trade is also being hampered on the supply side. Producers, transport and logistics companies, freight forwarders and other actors across international supply chains are finding that they have to comply with a growing list of precautionary measures to contain the spread of the virus, including new government regulations and enhanced controls at the border in origin, transit and destination countries, new guidelines issued by industry associations or international organizations, and voluntary measures adopted by the private sector. In the case of sensitive product categories such as medical supplies or staple foods, a growing number of countries have even imposed export bans, as will be discussed in more detail below. Needless to say, the effects of global disintegration will be magnified for Least Developed Countries, Land-Locked Developing Countries and Small Island Developing States, who already struggle to link into global value chains.

Notwithstanding these challenges, MSMEs will be protagonists in the crisis response and recovery efforts. MSMEs are often the driving force behind the 'essential services' that have been allowed to continue during government-imposed lockdowns. Those in the construction sector can play a vital role in the push to build new hospitals or repurpose existing buildings into large-scale intensive care units. Those in the manufacturing sector have repurposed their production lines to churn out personal protective equipment or ventilator components. MSMEs are active in transporting health workers to and from hospitals, cleaning public spaces, producing and distributing food products and delivering them to our doorsteps. In almost all cases, these MSMEs will rely on goods that have been sourced internationally or will be moving those goods themselves, either as exporters or as part of the logistics process. It is more important than ever, therefore, to conserve the links between MSMEs and international markets, especially in those developing and emerging economies that stand to suffer the most from this crisis. It is critical to remember, moreover, that our societies will depend on MSMEs to power the recovery process once the immediate health crisis has been overcome. MSMEs represent around 70 per cent of jobs and around half of economic activity around the world, employing a disproportionate share of less qualified workers, young people and women.^{xiii} They

were already expected to generate 600 million new jobs by 2030, before the crisis began.^{xiv} It is clear that, without a strong MSME sector, it will be impossible to recover a positive trajectory towards the achievement of the Sustainable Development Goals in 2030.

Governments should implement targeted MSME support measures, informed by best practices from across the world. In contrast to the 2008 financial crisis, policymakers have recognized that MSMEs are on the front line of this crisis and have been quick to announce targeted support measures for small businesses and their employees. These measures can be organized in the following categories:

1. *Concessional financing*

Low-interest and zero-interest loans are the first-line defence in many countries seeking to safeguard the short-term liquidity of MSMEs. Government-backed credit guarantees and government-ordered debt repayment moratoriums are relatively easy to implement, but have the drawback that they increase debt exposure of firms taking advantage of it. Trade finance can help cash-strapped small businesses keep their export clients, and is particularly relevant for firms that are exporting to compensate for lower local demand.

2. *Tax reductions and grants*

Governments are reducing corporate tax rates and offering grants to businesses in hard-hit sectors in an effort to help reduce costs and boost the bottom line. With the prospects of replacing revenues lost to pandemic-induced shocks being slim in many cases and it being unclear how long the crisis will last, these measures have the advantage of not increasing the indebtedness of businesses. To shore up export-dependent firms, many countries are waiving customs fees and providing grants to replace lost export revenues.

3. *Employment incentives*

Employment incentives refer to measures aiming at maintaining workers on the payroll. The German short-term work allowance is an example of this. Experience in the Great Recession have shown that this works well for dealing with relatively short-term shocks. Subsidizing business sick-pay expenses, expanding health insurance to cover costs for test, treatment and vaccination can help small businesses reduce costs for maintaining employment. These programmes are available to businesses in affected sectors, including those adversely affected by export shocks and are sometimes explicitly targeting export-oriented sectors.

4. *Targeted interventions to assist specific groups of firms or activities*

Certain interventions deployed during the pandemic target specific groups of firms or certain activities. Numerous examples exist that directly target trade-related activities:

- Altered trade facilitation procedures facilitate issuing international commercial documents in a timely manner. For instance, Indonesia has introduced accelerated customs procedures for reputable traders and authorized economic operators.
- Expedited regulatory processes increase production of and access to essential medical supplies.
- Legal assistance, for example issuing force majeure certificates and legal advisory services, can be particularly relevant for trading MSMEs as they might increasingly face business disputes.

Governments across the world are implementing different combinations of such measures in order to: lift the immediate pressure on companies' cash flow; strengthen the resilience of MSMEs by diversifying their sources of revenue; help MSMEs keep workers on the payroll and mitigate the negative consequences of

unemployment or underemployment; harness private-sector innovation to address the urgent short-term challenges that our societies face; and boost post-crisis competitiveness in the digital economy.

Internationally minded MSMEs also need governments to remain open to trade, so that they can continue to do business with their suppliers and with their customers in other countries. Some countries have already announced export controls aimed at ensuring an adequate supply of essential goods, principally medical supplies and food, within their domestic market. Trade-restrictive measures on essential products could have a raft of unintended consequences. First, they could set off a chain reaction of protectionist policies, as countries retaliate against their trade partners' measures by introducing their own trade restrictions (sometimes referred to as a 'tit-for-tat'). This could both prevent supplies from moving to areas with the greatest need and inadvertently block the flow of intermediate goods required to produce the supplies in the first place, as has been the case for some of the components used to build hospital ventilators.^{xv} Export restrictions on essential goods such as medical supplies and food products could increase the price of these goods both domestically *and* on the international market, with devastating repercussions for low-income countries.^{xvi} This would constitute an avoidable rerun of the mistakes that were made during the 2008-2011 food crisis, when food price spikes were exacerbated by export restrictions in numerous countries, causing hunger among consumers (due to the supply squeeze) and among producers (whose access to markets and, by extension, revenue streams were curtailed). For MSMEs that are active in the global value chains responsible for the production of essential goods, as well as those that simply rely on healthy, well-nourished people in their surrounding communities, the extent to which goods are allowed to flow freely will be an important factor in determining their survival during, and economic health subsequent to, the COVID-19 pandemic.

The response should be developed collaboratively between governments, business support organizations and MSMEs, and coordinated internationally, with the assistance of multilateral institutions. To avoid the worst outcomes, MSMEs must reach out to border regulatory authorities and governments, to keep them informed of the specific ways in which the crisis is affecting their business and to provide feedback on the design of support policies and crisis-response legislation. Governments are also responsible for consulting MSMEs and the private sector more broadly before introducing policies or regulations that could potentially affect business, as such consultations can help to ensure that interventions are appropriate, well designed and targeted. Business support organizations (BSOs) are often best placed to act as a conduit for the flow of information between the private sector and public sectors, collecting and aggregating the views of MSMEs, building consensus on common positions and offering policy recommendations that promote the interests of the business community. BSOs should also liaise between MSMEs and multinational companies that occupy a systemic position within the international trading system (e.g. shipping lines, air cargo operators, commodity trading companies and consumer goods corporations), as these companies' internal policies will have an impact on the MSMEs that act as their suppliers, third party service providers or distributors. Lastly, policy makers, border regulatory authorities and BSOs must endeavour to coordinate and harmonize their actions with their counterparts in other countries, since the needs of MSMEs with transnational business interests are unlikely to be met if policies and regulations are applied inconsistently on either side of the borders across which they transact. This can best be achieved with the assistance of international organizations, many of which are already seeking to coordinate and harmonize the international response to the crisis.

Governments have a duty to address the needs of vulnerable populations – such as women, youths and minorities – when developing support policies for MSMEs. Women are disproportionately concentrated in the MSME and informal sectors, both as workers and as business owners. Research shows that female workers within these sectors are often employed on a casual or temporary basis and are therefore the first to lose their jobs in a crisis.^{xvii} Moreover, women's participation in international value chains is often invisible and poorly or not remunerated. For example, smallholder farms in African coffee and cocoa value chains are often managed and owned by men, but women perform the bulk of tasks related to production (coffee) and post-harvesting (cocoa). Whilst they will be severely affected by a fall in demand and commodity prices, they may be overlooked when policy makers estimate impacts and draw responses.

For these reasons, it is important to ensure that women benefit from existing or new government interventions by making sure they have access to relevant information and by collecting gender-disaggregated data to monitor the uptake and effectiveness of public policies. Youths are similarly exposed. One in five of the world's youth are not in employment, education or training and youth unemployment rates are about 3 times as high as those of adults, according to the ILO.^{xviii} Young people, and especially young women, are often employed in the informal economy and have low-paid, less secure and less protected jobs. It is therefore imperative that governments encourage or incentivise MSMEs to maintain employment, improve social protection and offer training for the most vulnerable groups in exchange for the support they receive.

Governments, business support organizations and MSMEs also need to begin reflecting upon the challenges and opportunities of operating in a 'post-crisis' world. There are many reasons to believe that economies will *not* revert to a pre-crisis state of affairs once the pandemic has been overcome. Health is likely to be at the forefront of people's minds over the medium-term, at least until a vaccine is developed. MSMEs and business support organizations may have to work with governments to define a set of sanitary measures that become 'permanent' or 'semi-permanent' features of the business environment. On the international scene, governments will have to convince their counterparts in other countries that their SPS control systems are adequate to ensure the unencumbered movement of goods and services between their respective territories. International buyers may also impose voluntary standards on their suppliers, to guarantee the safety of their products and safeguard their reputation among consumers. In response to this, MSMEs will have to reorganize manufacturing lines, office space, call centre operations, hygiene facilities and other spaces to address these immediate demands. For the service sector to bounce back, governments and airlines will need to find ways to reduce the burden of quarantine for the business, events, education and leisure travel sector. Over the longer term, MSMEs, BSOs and governments in developing countries will have to adapt to an economic system that place greater emphasis on digital processes and on supply chain reliability. In our *2017 SME Competitiveness Outlook*, we noted that companies respond to uncertainty by strengthening operations in places where the policy environment is most stable and where trade costs are lowest. This newfound concern with supply-chain reliability is therefore likely to result in a greater geographical concentration of economic activities, raising the prominence of regional value chains. To remain competitive, businesses will have to adjust, and governments will have to support them by pursuing further regional integration with their nearest neighbours.

ⁱⁱ <https://covid19.who.int/>, consulted at 2:00 am CEST, 25 April 2020.

ⁱⁱⁱ <https://auravision.ai/covid19-lockdown-tracker/>

ⁱⁱⁱ <https://www.imf.org/en/Publications/WEO/Issues/2020/04/14/weo-april-2020>

^{iv} https://unctad.org/en/PublicationsLibrary/diaeiainf2020d3_en.pdf

^v https://www.ilo.org/wcmsp5/groups/public/@dgreports/@dcomm/documents/briefingnote/wcms_740877.pdf

^{vi} https://read.oecd-ilibrary.org/view/?ref=119_119680-di6h3qgi4x&title=Covid-19_SME_Policy_Responses

^{vii} https://www.ilo.org/wcmsp5/groups/public/@dgreports/@dcomm/documents/briefingnote/wcms_740877.pdf

^{viii} https://read.oecd-ilibrary.org/view/?ref=119_119680-di6h3qgi4x&title=Covid-19_SME_Policy_Responses

^{ix} <https://www.economist.com/leaders/2020/03/26/the-coronavirus-could-devastate-poor-countries>

^x https://ilo.userservices.exlibrisgroup.com/discovery/delivery/41ILO_INST:41ILO_V2/1252879760002676?lang=en

^{xi} https://www.wto.org/english/news_e/pres20_e/pr855_e.htm

^{xii} https://www.wto.org/english/res_e/publications_e/wtr19_e.htm

^{xiii} <http://www.intracen.org/uploadedFiles/intracenorg/2015SMEComp.pdf>

^{xiv} <http://www.intracen.org/uploadedFiles/intracenorg/Content/Publications/SMECO2019.pdf>

^{xv} <https://www.piie.com/blogs/trade-and-investment-policy-watch/eu-limits-medical-gear-exports-put-poor-countries-and>

^{xvi} <https://openknowledge.worldbank.org/handle/10986/33514>

^{xvii} Barrientos, Stephanie, Naila Kabeer, and Naomi Hossain. 2004. "The Gender Dimensions of the Globalization of Production." Policy Integration Department Working Paper Series 17. International Labour Organization: Geneva.

^{xviii} https://www.ilo.org/global/research/global-reports/weso/2019/WCMS_670542/lang--en/index.htm

A 15 POINT ACTION PLAN FOR OPEN ECONOMIES

To support our partners through these difficult times, ITC has developed the following 15-point action plan for MSMEs, business support organizations and governments to support internationally minded MSMEs through the crisis and to allow them to be at the forefront of generating resilience, inclusiveness, sustainability and growth in the future. Business Support Organizations (BSOs) will in this context have the important role of being agile, expert and trusted connectors between MSMEs and the government.

RECOMMENDATIONS FOR BUSINESSES

Prepare your immediate response to the crisis...

1. Adapt business processes by applying common-sense precautions and restructuring operations

Export-oriented MSMEs, like other businesses, can revise and reorganize their internal business processes to curb the spread of the virus. To the extent practicable, businesses should introduce remote working arrangements by leveraging information and communication technologies such as teleconferencing software, instant messaging services, cloud-based file-sharing systems, collaborative work apps, and so on. Businesses must also empower their staff to take full advantage of these technologies by offering them tailored training programmes. Business travel should be cancelled and replaced with telecommunication. If remote working arrangements are not feasible, businesses should take common-sense precautions to ensure that workplaces are hygienic and safe, by for example regularly cleaning workspaces, ensuring availability of hand sanitizer and soap, instructing staff to avoid handshakes and to maintain distancing and staggering work hours.^{xix} In a post-crisis world, work spaces may also have to be adapted, for instance manufacturing lines restructured to support distancing, markets re-organized to support hygiene and logistics and packaging rethought to reduce the possibility of contamination. SMEs should anticipate buyers requesting this of their suppliers when trade restarts. Staff that have to undertake unavoidable work-related travel should be given explicit instructions on the hygiene and social distancing guidelines that apply in the execution of their duties. Although these measures may imply additional costs in the short run, they will reduce the costs to MSMEs in the long-run through the improved health and productivity of their workforce and their host communities.

2. Optimize cash management and identify efficiency gains

MSMEs can work to free up liquidity trapped inside the business to increase their chances of survival and improve resilience and sustainability. This may include cost reduction measures, negotiating new terms with input suppliers and service providers, reviewing portfolios of receivables and offering discounts for early payment to large buyers. On the financing side, many banks are already providing short-term loans or allowing renegotiation of payment terms. Business-owners should reach out to local investors to expand the equity of their company and bring in liquidity. They may also want to focus on product and service lines that provide the quickest access to cash, even if they are not the highest value. Informal businesses and those not connected to formal financing networks, should reach out to understand government support programmes and take the necessary action to benefit from them.

3. Re-orient your activities and your resources to ensure business continuity during the lockdown

As demand for certain goods or services collapses, others may increase. Many businesses have therefore chosen to temporarily adapt their business models to cope with the lockdown. Food producers that would typically sell their produce to restaurants are experimenting with home deliveries directly to consumers.^{xx} Hotels have offered to accommodate health workers who do not want to return home between shifts, either to avoid commuting during their short breaks or to fend off the risk of contaminating their homes and their families. The apparel industry in several countries is reorganizing its businesses to produce medical masks, overcoats, caps and waterproof sterilised suits. Other manufacturers are repurposing their production lines to produce ventilators or ventilator components, in response to pleas from governments. Some businesses that are unable to adapt their activities have chosen to 'loan' their workers to others that are experiencing a boom in demand, such as home delivery services. Measures such as these can allow businesses to survive for long enough to resume operations after the lockdown, in a better state of preparedness than they would otherwise have been.

4. Foster relationships by improving communications with partners and employees.

Frequent and frank communication with suppliers, customers and third-party service providers such as transport companies and banks will largely determine whether a MSME is able to ensure business continuity. Close contact with freight forwarders and customs officials can provide useful information on alternative routes or shipment modalities. Communication with customers in the destination market could yield valuable market information, including tentative signs of a recovery, and these signals which will ultimately inform decisions to reengage a supply network or restart operations. In addition, MSMEs should also maintain an open channel of communication with workers, who may be taking on new responsibilities (e.g. childcare) or facing unexpected physical or mental health problems. Open and honest exchanges with employees are more likely to result in mutually agreeable solutions. Furthermore, maintaining relationships with dismissed or furloughed workers will allow calling upon skilled workers at short notice when demand picks up. In addition to thinking about their operational concerns, businesses should also seek out support from chambers of commerce, export promotion agencies, sectoral associations and other support organizations, who can offer advice on government support and advocate on their behalf. It is more important than ever that businesses and their representatives take advantage of public-private dialogue forums and consultation mechanisms to make their views known to policymakers and the regulatory authorities.

...and get ready for the 'new normal'.

5. Build business models that foster resilience, inclusiveness and sustainability and ride the digital wave

The decisions that business-owners take today will help to define the world in which they will live and operate tomorrow for instance contributing to great inclusion and sustainability. Companies that emerge from this crisis well-prepared to deal with the 'new normal' will be better placed to manage their teams, win over new customers and increase their market-share. MSMEs should therefore act now, with a view to transform their crisis-mitigation measures into productivity gains and a long-lasting strategic repositioning in the market. The following aspects are likely to be key in the new global economy:

- Resilience: Strengthening the resilience of supply chains was already high on businesses agenda in the 2010s and is likely to become even more important in the aftermath of the

Covid19 pandemic. This may imply a refocus on regional value chains that offer a more stable and predictable policy environment.

- **Sustainability:** Insofar as cost reductions during the Covid19 crisis are concerned, businesses should consider improving their resource efficiency by frontloading investments in energy efficiency and renewable energy and adopting circular economy principles. This could include, for example, the optimization of water and energy consumption using smart technologies, or the generation of energy from waste products. Careful monitoring of input use can provide useful insights into operational cost savings. Changes made now will pay off later in the life of the company, as the global pandemic recedes from view and the climate emergency reclaims its status as the most serious problem facing the modern world.
- **Inclusiveness:** Employers will have to be increasingly conscious of how they relate to employees. Stakeholders will increasingly push for more inclusive, safe humane ways to relate to workers-and evidence shows better treated workers are more productive.
- **Digitization:** Many businesses will use downtime during the crisis to improve their digital capabilities. Product-based businesses will begin to offer their entire product portfolio online, while service providers will develop 'productized' and simple-to-buy online services packages. E-Commerce – already a high-growth sales channel before the crisis – is widely expected to accelerate and may even boom after the crisis is over. Digital facilities will no longer be optional; consumers, clients, business partners and workers will come to expect them as a matter of a course. Cash payments and paper-based documents (e.g. invoices or pay slips) will become a thing of the past. Files that move onto the cloud will not migrate back to their owners' hard drives.

RECOMMENDATIONS FOR BUSINESS SUPPORT ORGANIZATIONS

Prepare your immediate response to the crisis...

6. Channel the flow of trusted information and build bridges to rapidly deploy solutions

Business support organizations (BSOs) are perfectly positioned to act as a source of trusted information for the flow of information and resources between government, MSMEs and the wider business community. BSOs can benefit from their convening power to collect and aggregate the views of MSMEs, build consensus and offer policy recommendations to government. They can leverage internal and external networks to ensure micro-enterprises, women-led businesses, rural MSMEs, and others are not left behind. BSOs can very quickly provide MSMEs information about business continuity, teleworking, crisis leadership, and cash flow management, by curating and sharing external links. Once governments have announced their support packages, BSOs can help disseminate information to MSMEs and distribute resources, mobilizing their existing networks and leveraging their credibility. Business support organizations can also play the role of trusted intermediary, for instance by promoting an emergency bank loan with reduced collateral requirements for businesses with a record of having engaged with a business support organization. To the extent possible, BSOs should design interventions that build on the broader ecosystem within which they function; a good ecosystem of business support actors will include public, quasi-autonomous and private organizations from a range of sectors (such as finance and logistics). These actors can work together to develop system-wide responses to the health and economic crises that MSMEs are facing.

7. Co-ordinate collective actions by MSMEs for resilience, scale and efficiency

As a touchpoint in the crisis, business support organizations will have knowledge about business supply capability and difficulties. With this knowledge they can encourage businesses to join forces, to develop and promote new standards, or brands with collective marketing campaigns, to reduce costs through shared procurement during the health crisis, or to create a new local supply chain or cluster to respond to new opportunities. BSOs can also intermediate between MSMEs and multinational companies that occupy a systemic position within the international trading system (e.g. shipping lines, air cargo operators, commodity trading companies and consumer goods corporations). Shipping and air lines are modifying their routes, reducing frequencies, or cancelling port calls. As well as providing up to date information on these changes, BSOs can combine the freight requirements of many businesses to influence the decisions. Trading companies or consumer goods corporations may choose to cancel their orders in response to logistical difficulties or suppressed demand. In many cases, the MSMEs that use the services of, or act as suppliers to these companies will need to communicate their concerns collectively, through BSOs. Such an approach requires leadership from a business support organization that can bring businesses together, match opportunities with a shared offer or a common need, and test willingness to cooperate in ways that are neutral, fair and respect commercial sensitivities.

8. Be both global and local to inform and reduce the risks that business-owners must take during the crisis

Research is an essential activity that MSMEs rarely have the time or the resources to carry out themselves. MSMEs suffer from a lack of information about global trends in supply and demand that might be relevant to their business, and how these trends are changing in response to the crisis. BSOs can play an instrumental role using international networks and partners to carry out research on these topics and disseminating the findings to MSMEs and other interested parties. Empowering businesses with cutting-edge intelligence, including highly customised research into trade barriers and opportunities, will ensure optimal decision-making during the lockdown, minimizing losses and reducing the pressure to shed staff. In all these cases, MSMEs can profit from the shared branding and credibility that BSOs can provide in international markets. Because they act on behalf of many businesses, BSOs are in a great position to shoulder some of the risks when entering new markets or international value chains, by building in-market networks of partners and experts and by jointly negotiating with trade partners to break down tariff and non-tariff barriers.

9. Use digital platforms to enhance the competitiveness and agility of your MSMEs to reach customers

Most of the services offered by BSOs – such as trade missions, business matchmaking events and conferences – involve face-to-face meetings or large gatherings of people. Before the crisis, many BSOs had already begun to experiment with digital technologies, to reduce the cost of their activities and to reach more people around the world. Over the course of the ongoing crisis, this process will have to accelerate. Face-to-face meetings and business matchmaking can go digital at least partially, through a combination of online platforms and videoconferencing facilities, but the role of a BSO as a trust-builder between actors will be even more critical. Conferences and workshops can be transformed into webinars, though questions remain about the degree to which these tools can support sustained interactions among participants. In the case of developing and transition economies, BSOs will have to pay considerable attention to the quality and reliability of local internet connections, as well as internet penetration rates and levels of computer literacy. In some cases, digital platforms run by BSOs may be MSMEs' only online presence; in these cases, businesses may rely entirely on the BSO to intermediate between them and their potential customers abroad.

Digital platforms could also be used to pool resources, allowing businesses to reduce costs through shared procurement, create economies of scale, and access new opportunities by sharing knowledge and resources.

...and get ready for the 'new normal'.

10. Be a leader in an ecosystem enabling MSMEs to thrive within a new global economy that is more digital and geared towards resilience, inclusiveness and sustainability

With a focus on rapid business recovery, this crisis could result in even greater, vulnerability, inequality and more climate risk. BSOs have a crucial role in supporting business recovery, but also in connecting this to the imperative for sustainable and inclusive growth alongside the new found importance of resilience. The crisis creates an opportunity to shift effort away from existing businesses and towards innovative start-ups, away from urban and towards rural areas, away from exploitative business practices and towards environmentally and socially responsible sectors. Digital solutions will play a key role in this. BSOs will be most effective in achieving these goals when they empower a network of actors with shared objectives and complementary strengths, delivering seamless solutions for business growth and generating more sustainable, equitable and climate-friendly impacts for MSMEs, their workers and their surrounding communities alike.

RECOMMENDATIONS FOR GOVERNMENT

Prepare your immediate response to the crisis...

11. Resist the allure of trade protectionism, as it could lead to a shortage of essential goods

The free movement of goods and services is critical to the production of essential products (such as medical equipment and food), ensuring relative abundance and low prices across the world. Trade is also integral to the health of the global economy. Governments should therefore refrain from imposing export restrictions such as bans or taxes; if export restrictions are used, they should be targeted, proportionate, transparent, and temporary.^{xxi} Governments can facilitate access to essential medical supplies by reducing to zero or temporarily waiving customs duties, VAT payments and withholding taxes due on products identified in the joint WCO-WHO HS Classification reference guide for COVID-19 medical supplies (2nd edition).^{xxii} Governments should do the same for food products, to enhance nutritional intake and boost the immune systems of their populations. In order to compensate for the outflows of foreign exchange that will result from the crisis, governments can abolish bans, quantitative restrictions and taxes on exports as well as removing non-tariff barriers to trade, including licensing and permit requirements that are not needed to maintain market access or to protect human, animal or plant health. This will boost exports and attenuate the shortage of foreign exchange for MSMEs.

12. Expand and facilitate access to trade finance for MSMEs, including those run by women or young entrepreneurs

Exporters often need access to credit to cover the cost of the inputs they use to manufacture export products, or to finance their operations during the time between the initial placement of an order and the receipt of payment from the client. The ongoing pandemic has had a negative effect on both the cost and the availability of trade finance for MSMEs, as commercial lenders seek to limit their exposure due to the higher liquidity costs and the perceived risk of short-term finance. As a result, it is increasingly up to governments to provide short-term trade finance and export credit for companies. Several advanced economies have already announced new and / or expanded short-

term programmes to provide financial support to national exporters, with a focus on MSMEs. Attention needs to be paid to young and female entrepreneurs in the design and roll out of such programmes as the crisis has worsened their existing disadvantage in accessing formal finance. In developing and transition economies, constraints on the operational capacity and capital of local banks are limiting the availability of trade finance for MSMEs, and governments are unable to bridge the gap. Multilateral Development Banks are therefore stepping in with emergency initiatives dedicated to trade finance and working capital for businesses. However, declines in inter-firm trade credit can have a faster and larger impact on firms than reduced credit from the financial system, due to knock-on effects of any firm insolvency on other firms in the value chains. This can limit the effectiveness of public-sector interventions. To address this problem, governments can set up funds to reinsure major trade credit insurers that commit to not reducing credit lines; ii) enforce payment discipline towards SMEs by larger firms, especially when these are receiving state support, iii) expedite payments in the public procurement system.

13. Facilitate cross-border trade in goods and services and endeavour to streamline the movement of essential products

Border officials face the unenviable task of balancing the need to expedite imports, exports and transit, including of necessary medical supplies, donations and relief consignments, while ensuring epidemic prevention and providing adequate customs clearance and compliance controls of goods and transport personnel. This can best be achieved by following trade facilitation principles and best practice, including those listed in the WTO Trade Facilitation Agreement. Below are some examples the ways in which governments and border regulatory authorities can facilitate trade during the crisis:^{xxiii}

- mutual recognition of conformity assessments and certificates for medical equipment, essential food items and farming inputs conducted in countries with similar or higher standards;
- enhanced border management coordination, for example, between Customs and SPS authorities on the identification of essential goods and the relevant derogations that should be applied;
- special regimes for expedited clearance of essential medical goods, food products and farming inputs;
- the establishment of enquiry points to provide information on crisis-related restrictions and regulations and their impact on cross-border movement of people and goods;
- the expanded use of integrated risk management to include health-related criteria, allowing border regulatory authorities to accurately identify high-risk shipments and accelerate the clearance of low-risk goods;
- accelerate clearance processes for trusted traders / authorized economic operators who can be relied upon to respect health-related rules and regulations.

14. Hasten progress towards the digitalization of trade documents and procedures, in collaboration with the private sector

The WTO Trade Facilitation Agreement also encourages countries to introduce digital clearance processes (e.g. article 7.1 on *pre-arrival processing*, article 7.2 on *electronic payments* and article

10.2 on the *acceptance of copies*).¹ Clearance procedures that are based on electronic documents and payments are both simpler, faster and *safer*, limiting physical, in-person interactions between traders and border regulatory authorities. In addition to digital processing of documents (which are sometimes based on scanned versions of paper-based originals, governments can consider issuing originals documents electronically). This could build on existing initiatives, like the effort to issue e-Certificates of Origin in the WAEMU region. In some cases, the responsibility for digitalizing trade documents lies mainly with the private sector, as in the case of e-BLs (electronic Bills of Lading) or e-LCs (electronic Letters of Credit), but governments can facilitate the process by providing legal certainty that such documents will be recognised within their jurisdictions. This is precisely what is suggested in the ICC's "memo to governments and central banks on essential steps to safeguard trade finance operations", which claims that "only effective government intervention to enable an immediate transition to paperless trading will fully mitigate the potential implications of COVID-19 related workplace restrictions on the financing of trade", calling on "all governments to take emergency measures to immediately void all existing legal prohibitions on the use of electronic trade documentation".

...and get ready for the 'new normal'.

15. Prepare to operate in a new global economy that is more digital and geared towards resilience, inclusiveness and sustainability

The COVID-19 crisis has illustrated how vulnerable supply chains are to shocks in other countries. This is not the first event in the 21st century that has highlighted this vulnerability. The Great Recession, climate events (e.g. Fukushima tsunami) and an increase in protectionist rhetoric in certain quarters had already led to a rethinking of value chain operations. The Covid19 crisis is likely to alter perceptions of how production processes are organized globally even further. Governments and companies will give more thought to the resilience of their supply chains and attempt to diversify their sources of supply. Countries may emerge from this process as winners, by securing new export opportunities and investment, or losers, by failing to convince export markets of their ability to navigate a new, digital, service-driven economy with its newfound concerns over sanitary standards and reliability of supply. In order to compete effectively, governments will need to upgrade their SPS control systems and embrace digital technologies. Resilience in the light of climate change will continue to matter. Policy and regulatory reforms in ICT services will need to be accelerated to increase access, improve reliability and reduce costs. Inclusiveness will become an inherent element of agility to adjust to change and of resilience in the light of change. Those that begin to upgrade *now* will be able to test this economic model during this period and gain a head-start over their competitors in the future.

^{xix} https://www.who.int/docs/default-source/coronaviruse/getting-workplace-ready-for-covid-19.pdf?sfvrsn=359a81e7_6

^{xx} <https://freakonomics.com/podcast/covid-19-food-supply/>

^{xxi} <https://openknowledge.worldbank.org/handle/10986/33516>

^{xxii} http://www.wcoomd.org/-/media/wco/public/global/pdf/topics/nomenclature/covid_19/hs-classification-reference_en.pdf?la=en

^{xxiii} <https://openknowledge.worldbank.org/handle/10986/33516>

¹ Article 10.4 on *Single Window* systems also encourages the use of information technology, but the implementation of this measure takes time and is therefore not a viable response to the crisis.