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Enabling Environment for Sustainable Enterprises

A framework to support small firms in developing countries navigate crises and build resilience

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This ILO report draws on multiple sources, including analyses from McKinsey & Company. It greatly benefited from comments and contributions from many specialists from different fields from both organizations.

Contents

Foreword

This report represents a step forward in supporting small firms, as a key foundation of decent jobs and economic growth around the world. The approach hereby presented recognizes that small firms' survival during times of crisis goes beyond overcoming short-term shock conditions. It thus also highlights the importance of learning and building solid capabilities to effectively respond to future crises.

The disruption that shocks cause to economically viable small businesses is often devastating, creating significant inefficiencies and societal costs. At the same time, the consequences extend far beyond the threats on firms, employment, and decent living conditions. They also erode future growth potential, as well as social and economic stability. Recent crises have exposed the fragility of even solid, viable, and strong firms in front of shocks and the precarious balance between surviving crises and recovering from their devastating effects. As the COVID-19 crisis has demonstrated, even solid and vibrant firms can be acutely vulnerable to shocks.

This wide-ranging report addresses head-on some of the key challenges that shocks pose to small firms in developing countries and proposes concrete (policy) actions that can help support small firms during such conditions. The proposals target the critical areas of pressure during shock conditions and the practical needs of small firm survival, including the assistance to workers, and the maintenance of human capital as one of the key foundations of small firm continuity. At the same time, the large set of intervention options proposed provide a structured way to handle short-term liquidity risks, tackle short- to mid-term operational challenges, avoid systematic damages to the legal and financial infrastructure, and build risk management capabilities.

While there is no one-size-fits all solution, and governments would need to define the measures that best suit their realities, the proposed framework can serve as a starting point for governments to create and have available and ready to deploy coherent and clear support strategies. At the same time, the strategic role of governments in coordinating support is considered within an integrated approach of broader ecosystems, to both complement resources and tailor and deploy measures that are the right fit to small firm specificities.

The elaboration of this work, and the very rich exchanges it has ignited, have enriched our own understanding concerning the challenge of how to respond to the devastating impact of shocks and crises on small firms. With this understanding, we are confident that this report can prove a practical instrument to inform policymakers and as such, it will be a useful framework to contribute to investment, growth, decent jobs and the future resilience of small firms.

Executive summary

For centuries, businesses have been impacted by shocks and disruptions ranging from recessions and wars to natural disasters, diseases, and political crises. While diverse, these shocks can be grouped into three major categories with different frequencies and impacts on small businesses: economic cycle shocks, catastrophic events, and market-disruption trends. Economic cycle shocks such as financial crises or credit defaults, and global or regional recessions, can cause raw material shortages, interrupt access to markets, drive fiscal and monetary instability, or excessive inflation. Catastrophic events such as natural disasters and pandemics often cause losses of lives and livelihoods and destroy productive assets. And market-disruption trends, driven by technology innovation or globalization, directly disrupt economic sectors and businesses, especially the smaller, less adaptive ones. But regardless of origin, shocks often take a direct toll on otherwise viable small firms, reducing employment levels, as well as the access to decent working conditions.

Small businesses tend to be hit particularly hard by shocks and disruptions. There are many well-known reasons why small businesses are less resilient than larger ones, including their difficulty in accessing financing, limited market access, low negotiation ability, deficiencies in managing cash flows, low productivity, limited skills, and capabilities, and an intrinsically vulnerable workforce.

At the same time, developing country governments are often less prepared to support small firms, more so in times of crisis. Their challenges include their own resource constraints, both financial and capability-wise, political instability and policy dispersion and often rigid regulatory infrastructures. The task of supporting small firms also requires developing country governments to address a highly fragmented constellation of small firms, including informal ones.

This paper proposes a framework with a large set of policy options that can help guide developing-economy governments as they support small businesses confront crisis-related shocks, and build resilience against them. The framework provides a structured way to handle short-term liquidity risks, tackle short- to mid-term operational challenges, address fundamental issues of employment continuity and protection of workers, avoid systematic damages to the legal and financial infrastructure, and build up risk management capacity and capabilities.

The measures included in the framework fall under two pillars 1) Crisis management – to mitigate and relieve small firms of stress brought on by sudden shocks, and accelerate their recovery and 2) Business resilience – to enhance the survivability of small firms before they face the next shock by helping them improve their risk management capacity and capabilities. For each of the two pillars, the framework details out objectives, levers, as well as concrete measures and examples of how they were brought to life during past crises, including the COVID-19 pandemic.

The crisis management measures proposed are also quantified in terms of their frequency of use during the COVID-19 pandemic. This analysis, based on approximately 1'600 measures collected from the World Bank database of SME support measures in response to COVID 19[1], shows that most government interventions have focused on improving small firms' financial stability and liquidity (approximately 70%), followed by supporting employment continuity and adaptation (approximately 25%). Only approximately 5% of the reported measures addressed operational adaptation, and fewer than 1% sought to facilitate restructuring.

While financial measures may offer immediate relief, the necessary financial and cash resources

1 World Bank. 2021. *Map of SME-support measures in response to COVID-19*. Available at: https://www.worldbank.org/en/data/interactive/2020/04/14/map-of-sme-support-measures-in-response-to-covid-19. Accessed on July 2nd, 2021.

may not always be available to developing country governments, as well as come with increased indebtedness, a growth of poor performing loans and potential inflationary risk, if implemented at a large scale. Governments may thus also wish to consider interventions that help small companies adapt their operations, and restructure, that can potentially involve less cash resources and have a more sustainable mid- to long-term impact. At the same time, governments could invest proactively in resilience measures and engage in stronger collaboration with other ecosystem players, such as employer and workers' organizations, NGOs, donors, financial institutions, academia or larger private players with the ability and willingness to support small firms in times of crisis.

The proposed framework is nonetheless not aimed to advocate for one particular type of measure or provide a "one-size-fits-all" solution. While each individual measure has the potential to provide effective support, their optimal mix, sequencing, and deployment choices strongly depend on a multitude of factors such as the type of crisis, focus segments – their needs and ability to access support –, the broader ecosystem dynamics, as well as the governmental resources available.

Overfocusing on the "what", with insufficient consideration on the "how" is one of the factors that can cause support measures to fail on the way between inception and deployment. To overcome this challenge, this report also suggests a three-step thought process that governments could go through when deciding what measures to focus on, as well as how to drive their deployment.

First, policymakers may need to diagnose the type of crises impacting their constituencies and identify the segments to focus on, be they priority industry sectors, or particularly vulnerable targets, such as women, young entrepreneurs, and informal firms. They could then proceed to defining the list of measures that can best address priority segments' pain points, and tailor them to their specific needs and means of accessing support. Next, governments would need to define deployment channels that maximize the reach of the support measures, as well as means to monitor and flexibly adjust the measures. For example, policy makers would need to make sure their develop deployment mechanisms that support a fair access and mitigate potential fraud, while not over-formalizing the access through complex application processes or extensive documentation.

In undergoing these challenging tasks, governments could rely on two good practices, 1) Strategically coordinating their support – to harness the power of different governmental agencies, and ensure a rapid, streamlined reaction in times of pressure, 2) Proactively activating the broader ecosystem, including employers and business organizations, donors, NGOs, financial institutions, trade associations, academia and large firms – to both complement their limited resources and tailor and deploy measures that are the right fit to small firm specificities. At the same time, governments can benefit from building their crisis response upon existing SME programmes, that can be activated and scaled up in times of crisis. This can save significant time and resources spent on agreeing on the approach, designing the policy, passing it into law, and fine-tuning the implementation mechanisms.

Additionally, the paper also highlights considerations related to special targets that governments may choose to provide an even more tailored and dedicated support to, such as the informal sector, women entrepreneurs, young workers or small firms with a high growth potential.

Last, but not least, as the implementation of any support measures depends on the efficiency of the state and the way it articulates within itself and with the rest of the actors involved, the measures proposed would need to be complemented by actions to help governments rebuild themselves and contribute to creating an enabling business environment to make both policymakers and companies better prepared to face future crises.

Introduction

Purpose

Small businesses are the backbone of the global economy and especially critical to the social and economic wellbeing of developing countries. As per the International Labor Organization's (ILO) 2019 *Small matters* report, small economic units provide more than 70% of jobs worldwide and contribute 50% of developing countries' GDP[2]. But when shocks hit, be they catastrophic events, economic downturns, or market disruptions, small businesses are often severely hit, and many of them never manage to recover.

Throughout 2020, the globe was in the grip of the COVID-19 pandemic, and, along with the terrible toll it has taken on human life, it has hit small firms, and particularly the ones in developing countries very hard. This global crisis has led to over 220 million jobs lost in 2020 alone, a rise in informal employment, along with critical shortages of essential goods and services[3].

The COVID-19 pandemic is just one illustration of the devastating human, social and economic effects of shocks, particularly among the most vulnerable populations and small businesses. Many other types of shocks can dramatically disrupt the operations and threaten the mere existence of otherwise economically viable small firms, particularly in developing countries. Small firms with sound business viability, facing acute disruptions or a total collapse of business activity under shock conditions, either disappear or are weakened beyond their survival potential.

Given the enormously destructive effects of shocks on small firms in developing countries, governments can play a vital role, beyond their regular policy interventions, in supporting small enterprises to restructure, adapt, and survive shocks, as well as in helping them become more resilient to future disruptions. At the same time, in undertaking this task, developing country governments need to overcome their own resource limitations.

Acknowledging the criticality and challenge of this assistance we propose a holistic framework that developing country governments can use to help small businesses succeed in the face of their unique challenges. This framework draws on multiple sources, including previous ILO research and publications, secondary research from other international agencies, interviews with internal and external experts, as well as input and analyses developed by McKinsey & Company for the ILO.

The proposed report strategically targets the critical areas of pressure on small firms during shock conditions. It addresses the practical needs of small firm survival, including assistance to workers and maintenance of the human capital as one of the key foundations of small firm continuity. It provides options for measures and suggests concrete implementation means, keeping in mind the need to identify and manage resources, as well as to coordinate with existing policies and actions.

This framework is based on an ecosystem approach, integrating inclusive and self-reinforcing interventions of both governments themselves and other ecosystem players to foster enabling conditions for the vital role of small enterprises in creating jobs, investment, and sustainable growth.

While the report is thought to be of most use to governments, in particular ministries and agencies in charge of SME support, it can also serve, during or in pre-crisis conditions, as a starting point for collaboration among policymakers and other ecosystem players, such as donors, development finance institutions, academia, employers

2 International Labor Organization (ILO). 2019. *Small Matters, Global evidence on the contribution to employment by the self-employed, micro-enterprises and SMEs*.

3 ILO. 2021. *World Employment and Social Outlook 2021 Trends.*

Exhibit 1

Mission

To help small businesses in developing countries manage shocks and adapt to them in a structured and innovative way

Pillars

Crisis management

To relieve small businesses of stress brought on by shocks, and accelerate recovery from economic downturns and catastrophic events

Business resilience

To better prepare businesses for shocks, enable them to manage risks and adapt to disruptive market trends

and workers organizations, as well larger private players with the ability and willingness to support small firms in times of crisis. The exhibit above highlights the report's mission, as well as the two pillars of support the framework is based on.

Scope and methodology

The research of this paper primarily focuses on the support to existing and viable small firms. In the context of developing countries, it covers a broad range of small businesses, from sole proprietors to dynamic, fast growing small firms that are becoming increasingly central to employment, investment, and growth.

The report aims at bringing an innovative perspective on the topic of small firm support in developing countries by:

- Complementing support measures that governments and social partners can take during shocks with potential actions that can help small firms improve their resilience, and especially their risk management capacity, ahead of shocks
- Suggesting a more holistic approach for crisis management beyond economic stimuli, by introducing the lens of operational improvement, non-financial employment support, and restructuring
- Highlighting the potential need to set special targets and develop dedicated strategies for specific small firm segments such as informal firms and women entrepreneurs, with a focus on inclusiveness
- Emphasizing and providing details on the implementation considerations that can significantly influence the effectiveness of government support measures

This primarily qualitative research is based on data and analyses from multiple sources, including:

- Secondary academic research papers and working reports from international agencies and research institutions
- Insights and expert opinions from the ILO Enterprises Department, other departments, and field offices
- ILO literature, frameworks, and publications

- Interviews with various experts working in SME development around the world
- Previous McKinsey publications
- McKinsey analyses developed for ILO

The report is primarily structured in four main chapters:

- **Chapter 1: The threat of shocks on small firms** – discussing how shocks impact small firms in light of their vulnerabilities and introducing the criticality of and challenges faced by developing country governments and ecosystem partners in providing support
- **Chapter 2: Supporting small firms in times of crisis** – introducing and discussing the objectives, levers, and measures that governments may choose to consider when defining their support to small firms during crises
- **Chapter 3: Building risk mitigation and resilience capacity** – introducing support levers and measures aimed at helping small firms build resilience ahead of future shocks – with a focus on the build-up of risk mitigation capacity
- **Chapter 4: Implementation considerations** – highlighting some of the most important implementation considerations for governments aiming to use the framework together with ecosystem partners

As shown in Exhibit 2, each type of support proposed is structured into objectives and specific levers. For each suggested lever, this paper will highlight example measures taken by governments and ecosystem partners. The vast majority of examples stem from developing countries themselves. At the same time, this paper also highlights some measures from more developed countries, that could be tailored and applied to developing country contexts by policymakers.

As this report is being written, the world, and many developing countries, in particular, are still battling the COVID-19 pandemic. Many of the examples used in this report relate to the effects and developing countries' responses to this complex crisis. At the same time, they are complemented with multiple learnings from fundamentally different shocks, ranging from natural disasters, wars and political conflicts, financial crises of the late 1990s and 2007-2010, as well as globalization and digital revolution.

Exhibit 2

Small business crisis management and resilience framework

Pillars — 2 main support pillars: crisis management and business resilience

Objectives — Concrete goals underpinning each pillar

Levers — Programmatic options available to achieve each objective

Measures — Specific actions under each lever to help small businesses

How to use this framework

This report is not intended to present a prescriptive, "one-size-fits-all" solution or advocate for one type of solution over another, but rather show a comprehensive range of potential support options. The framework of support for small firms is offered as a starting point for discussion, and to inform policymakers who want to aid and stimulate the small business communities that are critical to the health of their economies.

At the same time, while the proposed framework includes a multitude of measures, such crises-related actions are meant to complement governments' ongoing programmes in support of small firms, as well as their overall efforts to create a business environment conducive to growth and sustainable development.

To guide policymakers who are going through this framework as they define the measures that can best fit their problems in their specific contexts and communities, the following set of guiding principles may be useful:

- **The support focuses on economically viable firms** – the measures proposed are aimed at helping viable firms overcome crises and thrive in the aftermath, rather than at prolonging inefficient operations
- **Not all small firms are the same** – effective measures may need to be designed to fit target segments' specific needs, and deployed in a way that maximizes small firms' ability to access them
- **Support can be inclusive and equitable** – some categories of firms, such as women-led enterprises and informal economic units are particularly vulnerable and might require more targeted assistance
- **Speed and agility matter** – measures during crises are better if deployed rapidly and flexibly, being able to test, learn and iterate on specific actions; while keeping clarity about the constraints inherent to the crisis condition
- **Small firms rely on their workers** – striving to maintain their formal employment can help secure families' incomes, while decent and dignifying working conditions for workers are at the core of small businesses' ability to adapt and develop sustainably
- **Government context matters** – the right mix of measures ultimately depends on each developing country government's priorities and resource availability, be they financial or capabilities related
- **National and local governments are not alone** – engaging the broader small firm ecosystem, including donors, NGOs, financial institutions, the academia, workers organizations, employer and business membership organizations or larger firms can help design the best-fit measures and drive successful deployments
- **Genuine social dialogue is key** – the active and engaging participation of workers and business associations within the ecosystems of small firms can help ensure the proper design of policy interventions, as well as a solid and sustainable implementation

These principles are brought to life throughout the paper, in the choice of levers and concrete implementation examples (in Chapters 2 and 3), but also in a specific chapter dedicated to implementation considerations (Chapter 4).

Chapter 1: The threat of shocks on small firms

The three types of shocks

For centuries, businesses have been impacted by shocks and disruptions, ranging from recessions, natural disasters or wars, to technological disruptions such as the internet.

The exhibit 3[4] shows a sample high-level timeline of some of the major shocks over the past four centuries.

There are many types of shocks that impact businesses in general, and small firms in particular, most recent ones including global economic crises such as the 2008 financial crisis, national and regional recessions such as Turkey's 2001 economic crisis, technological revolutions such as the Industry 4.0 revolution, business model disruptions such as the app-based gig economy, natural disasters, pandemics, wars and more.

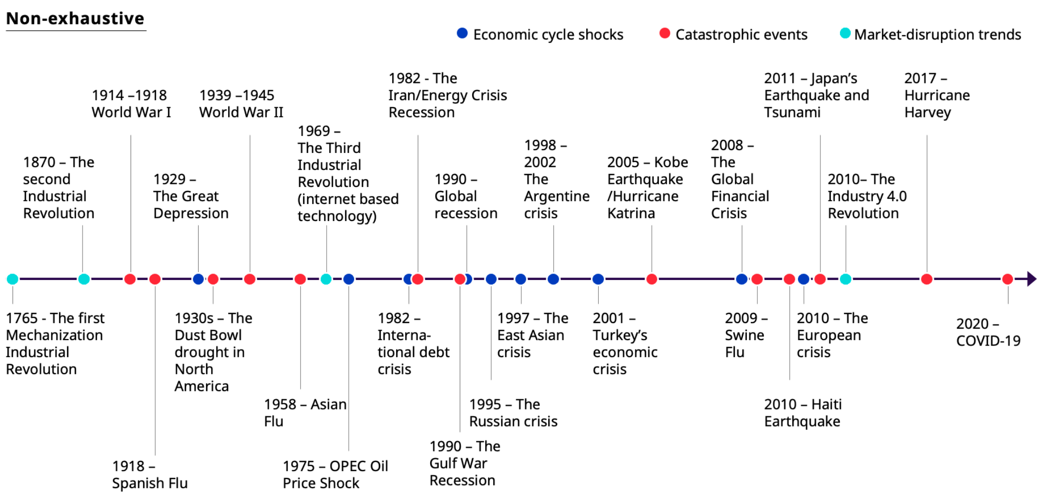
But on closer inspection, most shocks can be grouped into three major categories: economic cycle shocks, catastrophic events, and market-disruption trends, as described in the exhibit 4.

Economic cycle shocks

Economic cycle shocks can be both systemic and non-systemic in nature. A systemic failure of the global market is usually driven by a financial crisis or credit default which cause asset prices to fall, impacting businesses from four different angles. There is a general reduction in demand, causing revenues to decline. Banks and financial institutions tighten their lending policies, making it hard to obtain credit. The loss of confidence in the economy then results in crowding out of investments in risky assets, and input costs are less predictable as commodity prices fluctuate.

Exhibit 3

Historical view on shocks occurrences



4 Encyclopedia Britannica, website: https://www.britannica.com/ ; History.com, website: https://www.history.com/

Exhibit 4

Three major shocks impacting small businesses

Economic downturns

Systemic and non-systemic economic shocks linked to business cycles (e.g., GFC, dot-com, etc.)

- Systemic economic cycle shocks
- Non-systemic economic cycle shocks

Catastrophic events

Dramatic unpredictable shocks that impact businesses, usually through full or partial economic shutdown

- Natural disasters
- Pandemics and epidemics
- Wars and political crises

Market-disruption trends

Trends driven by innovation and globalization that disrupt businesses and sectors

- Technological disruptions
- Business model disruptions

Non-systemic shocks are caused naturally through business cycles and poor economic policy or are triggered by global or regional recessions. They can lead to market failure by changes in commodity prices, trade agreements, fiscal instability, monetary and exchange rate instability, or excessive inflation.

Small firms find themselves particularly vulnerable against both systemic and non-systemic downturns, especially given their low financial and social security buffers, intrinsic difficulties in accessing capital, and low diversification of both customers and suppliers.

Catastrophic events

Natural disasters, including weather events such as blizzards, droughts, and storms, and non-weather events, such as earthquakes, volcanic activity, and forest fires, as well as pandemics, wars, or political crises, can cause significant losses of lives and livelihoods, destroy jobs and assets. Over the last twenty years, more than 7'000 disasters have occurred, causing economic losses of around $3 trillion[5]. The impact of natural disasters is especially severe in developing economies. For example, Hurricane Matthew, which hit Haiti in 2016, caused losses estimated by The World Bank equivalent to a third of the country's 2015 GDP[6]. At the same time, wars and political crises deteriorate development efforts and caused severe damage to the business sector. It is estimated that around 27% of small business were forced to close down in Yemen in 2015, after the civil war broke out in 2014.[7]

With low operational flexibility, heavy reliance on limited assets and public infrastructure, and workforce often living in severely affected areas, small firms are often less resilient to catastrophic events and less able to recover in the aftermath.

5 United Nation (UN). 2018. *UN 20-year review: earthquakes and tsunamis kill more people while climate change is driving up economic losses*.

6 World Bank. *The World Bank in Haiti, country overview*. Available at: https://www.worldbank.org/en/country/haiti/overview#:~:text=With%20a%20Gross%20Domestic%20Product,poorest%20countries%20in%20the%20world.&text=Haiti%20is%20among%20the%20most%20unequal%20countries%20in%20the%20region.

7 United Nations Development Programme (UNDP), Small Micro Enterprise Promotion Service (SMEPS). 2015. *Rapid business survey: impact of the Yemen crisis on private sector activity.*

▶ Examples – Shocks and disruptions[8,9,10,11,12,13,14]

Economic shocks

- **Systemic economic cycle shock:** The Great Recession of 2008 – 2009 was caused in great part by the rapid expansion of high-risk lending, kicking off a macroeconomic catastrophe in the United States of America, and then Europe, and then the world. Asset prices declined suddenly, credit dried up, and global trade imploded. The impact of the Great Recession on small firms was particularly harsh, leading to many failures and insolvencies caused by a precipitous drop in demand among frightened consumers. Revenues fell, and when small business owners turned to lending institutions to address their liquidity issues, they were confronted by closed doors as the institutions sought to protect themselves by tightening lending policies. In fact, the amount of small business loan originations plummeted by more than half during the crisis and saw a very limited recovery post-crisis, leaving U.S. small business loan originations in between 2012 and 2014 down 40 percent from pre-crisis levels.
- **Non-systemic economic cycle shock:** Turkey engaged in a process of economic liberalization in 1980 which increased foreign direct investments to then trigger policies to restrict them. These led to a lack of fiscal discipline and growing deficits, with heavy monetary financing of government spending, leading to the private banks being the main providers of government finance to avoid inflation and monetary instability. These factors combined created fragility in the currency exchange, leading to a breakdown of the lira peg resulting in a drop of 6% in real GDP, 30% in investment volumes, 9% in industrial output, and an unemployment rate of 10%.

Catastrophic events

- The Ebola epidemic of 2013-2015 caused economic losses estimated at $2.8 billion in Liberia, Guinea, and Sierra Leone, about 20% of the three countries' aggregate GDP. Border closures heavily affected the economy, as informal cross-border trade is a source of income for more than 40% percent of Africa's population. Tourist arrivals declined by half from 2013 to 2014 and 40% of workers became unemployed.

Market-disruption trends

- **Technology disruption:** Digital technologies and automation have led to significant productivity increases, especially in areas such as manufacturing, where many small firms activate. Yet, small firms lag behind their larger counterparts in terms of adopting new technologies. For example, even across OECD countries, less than 30% of SMEs use ERP (Enterprise Resource Planning) technologies, as opposed to almost 80% of large firms. Unless small firms manage to accelerate their technologization, they will continue to face an increasing productivity gap. At the same time, technology disruptions can also result in job displacements, in large and small firms, that can result in job loss and inefficiencies.
- **Business model disruption:** The rapid growth of e-commerce, including cross-border, is transforming the retail space, indirectly threatening the traditional brick-and-mortar model of many small firms. While online platforms can represent a significant market opportunity for small firms, many struggle to adopt the model. They often lag behind in terms of digital capabilities (e.g., platform access, e-payment infrastructure) and struggle to compete with larger players that have a leaner cost structure. At the same time, community-based business models, driven by convenience and local customer loyalty are often difficult to transfer to a purely online engagement.

8 Cole, Rebel A., Dec. 31st, 2017. *How Did Bank Lending to Small Business in the United States Fare After the Financial Crisis?*

9 European Commission. 2009. *Growth and economic crises in Turkey: leaving behind a turbulent past?*

10 The Workd Bank. *2014-2015 West Africa Ebola Crisis: impact update.* Available at: https://www.worldbank.org/en/topic/macroeconomics/publication/2014-2015-west-africa-ebola-crisis-impact-update.print. Accessed on July 2nd, 2021.

11 Asgary, A.; Ozdemir, A.I.; Özyürek, H. 2020. *Small and Medium Enterprises and Global Risks: Evidence from Manufacturing SMEs in Turkey.* Int J Disaster Risk Sci 11, pp 59–73.

12 The Organization for Economic Co-operation and Development (OECD). 2018. *Strengthening SMEs and entrepreneurship for productivity and inclusive growth.*

13 Kearney report. 2016. *The tipping point for e-commerce in Mexico.*

14 Mari, Angelica. Oct. 2020. *Brazilian SMBs accelerate tech adoption amid pandemic,* Brazil Tech.

Market disruption trends

Market disruptions can be driven by trends such as innovation and stiffer global market competition, that directly disrupt sectors and businesses. These emanate from technological advancements and evolving market dynamics that transform the productivity and scale of multiple industries and replace existing jobs with automation, and from business-model disruptions, as companies innovate their value propositions, economic models, supply-chains, production, and delivery models.

These disruptions can create growth opportunities and have the potential to discontinue established market dominance. Yet small firms, and especially those in developing economies often struggle to adapt, given their low access to innovative skills and technologies and insufficient operational agility. For example, while the rampant growth in international trade in the second half of the twentieth century has created immense market access opportunities, it has also created a short-term discontinuation effect on small businesses.

What makes small firms in developing countries more vulnerable

There are many reasons why small firms are less resilient to shocks than larger ones. Some of those are intrinsic to their type of businesses, but many also link to the challenges faced by developing country governments themselves.

▶ Exhibit 5

Small firm vulnerabilities along with developing country challenges make shocks particularly impactful

1. Insufficient financial development: Unavailability and increasing cost of financing

2. Market access: Inability to access new markets and reliance on a limited set of customers

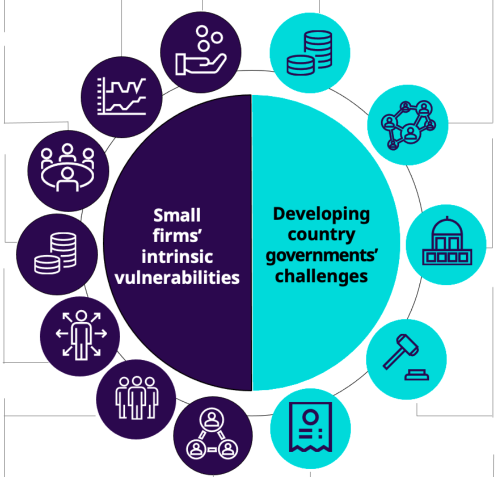
3. Negotiation ability: Low capacity to comply, negotiate, and obtain flexibility from suppliers

4. Business practices: Inadequate business practices, esp. low ability to manage cash flows

5. Productivity: Presence in low productivity sectors, lack of productive assets, knowledge of and access to technological innovations

6. Skills and capabilities: Low levels of managerial and strategic skills and technical expertise

7. Workforce vulnerability: Employees and managers themselves dealing with poverty and social vulnerability



1. Resource constraints: Limited financial reserves, and less room for fiscal and monetary interventions

2. Fragmented, dual economies: High number of small firms, often informal, difficult to target and deliver support to

3. Political instability and policy dispersion: Frequent changes in political power hindering governments' ability to plan and execute on support programs

4. Rigid regulatory infrastructure: Business processes and legal infrastructure not set up to support restructuring and help small firms face shocks

5. Inadequate insolvency systems: Misalignment between traditional insolvency systems and frameworks and small firms' abilities and resources

Intrinsic vulnerabilities

As shown in the exhibit above, small firms' vulnerability originates in a complex set of, often self-reinforcing reasons, including:

Insufficient financial development: Long-range horizons often are denied to small businesses as it is difficult for them to access financing or obtain credit. Potential lenders, without publicly available performance and risk data on small businesses, are reluctant to qualify small business applicants without sufficient collateralized assets to back loans, and often charge near-prohibitive interest rates. Plus, small business applicants rarely are skilled in how to present their performance to potential investors. In the heat of the daily survival of their small businesses, many are unaware of alternative financing solutions (such as factoring) when they are available, which is not always in many jurisdictions.

In times of crisis, with tightening financial conditions and credit crunches, financial institutions can become even more reluctant to lend credit to small firms. A study in Spain covering 40'000 SMEs showed that the share of credit-constrained SMEs grew from 33% before the 2008 financial crisis (2006) to 42%, 51%, and 61% in 2008, 2009, and 2010, respectively[15].

Market access: Small businesses are often confined to geographic and market areas that limit their access to new customers. At the same time, their low economies of scale often preclude them from competing with larger, more productive firms for new customers. In times of crisis, this low market diversification exacerbates their exposure to shocks, and their struggle to find and penetrate alternative markets lowers their ability to adapt. The advent of e-platforms has opened new markets for small firms in selected areas, such as retail or tourism. Yet, as highlighted in ILO's, *Small goes digital* report, barriers such as limited digital infrastructures, digital skill shortages, and low adoption readiness, hinder small businesses' potential to fully exploit these opportunities.[16]

Negotiation ability: The ability of small businesses to negotiate with, or obtain flexibility from suppliers and customers in times of stress and need is constrained by their low size and lack of influence. The purchase volumes of individual small businesses are smaller than their larger competitors', so each is more vulnerable to their vendors' risk, and it is difficult for them to find new ones, especially in times of disrupted supply chains. Small businesses struggle to scan the entire supplier landscape to optimize their supply chain, resulting in a poor understanding of both market opportunities and challenges. At the same time, they are often underrepresented in business associations and subsequently in sectorial negotiations, which also limits their say in the way shock mitigation measures are designed and deployed along the supply chain.

Business practices: Small businesses often need to rely on inadequate business practices, including operations, enterprise risk and cash flow management. Fixed costs consume a large portion of small business cash, limiting their ability to set aside reserves to cushion the blow of economic shocks. If revenues fall off a cliff, rent and utility bills become an issue, as does payroll, and a business may soon face insolvency.

Cash management, in general, is a ubiquitous problem in small firms, as they often lack the ability to forecast cash flows and to plan for when cash-on-hand does not meet payables. Combined with an inability to control receivables, since small firms often have to wait for weeks for payment after customers' orders and are ill-equipped to monitor buyers' credit, many small firms are forced to do business week-by-week, not even month-by-month.

When a crisis hits, plunging demand, delayed payment from customers, and limited cash reserves exacerbate small business' vulnerability, often becoming the leading driver of bankruptcy.

Productivity: Small businesses often operate in low productivity and low-tech sectors such as food

15 Udell, Gregory F. 2020. *SME access to Finance and the global financial crisis*, Journal of Financial Management,Market and Institutions (JFMMI), World Scientific Publishing Co.Pte.Ltd., vol. 8(01), pages 1-25, June.

16 ILO. 2021. *Small goes digital - How digitalization can bring about productive growth for micro and small enterprises*.

& agriculture or retail. At the same time, they face challenges to reach a minimum efficient scale and economic viability to cope with sudden shocks and adapt to changing market conditions.

When managers are aware of the need and opportunity to upgrade their productive processes, the adoption of new technologies that could help facilitate those changes is expensive and time-consuming, or not even possible given insufficient technological diffusion. On top of that, the required expertise in relevant technologies is generally absent, as is funding to train employees in their use. Productive transformations are difficult even for large enterprises, and the necessary legal, HR, IT, and accounting infrastructures may be lacking in most small firms.

Skills and capabilities: Small firm owners often lack managerial training and, in turn, need to rely on employees with insufficient expertise in the latest technologies or market trends. At the same time, they often cannot afford, both financially and in terms of productive time resources to engage in learning programs. In times of crisis, this makes it even more difficult for managers to turn around their businesses and adjust to different demand patterns of operational shifts.

In recent years, donors, development agencies, and government agencies themselves have been launching extensive capability-building programs for small firm employees. Yet, many programs continue to struggle to reach the most vulnerable small firm workers.

Workforce vulnerability: Small firms, and especially informal ones, often rely on poor, low-skilled labour, and find themselves unable to invest in either improving work conditions or pay, or upskilling their workforce. Employees and managers alike often cannot adapt to shocks due to very practical barriers. When a family member is sick, women often need to remain at home. When public transport is interrupted, employees simply cannot get to work. At the same time, even if the nature of work were to allow it, teleworking is often limited by barriers such as broadband availability or the mere absence of a room that can be used as office space.

Additionally, in the case of informal firms, the poor or even lack of social security protection to workers and small business owners allows no buffers to confront crisis from the point of view of protecting their foundation on the labour force.

A vicious circle of low productivity, low capacity to fund, and weaker social security thus hinders small businesses' decent work conditions, productivity, and growth.

Last but not least, employees of small firms tend to be less represented in associations and have less negotiation ability, often deepening their vulnerability.

Government and regulatory challenges

On top of small firms' intrinsic vulnerabilities, the impact of shocks on small firms is also exacerbated by challenges faced by governments themselves. These challenges relate to both governments' limited ability to react in times of crisis and to the absence of an enabling business environment. Most prominent ones include:

Resource constraints: Developing country governments typically possess lower financial reserves to come to the aid of small firms in times of need. When external loans are available, they come at the cost of longer-term indebtedness. At the same time, depending on macroeconomic conditions and implementation scale, monetary policies can carry a non-negligible inflationary risk. While they sometimes benefit from higher enforcement capacity, developing country governments may have limited resources and capabilities to design and deploy more sophisticated support measures.

Fragmented, informal constituencies: Being able to support small firms may require policymakers to consider a very broad variability of small firm circumstances, as well as to be able to deploy support to a very large number of small entities.

Compounding the fact that 4 out of 5 firms worldwide operate informally[17], governments' ability to identify and deliver support can face additional limitations. When social dialogue does happen, informal firms are often not represented to give their input on crisis management strategies and implementation choices.

Political instability and policy dispersion: Developing countries often face political instability, with a direct impact on their ability to devise and execute longer-term strategies and coherent policies to support small firms. Many policies in support of small firms are thus implemented with limited coordination and administrative capacity. When crises hit, governments often need to start from scratch or heavily rely on the support of other players in the ecosystem.

Rigid regulatory infrastructure: Governments generally move slower than the pace of change small businesses need to cope with. From 2010 to 2016, barriers to firm restructuring remained the same or declined only marginally even in most OECD countries. Turkey, for instance, has a legal system with features that delay the initiation and extend the time of the restructuring process. And the process has not become any easier since 2010.[18]

Inadequate insolvency systems: Traditional insolvency systems are not well matched to small firms' abilities and resources. There is limited alignment between corporate and personal insolvency systems, limited assets and options for refinancing, and costs for initiating an insolvency procedure are often beyond the means of a small business. Additionally, in some countries, in the case of unincorporated micro and small firms, the treatment of individual defaulters is severe, leaving owners entirely liable for many years beyond a business' liquidation. Lengthy and complicated processes can significantly affect the capital and reputation of small entrepreneurs, drastically decreasing their chance of starting a business again, and create barriers to restructuring.[19]

The importance of supporting small firms overcome shocks

External shocks can have devastating impacts on small firms, and consequently on developing countries' economies and livelihoods. As small firms disappear, capital is destroyed, market competitiveness eroded, inequality levels can rise and people can find themselves pushed into unemployment or precarious, informal working conditions.

For example, during the 1998 financial crisis, the number of bankrupted SMEs in the Republic of Korea, particularly in the manufacturing sector, increased by nearly 100% compared to 1996[20]. And studies show that overall, about 25% of SMEs do not reopen following a major natural disaster[21]. While many entrepreneurs end up opening other businesses, the loss of overall economic value is undeniable.

Adverse consequences of technological advances can also be consequential for small businesses. For instance, in ASEAN-5 countries (Cambodia, Indonesia, the Philippines, Thailand, and Viet Nam), 88% of all jobs, most of which are in small and medium-sized companies, are at medium or high risk of being automated away.[22]

17 ILO. *Informal Economy*, available at: https://www.ilo.org/global/topics/employment-promotion/informal-economy/lang--en/index.htm. Accessed on July 2nd, 2021

18 OECD. 2017. *Insolvency regions, zombie firms and capital reallocation.*

19 OECD. 2018. *Improving the business environment for SMEs through effective regulation.*

20 Gregory, Gary; Harvie, Charles; Lee, Hyun-Hoon, 2002. *Korean SMEs in the Wake of the Financial Crisis: Strategies, Constraints and Performance in a Global Economy*, Economics Working Papers (School of Economics, University of Wollongong, NSW, Australia), pp02-12.

21 Asgary, A.; Ozdemir, A.I.; Özyürek, H. 2020. *Small and Medium Enterprises and Global Risks: Evidence from Manufacturing SMEs in Turkey.* Int J Disaster Risk Sci 11, pp 59–73.

22 ILO. 2019. *ASEAN in transformation, textiles, clothing and footwear: refashioning the future.*

McKinsey's report *Unlocking growth in small and medium-sized enterprises* indicates a $15 trillion GDP impact opportunity in closing half the productivity gap between SMEs and large firms[23]. Taking into account small firms' vulnerabilities to shocks, the task for bridging this gap is not just a matter of increasing productivity, but also relies on improving the ability of small businesses to survive crises, adapt to new conditions, and become more resilient against shocks.

As small firms generate over 70% of employment worldwide[24], their support also becomes key to maintaining workers' and their families' livelihoods. Additionally, it can both help mitigate the risk of informalization, and drive the transition towards formality of existing informal units, with positive impacts on employment conditions.

Developing country governments often navigate a complex set of potential levers and measures in designing the best support for their constituencies. Over the next chapters, we will describe and discuss a comprehensive framework of support measures that governments can consider (in collaboration with other ecosystem players), as well as a set of criteria to help guide policymakers through the choice of measures and the deployment process.

23 McKinsey & Company. 2020. *Unlocking growth in small and medium-size enterprises.*

24 ILO. 2019. *Small Matters, Global evidence on the contribution to employment by the self-employed, micro-enterprises and SMEs*.

Chapter 2: Supporting small firms in times of crisis

This section aims to offer developing-economy governments a holistic framework for looking at how to help viable small businesses confront crisis-related shocks. The framework provides a structured way to handle short-term liquidity risks, tackle short- to mid-term operational challenges, secure employment continuity and adaptation, and avoid systematic damages to legal and financial infrastructure.

To date, most crisis management support consists of broad-based financial measures, such as loans and stimulus programs. Yet, these measures are far more available to developed economies, with higher financial resources. This has also been the case of the COVID-19 response, when high-income countries have allocated significantly higher fiscal stimuli than mid and low income ones[25]. At the same time, many governments are also starting to consider non-financial, segment-specific measures. These translate into different actions, depending on the status of the shock and the ensuing crisis, and can help small firms adapt their operations and build capabilities that will not only help them survive the crisis, but also build resilience against future shocks.

In this chapter, we will focus on potential measures that governments can consider during crises. Levers aimed at building resilience, and in particular enterprise risk management capacity ahead of shocks will be discussed in Chapter 3.

The measures presented will be structured around four types of objectives:

A. **Improving financial stability and liquidity** to help small businesses avoid failing due to liquidity crunches and temporary profit and loss shocks

B. **Supporting operational continuity and adaptation** by improving administrative flexibility, giving direct assistance with key operations, and support for measures that can have a productivity enhancement effect

C. **Supporting employment continuity and adaptation** to ensure employees are protected against the inherent economic and social risks and are able to continue contributing as a key foundation of small firms, and to identify arrangements and support that are mutually beneficial to both workers and small firms

D. **Facilitating restructuring procedures** to reduce the number and impact of business failures and minimize the bankruptcy-related legal and financial challenges that can emerge when a crisis endures

Overall, to meet the four objectives under the crisis management pillar, fifteen potential levers and twenty-four potential measures have been described, as listed in Exhibit 6. In this section, each objective and lever will be detailed, as well as exemplified with measures, alongside specific implementation considerations.

The example of the COVID-19 pandemic illustrates vividly how a shock can trigger a complex set of impacts on the economy and society overall, beyond a single catastrophic event. It became a severe global economic crisis that led to a global recession, disrupted traditional business models, changed employment patterns and forced technology adoption. Thus, this section includes a quantitative analysis and multiple conclusions based on broad government measures during the COVID-19 pandemic. While this analysis heavily relies on the specificities of the COVID-19 crisis and needs to be read within this context, the mere complexity of this crisis allows for multiple lessons to apply to a broad variety of other shocks. At the same time, as this report is being written, the COVID-19 crisis is still ongoing in many developing

25 ILO. *COVID-19 and the World of Work*, 6th edition. Available at: https://www.ilo.org/wcmsp5/groups/public/---dgreports/---dcomm/documents/briefingnote/wcms_755910.pdf . Accessed on August 2nd, 2021.

countries, and any conclusions policymakers reach should be carefully caveated with that fact in mind.

In the frame of this analysis, the use of different measures was quantified based on 1'600 measures collected from World Bank database of SME support measures in response to COVID 19[26], as shown in the following exhibit. Beyond this quantification, the analysis also includes examples of measures to illustrate how governments have leveraged the policy instruments in practice. The examples included in this chapter, if not specifically mentioned with a reference, are selected from the World Bank Map of SME-support Measures in Response to COVID-19[27], the ILO's policy briefs and reports on policy responses to the pandemic crisis[28], and the International Monetary Fund Policy Tracker of responses to COVID-19[29]. At the same time, some of the levers and measures are also exemplified based on case studies and examples outside the COVID-19 pandemic context.

The analysis revealed that during the COVID-19 pandemic, approximately 70% of measures taken by governments in support of small businesses have fallen under the improving financial stability and liquidity objective, followed by measures to support employment continuity and adaptation with a share of approximately 25%. Only about 5% of measures have addressed small businesses' operational adaptation, and fewer than 1% have sought to facilitate adaptation and restructuring procedures.

Financial levers can be essential for mitigating economic and natural disaster shocks. Yet, developing country governments may not benefit from relying on such measures alone. Beyond the resource implications, such measures can also imply potential systemic dangers, including legal and financial risks (e.g., increased inflation, fraud). In turn, governments may choose to also pursue more innovative and sustainable approaches, such as those described in the other three objectives, including supporting small businesses' operations and employment adaptation, as well as their restructuring.

Governments would nonetheless need to evaluate each measure in the context of their own countries before determining which is most appropriate. Chapter 4 will offer a potential starting point for governments to pursue this prioritization and customization journey.

Objective A: Improving financial stability and liquidity

Crisis conditions can rapidly push viable small firms in developing countries under liquidity pressures and operating losses, threatening their solvency and long-term business viability. Access to liquidity to meet working capital needs and financial obligations thus becomes a survival necessity. Governments and ecosystem partners may thus need to consider, whenever the severity of shocks so determines and resource availability makes it possible, offering immediate liquidity assistance to small businesses which are at risk but otherwise viable.

The measures presented under this objective are structured around four levers, namely: 1) Adjusted timelines for fees and receivables, 2) Balance sheet interventions, 3) Value transfers to firms through revenues and 4) Value transfers to firms through costs, as per McKinsey's report on Government stimulus measures against COVID-19[30]. The levers are listed beginning with those that typically present the lowest impact on government balance sheets.

26 World Bank. 2021. *Map of SME-support measures in response to COVID-19*. Available at: https://www.worldbank.org/en/data/interactive/2020/04/14/map-of-sme-support-measures-in-response-to-covid-19. Accessed on July 2nd, 2021.

27 World Bank. 2021. *Map of SME-support measures in response to COVID-19*. Available at: https://www.worldbank.org/en/data/interactive/2020/04/14/map-of-sme-support-measures-in-response-to-covid-19. Accessed on July 2nd, 2021.

28 ILO. *COVID-19 and the World of Work.* Available at: https://www.ilo.org/global/topics/coronavirus/lang--en/index.htm. Accessed on July 2nd, 2021.

29 International Monetary Fund(IMF). 2021. *Policy tracker of responses to COVID-19*. Available at: https://www.imf.org/en/Topics/imf-and-covid19/Policy-Responses-to-COVID-19. Accessed on July 2nd, 2021.

30 McKinsey & Company. 2020. *The $10 trillion rescue: how government can deliver impact*.

Exhibit 6[31]

The framework includes 4 objectives, 15 levers, and 24 measures

Not Exhaustive | Status July 2021

OECD | Non-OECD | Regulation changes | Deferrals | Supporting programs | Loans | Guarantees | Value transfer | Equity investments

Objective	Lever	Measure	Frequency during COVID-19 response[1]: OECD	Non-OECD	Total
A. Improve financial stability and liquidity	A1: Adjusted timelines for fees and receivables	A.1.1. Postpone government fees/receivables	37	54	91
		A.1.2. Accelerate government's payables	5	18	23
	A2: Balance sheet interventions	A.2.1. Support equity interventions	2	4	6
		A.2.2. Issue new credit lines[2]	97	226	323
		A.2.3. Promote debt restructuring & loan deferrals	33	162	195
		A.2.4. Guarantee funds	40	38	78
	A3:Value transfers to firms through revenues	A.3.1. Stimulate demand	2	9	11
		A.3.2. Promote participation in govt. purchasing	3	11	14
		A.3.3. Transfer cash to firms	36	39	75
	A4: Value transfers to firms through cost reductions	A.4.1. Reduce/eliminate government fees	38	190	228
		A.4.2. Ease non-debt obligations	20	54	74
		A.4.3. Stabilize supply chain costs	3	39	42
B. Support operational continuity and adaptation	B1: Temporary adaptation of administrative processes	B.1.1. Simplify administration process		26	26
	B2: Continuity of supply and market links	B.2.1. Bridge supply and sales	1	1	2
	B3: Direct operational support and advisory	B 3.1. Adapt business plans and processes	17	7	24
	B4: Productive transformation	B.4.1. Promote innovation and digitalization	12	7	19
	B5: Sustainable development	B.5.1. Promote environmental sustainability			N/A
C. Support employment continuity and adaptation	C1: Wage and other income support	C.1.1. Compensate / reduce salary costs	72	83	155
	C2: Work time arrangements	C.2.1. Promote flexibility of work	26	18	44
	C3: Reskilling and upskilling	C.3.1. Facilitate reskilling and upskilling	6	13	19
	C4: Other social protection measures	C.4.1. Extend social protection	79	62	141
D. Facilitate restructuring procedures	D1: Temporary stop for hibernation of business activity	D.1.1. Create legal framework for hibernation			N/A
	D2: Effective restructuring and efficient bankruptcy	D.2.1. Promote and facilitate restructuring	2		2
		D.2.2. Improve the efficiency of liquidation	3	3	6

1. Frequency of using the measure during the COVID-19 pandemic response. Quantification based on data from the World Bank Map of SME-support Measures in Response to COVID-19.
2. Includes monetary policies aimed at maintaining the financial sector's liquidity to facilitate SME debt financing.

31 World Bank. 2021. *Map of SME-support measures in response to COVID-19*. Available at: https://www.worldbank.org/en/data/interactive/2020/04/14/map-of-sme-support-measures-in-response-to-covid-19. Accessed on June 15th, 2021.

Lever A1: Adjusted timelines for fees and receivables

If small businesses have high fixed costs, they find themselves bleeding cash as revenues dry up. Bankruptcy can emerge suddenly. Governments can help by postponing payables (incl., income tax, property tax, fees for license issuing on custom duties, social security contributions, rent on government property), and accelerating government payables such as tax returns and refunds. These actions can decrease small firms' costs immediately, with a relatively minimal impact on government budgets in the mid and long-term if they are implemented with a clear temporary basis according to the severity of the shock and its impact on small firms' business activities. During the COVID-19 shock, about 7% of government crisis management actions have focused on adjusting the timelines of receivables and payables.

Additionally, governments could also choose to enact temporary waivers of fees within their direct control – in the frame of the proposed analysis such measures have been included in lever A4 – Value transfers through costs, given their higher relative impact on mid-term government budgets.

Lever A2: Balance sheet interventions

Balance sheet commitments that small businesses make during periods of economic growth can often become a source of severe stress during crises, particularly for hard-hit sectors. Small firms that have been growing or were strong enough to take on significant debt can suddenly find payments to be a threat to their survival. Under these conditions, a certain degree of capital restructuring may be needed. And as liquidity would be difficult to channel through traditionally lengthy processes, government intervention may become necessary.

Relaxing strict requirements of lending with secured collaterals can open much-needed flexibility, and extending lending for viable firms in a state of bankruptcy can also become desirable – yet subject to careful examination to avoid creating over-indebtedness. Governments can also consider offering new credit lines, loan deferrals, partial or full credit guarantees, to help support small businesses. In exceptional cases (specific investment purposes, highly vulnerable targets), they can also consider one-time grants.

Similarly, debt restructuring policies can offer relatively fast relief for small firms. Yet, they may require close cooperation with financial sector authorities, private and public financial sector institutions (particularly banks), and debt restructuring firms. At the same time, the early identification of the concrete issues is essential to avoid snowball effects on the rest of the economy. Often, the creation of special task forces can help deal with the debt restructuring of small firms in a more targeted manner.

Balance-sheet interventions have been among the most used policy measures during the pandemic, representing approximately 35% of government crisis management actions. Indonesia, for instance, implemented a credit relaxation policy for loans below Rp 10bn ($700,000) for business purposes, reduced interest rates, and delayed repayments.

To face crisis conditions and be ready to support small firms with balance sheet interventions, countries could benefit from having identified means of temporary liquidity support schemes ahead of crises, with a range of different approaches and options, including fresh new lending, credit guarantees, subsidized term funding, as well as instruments to acquire loans.

▶ Examples – Balance sheet interventions[32, 33, 34, 35]

Measure A 2.3 Promote debt restructuring and loan deferrals
Governments can take various actions to support debt restructuring and loan deferrals to help decrease the liquidity pressure on small firms during crises.

Debt-payment deferrals and moratoriums
Governments may issue debt-payment deferrals and moratoriums for businesses directly impacted by the crisis.
Examples (COVID-19):

- **Honduras** rolled over debt service arrears accumulated during the grace period without capitalizing interest, extending loan maturities, and reducing interest rates.
- **Barbados'** government issued debt-payment moratoriums for businesses directly impacted by the crisis.

Introducing debt restructuring schemes
Governments can also enact policies to help small businesses restructure their debt through negotiations e.g., for lower monthly installments and interest payments. They can also support the extension of repayment periods for unsecured debt.
Examples:

- During the Asian financial crisis in 1999 **Thailand** used several mechanisms to deal with SMEs debt, including the setting, at the central bank, of a debt restructuring advisory committee, inter-creditor and debtor-creditor agreements for SMEs, monthly targets to resolve cases; and a consortium to purchase promissory notes issued by creditworthy SMEs at a discount.
- In 1998 **Indonesia** established the Jakarta Initiative Task Force as a one-stop forum to facilitate out-of-court workouts for corporate debt. With simplified procedures, the Task Force also targeted SMEs, but with limited results due to the priority given to large firms. A large number of SME non-performing loans were instead transferred to the Indonesian Bank Restructuring Agency, an asset management company, which used an across-the-board approach targeting the SME debt either for resolution through cash settlement, using interest and principal discounts, or sold through an open tender auction to other financial restructuring agencies.
- In the aftermath of the global financial crisis, in 2010, **Iceland** introduced one of the most ambitious debt restructuring programmes. For qualifying firms, the approach agreed with financial creditors included the injection of cash flows, continuous firm operation, and the option of debt being written down to the discounted value of the cash flows generated by the business, or to the liquidation value of the enterprise, including any additional collateral. Loans were deferred with low interest for three years, disagreements about valuations could be resolved by a third-party valuation, disputes had access to arbitration, and tax claims could be reduced in the same proportion as the creditors' write-downs or further postponed, with rules for taxation for debt forgiveness amended to provide more relief to debtors.

32 Latin American Association of Development Financing Institutions (ALIDE). 2009. *The counter cyclical role of development banking to face the international economic crisis.*

33 OECD. 2009. *The impact of the Global Crisis on SME and entrepreneurship financing and policy responses.*

34 Bergthaler, W.; Kang, K.; Liu, Y.; Monaghan, D. 2015. *Tackling small and medium sized enterprise problem loans in Europe.* IMF Staff Dscussion Note 15/04. IMF.

35 Díez, F.; Duval, R. ; Fan, J.; Garrido, J.; Kalemli-Özcan, S.; Maggi, C.; Martinez-Peria, S.; Pierr, N. 2021. *Insolvency prospects among small and medium enterprises in advanced economies: assessment and policy Options*. IMF Staff Discussion Note, 2021/02.

Introducing debt restructuring schemes (continuation)
Examples (COVID-19):

- **Indonesia** announced regulations allowing financial institutions to provide small businesses with immediate debt relief by restructuring with lower interest rates, deferred interest, grace periods, tenor extensions, additional loans, and loan conversions.
- **The Central Bank of the Dominican Republic** released RD$5.7 bn from the reserve requirement (about 0.5 percent of reserve requirements) for new loans, refinancing of previous debt and debt consolidation for small businesses and personal microcredit under loans for 4 years, at an interest rate of up to 8 percent. They also announced debt relief measures including a temporary freeze of debtor ratings and provisioning, classifying overdue loans for a 60-day period.
- **The Central Bank of Ethiopia** provided Birr 15 bn (0.45 percent of GDP) of additional liquidity to private banks to facilitate debt restructuring and prevent bankruptcies.
- **Anguilla** announced the waving of all interest and penalties on debt obligations (excluding arrears), along with social security payments by employers.
- **Singapore** applied a Simplified Insolvency Programme to help restructure debts or facilitate orderly winding up.

Measure A 2.4 Guarantee funds
Governments may also mobilize funds to leverage private sector credits to support small firms through guarantee schemes.
Examples:
During the 2008-2009 global financial crisis, the Guarantee Fund for SMEs (FOGAPE) in **Chile** has been endowed with additional US$ 130 million by the government, bringing its resources to US$ 200 million. These resources allowed guaranteeing loans for more than US$ 2 billion.

Lever A3: Value transfers to firms through revenues

Governments seeking a more direct way to aid otherwise healthy small businesses may consider directly transferring value to them. There are various ways to achieve this. Some governments have purchased goods directly from small companies experiencing reduced revenues, while others have provided cash payments to meet short-term cash needs.

As business-as-usual public procurement processes can be a slow and better fit for large firms that have the capacity and capabilities to navigate the administrative processes and fulfill the technical and financial requirements, governments could benefit from designing dedicated procedures for supporting small firms, especially in times of crisis. Such procedures could be tailored to the supply structure and capacity of small firms and the crisis-specific demand requirements. They could, for example, grant authority to purchase and pay rapidly, access to immediate processes and documents for emergency purchases, or provide accompanying financial assistance from credit programs. They could also account for considerations such as creating smaller contracts suitable for small firms, efficient electronic contracts, and payments, as well as the flexibility to accept offers by groups of small firms and/or alliances with larger firms, or supply by larger firms with inputs from smaller firms.

Beyond what special emergency public procurement can do, stimulating the demand from households and other small businesses can also help increase small firms' revenues. To drive this, governments could consider two policy interventions, namely (i) Ensuring that the cash transfers provided are guided, to the extent possible, towards the targeted regions and/or sectors of small firms to be supported. This can have a potentially powerful effect linked to specific demand areas (food, transportation, retail commerce, restaurants, etc.) (ii) Establishing credit policies to ensure that small firms have sufficient working capital to respond to demand (part of balance sheet interventions).

Some nations have devised ways to let the customer determine which businesses receive the transferred value. For example, Argentina has offered a low interest rate credit card to encourage customers to buy domestically manufactured goods, emphasizing small companies.

Value transfers through revenues, however, has not been frequently deployed in response to COVID-19, accounting for only about 5% of pandemic-era government crisis management actions.

▶ Examples – Stimulating demand through government purchasing and consumption incentives[36, 37, 38]

Measure A 3.1: Stimulate demand through consumption incentives
Stimulating household spending on hard-hit industries
By offering incentives, governments can prompt households or targeted groups to spend in ways that support hard-hit sectors. Incentives could take the form of subsidies, decreased VAT, or consumption discount vouchers.
Example: **Thailand** has launched three stimulus packages to support its tourism industry. These have included:
"Happiness-sharing trips" ($64mn) – a domestic travel subsidy covering up to 50% of fare expenses for 2 million travelers.
"Traveling together" ($577mn) – 5 million nights of hotel accommodation subsidized at 40%.
"Moral support" ($77mn) – a travel fund for healthcare workers.

Measure A 3.2: Promote small business participation in local and national government procurement
In time of crisis, governments can increase their purchases of goods and services, targeting small business sectors with reduced revenues. They can also incentivize small businesses to produce crisis response products and services.
Examples:
During the COVID-19 pandemic, the **South African** government collaborated with the hotel industry in using their spare capacity due to the drop in tourism to provide quarantine facilities, in a collaboration between the Ministry of Health and Ministry of Tourism. Similar models were followed in other countries as well, including **Costa Rica.**
South Africa implemented as part of pandemic measures an Agriculture Support Fund Voucher to aid production, input and food supplies. The voucher was operationalized in cooperation with distributors and producers of agricultural inputs.
During the 2008 global financial crisis, **the Mexican government** announced a governmental purchases program according to which at least 20% of the total annual purchases of the Federal Government and its dependencies were to be bought from SMEs.
During the global financial crisis, **Australia** introduced in 2008 a guarantee of payment for contracts with small firms within 30 days, and the revision of standard procurement documents to reduce the time and cost for SMEs.
The **Zambian** Road Development Agency (RDA) encouraged all contractors above K30 million (US$ 1.50 million) to sub-contract 20 percent of the work (by value) to small and medium scale citizen enterprises.

36 OECD. 2009. *Policy Responses to the Economic Crisis: Investing in Innovation for Long-Term Growth.*

37 Nazaneen Ismail Ali, Nov.10. 2020. *Can public procurement bring socio-economic empowerment policies into implementation?. World Bank Blogs.*

38 Thepapat, Chatrudee; Bangprapa, Moongkol, Jul 1st 2020, *Government bets on local tourism*, Bangkok post.

Lever A4: Value transfers to firms through cost reductions

In addition to transferring value through revenues, governments can choose to ease the burden on small businesses by reducing their costs. Measures that fall under this category have been among the most frequently deployed, representing about 20% of crisis management actions during the COVID-19 pandemic. Many countries have been helping small businesses by reducing/eliminating government fees, including waivers or reductions of corporate taxes, VAT, social security, and other governmental administration fees.

Most governments have also focused on providing direct contributions to employee wages, to help maintain their livelihoods and status as contributing participants to the economy. This type of measure will be described in more detail in Objective 3 – Supporting employment continuity and adaptation.

Waivers or reductions of taxes are typical instruments utilized by governments during crises. For instance, to accelerate development and recovery after the war period, the Iraq government has announced a draft amendment to its Income Tax Law to exempt small and medium-sized businesses from paying income tax during a period of time starting in 2019.[39]

Depending on the severity of shocks, other direct ways of reducing fixed operating costs could also be considered. Governments can also engage other private sector players in supporting small firms through joint efforts to reduce costs such as rents, servicing of debt, utilities, supplies, which can prove mutually beneficial.

Other concrete options include[40]:

- For fixed payments due to the private sector – providing enterprises with grants at "replacement rates" for fixed costs—akin to replacement rates for unemployment insurance—which could be based on previous tax filings (e.g., averaged over 2-3 years, perhaps, to control against inflated claims).[41]
- Allowing owner-operators to claim unemployment benefits for the period that their business is required to remain closed to prevent them from plunging into poverty.
- Encouraging financial institutions or other ecosystem participants to reduce product and service-related fees.
- Subsidizing business costs of rebates or offering discounts (e.g., coupons) for costs such as utility bills or rental fees.

Implementation considerations – Financial stability and liquidity measures

While actions to support small firms' financial stability and liquidity can be important, they are often not available to developing country governments, given their constrained budgets and potentially more limited access to capital. This can also be the case for other cash-intensive measures, such as immediate wage contributions.

At the same time, when funds are available, governments could benefit from handling such measures carefully, given a series of risks they can pose, such as increased government debt, the potential growth of nonperforming loans, and a potential inflationary risk, if deployed at large scale. Depending on macroeconomic conditions, these can become a significant concern for many developing economies. At the same time, governments may need to define criteria for the use of funds to

39 The Federal Government of Iraq, Oct 21st 2019, *Iraq government announces new initiatives on job creating, training*. Available at: https://www.worldbank.org/en/data/interactive/2020/04/14/map-of-sme-support-measures-in-response-to-covid-19. Accessed on July 2nd, 2021.

40 ILO. 2020. *Interventions to support enterprises during the COVID-19 pandemic and recovery. ILO Enterprises brief.*

41 Replacement rates in this context are meant to provide an idea on how to determine a potential grant to small firms to help them cover fixed costs. The grant could be related, among other options, to the average tax filing by small firms over a 2 or 3-year period. Under severe shock conditions that necessitate supporting small firms with grants, this possible method may be considered for the determination of the grant value in relation to the support on fixed costs.

ensure they are utilized for truly urgent, productive needs, rather than e.g., the purchase of real estate.

Supporting the liquidity of small firms may also require actions to increase the supply of fresh resources in the financial system. There is a wide variety of actions that governments may want to consider, including monetary, financial, and fiscal policy measures. Few illustrations of these responses during the COVID-19 crisis are included in the example box below.

Examples – Monetary policies to ensure liquidity in the financial system during crises[42, 43]

▶ Global financial crisis measures

- ▶ **Thailand** introduced a programme of credit guarantees initiated by the government and the central bank to support SMEs, including capital injections for three state financial institutions (Small Business Credit Guarantee Corp., Export-Import Bank of Thailand, and Small and Medium Enterprise Development Bank) to support lending.
- ▶ **The Republic of Korea** significantly increased the amount of government loan guarantees, including by the Small Business Corporation (SBC) with a clear target to provide emergency liquidity to firms. The programme was reduced during the recovery as direct loans and authorization rates declined in line with policy directed to rapidly address crisis conditions.

COVID-19 measures

- ▶ **The Dominican Republic** has put in place Rapid Liquidity Facilities and other special facilities for commercial banks to support the provision of new credit to small firms.
- ▶ **Chile** has been driving liquidity injections through public and private bank programmes.
- ▶ **Armenia** has been executing foreign exchange swap operations to ensure sufficient foreign exchange liquidity.
- ▶ **Croatia** has been expanding loan guarantees and insurances.
- ▶ **Bangladesh** has been purchasing treasury bonds and bills from banks.

Actions to support liquidity could nonetheless confront important challenges that should be considered, such as[44]: addressing credit risk mitigation for lenders and risk-sharing between lenders and between schemes, targeting the small firms needing liquidity support, and ensuring clarity on financial sector prudential implications. The close coordination of policy actions by monetary policy authorities (central banks), financial sector institutions, fiscal policy makers, and other actors related to the fixed costs of small firms could potentially help address some of these challenges and ensure a coordinated, integrated and transparent approach.

Objective B: Supporting operational continuity and adaptation

In addition to financial stability measures, crisis mitigation may require operational and structural measures to help small businesses confront short-term operational challenges and enable recovery. During the pandemic, such challenges have been particularly acute, ranging from physical distancing mandates to the required use of personal-protective equipment (PPE) and sudden shifts in market behaviors.

Structural measures can help small businesses adapt to these challenges and boost efficiency. In addition to being vital following disasters, operational levers can also help small businesses adjust to market trends. In the near term, they can help them continue operating by adopting new working methods, deploying digital technologies, and finding new markets and sales channels. In the longer term, such measures may also help strengthen small businesses' resilience and support their recovery from future crises.

The presented analysis found that small business operational adaptation measures are relatively infrequent. Of the approximately 1’600 COVID-19

42 OECD. 2012. *Financing SMEs and Entrepreneurs 2012, An OECD Scoreboard.*

43 Filardo, A.; George, J.; Loretan, M.; Ma, G.; Munro, A.; Shim, I.; Wooldridge, P.; Yetman, J.; Zhu, H. 2011. *The international financial crisis: timeline, impact and policy responses*, Asia and the Pacific. BIS paper 52.

44 Jeasakul, P. 2020. *Considerations for Designing Temporary Liquidity Support to Businesses. Special Series on COVID-19.* IMF.

management measures identified using the World Bank database, approximately 5% fall under this objective. When employed, the most common measure was the simplification of administrative processes.

The relatively modest level of activity under this objective may also link to its requiring a more customized support, as well as greater deployment capabilities, often not directly available to developing country governments, especially in times of crisis. Yet, a broad-based approach that goes beyond traditional financial stability measures could also help build a more resilient small business sector.

Efforts to reinforce small business efficiency and adaptation can fall under five levers, namely 1) Temporary adaptation of administrative processes, 2) Continuity of supply chain and market links, 3) Direct operations support and advisory, 4) Productive transformation, and 4) Sustainable development.

Lever B1: Temporary adaptation of administrative processes

Governments could look at ways to help small firms during crises by adapting, on a temporary emergency basis, their own operations. Such actions can ease the burden on small businesses, particularly those experiencing crisis-related staffing constraints.

This can include, for example, simplifying administrative and compliance procedures, relaxing the rules for tax compliance, social security contributions and coverages, and the provision of essential utility services, or adjusting the regulation around import customs, or work places. As explained in the next objective, such changes could also apply to small firms' bankruptcy procedures, out of court resolutions, or mergers.

One area where regulatory adjustments have been particularly frequent during the COVID-19 crisis has been the financial sector, thus providing scope for a rich set of examples, from adjustments of central banks' regulations to regulatory measures to promote credit flows. Here again, relaxing regulations loan restructuring and credit policies can be instrumental during crisis conditions.

Rapid relief can also be achieved through the acceptance of online compliance requirements, accelerated approvals, self-certification, risk-based inspections, or cancelations of fees. As an example, Fiji has ended its business license regime and replaced it with a user-friendly online business incorporation and tax registration system.

Pre-defining a fast-track approach that can be rapidly activated in times of crises could minimize delays and allow for regulatory experimentation in times of crisis. Such fast-track approaches already exist in other fields, such as healthcare. At the same time, social dialogue and consultations between small firms and regulatory bodies can also help tailor measures and ensure a common understanding of the temporary application of emergency regulatory accommodation.

Lever B2: Continuity of supply chain and market links

When crises hit, small businesses are at risk of losing access to both customers and vital inputs. As the supply chains of small firms in developing countries are mostly related to local small producers that depend on inputs from other local supplies, and indirectly on international suppliers, both local supply chain disruptions and international market shocks can create bottlenecks.

Governments may be able to help recreate these bridges by intensifying different actions aimed at maintaining supply stability, bridging suppliers and buyers, providing critical information, facilitating the collaboration between large and small firms, using public–private coordination to temporarily reposition unused production capacity to increase production of certain targeted supplies, and promoting innovation within the ecosystem of small producers.

To maintain supply stability, governments may also introduce additional temporarily regulations and/or guide public-private interventions in the production, distribution, and price of key inputs (e.g., through reductions of import tariffs, or price smoothing). For instance, during the COVID-19 pandemic, Colombia promoted public–private coordination to temporarily reposition unused production capacity to increase the production of essential supplies. Governments can also help small firms integrate within any special logistics arrangements and networks to confront the disruption of productive linkages. The Côte d'Ivoire, for example, put in place a support programme for public entities in the transport and port sectors to ensure continuity in supply chains[45]. Such measures could be complemented with financial incentives, such as emergency lines of credit to re-establish production based on locally available supplies.

While sometimes also undertaken in non-crisis conditions, bridging suppliers and buyers can be even more critical during crises. To increase the efficiency of responding to demand or supply interruptions, governments may facilitate the clustering of small firms, or directly broker small firms' contact with suppliers/clients to obtain raw materials and sell their products. For example, during the COVID-19 pandemic, the government of Costa Rica launched a smartphone app and texting service to facilitate the trade among producers of agricultural, meat, and fish products[46]. Indonesia's Trade Ministry aimed to boost SME exports by connecting small businesses with potential buyers abroad through virtual business matchmaking events.

In times of crisis, the lack of information could also create major disruptions. And network-based solutions rely on information about local firms and their productive capacity. Governments may be able to play a role in solving information failures to ensure the productive continuity of supply chains. These measures may include providing information on the status of markets and supplies. For this, governments could benefit from identifying and mapping out the local firms in a way that provides solutions to supply disruptions, and establishing new online information platforms about small firms, also as an incentive for small firms to develop an online presence, stay connected and be part of collective solutions.

At the same time, supply chain disruption can also present certain opportunities for small firms, as they may be able to respond locally to demands of larger firms that need to diversify towards local supplies, particularly in areas such as agriculture, apparel, and a large range of services.

Lever B3: Direct operations support and advisory

In times of crisis, governments could also look at ways to support small firms in selected sectors to adjust their day-to-day operations to adapt to the new supplies or market systems (e.g., pricing, distribution channels, promotion of their products). This could include delivering support through their own agencies, in collaboration with NGOs and industry associations, or providing vouchers for small firms to access advisory services.

For example, during the COVID-19 pandemic, the Costa Rican National Tourism Institute prepared highly customized materials and infographics for each tourism sub-sector to adapt their practices and communicate to their clients[47].

To support small firms in times of political crisis, the Afghanistan's Small and Medium Enterprise Development (ASMED) project has provided them with advisory services from 2006 to 2012. The project was designed to fill the gaps in SME value chains and improve small firms' capabilities. It provided consultation to different manufacturing-focused small firms, including gem cutting, carpet cutting, washing facilities, and cardboard production for packing fruit. With ASMED's support, a box factory, installed in Kandahar, has managed to reduce its cost of packaging by half.[48]

45 IMF. 2020. Cote d'Ivoire. *Demande de décaissement au titre de la facilité de crédit rapide et d'achat au titre de l'instrument de financement rapide. Rapport du FMI n° 20/132.*

46 United Nations Conference on Trade and Development (UNCTD). March 2021. *How COVID-19 triggered the digital and e-commerce turning point.*

47 Costa Rica National Tourism Institute. *Coronavirus support material*. Available at: https://www.ict.go.cr/en/institutional-services/coronavirus-support-material-tourism-sector.html. Accessed on July 2nd, 2021.

48 DAI. *Afghanistan – small and medium enterprise development.* Available at: https://www.dai.com/our-work/projects/afghanistan-small-and-medium-enterprise-development-asmed. Accessed on July 2[nd], 2021.

In addition to government agencies and NGOs, business membership organizations can be particularly helpful in extending advisory services during crises. For instance, the Council of Industrial Chambers of Jalisco (CCIJ) in Mexico has advised 260 small business owners on topics such as finance, marketing, strategic planning and business re-engineering during the COVID-19 pandemic. They have given more than 750 hours of free consultancy from April 2020 to May 2021 and plan to reach at least 600 firms by the end of 2021.[49]

Lever B4: Productive transformation through innovation and digitization

Crises can also offer unique opportunities to promote the productive transformation and adaptation of small firms to changes brought about by the economic conditions of shocks. Some of the industries and sectors most critically affected by shocks (e.g., entertainment, tourism, travel, retail) can be well-positioned for such transformations and business model adaptations.

Governments could look at options to help small businesses adapt production, through innovation and digitalization initiatives, with potential benefits beyond the immediate crisis. For example, they could create emergency programs to support necessary equipment upgrades or capability building (e.g., to quickly connect small businesses to teleworking channels and e-commerce platforms, invest in security and data protection). To promote this, governments could choose to facilitate the provision of technical assistance, or devise targeted financial support (e.g., dedicated grants, subsidized credits, specific tax breaks).

Such actions would nonetheless likely be limited to the type of innovation that can be developed under shock conditions, and resources available, according to the specific demand and technology requirements of markets. Additionally, incentives would need to be designed in a way that fosters complementarity, rather than replacement or duplication of longer-term innovation and transformation plans. This being said, many specific applications during crisis conditions may be continued with other innovation incentives after crisis conditions are over.

For those weaker and less viable small firms that would not survive crisis conditions, productive transformation programmes could also include support to re-train workers and business owners and assistance for their re-integration into the labour market. This may require the use of active labour market policies and institutions to ensure that the supply and demand of workers in the labour market function well. Such measures are described in Objective 3 – Support employment continuity and adaptation.

49 MILENIO. May 2021. *Hospital PyMEs has managed to reduce the economic effects of the pandemic in Jalisco*. Available at: https://www.milenio.com/politica/comunidad/jalisco-hospital-pymes-logrado-disminuir-efectos-economicos. Accessed on July 2nd, 2021.

Examples – Productive transformation through innovation and digitization[50, 51]

▶ Measure B3.1: Drive innovation and digitalization

Despite the power of digital technologies, small businesses have historically been slow to adopt them, for a multitude of reasons, combining affordability, access, awareness, and capabilities. Crises can become a high time to promote digitalization and facilitate innovation of small firms, to foster productivity and decrease the gap between large companies and small firms. While most digitization efforts are typically long-term, some transformation can also offer medium-term impacts.

Examples (COVID-19):

- The **Chilean** government launched SME Online, an initiative for SMEs to increase their sales, lower their costs and improve their relationships with customers and providers using digital platforms and e-commerce practices.
- The **Malaysian** government has allocated funding to help SMEs in the agriculture sector to sell their products on e-commerce platforms and therefore to a larger pool of consumers.
- **Spain's** pandemic measures include specific loans for the industrial sector to promote digital transformation and modernization, a programme for investment in digitization and innovation in the tourism sector, and other guarantees to promote investment – particularly those linked to digitization and environmental sustainability.

Lever B5: Sustainable development

Crises-driven transformations can also create opportunities for governments to support the repositioning of small firms in a more solid environmentally sustainable manner. Small firms typically have a limited capacity to adopt environmentally friendly technologies, but this also provides more ample room for transformations.

Anti-crisis and environmental measures share the commonality of using similar policy instruments, including grants and loans, tax reductions or other subsidies, regulatory changes, and capability building. This provides a common base of policy instruments to pursue common goals, by combining anti-crisis and environmental transformations. The recovery phase of crises in particular, can offer ample opportunities in this direction. For example, a variety of projects can be promoted in areas such as sustainable infrastructure, waste management, water and sanitation services, green energy generation, recycling, green construction, among others.

Public environmental expenditures and public-private partnerships can be used to drive the transformation and recovery of small firms in a way that promotes both growth and environmental sustainability. For example, for agro-processing small firms, cash and/or in-kind payments can help farmers and other economic units to conserve and enhance ecosystem services.

Another area of future development between environmental and anti-crisis programmes could be the issuance of bonds for both purposes. Sustainability-linked bonds, mostly government, but if possible, also corporate, can play a role in allocating capital towards crisis relief or recovery measures, while promoting environmental protection. Addressing the economic impact of crises requires spending, and bonds can help to tap into capital markets with increasingly popular sustainable investing.[52]

Beyond this key transformative goal, certain environmentally oriented activities (recycling, water and sanitation projects, infrastructure to prevent damages from natural disasters, forest and soil conservation, green construction for housing, etc.)

50 OECD. 2020. *Coronavirus (COVID-19): SME Policy Responses.*

51 The Food and Fertilizer Technology Centre for the Asian and Pacific Region. 2020. *Agriculture Food Supply during COVID-19 in Malasia*. Available at: https://ap.fftc.org.tw/article/2679. Accessed on July 2nd, 2021.

52 Uzsoki, David. July, 2020. *Sustainability-linked bonds: a new way to finance COVID-19 stimulus*. International Institute for Sustainabile Development. Available at: https://www.iisd.org/sustainable-recovery/sustainability-linked-bonds-a-new-way-to-finance-covid-19-stimulus/. Accessed on July 2nd, 2021.

could be funded to provide small firms with business opportunities during a crisis.

Examples – Promoting environmental sustainability[53, 54, 55]

▶ Measure B4.1: Promote environmental sustainability

Small firms are not typically active in sustainability efforts, as they are frequently limited by financial and temporal constraints. Governments may nonetheless use crises as an opportunity to facilitate the transition to more sustainable, sometimes cost-neutral operations, including measures to adapt to climate change. There are different areas on which measures to deal with shock conditions and environmental sustainability can interact, environmental shocks being a clear area of common goals.

Examples:

- Under **Romania**'s post COVID-19 National Recovery and Resilience Plan, over 40% of the €29.2 bn allocated are destined to supporting the green transition, followed by 20% dedicated to digital transformations.
- The World Bank is working with countries such as **Zambia** (emergency water and sewage response plan in Lusaka), **Ethiopia** (technical advice for Addis Ababa Water and Sewerage Authority), and **Ghana** (recovery plan utility modernization) to address water and sewage during crisis conditions. These actions are essential not only to re-establish and improve basic utilities during sanitary crisis conditions, but also a key requirement to reactivate small firms.
- Several international organizations have invested in the Climate Risk Early Warning Systems (CREWS project) particularly for floods, tropical cyclones, sand and dust storms, and drought. In **Burkina Faso** this system provides a daily sand and dust storm bulletin which helps to mitigate the impact on agriculture and transport activities. This can help small farms reduce production costs and yield performance.

Objective C: Supporting employment continuity and adaptation

There are multiple measures governments could consider to support the continuity of the employment links of small firms during crisis conditions. These measures have mutually beneficial goals for both small firms and workers: they help small firms to maintain their key operational base while getting support to reduce costs, and they provide workers with basic income and social security protection. Productive capacity is kept, business viability is guaranteed through operational continuity, labour skills are maintained and refreshed, and small firms can become better positioned to take advantage of recovery conditions. In addition, small firms can adapt and restructure taking account of their human resources and the accumulated experience embedded in workers' capacities and operational knowledge.

This report highlights four potential levers that can help promote employment continuity and adaptability, namely: 1) Wage subsidies, 2) Work time arrangements, 3) Reskilling and upskilling and 4) Other social protection measures.

Lever C1: Wage subsidies

During acute crisis conditions, small firms confront immediate challenges to maintain jobs and pay wages, due to the sudden drop of liquidity. Resulting reductions of work time and layoffs create an immediate threat to both business operation and workers' incomes. Income support measures, including wage subsidies, can thus help provide continuity to small business operations, maintain jobs, protect workers' incomes, as well as preserve working capacity and productivity.[56, 57]

Wage subsidies programs need to clearly define the target (small firms or workers), the criteria for eligibility, the mechanism to perform the value transfer (direct transfer, through taxes/charges, vouchers), as well as the expected duration.

53 Romanian Ministry of European Investments and Projects. June, 2021. *National Recovery and Resilience Plan.*

54 World Bank (2020). *Global Water Security and Sanitation Partnership. Annual Report 2020.*

55 World Meteorological Organization (2021), on behalf of Climate Risks and Early Warning Systems. *Annual Report 2020.*

56 ILO. May 2020. *Temporary Wage Subsidies.*

57 ILO. 2020. *Unemployment protection in the COVID-19 crisis: Country responses and policy considerations.*

Depending on institutional arrangements, wage subsidies and other employment retention benefits can be channeled through the social protection system, tax administrations, or other mechanisms. To complement wage subsidies or job retention benefits with other cash transfers, clarity is also needed concerning the potential drop in working hours, wage reductions, and workers' earnings.

The delivery of support could depend on the range of programmes available, including temporary wage support, unemployment insurance benefits[58], subsidies targeting workers' essential needs, other cash transfers, and other complementary support.[59] This would also depend on other issues such as the capacity to coordinate timely payments of wages and income transfers and vouchers for essential needs of workers (e.g., transportation, food); targets for vulnerable groups of workers and small firms; and the combination with other social protection benefits.

A clear ex-ante mapping of all available programmes and resources can help define an integrated strategy. Nevertheless, wage compensation payments often need to be channeled on an urgent basis to support workers' livelihoods and provide certainty under highly unsettling shock disruptions. And crisis conditions often require re-allocation of budgets to urgent priorities, and flexibility.

Under the framework of this report, wage subsidies, social protection benefits, and other cash transfers are key components within the range of measures to support workers and small firms during crises, to be combined and used in a complementary manner. Their use would depend on funding sources, ex-ante planning, and institutional capacity to deliver coherent and targeted support. In its 2020 paper dedicated to the topic of delivering wage support, the ILO also underlines the need to integrate income and wage support measures in a clear manner with other active labour market policies and social protection mechanisms to provide integrated solutions[60]. In this manner, emergency support would not only address the urgent need to aid workers' incomes and jobs, but also improve workers' employment prospects.

Examples – Wage and income support[61]

▶ Measure C1.1: Compensate / reduce salary costs

Many developing country governments have used wage support during the COVID-19 crisis as a form of immediate relief and employment protection. As mentioned, many wage support programmes were combined with other forms of income support.
For example:

- **Malaysia** introduced wage subsidies alongside micro-grants for entrepreneurs, several rounds of cash transfers to lower-income households, and employment retention benefits to enterprises through its unemployment insurance programme.
- **Namibia** put in place wage subsidies and income grants for affected sectors. Firms received subsidies based on the total wage bill and social security contribution, under the requirement of preserving jobs and maintaining salary levels.
- **Thailand** introduced measures to reduce the rate of social security contributions and provided coverage for insured employees and employers who cannot operate their businesses.
- **Botswana** financed a subsidy covering 50 percent of wages for affected firms.
- **Albania** created a programme of wage support (half of the minimum wage), full coverage of the employers' share of social contributions, and additional wage benefits to specific sectors.

58 ILO. 2020. Idem.

59 This would require the identification of contributory (e.g. unemployment insurance) and non-contributory (e.g., cash transfers) social protection schemes and programmes, and any other additional measures available.

60 ILO. June 2020. *Delivering income and employment support in times of COVID-19: Integrating cash transfers with active labour market policies*. ILO Policy Brief.

61 ILO. COVID-19 social protection monitor. Available at: https://www.social-protection.org/gimi/ShowWiki.action?id=3417; https://www.social-protection.org/gimi/ShowWiki.action?id=62; and https://www.imf.org/en/Topics/imf-and-covid19/

Lever C2: Work time arrangements

Work time arrangements can also be instrumental measures in helping otherwise economically viable small firms survive acute shock conditions. The use of working-time crisis-response measures can include schemes such as work-sharing[62], the reduction of working hours without wage compensation, and the use of obligatory holidays and collective holidays.[63]

Beyond short-time arrangements, other related and complementary actions can also be useful. They include, for example, the maintenance of work contracts during business closure periods with support from social security (e.g., unemployment insurance benefits, cash transfers, or other income support), redeploying workers to other firms, and coordinating with other forms of business support and job preservation.

Policy interventions that promote reduced work time through wage subsidies can be particularly useful in helping small firms to preserve operational capacity and reduce costs during crisis conditions. They are an alternative to laying workers off, which maintains productive capacity, opens the opportunity to adapt productive capacity, and prepares conditions to restart normal operations once recovery conditions resume. Additionally, the operational characteristics of small firms (e.g., close interactions of workers among the small number of workers, workers' flexibility to help in different tasks, quick adjustment to changing operational conditions) can facilitate the introduction and adaptation to reduced volumes of work during crisis conditions.

While measures to accommodate reduced work time can be instrumental during crisis conditions, careful design is needed to achieve effective results. Some of the considerations that may need to be kept in mind in designing these measures include balanced eligibility criteria for small firms and workers, limited and easily adapted administrative requirements for small firms, flexibility in the volume and patterns of reduction of hours, and the coordination with temporary subsidies or wage supplements for affected workers.[64]

One example of what can be used, depending on the nature of the small business activities, is telework arrangements. For those small firms where work can be performed remotely, telework can provide a viable arrangement to keep workers employed and enterprises running. When guidelines between workers and employers are established, telework can provide the necessary flexibility to meet both worker and employer needs.

Even though these measures are emergency responses to crisis conditions, the basic tenants of maintaining a balanced approach to international labour standards concerning working time and work arrangements remain essential.[65] Emergency measures may need to be introduced with respect to these standards, for example in terms of daily and weekly working hour limits, weekly rest, paid annual leave, night work, part-time work, workers with family responsibilities. Five key principles can prove useful in this direction, namely: promoting health and safety, advancing the productivity and sustainability of enterprises, improving work-life balance, promoting gender equality, and offering workers a degree of choice and influence over their hours of work.[66]

Policy-Responses-to-COVID-19. Accessed on July 2nd, 2021.

62 ILO. 2013. *Work Sharing during the Great Recession: New developments and beyond. Edited by Naj Ghosheh and Jon C. Messenger.*

63 Kümmerling, A., Lehndorff, S. 2014. *The use of working time-related crisis response measures during the Great Recession. Conditions of Work and Employment Series No. 44*, ILO.

64 ILO. 2013. *Work Sharing during the Great Recession: New developments and beyond. Edited by Naj Ghosheh and Jon C. Messenger.*

65 ILO. 2019. *Guide to developing balanced working time arrangements.*

66 ILO. 2020. *Policy Brief on COVID-19, Pillar 3: Protecting workers in the workplace.* Available at: https://www.ilo.org/global/topics/coronavirus/impacts-and-responses/WCMS_739049/lang--en/index.htm. Accessed on July 2nd, 2021.

Depending on the availability of social protection programmes and other budgetary resources, countries could search for funding options to operate work-sharing schemes from different sources, including unemployment insurance programmes, special emergency allocations, general tax revenues, reallocation of existing expenditures, international cooperation, among other possibilities.

The close coordination between work time arrangements and other related support measures can also be an important consideration. This coordination ensures complementarity and the coherence of different measures. Coordination with skills training is also important as reduced working hours can provide the opportunity to re-assign time for the updating of labour skills (see lever C3. Reskilling and upskilling).

The social dialogue between governments and small business and workers' organizations can also help drive effective arrangements and act rapidly. Clear, consistent, and predictable communication between workers' and employers within small businesses regarding the adaptation of working time arrangements can also help ensure measures respond to both workers and employers' needs and that they are deployed correctly.

Examples – Work arrangements during crisis conditions[67, 68, 69]

▶ Measure C2.1: Promote flexibility of work

Employment retention schemes were applied in a variety of ways during the global financial crisis and the COVID-19 pandemic. The most widely used arrangements during the pandemic took place in European countries. Outside of Europe, other countries implemented such schemes including Chile, Colombia, Argentina, Brazil, Uruguay, India, South Africa, Turkey, The United Arab Emirates, The Republic of Korea.
Such schemes were also widely used in other crises, especially during the 2008-2009 Global financial crisis.

Examples:

- During the global financial crisis, **Bulgaria** introduced measures for flexible working hours, part-time work, and specific unpaid leave for economic reasons. Part-time work was widely used by firms with the subsidization of half of the minimum salary per month. Firms were also entitled to apply for other subsidies for reduced working time, paid or unpaid leaves.
- In 2008 **Turkey** introduced emergency provisions regarding work sharing which are regulated by the Unemployment Insurance Law and the Regulation on Short-Time Work and Short-Time Work Payment.
- In early 2009 **Mexico** established the Programme for the Preservation of Employment including reductions in working hours and the reduction of business costs through "paros técnicos" (technical unemployment).
- In 2009 **Uruguay** introduced a programme of reduction of weekly work time and training, based on the law concerning benefits for compulsory layoffs and unemployment benefits for certain economic activities.

67 ILO. 2020. *Pillar 2: Supporting enterprises, jobs and incomes. ILO Policy Brief on COVID-19*. Available at: https://www.ilo.org/global/topics/coronavirus/impacts-and-responses/WCMS_744237/lang--en/index.htm. Accessed on July 2nd, 2021.

68 KPMG. April 2021. *Short-time work in selected countries.* ; World Bank. 2020. *Social Protection and Jobs Responses to COVID-19: a Real-Time Review of Country Measures*.

69 Messenger, Jon C.,Rodriguez, Sarai. February 2010. *New developments in work sharing in middle-income countries*. Travel Policy Brief No.2, ILO.

Lever C3: Reskilling and upskilling

Shock conditions often require small firms to make adjustments in their functioning. They may need to restructure business operations, adopt new business models, reconvert with digital and other technologies, and re-open operations after periods of business hibernation and closure. These adjustments often require the reskilling or upskilling of staff so that they can support the new operating environment.

To strengthen the response to such conditions, the ILO recommends sector stakeholders to undertake a rapid assessment of needs for the reskilling and upskilling of workers[70]. Rapid skill assessments thus help sectors and enterprises respond to emerging skills needs for recovery and reconstruction, in consultation with education and training institutions and employers' and workers' organizations.

The ILO rapid assessment framework focuses efforts on the sectors which suffered the greatest impact during shocks. Based on broad consultations and the sector assessment, options and recommendations are proposed for actions and interventions that can be deployed rapidly. The recommended options look to distinguish between actions that institutions can undertake independently and measures that will need new resources or different forms of cooperation. In urgent situations, skills training can target immediate needs by scaling up existing programs, delivering differently, or adapting and repurposing existing resources. The priorities are likely to highlight specific technical skills and core employability skills in demand, depending on the productivity levels, areas of business activity, and the changes that small firms are looking to make to confront shocks.

The modalities for skills training most suitable for crisis conditions include a wide variety of options according to the availability of technical, training, institutional and financial resources. Yet, all training modalities during crises can be considered to act rapidly and reach as many workers as possible. The range of training interventions includes face-to-face and remote training, online and offline instruction, high-tech and low-tech solutions. The most suitable modality would take into account the sectors of business activity where small firms are prevalent, the local and national training settings, the availability of private and public training organizations, the role of intermediary organizations to facilitate training and the supply of trainers and/or ready to use materials.

Other accompanying policy actions may require the temporary relaxation of certain licensing and registration requirements of training providers in regulated sectors. Similarly, some degree of temporary flexibility may be required to assess and certify the acquisition of skills on a faster basis than normal, wherever such actions are urgently needed on a temporary basis.

If skills training are to shift to online or blended learning in crisis conditions, policy interventions might be needed to support small firms address the high cost of devices and data services, the limited digital literacy of staff and weak digital networking of firms.[71]

Crises themselves can disrupt the normal conditions of skills training (e.g., institution closures, low online connectivity, mobility restrictions) and often exacerbate existing weaknesses such as outdated software, poor digital skills of trainers and learners, and the lack of training materials relevant to online learning. Preparedness thus becomes an important part of the interventions to support skills development systems for future shocks. Pre-crisis preparation, finding innovative options, identifying private-public partnerships, producing and updating the content of skills training vis-à-vis the business activities of small firms, are some of the key actions that can be considered in anticipation of shocks. Preparedness and business continuity planning could thus become an integral part of the longer-term strategy of education and training providers, as well as other businesses. And while urgent actions can be instrumental to support

70 ILO. 2020. *Guidelines on Rapid Assessment of reskilling and upskilling needs in response to the COVID-19 crisis.*

71 ILO and World Bank. 2021. *Skills development in the time of COVID-19: taking stock of the initial responses in technical and vocational education and training.*

small firms during crises, they are most impactful when they respond to comprehensive skills assessments and rigorous sector studies that identify what skills are required and when.

A clear link also needs to be established between the goals of improving workers' skills and improving their capacities for better mobility within the labour market. This relies on a clear connection with relevant active labour market policies and institutions, including public and private employment services.

Another success factor could depend on the coordination with other complementary active labour market programs, such as training and wage subsidies, vouchers, cash transfers, new work time arrangements, and other targeted sectoral measures including those that target small firms and link with special private initiatives and donor programmes to promote education and skills training.

Examples – Reskilling and upskilling

▶ Measure C3.1: Facilitate reskilling and upskilling

During the COVID-19 pandemic, countries adopted a variety of direct and indirect actions to promote skills training.

A few examples of these interventions include:

- **Indonesia** provided subsidized vouchers for unemployed workers for skilling and reskilling.
- **Afghanistan** adopted a programme to mitigate the impact of the lockdown on the technical education system through self-study and online training activities.
- **Turkey** implemented a distance education project based on digital content for TV and online channels, catch-up courses, and blended teaching and learning programs.
- **Cameroon** implemented a Skills Development Project for new competency-based training packages in selected economic sectors.
- **The Ivory Coast** expanded active labour market measures with job skills training targeting unemployed persons to work in activities that experienced shortages of workers.
- **South Africa** and **Botswana** implemented tax and levy deductions on skills development activities.
- **Cambodia** allocated training funding alongside wage subsidies for workers who lost their jobs in the garments and tourism industries.
- **Chad** and **Kyrgyzstan** implemented training programmes for medical and technical staff.
- **Mauritius** provided income subsidies for six month of training for the unemployed in sectors such as construction, manufacturing, logistics, agro-industry and renewable energy through the National Training and Reskilling programme.
- **Mexico** and **several Central American countries** launched private initiatives to promote access to distance learning for unemployed and employed persons, with free access to courses and technical programmes.

Lever C4: Other social protection measures[72]

Income support, health protection, and other social protection measures can be essential for workers and the general population during crisis conditions and during normal times, and as such, they can represent a key ingredient in the support to small firms.[73] By providing access to health care, food, basic utilities, and income, social protection interventions can improve social conditions, stabilize aggregate demand, and contribute to an enabling environment for the operation of small firms. Some of the key interventions of social protection include access to health care for workers[74, 75], small business owners, and the general population, disability benefits, unemployment protection, paid sick leave and sickness benefits, maternity protection, child and family benefits, access to basic utilities, in-kind vouchers for food, cash vouchers for housing and child care, among other measures. [76]

Social protection interventions during crisis conditions are also important to assist vulnerable groups of workers and populations.[77] Women are disproportionally affected, especially those in front-line jobs and high-risk sectors, in addition to the increased demands on women's unpaid home care work (see section on Special targets – Women entrepreneurs). And certain crises such as natural disasters and pandemics make the safe return to work a priority intervention. The lack of or very poor social protection coverage of workers in the informal economy and migrant workers can deepen their poverty without social protection interventions. Distinct risks and vulnerabilities are also faced by hard-hit workers and groups such as persons with disabilities, people living with HIV, indigenous and tribal peoples and children. This calls for a particularly special attention to the protection of these vulnerable groups during crises.

While crisis conditions focus on urgent temporary assistance to unprotected populations (e.g., workers with reduced or no work, previously uncovered groups), such temporary interventions can also be used as a means to pursue more regular social protection coverage in line with international social security standards, once a recovery from shocks is underway. Crises could thus provide a reminder of the need to undertake wider and more permanent efforts to strengthen social protection systems.[78,79] This includes both the extension of social insurance coverage to so far uncovered workers, including self-employed workers, and the development of tax-financed benefits to guarantee at least a basic level of protection.[80,81] This improvements could provide critical support

72 ILO. 2020. *ILO Policy Brief on COVID-19: Pillar 2: Supporting enterprises, jobs and incomes.* Available at: https://www.ilo.org/global/topics/coronavirus/impacts-and-responses/WCMS_744237/lang--en/index.htm. Accessed on July 2nd, 2021.

73 ILO. 2020. Idem.

74 ILO. 2020. *Sickness benefits during sick leave and quarantine: Country responses and policy considerations in the context of COVID-19.*

75 ILO. 2020. *Unemployment protection in the COVID-19 crisis. Country responses and policy considerations.*

76 ILO. May 2020. *Social protection responses to the COVID-19 pandemic in developing countries: Strengthening resilience by building universal social protection.*

77 ILO. October 2020. *Report of the Director-General to the Governing Body: the response of the International Labour Office to the COVID-19 pandemic.*

78 ILO. 2019. *Universal Social Protection: Key concepts and international framework. Social Protection for All Issue Brief April 2019.*

79 ILO. 2020. *Social protection responses to the COVID-19 pandemic in developing countries: Strengthening resilience by building universal social protection.*

80 ILO. 2021a. *Extending Social Security Coverage to Workers in the Informal Economy: Lessons from International Experience* (Good Practice Guide).

81 ILO. 2021b. *Extending Social Security Coverage to Workers in the Informal Economy: Lessons from International Experience*, Policy Resource Package.

to small firms and their capacity to improve productivity and sustainability. [82, 83, 84, 85]

Examples – Extend social protection[86, 87]

▶ Measure C4.1: Extend social protection

A wide variety of social protection interventions during the COVID-19 pandemic, covering more than 100 countries, provided abundant experience on this policy action under crisis conditions. Such measures used national legislations and other emergency decisions to rapidly deploy policy interventions. For example:

- **Colombia** approved the family compensation fund which provides financial aid to unemployed persons. This was a different mechanism from the unemployment protection instrument approved for COVID-19, to ensure wider support to workers who are unemployed.
- **Uruguay** extended health care benefits for laid-off workers and workers who have terminated their unemployment benefits; family allowances were also increased and extended for additional time for persons without a Social Card.
- **India** implemented in-kind (food, cooking gas) and income subsidies, insurance coverage for workers in the healthcare sector, and healthcare infrastructure spending.
- **Rwanda** adapted the public works component of the social protection programme to waive work requirements for public work beneficiaries, while still paying the cash transfers.
- **Togo** implemented a cash transfer programme that targets workers in the urban informal economy.
- **Viet Nam** provided cash transfers to workers who lost their jobs who are uncovered by unemployment insurance, including categories of informal workers.
- **Senegal** created a programme on social protection for one million poor households with the provision of food aid and utility payments (water, electricity).

Objective D: Facilitating restructuring procedures

Restructuring is often necessary to prevent systemic damage during longer-lasting shocks when tight liquidity and falling revenues threaten to generate a large wave of bankruptcies. As more and more viable small businesses become insolvent from acute shock impacts, increased borrowing and widespread bankruptcy filings create social and economic disruptions and can pose challenges to the legal and financial infrastructure. This threat could be addressed with two levers, namely 1) Temporary stop for hibernation of business activity and 2) Facilitating restructuring procedures.

Lever D1: Temporary stop for hibernation of business activity

Before considering restructuring or liquidation, when facing shocks, many small firms simply find themselves needing to interrupt their activities. During these breaks, small firms accumulate liabilities that can in themselves trigger bankruptcy. Creating a legal framework through which small firms can officially enter "hibernation" for a limited time, with potential protection measures from financing, tax, and selected fixed costs (e.g., utilities) could help them surpass the shock, while preserving the resources to re-emerge. A certain minimum level of access to financing for viable firms is also key, as firms without financing during hibernation would have lower chances of survival, which in turn can create further negative effects

82 ILO. 2017. *Strengthening social protection for the future of work.* Paper presented at the 2nd Meeting of the G20 Employment Working Group.

83 ILO. 2020. *Sickness benefits during sick leave and quarantine: Country responses and policy considerations in the context of COVID-19.*

84 ILO. 2021. *Extending social security to workers in micro and small enterprises: Lessons from international experience.*

85 Gaarder, Edwin; Judith van Doorn; Christina Behrendt, and Quynh Anh Nguyen. 2021. *Enterprise Formalization: Tailored Registration, Tax and Social Security Requirements for MSEs.* ILO.

86 ILO. *Social protection response to the COVID-19 crisis.* Available at: https://www.social-protection.org/gimi/ShowWiki.action?id=62. Accessed on July 2nd, 2021.

87 ILO. *Covid-19 social protection monitor.* Available at: https://www.social-protection.org/gimi/ShowWiki.action?id=3417. Accessed on July 2nd, 2021.

of driving hardship and bankruptcy on other firms connected to them.[88]

For example, during the COVID-19 crisis, the Australian government has introduced a number of support measures to provide firms with hibernation space. They included subsidies to maintain employment, cash flows, instant asset write-offs, increasing the threshold at which creditors can issue a statutory demand on a firm and the time to respond, the application for payment moratoriums, the relaxation of insolvent trading laws for 6 months, a framework to negotiate with landlords the deferral/extension/waiver of rent payments, among others.

Hibernation proposals could be centered around two potential measures:

(1) The creation of an emergency regulatory option for small businesses to go into a temporary stop of business activity. This framework would allow the legal status of small firms to continue under the temporary cessation of activities during crisis conditions. As a legal entity, the small firm would continue to be maintained for a temporary short period. The main commitments would be maintained, but under a temporary stop or grace period.

(2) The setting of a bare minimum cash level during hibernation. To hibernate, small firms need to be certain of having the bare minimum of cash necessary to withstand the shock. For this purpose, governments could consider creating a special line of credit to cover small firms' minimum financing needs during hibernation (e.g., rents of premises, employee wages, and other basic commitments).

Lever D2: Effective restructuring and efficient bankruptcy

Some bankruptcies may be unavoidable in any crisis. As economic activity declines and earnings drop, businesses often struggle to collect from their customers. As these shortfalls compound themselves, previously thriving businesses can fail. While other levers in this report could help flatten the curve of crisis-related bankruptcies, governments could also consider measures to minimize the damage inflicted by those that occur. This damage can impact both companies that cannot meet their obligations and their counterparties, such as creditors, partners, suppliers, and customers.

Governments could consider taking action to help support small business restructuring, particularly for companies that would be healthy outside crisis conditions. For those that may have been struggling before the crisis, governments could also look at how to establish more practical, efficient liquidation procedures so that resolution does not drag on. When jurisdictions allow, governments could also consider supporting out-of-court debt restructuring options.

At the same time, restructuring procedures may also need to consider sufficient safety nets for impacted employees, including social protection measures. During periods of small firm restructuring, social dialogue and engaging workers are essential. Options for employment retention programmes, as well as the reskilling and training for workers to adjust to new productive conditions (see Objective C - Support employment continuity and adaptation) are two considerations. The provision of relevant information early in the crisis, as well as the availability of ready options for income support, can additionally help alleviate the impacts.

When separation of workers is necessary, close consultations with government labour agencies can help ensure workers have access to programmes designed for separation allowances or severance packages, mechanisms for rehiring when conditions allow it, and active labour market measures (assistance for workers to find jobs, training programmes for reskilling)[89].

The experience from the 2008 global financial crisis and the EU debt crisis has intensified the

88 Didier, T.; Huneeus, F.; Larrain, M. ; Schmukler, S. (2020). *Financing Firms in Hibernation during the COVID-19 Pandemic.* World Bank Policy Research Working Paper 9236.

89 ILO. 2020. *Restructuring for recovery and resilience in response to the COVID-19 crisis. ILO Policy Brief.*

policy focus on small business restructuring in some jurisdictions.[90] However, small business restructuring still receives less public attention than large-scale reorganizations. A year after the COVID-19 pandemic began, policy actions addressing crisis-era insolvency have been announced by only a few countries.

Examples – Promoting restructuring and facilitating the process

▶ Measure D2.1: Promoting restructuring and facilitating the process

Some countries have introduced modified insolvency and bankruptcy regimes and measures to help small firms restructure in the context of the COVID-19 crisis. These actions can help avoid unnecessary bankruptcy and provide breathing space for companies running into financial difficulties during the pandemic. Below are some actions that countries are taking.

Postponing bankruptcy by adapting legal parameters
Governments can temporarily increase the legal threshold for bankruptcy and can suspend provisions for the declaration of insolvency or bankruptcy.
Examples: As a response to the COVID-19 pandemic, the **Turkish** government has temporarily suspended the debt enforcements and bankruptcy proceedings (with the exception of alimony cases).
Additional measures include: changes to the insolvency law to streamline the liquidation and restructuring of small businesses (Australia), out of court restructuring for distressed borrowers under special regulations (Albania), loan restructuring funds for MSM firms (Indonesia), a special fund for the restructuring of firms (merger and acquisition, turnaround, debt restructuring) (Italy).

Offering restructuring incentives
Both financial and non-financial incentives can encourage small businesses to restructure rather than declare bankruptcy. The potential policy instruments include instituting moratoria and payment deferral programs, subsidizing voluntary restructuring, for instance by providing a tax credit to creditors who voluntarily give up their claims, and subsidizing successful restructuring in return for taking an extra haircut on debt.
Examples:

- To support small and medium enterprises during the COVID-19 pandemic, commercial banks and microfinance institutions in **Malawi** provided restructuring SME loans, alongside a moratorium on their debt service.
- The **European Commission** issued new guidelines prescribing that temporary restructuring support for SMEs targets the liquidity issues SMEs face and providing an incentive for SMEs and aid grantors to prefer liquidity support rather than more harmful forms of aid. The aid should be in the form of loans or guarantees with an appropriate interest rate, it can be used to support restructuring for up to 18 months without any requirement for firms to provide a contribution, and firms have to produce a simplified restructuring plan explaining what they aim to do to restore their long-term viability.

90 European foundation for the Improvement of Living and Working Conditions. 2013. *Public policy and support for restructuring in SMEs.*

Chapter 3: Building risk mitigation and resilience capacity

When shocks strike, governments can experience intense pressure, which creates difficulty in designing and deploying effective and cost-efficient measures. Investing in building resilience before crises can in turn strengthen small businesses for the medium- and longer-term, thus reducing the need for future relief measures.

As discussed in the previous chapters, small enterprises face a multitude of systemic and non-systemic risks, including disasters, market, credit, technology, regulatory, human resources, etc. Nonetheless, the vast majority of small enterprises, and especially those in developing countries, do not systematically manage their risks and are significantly underinsured.[91]

This behavior is rooted in multiple issues, making it a long-standing policy dilemma. Small firm managers often lack the skills and capabilities needed to correctly identify and assess risks, and frequently tend to underestimate them. At the same time, they often de-prioritize the creation of an enterprise risk management strategy or the purchasing of risk mitigation instruments, in light of more urgent business needs. Given the low levels of risk assessment information available, existing insurance products are often not well-tailored to small firms and prohibitively expensive. And in the few cases when small firms decide to prioritize this cost, they often find it difficult to navigate the complex space of insurance products.

In recent years, there has been increased attention to the issue of Enterprise Risk Management, giving birth to multiple measures aimed at enhancing SMEs' capabilities. To date, the majority of measures in this direction are driven by non-governmental agencies, including donors and employers' and business members organizations. Yet, many governments are starting to play an increasingly more active role, especially through public-private partnerships. Well-tailored and deployed, such measures can help drive much-needed behavior change and build a stronger Enterprise Risk Management culture among small firms in developing countries.

As shown in the following exhibit, this goal could be supported with the help of 3 levers, namely 1) Enterprise risk management awareness and capabilities, 2) Tools and systems, and 3) Products and services, each targeting one or more pain points along the risk management framework.

Lever 1: Enterprise risk management awareness and capabilities

While small firms are highly exposed to risks, the notion of Enterprise Risk Management itself is still relatively unfamiliar to their owners and managers. When risk management is on SME managers' agenda, it is often performed ad-hoc, and not part of a consistent Enterprise Risk Management strategy.

Increasing the awareness and understanding of risks can in itself prove a valuable first step towards improved enterprise risk management practices. This could be promoted through measures ranging from the sharing of tailored information about risks faced by specific sectors under specific shock conditions and potential means to mitigate them, to the dissemination of surveys among small firms to understand their risk perception and preparedness, or the development of specific warning systems targeted to small firms.

Warning systems for small firms can be developed in different areas, including financial warnings about credit and financial risks, agricultural warning

91 Falkner,E.M.; Hiebl, M.R.W. 2015. *Risk management in SMEs: a systematic review of available evidence*, Journal of Risk Finance, Vol. 16 No. 2, pp. 122-144.

Exhibit 7

Levers along the basic Enterprise Risk Management Framework

	Enterprise Risk Management Framework			
Step	**A Risk identification**	**B Risk assessment & prioritization**	**C Risk mitigation and control**	**D Risk Monitoring**
	• **Identification and grouping** of risks • Maintenance of constant **awareness of** risk factors that might affect the firm's ability to meet its objectives	• **Assessment of each risk significance** based on the expected impact and probability of occurrence • **Prioritization** of the most significant risks	• Planning and establishment of **actions, instruments, measures** and **responsibilities** for **controlling** and **mitigating risk**	• **Monitoring** of **risks exposure** evolution • Update of **risk mitigation mechanisms / insurance**
Lever				
Capability building	✓	✓	✓	✓
Tools and systems	✓	✓	✓	✓
Products and services			✓	

systems about climate-related risks or warnings about macroeconomic risks related to trends of macro variables. For example, the European Union has funded a project designed as an innovative Early Warning System to allow policymakers and regulators to receive advanced notice of new risks brewing within the financial system.[92] Using big data analytics and machine learning procedures can prove useful to capture the different types of risks and provide prediction insights as a way of early warning information.

Additionally, to date, many developing country governments, together with UN agencies, local agencies and NGOs provide basic managerial capability building programs to small business owners, at subsidized or often no cost, including the ones described under Lever C3 (Facilitate reskilling and upskilling). For example, in 2021 the ILO launched a comprehensive programme for Sustainable and Resilient Enterprises (SURE) focusing on enhancing small businesses resilience in service and manufacturing sectors. While specific Enterprise Risk Management capabilities are rarely targeted, existing programs can create a platform for the build-up of Enterprise Risk Management focused management modules (e.g., identifying, assessing, prioritizing, monitoring risks, and choosing the best mitigation instruments), as well as other interrelated managerial capabilities, such as business and contingency planning, or business model adaptability.

To ensure the tailoring to specific industry sectors, as well as a deeper penetration among small firms, such programs are often built in partnership with employers and business member organizations, industry associations, chambers of commerce, or even larger players in the value chain. At the same time, measures tend to blend a multitude of learning measures tailored to participants' contexts, as well as awareness-building campaigns and potential incentives to participate.

Blending learning modules with "on-the-job" applications has the potential to increase the effectiveness of learning measures. At the same time, deploying "on-the-job" learning modules in the fragmented small firm space is a time and cost-consuming measure. The development of e-modules can partially help overcome this challenge.

92 European Commission. *European early warning system for systemic risk.* Available at: https://cordis.europa.eu/article/id/238743-an-early-warning-system-to-prevent-potential-financial-crises. Accessed on July 2nd, 2021.

Lever 2: Tools and systems

Many small businesses in developing countries are leapfrogging in their use of basic digital tools. In doing so, they may also be increasingly exposed to online risks, such as credit card fraud, e-mail hacking, and even identity theft. Beyond helping small firms enhance their managers' general digital literacy, governments could look at ways to support the use of safer software tools. This might range from collaborating with the private sector to offer tailored (and more affordable) business management software, to potentially building a "clearinghouse" / platforms with certified tools and systems that small firm managers can consult before choosing their suppliers.

Additionally, governments could look at how to support small firms in their use of dedicated enterprise risk management software. For example, the Philippine Disaster Resilience Foundation has launched "Katatagan in a Box" – a business continuity mobile application developed together with the UPS Foundation to make business continuity concepts and practices more accessible to MSMEs[93].

Lever 3: Products and services

SME's rarely use risk mitigation mechanisms other than small cash buffers, in part due to the lack of well-tailored and affordable products. Given their high and hybrid risk profile, typical insurance services are difficult to price, and often prohibitively expensive. At the same time, services are often complex and difficult to access.

An important shift in policy priority to confront future shocks can be to encourage small firms, with the use of economic incentives and dedicated support, to adopt insurance against different types of shocks. At the same time, governments could collaborate with the private sector in the creation of better-tailored products and services.

One way governments could choose to bridge this gap could be by contributing to the production of better information to help assess the risk profiles of small firms. Given the variety of shocks and risks that small firms face, certain sectors and markets where small firms operate may be examined in a segmented manner to produce better information to properly weight risks and develop risk mitigation products and services. Such information could then be used to create centralized insurance "rating" databases to help insurance providers tailor products to small firms' risks. At the same time, governments could choose to promote innovative underwriting methods among insurance providers, that better fit the data that can be made available about small firms and their owners (e.g., based on proxies such as psychometric data or utility payment history).

Additionally, they could incentivize the creation and use of innovative insurance products better tailored to small firms (e.g., collective-de-risking offerings, micro-insurance, simplified user journeys). For example, governments could collaborate with industry associations to support small firms in jointly purchasing insurance products against risks such as supply chain/counterparty, raw material, or currency. This diversification method, already applied in micro-lending applications could enable small firms to purchase insurance at more affordable premiums. Special targets of small firms, for example, women entrepreneurs, can also give room for new insurance products targeted to their specific risk profiles.

At the same time, governments could consider financially incentivizing small firms' investments in risk mitigation measures. Such incentives could take multiple forms, including vouchers, grants, or some degree of subsidy on interest rates for loans to access risk mitigation products and services, the linking of insurance fees to existing tax payments, dedicated public-private partnerships for ensuring specific small firm segments against typical risks, or co-payment mechanisms similar to social security ones (e.g., the insurance contribution is covered 50% by the government and 50% by the small firm).

Similarly, encouraging small firms to have some degree of insurance to access certain assistance programs during shocks could be considered – under the caveat that such measures could end up creating limitations to the most vulnerable small firms in times of highest need of support.

93 Katatagan in a Box App. Available at: https://apps.apple.com/ml/app/katatagan-in-a-box/id1495213260. Accessed on July 2nd, 2021.

Examples – E-learning programs and enterprise risk management tools[94, 95]

Dedicated (e)-learning programs

Example 1. Online learning hubs
Digital solutions, including interactive platforms, are emerging as a promising solution to the scalability and accessibility issues of small firm capability-building programs. Such programs could be leveraged for the build-up of more risk management relevant capabilities.
Example: The European Bank for Reconstruction and Development has launched an online learning and advice hub, called "Know how to...in a crisis" to help micro, small and medium-sized enterprises during the COVID-19 pandemic with advice on how to manage cashflows, suppliers, and staff in times of crisis. Since September 2020, over 17'000 users have registered on the Hub – almost 60% came from small and micro enterprises and 50% were women.
The Hub used social media advertising to reach a broad audience across 30 countries, offered content in 6 different languages, and awarded participants with an e-certificate that could be shared on social media.
As the crisis evolves, the bank is developing new modules, including resilience-focused ones, as well as encouraging users to engage in continuous learning. For the modules to go deeper into risk management skills and tools, they would nonetheless need to benefit from dedicated local customization. Providing the tool as a white label solution to other organizations could help both facilitate local customization, and a more rapid scale-up.

Example 2. The ILO's SCORE online training for Myanmar
The ILO's Sustaining Competitive and Responsible Enterprises (SCORE) Training combines practical training with in-factory consulting to improve productivity and working conditions in SMEs. SCORE has developed an online training series to support business continuity planning for SMEs in **Myanmar**. The training is offered by certified trainers to help SMEs analyze business challenges as well as work on other areas of need: increasing sales, reducing costs and improving cash flows, managing workforce and optimizing processes. The training includes individual consulting services which help small businesses develop an action plan to adapt to the challenges at hand.

Example 3. Public-private partnerships for online capabilities building
Public institutions can collaborate with industry associations to design and implement comprehensive risk-management capability-building programs.
Example: The **Philippines** Public-Private Partnership on Advancing Learning among Enterprises towards Resilience and Transformation (ALERT) organizes webinars on the topics of risk assessment, disaster risk reduction and management, Business Continuity Planning (BCP), and microinsurance, aligned with the celebration of the National Resilience month in the Philippines (August 2020).

SME risk management tools
Small enterprises, incl. the ones in developing countries are leapfrogging in their use of digital solutions, especially mobile apps. This can create an opportunity for governments and other ecosystem players to disseminate simple risk management apps.
Example: The United Nations Office for Disaster Risk Reduction regional offices have launched a simple self-diagnostic tool to help micro, small and medium business owners identify and assess the potential risks posed to their business by COVID-19. The Quick Risk Estimation (QRE) is available both on web and mobile interfaces.

Business continuity certifications
Governments, as well as other trusted institutions can help small firms access insurance products at lower premiums, by creating transparency around their risk profile, e.g., through certifications and potentially the creation of SME risk rating registers.
Example: The Business Continuity Institute, a **UK** institution active in over 100 countries provides an international certification attesting an estimate of their potential resilience to different risks. 27% of the respondents to a survey conducted by the Institute in 2020 said the certification helped them reduce insurance costs.

94 European Bank for Reconstruction and Development (EBRD). 2020. *EBRD launches online learning resource for small businesses.*

95 United Nations Office for Disaster Risk Reduction (UNDRR). 2020. *Reducing risk & building resilience of SMEs to disasters.*

Chapter 4: Implementation considerations

Many support programs could fail on the road between conceptualization and reaching their target beneficiaries if they are not designed well. This can stem from a variety of reasons, from insufficient targeting to firms' real pain points, to the design of overly complex deployment channels which become access barriers to the most vulnerable groups, or the lack of coordination and follow-up between different measures and existing policy elements. While the previous chapters have often highlighted implementation considerations for specific levers proposed, this chapter focuses on a set of overarching implementation guidelines, that governments may wish to consider as they define and deploy their aid.

In principle, all potential measures described in the previous chapters could help small firms overcome shocks. Yet, there is no "one-size-fits-all" solution. The right mix of levers and measures depends on multiple factors, including the specificities of the crisis (e.g., type, phase, sector/segment of the value chain it impacts the most), and the individual characteristics of the target firms (e.g., access to online channels, levels of formality).

At the same time, the successful deployment of the chosen mix of measures also strongly depends on the government's ability to access, navigate and organize its own resources, be they financial and human, as well as the close coordination with other key players in the ecosystem (e.g., small firm representatives, trade unions, industry associations, donors, financial institutions, large firms).

In defining and deploying their support, governments may benefit from going through a 3-step thought process, as described in the exhibit below.

Exhibit 8

In driving their support, governments could rely on a set of key questions along a three-step thought process

1 Understanding the crises and defining focus segments

What type of a crisis is the economy going through / at risk of going through?

- Is it an emergency / catastrophic event in need for immediate relief, or a mid-term disruption?
- How does it impact the economy (e.g., obstructs access to raw inputs, directly impacts employment rates and work conditions)?
- How does it impact small firms in particular?

What are the segments to focus on?

- What segments have been hit hardest by the crisis?
- What are the segments where support would have the highest overall economic impact?
- Are there vulnerable targets in need of an even more targeted support?

2 Choosing best-fit levers and tailoring measures

What type of support would be most impactful?

- Are they in need of immediate financial relief for operations (e.g., raw materials)?
- Would they benefit from a more structural support to adapt their operations?
- Would they benefit from direct support in maintaining their employees and securing decent work conditions?
- Are there any existing initiatives I can build on? How about programs I need to coordinate with?

What type of support can I afford to give?

- Do I have the funds necessary to give relief, or at least the option of accessing them (e.g., through external borrowing)? Is there a high inflationary risk?
- Do I have the capacity and capabilities to deploy more complex operational support mechanisms?

3 Deploying, monitoring and adapting measures

How can I make sure these levers reach their desired impact?

- How should I organize my government resources to drive the measures?
- How can I involve the ecosystem in tailoring measures to firms' specific needs and driving their implementation?

What learnings can I draw from the interventions?

- What is most impactful? What is not working and why?
- What changes can I make to the measures?
- How will I roll them off as the economy recovers?
- Can any of the measures inspire a longer term action to increase the segment's resilience?

While this process is primarily thought to be used as crises emerge, it can also serve policymakers to proactively build resilience programs and emergency response plans for different crisis scenarios. At the same time, while Exhibit 8 highlights the steps in a sequential manner, policymakers may choose to iterate on their approach, as crises evolve and they collect feedback on the effectiveness of the chosen measures.

The following sub-chapters highlight some key considerations and best practices for each of the three steps of the proposed thought process.

Understanding the crisis and defining the focus segments

As discussed in the sections before, the right mix of levers can be strongly dependent on the specificities of the crisis. For example, a catastrophic event such as a nuclear disaster will often require immediate measures to secure safe living and working conditions, uninterrupted access to utilities, and immediate relief for small firms and people in the vicinity of the affected regions. In turn, the COVID-19 pandemic evolved in phases, some of which also gave room for governments to implement more sustainable, operational measures (e.g., digitalization of retail operations).

While some measures can offer relief across the board, with limited incremental costs (e.g., the temporary simplification of administrative procedures), in a world of constrained resources, governments may wish to consider a more targeted support for the highest priority segments, be they key industry sectors, specific geographic locations, highly vulnerable targets (e.g., women entrepreneurs) or the informal economic units.

The focus sectors will bear a direct influence on the choice of levers, as well as the design of concrete measures. For example, the tourism or retail industries can benefit from direct demand generation through government measures (e.g., vouchers), while the manufacturing sector would not. In turn, small firms active in manufacturing can be supported by actions to stabilize their access to raw materials. Similarly, while formal firms will be positively impacted by the release of administrative hurdles, this would not have any impact on the informal sector.

The choice of sectors to focus may need to take into account multiple criteria, including the employment and economic contribution of small firms within each sector, their contribution to decent work, as well as other specific characteristics of each sector or industry.[96]

Governments often choose to focus on sectors with the highest share in the economy, in terms of economic output and employment. While more challenging to quantify, additional criteria, such as the expected multiplier effects on output and employment, the strategic importance of the sector for the economy's future development, as well as the government's own capacity to effectively deploy measures in support of the respective sector may be factors to be considered.

Exhibit 9 highlights the criteria governments may choose to use when selecting the priority sectors. An analysis of 55 countries' responses during the COVID-19 pandemic revealed most governments focused their measures on 5 main sectors, namely Tourism, Transport and Travel (65% of countries), Food and Agriculture (52%), Banking (50%), Entertainment and Retail (33%) and Manufacturing (30%). The COVID-19 crisis illustrates the importance of characterizing the shock, sectoral implications, and policy mix needed.

At the same time, beyond sectorial prioritization, governments may also decide to pay special consideration to other areas of economic and social value, such as small firms with high growth potential, women entrepreneurs, informal firms or small firms in rural areas. Concrete implementation considerations linked to special targets are described in the last section "Supporting special targets".

96 ILO. 2017. *Sectoral Policies Department, 2016–17 Highlights*.

Exhibit 9

When defining priority sectors, governments can rely on multiple criteria

Size in economy

Sectors that drive the economy, responsible for the highest share of output and employment

Multiplier effect

Sectors that drive additional GDP growth and job creation along value chains (e.g., transportation, construction)

Strategic importance

Sectors identified by development programs as having strategic value for the growth of the economy

Potential for effective government action

Sectors where government action has greatest potential to drive recovery

Beyond sectorial prioritization, governments can also pay special consideration to special targets, such as small firms at highest vulnerability / informalisation risk, women entrepreneurs and informal firms

Choosing the best-fit levers and tailoring the measures

Upon defining the type of crisis and focus segments, governments face the task of choosing the right set of measures and tailoring them to the specificities of their target segments, as well as to their deployment possibilities.

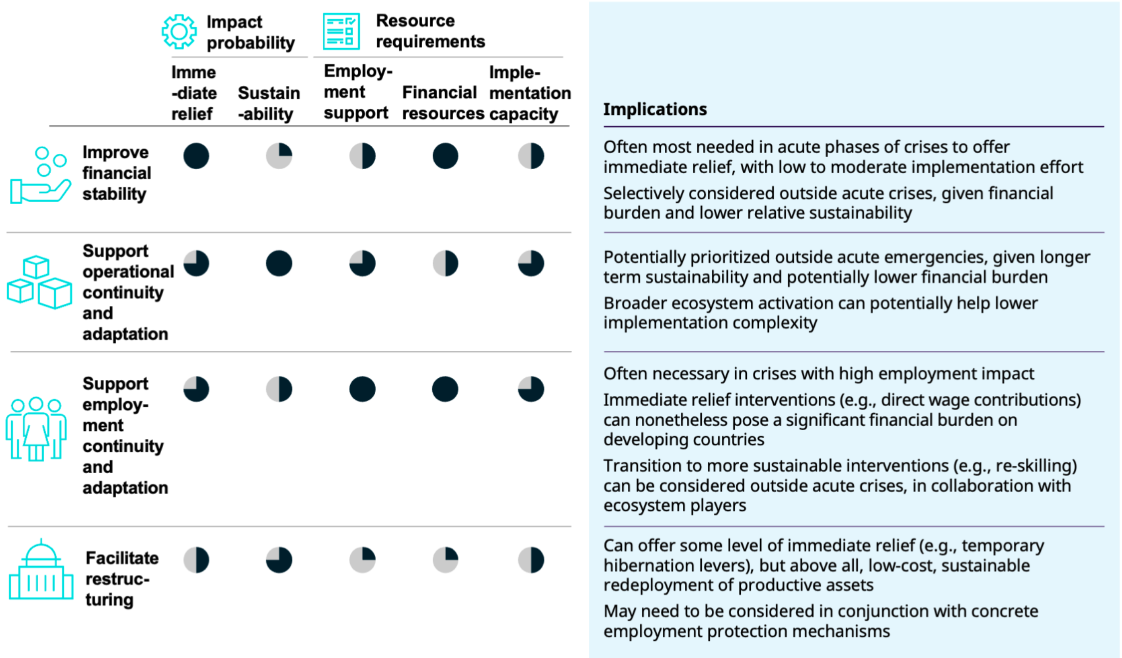
While the choice of levers and measures is strongly context-specific, at a high level, they can be characterized in terms of their generic potential/probability to generate a certain type of impact and typical resource requirements:

1. **Impact probability –** while some measures (e.g., direct financial support) can offer more immediate relief, others (esp. the operational continuity) promise a more sustainable mid-to-long term impact. At the same time, some measures have a more direct impact on employees' livelihoods and work conditions.
2. **Resource requirements –** many measures require immediate access to funds. When developing countries can secure them, they often come at the cost of increased indebtedness, a growth of nonperforming loans or inflationary risk, if implemented at a large scale. At the same time, the successful operationalization of many measures also relies on governments' deployment and administrative capabilities (e.g., own digital capabilities, regional presence to deploy measures, robustness, and sophistication of fiscal infrastructure, synergies with existing measures, and policies).

In certain cases, some programmes would have been previously designed and sources to access funds identified. Then, the focus becomes their rapid activation, including tailoring, senior approval, and deployment. For many other policy interventions, new resources might become necessary, from contingent budgets, budget reallocations, or fresh funding. Engaging in ex-ante

Exhibit 10

Crisis management interventions vary in terms of impact probability and resource requirements



negotiations with international donors, international and national development and commercial lenders and other partners could potentially help developing country governments ensure rapid access to emergency funds in times of crisis.

Exhibit 10 shows a high-level assessment of the four broad categories of crisis management measures against the two criteria and corresponding dimensions, namely 1) Impact probability (Immediate relief, Sustainability effect, and Employment support) and 2) Resource requirements (Financial resources and Implementation capacity).

While this generic assessment cannot be applied mechanically, it can provide a framework for governments to use as they define and iterate on their own solution space and high-level implementation implications.

Governments will often rely on a mix of measures and sequence them based on the development of the crises and subsequent primary objectives, as well as on their budgetary resources. At the same time, the measures' design and implementation would need to be coordinated with other national macroeconomic policies.

For example, a developing country heavily reliant on rural tourism and agriculture, facing a growing number of COVID-19 cases, may have had to enforce a full lockdown. It will then likely need to start looking at the measures with the highest potential for immediate relief to maintain the sectors' livelihood. Given the direct impact of pandemics on employment, the government could choose to link any cash transfers to wage payments. Releasing the administrative hurdles on firms temporarily can also be considered, acknowledging it will have less of a direct impact on employment.

Upon dealing with the urgent cash need, the government may then consider proceeding to more operational levers and start supporting its small retailers to adjust their operations, e.g., by onboarding them on dedicated e-commerce platforms. This type of measure may require more complex design and deployment actions, and provide less immediate relief. Nonetheless, it could plant the seed for a sustainable recovery of the small retail and tourism sectors, and potentially require less cash resources.

For example, during the COVID-19 pandemic, the Costa Rican government has devised a multitude of measures targeted at the tourism and retail sectors, from the creation of highly customized materials and infographics for each sub-sector to adapt their practices and communicate to their clients, to the establishment of special rates with hotels to use their unutilized capacity for COVID sheltering. At the same, the government launched a platform for small producers without an online presence, and a smartphone app, including a texting service to facilitate the trade among producers of agricultural, meat, and fish products[97].

Beyond the choice of measures, governments may want to invest in tailoring their deployment to their segments' specificities and potential additional constraints. For example, targeting wage subsidies in coordination with creating food coupons for employees could help ensure that the stimulus goes directly to employees' basic needs while supporting the food production industry. Similarly, using vouchers for fixed costs (e.g., utilities) instead of payment deferrals can both offer relief for small firms and help maintain the business continuity of the utility companies. In developing countries, where compliance and fraud risks can be higher, designing such mechanisms can also ensure the support truly reaches urgent productive needs, rather than becoming an opportunity for firms to buy e.g., real estate.

At the same time, governments could benefit from paying special consideration to each segment's realities and ability to access the measures. For example, in some remote rural areas where both broadband access and digital literacy are lagging, the support in accessing online retail platforms may not render immediate results.

The Exhibit 11 exemplifies measures taken by governments in support of specific industrial sectors with a high share of SME representation during the COVID-19 pandemic.

Deploying, monitoring, and adapting measures

Designing and implementing successful measures relies not only on financial resources but also on governments' capacity to navigate the complex ecosystem surrounding small firms and orchestrate the support while making the most of both its own resources (e.g., ministries, specialized agencies) and the potential support of other ecosystem players, incl. NGOs, donors, employment organizations, and even large firms.

In this section, two best practices are presented that can help in this direction, namely the coordination of small firm crisis support in between government agencies, and ways to effectively activate the broader ecosystem to drive impactful social dialogue.

Coordinating small firm crisis support

Small businesses traditionally face multiple hurdles when seeking to access government support or guidance. In turn, governments may struggle to coordinate their support efforts, especially during the inevitable disruptions of shocks. Yet, this close coordination among different governmental forces, and with non-governmental partners is instrumental to the provision of effective and efficient crisis support.

Proactively developing an end-to-end strategy for small business support including concrete plans for how small businesses will be aided in case of crises and measures to build their resilience before crises strike can help policymakers increase the effectiveness of their support. Such a strategy could include a pre-established baseline and generic segmentation of the small business landscape to

97 Costa Rica National Tourism Institute. *Coronavirus support material.* Available at: https://www.ict.go.cr/en/institutional-services/coronavirus-support-material-tourism-sector.html. Accessed on July 2nd, 2021.

98 Government public announcements.

Exhibit 11[98]

Example: COVID-19 support measures by sector

Non Exhaustive

Share of countries with measures[1] by sector, as a % of 55 countries studied

Sector	Share of all countries with measure in given sector, %[1,2]		Example measures
Tourism, Transport, and Travel	65	Costa Rica	Supported adaptation of tourism sub-sectors with detailed materials (incl. advertising towards customers) and stroke deals with hotels to use their unutilized capacity for COVID sheltering
		Romania	Prolonged validity of local tourism vouchers delivered to private citizens to help regional tourism recovery
Food and Agriculture	52	Singapore	Offered full month of rental waiver to stallholders in NEA-managed hawker centers and markets
		Nigeria	Cut interest rates of all CBN intervention facilities from 9% to 5% (loans that are given directly to agriculture)
Entertainment and Retail	33	Senegal	Ran a widespread information, education and awareness campaign on the benefits of e-commerce
		Mexico	Government of Yucatan province launched app for monitoring the recovery of business activity among small retailers and restaurants – with widespread adoption
Manufacturing[3]	30	Argentina	Suspended social security payments for manufacturers unable to import raw materials
		Paraguay	The National Development Bank (BNF) allocated a special line of working capital for the productive sector, for a total amount of $15mn

1. Covers financial and business-targeted measures, excludes support to Households 2. Banking sector excluded, given low SME representation 3. Includes oil and gas, mining, industries

determine the key measures that small businesses in their ecosystem typically require. The next step could be the creation of a policy and planning register to translate the strategy into concrete measures and enact regulatory and legislative reforms, consistently linked to existing policies. This strategy would benefit from including concrete financing mechanisms and potentially even the creation of dedicated "small firm support funds". Built outside crises, the funds could secure direct access to relief financing in times of crises, a significant limitation in developing country governments' ability to support small firms. In times of crisis, policymakers could leverage this pre-existing knowledge to help orchestrate the recovery and relief efforts, refining the priority segments, tailoring the measures, and activating their concrete deployment.

The way to organize this support can vary from country to country. Some may choose to create dedicated structures, while others would prefer integrating this function within an existing structure. Regardless of the organizational model, several common factors contribute to their effectiveness. First, the role of each participating unit/department, and the expected areas of collaboration between them need to be specific and clearly communicated, internally and to other ecosystem players. Second, the support needs to rely on sufficient expertise in the different areas necessary for SME aid (incl. macroeconomics, data analytics, policy dialogue). Third, the supporting units can benefit from developing real-time communication channels and systems to monitor measures' performance and course-correct to impending difficulties. Last but not least, the support could be closely coordinated with other ecosystem players (e.g., donors, industry associations, NGOs) throughout the design and implementation of measures.

The box below describes three examples of how governments have chosen to coordinate their support in the management of the COVID-19 crisis.

Examples – Coordination of SME support[99, 100, 101]

Example 1. South African Small Business Development Department
The South African Small Business Development Department is a standalone national unit of the South African government with a mandate to "lead and coordinate an integrated approach to the promotion and development of entrepreneurship, small businesses and co-operatives, and ensure an enabling legislative and policy environment to support their growth and sustainability".
In the frame of the COVID-19 pandemic, the two entities of the department, the Small Enterprise Finance Agency (SEFA) and Small Enterprise Development Agency (SEDA), formed an Economic Recovery Task Team focused on SMME assistance. Interventions included The Business Growth and Resilience Facility, supporting SMMEs to locally manufacture or supply hygiene and medical products, SMME Relief Finance Scheme and Debt Restructuring Facility, providing soft-loan funding to existing small businesses. At the same time, the department defined sector-specific support schemes for 1) automotive aftermarkets 2) bakeries and confectioneries 3) micro-clothing, textile, and leather businesses and 4) informal convenience shops.

Example 2. Malaysia SME Corporation
Malaysia's SME Corporation is a government body that "promotes the development of competitive, innovative and resilient SMEs, through effective coordination and provision of business support". The unit researches SME performance, proposes policies to the national SME development council, and coordinates and monitors support programs across 17 ministries and more than 60 government agencies. During the COVID-19 pandemic, the SME Hub powered by the SME Corporation served as a one-stop-shop for small firms to gain knowledge of programs – including those of third-party organizations.

Example 3. Brazil's SEBRAE programme
Brazil's Support Services for Micro and Small Firms, SEBRAE focused its emergency response to the COVID-19 crisis on four axes: providing information and consulting services, coordinating with financial partners on priority sector solutions, coordinating the government to promote business environment measures, and strengthening credit and access to financing actions through the agency responsible for credit guarantee funds (FAMPE). A crisis committee was created for projects in execution, conducting remote consultancies (e.g., financial, fiscal, labour issues). The direct coordination with firms enabled a faster identification of critical issues and priorities and the link with the public sector enabled contributions to policies and implementation at local levels. The mechanisms for dialogue expanded with a greater importance placed on a sector-specific framework.

99 Department of Small business development, South Africa, 2020-2021, *annual report.*

100 Brazil's Support Services for Micro, Small and Medium Enterprises, 2020, *COVID-19 relief for MSME sector.*

101 SME Hub. Malaysia. Available at: https://smeinfo.com.my/institutional-support/business-coach-trainer-under-cedar-2. Accessed on July 2nd, 2021.

Activating the broader ecosystem and engaging in social dialogue

As discussed in Chapter 1, the need to design and deploy successful policies for a large number of different small firms is a significant challenge to developing country governments' ability to provide aid. Too often measures do not manage to reach their desired impact because they are not well-tailored to beneficiaries' needs, or because the smallest, most vulnerable groups, who are in most need of support are not able to access them. Devising complex distribution channels (e.g., complex online application programs), or strict formal requirements (e.g., extensive documentation) may end up limiting the access to measures to more sophisticated, medium-sized firms, rather than the most vulnerable ones.

Engaging a broader set of stakeholders who are well familiar with different small firm needs and limitations, and are in direct contact with them, throughout the design and especially the deployment process, can help partially overcome this challenge.

The objective of a social dialogue mechanism within this framework of proposed measures is thus both to facilitate consultation and information-sharing for the detailed design of the measures, and to drive a coordinated implementation effort among representatives of governments, small business associations, workers, and other stakeholders.

Social dialogue can help governments to take account of the points of view of stakeholders with a direct interest in the measures and their implementation (e.g., small firm representatives), as well as prioritize, design, and deploy them with a clear understanding of shared responsibilities and accountability.

Successful collaboration in crisis response can rely on the active participation of multiple stakeholders:

- The government side of the dialogue would typically include officials and departments responsible for coordinating support for small business restructuring and dealing with economic shocks. The involvement of local governments can also be critical for input, priority setting, and implementation.
- Small business participants could include employers and business member organizations, industry associations, bodies representing professional and trade associations. The representation of women entrepreneurs is important to provide a voice to this group which is often poorly represented in social dialogue.
- Workers would typically be represented by unions (a potential challenge in the case of small firms, who tend to be underrepresented).
- Mid-to-large firms involved would often be key players in specific focus segments – their involvement can help support the access to resources, maintain market links or channel direct assistance in operational matters
- Other stakeholders in the dialogue could include representatives of other anti-crisis programs and departments, financial and credit institutions, donors, relevant civil society organizations, and other social dialogue groups

While the concrete implementations of social dialogue can vary, it is beneficial if the social dialogue is a continuous process that starts before crises emerge and is accelerated early in the crisis management process (from the diagnosis of the type of crisis). At the same time, social dialogue partners do not need to have a purely consultative role – they can have a significant contribution by being actively involved in the design, implementation, and evaluation/follow-up of the measures.

Businesses themselves, individually or through business member organizations can play an important role in supporting small firms from the early onset of crises through business solidarity initiatives. For example, the Andean Entrepreneurship Network facilitates a continuous exchange between a network of 350+ business trainers and small business. Beyond the capability building activities (e.g., resilience training and coaching), the network also provides motivation and peer support to participating SMEs.

Maintaining direct contact with the final beneficiaries, and not becoming overly reliant on intermediary institutions with potentially different mandates and interests can nonetheless help governments ensure measures remain well targeted to the interest of small firms.

The small firm social dialogue mechanism cannot function in isolation – it will likely be essential for governments to coordinate with other existing social dialogue mechanisms to discuss wider economic and social policies and maintain consistent and complementary approaches on the issues at stake. The implementation of support mechanisms may require the full small business support ecosystem to act as one, ideally with governmental support and coordination.

The box below highlights two **examples of social dialogue**[102, 103, 104]

Example 1. Fiji Business Disaster Resilience Council (FBDRC)
The Fiji Business Disaster Resilience Council (FBDRC) was created in 2016 following the Tropical Cyclone Winston. Its explicit aim was to improve the coordination between public and private ecosystem players throughout the response and recovery efforts.
To date, the FBDRC focuses on supporting SMEs to build resilience through dedicated trainings and toolkits (e.g., for small firm business continuity planning), actively engaging players from the private sector to village heads in disaster management and the buildup of recovery plans.

Example 2. South Africa tripartite 'Coronavirus Response Task Team'
During the COVID-19 pandemic, the South African National Economic Development and Labour Council set up a tripartite 'Coronavirus Response Task Team' and organized dialogues with over 60 representatives of business, labour, and government organizations, to jointly discuss issues such as workplace adaptation measures, employee compensation funds and ways of designing effective support while preventing abuse.

Together with the ecosystem partners, governments may benefit from establishing mechanisms for monitoring the impact of the measures and be ready to flexibly adapt them to beneficiaries' feedback and evolving needs. And as the acute phases of crises pass, governments may need to establish clear steps and mechanisms for ramping down some measures and transforming others, and communicate them to small firm owners promptly.

This being said, measures born amid crises can also plant the seeds and create momentum for longer-term, resilience-generating levers, such as the ones described in Chapter 3.

Supporting special targets

Governments may decide to identify high-priority targets of small firms to provide special support during shocks and crisis conditions. Those special targets can vary according to crises conditions, acute effects on certain segments of small firms, and other high-priority considerations. This section highlights a set of support considerations linked to segments that could represent special targets for many developing countries, including: the informal sector and women entrepreneurs.

Informal firms

Two billion people, over 60% of the world's employed population are part of informal firms, 93% of which in emerging and developing countries.[105] Informal firms are often even more vulnerable than the typical small firms to shocks, due to multiple reasons, ranging from the lack of economic buffers and social protection mechanisms to insufficient skills to cope with change and adapt. At the same time, their informality also makes it more challenging for governments to reach them, be it

102 Department of Health, South Africa. March 17th,2020. News release: *National Economic Development and Labour Council on measures to combat Covid-19 Coronavirus*. Available at: https://sacoronavirus.co.za/2020/03/17/national-economic-development-and-labour-council-on-measures-to-combat-covid-19-coronavirus/. Accessed on July 2nd, 2021

103 United Nations Office for Disaster Risk Reduction (UNDRR). 2020. *Reducing risk & building resilience of SMEs to disasters.*

104 Zurita, A.; Dini, M. (2021). *Análisis de las políticas de apoyo a las pymes para enfrentar la pandemia de COVID-19 en América Latina*. Comisión Económica para América Latinal (CEPAL), Documentos de Proyectos.

105 ILO. 2018. *Women and men in the informal economy: a statistical picture (third edition).*

to assess their needs or deploy support. Moreover, many informal firms fear that accepting government support can come with other formal obligations such as tax payments.

Their significant role in the economy, particular vulnerabilities, and support challenges may call for policymakers in developing countries to pay special attention to the informal sector.

Many countries choose to indirectly support the informal economy go through crises with measures targeted at households or individuals, be they vouchers, direct cash support, strengthened social protection measures, or broadly accessible capability-building programmes.

At the same time, through dedicated actions, governments might choose to turn crises into opportunities to promote the formalization of viable informal firms. In concrete terms, support measures related to productive transformation, social protection, and capability-building, among other measures, can provide a rich base for policy experimentation to accompany the transition of certain informal firms to formality. Additionally, governments can also choose to link access to certain support measures to a minimum of formal requirements (e.g., simple registration). Yet, when choosing such conditions, it is important to ensure they do not become de facto barriers to small firms' accessing the support.

Before engaging in formalization measures, governments would benefit from assessing the informal sectors most likely and prepared to formalize (e.g., in terms of investment and productivity levels, expertise, market coverage, links to formal market activity, etc.).[106, 107] The assessments are important to guide the identification of targets and the tailoring of the concrete measures. Following the assessment, governments may also choose to sequence their support along the formalization journey. The expansion of microcredits and technical support for crisis management can provide initial short-term relief, to then be followed by income support, business adaptation, and capability-building. Yet, the selection and sequencing of support should be flexible and adaptable to informal firms' specific and evolving needs.

Regardless of the choice of measures, governments could benefit from coordinating them with other efforts for registration and formalization. Interventions during shocks can provide room for experimentation and further understanding of how to address the formalization efforts, yet, they are most successful when integrated into a consistent, longer-term formalization strategy, as well as a process of continuous improvement of the overall business environment, to ensure informal firms can sustainably transition to and thrive in the formal economy. Many countries are starting to develop such policies, including institutional frameworks for organizing interventions during crisis conditions. Such frameworks would benefit from being closely coordinated with other policies, especially the ones related to employment and labour law, social security, and taxation.[108]

At the same time, given the inherent challenges governments face in getting access to informal firms, the strategic involvement of other ecosystem players, including NGOs, business membership organizations, or formal market players in the relevant supply chains becomes even more important. Business membership organizations, for example, often have a close relationship to business owners, given their close involvement in multiple industry services, such as networking opportunities, strategic analyses or advocacy initiatives, that can allow them to support the formalization process.

106 *ILO. 2015. Recommendation 204 Concerning the Transition from the Informal to the Formal Economy.* Available at: https://www.ilo.org/wcmsp5/groups/public/---ed_norm/---relconf/documents/meetingdocument/wcms_377774.pdf

107 ILO. 2021. *Enterprise Formalization: an Introduction. Thematic brief 1/2021.*

108 ILO. 2015. *Recommendation 204 Concerning the Transition from the Informal to the Formal Economy.*

Examples – Targeted support for informal firms[109, 110, 111, 112]

During the COVID-19 pandemic, many countries have designed targeted support for informal firms. Examples include:

- The **Ivory Coast** put in place a fund for subsidies and loans to support the informal sector (FASI), targeting the income of workers who lost earnings and production units.
- **Lesotho** and **Viet Nam** extended unemployment benefits to workers in the informal sector.
- **Egypt** and **Senegal** simplified requirements for mobile money widely used by informal firms, while **Kenya** introduced no-charge for mobile money transactions below a certain threshold.
- **Brazil** included in its fiscal expansion programme cash transfers to informal and low-income workers (Emergency Aid) and expanded the Bolsa Familia program to reach over 1 million more beneficiaries.
- **Burkina Faso** suspended government fees charged on informal sector operators for rent, security, and parking in urban markets.
- **Cabo Verde** and the **Dominican Republic** provided income support to the most vulnerable households, including informal sector workers.
- **Mexico** and **Gabon** included funding to facilitate the access by formal and informal firms to commercial bank financing.
- **Nepal** created a programme giving informal sector workers the option to participate in public-works projects or receive a minimum subsistence allowance.
- **Thailand's** soft loan program provided low-interest-rate loans for up to 3 years to informal workers and SMEs in tourism.

Additionally, the ILO has collaborated with the the Chambers of Commerce of El Salvador, Tegucigalpa (Honduras), and Guatemala to launch a free formalization program for micro-businesses in September 2020. The Chambers offer the micro-entrepreneurs who register for the program free advice for the improvement of their businesses, and accompany them in the legal process of formalization. Counseling and personalized support are provided in three areas: comprehensive business improvement, legal orientation and development of management skills.

Women entrepreneurs

Women represent an essential part of the entrepreneurial fabric in most countries. While women entrepreneurs make approximately one third of the global economy, they are more likely to operate in and lead small and micro-enterprises than men.[113]

At the same time, women represent a particularly vulnerable target of small-business operators, due to multiple reasons, from their tendency to operate in sectors highly sensitive to shocks (e.g., manufacturing, retail), to their low access to capital due to discriminatory property and inheritance laws, their poor access to formal financial institutions and their time constraints due to family and

109 Fonds d'Appui aux acteurs du Secteur Informel (FASI). Available at: https://fasi.ci/apropos. Accessed on August 2nd, 2021

110 IMF. *Policy Responses to COVID-19*. Available at: https://www.imf.org/en/Topics/imf-and-covid19/Policy-Responses-to-COVID-19. Accessed on August 2nd, 2021

111 OECD. *Coronavirus (COVID-19)*: *SME Policy Responses*. Available at: https://www.oecd.org/coronavirus/policy-responses/coronavirus-covid-19-sme-policy-responses-04440101/#section-d1e3087.

112 ILO. September 2020. *Inicia programa de formalización en el sector comercio en Guatemala, El Salvador y Honduras*. Available at: https://www.ilo.org/sanjose/sala-de-prensa/WCMS_754638/lang--es/index.htm. Accessed on August 2nd, 2021

113 ILO. March 2016. *Women's Entrepreneurship Development*. Available at: https://www.ilo.org/wcmsp5/groups/public/---ed_emp/---emp_ent/---ifp_seed/documents/publication/wcms_175471.pdf.

household responsibilities.[114] In times of crisis, their relative vulnerability often deepens, women being the first to leave formal employment.

This calls on governments to consider treating women entrepreneurs as special targets in their relief and resilience measures. When it comes to crisis management, women entrepreneurs can benefit from dedicated support across each of the four objectives included in the proposed framework, from liquidity interventions (A), the operational support in the form of both technical advisory and targeted aid for productive transformations (B), employment support in the form of wage contributions, dedicated up- and re-skilling and targeted social protection mechanism (C), and to facilitated business hibernation (D). At the same time, building risk management capabilities and improving their access to insurance products can significantly increase women entrepreneurs' resilience in front of future shocks. Since almost 60% of women operate in the informal sector, efforts dedicated to the informal economy, including formalization measures, would also indirectly benefit them.

A. Improve financial stability and liquidity

When it comes to supporting women-led firms' liquidity, the direct injection of funds can help alleviate the impact of limited collaterals (e.g., due to discriminatory property laws) or repayment ability. At the same time, the institutions that channel liquidity need to understand the realities and needs facing women entrepreneurs and the gender sensitivity of the issue. It is therefore important to make sure that women have dedicated channels to access the funds, that they can apply and obtain the funds on their own and that the information about the support measures and how to access them is communicated appropriately.

B. Support operational continuity and adaptation

In terms of operational support, women entrepreneurs can benefit from both technical advisory in their crisis management (practical information in the form of manuals, courses, SMSes, radio shows, videos, online tutorials, and other individual or group assistance tools), and from support for productive transformations. It is nonetheless important for such measures to be delivered in a gender-sensitive way (e.g., in some countries, advisory support would need to be provided by women consultants, in women-only groups).

C. Support employment continuity and adaptation

When it comes to the third objective, that of supporting employment continuity and adaptation, women entrepreneurs can benefit from dedicated aid across each of the four levers: 1) Wage and income support, 2) Worktime arrangements, 3) Reskilling and upskilling and 4) Other social protection measures.

In terms of wage subsidies, given women's particularly precarious liquidity conditions and family responsibilities, governments may consider ring-fencing wage subsidies for women entrepreneurs, especially those who lead nuclear households. At the same time, flexible worktime arrangements can be particularly helpful for women to manage the potential increase in household responsibilities, while keeping their employment.

Dedicated, gender-sensitive skills training to support women entrepreneurs can be important not only during, but also before and after shocks, especially in contexts where shocks are a recurrent issue. Some of the trainings that may address urgent needs during crises can include: negotiating access to special lines of credit, restructuring business debts, applying to grants, or networking with other firms.

As the participation of women entrepreneurs in social safety systems is in general very limited in developing countries, women could also benefit from more targeted support measures, including e.g., special access to health care coverage, including coverage of sick and maternity conditions, or complementary support for access to care facilities (e.g., child, elderly). As women entrepreneurs facing shock conditions often need emergency solutions to their home care responsibilities, the

114 ILO. 2018. *Women and men in the informal economy: a statistical picture (third edition).*

design of emergency offerings of public daycare can prove particularly useful. Alternatively, vouchers to finance daycare in existing private or public institutions can be considered, potentially through public-private partnerships.

D. Facilitate restructuring procedures

The temporary business closure/hibernation facilities described in the fourth objective can also help women deal with their household realities (e.g., increased need for them to care for their families in times of crisis), while protecting the future of their businesses.

E. Build risk mitigation and resilience capacity

Beyond the immediate crisis response, supporting small entrepreneurs to build risk mitigation capacity, e.g., through insurance and preparedness services, can be particularly impactful to their ability to build resilience against future shocks. Given the very limited use of insurance services among entrepreneurs across most developing countries, and their tendency to keep a close link between business assets and personal property, there is a clear need for a wider range of insurance services. Measures that encourage targeted and better-coordinated insurance products (e.g., health, maternity care, family property, business income, etc.) can be particularly impactful for the support of women entrepreneurs.

When it comes to implementing their dedicated support to women entrepreneurs, governments could benefit from a set of considerations, including 1) The targeting of specific sub-segments, 2) Supporting women's ability to access the aid, and 3) Coordinating with existing policies and ecosystem players.

1) Targeting specific sub-segments

While providing appropriate support to women entrepreneurs across the board in crisis conditions can be an ultimate goal, interventions may need to take into account that women entrepreneurs are not a homogenous group. Sub-targets could be built based on businesses characteristics (growth-oriented, traditional family units, own-account, etc.), economic or social criteria, equity considerations, regional and sectoral needs, income and poverty levels, and so on. For example, a programme of special grants to women entrepreneurs in certain sector activities would ensure that additional support is assigned to female-dominated sectors that suffer disproportionate effects from crises (e.g., hospitality, small retail trade, food, tourism, health care, agriculture, craft industries, garments).

2) Supporting women's ability to access the aid

In selecting and deploying specific interventions for women entrepreneurs, it is essential to ensure that they both respond to women's concrete pain points and are easily accessible to them. This includes making sure women know about the support measures and services available during a crisis (e.g., through dedicated information and training campaigns) and that barriers to their participation are minimized. Given this multitude of barriers, it is particularly important to monitor women's participation in support programmes and take actions to increase it.

For example, as almost 70% of women-owned small and medium enterprises have inadequate or no access to financial services, including bank accounts[115], institutions can benefit from both considering alternative routes for immediate relief (e.g., cash payments, vouchers) and accelerating efforts to increase women's bankability. Measures to promote services to allow women entrepreneurs to channel their savings through traditional mechanisms or innovations (e.g., financial services through telecoms) would not only help rapidly channel social security and income support to women entrepreneurs during shocks, but also improve their financial management and precautionary savings ahead of future crises.

115 Arnold, Julia; Gammage, Sarah. 2019. *Gender and financial inclusion: the critical role for holistic programming.* Development in Practice, 29:8, 965-973

3) Coordinating with existing policies and ecosystem players (including women themselves)

The proposed actions are not meant to substitute the central concern of finding sustainable and practical solutions to support women entrepreneurs. On the contrary, such measures would benefit from being implemented in close coordination with existing programmes, including actions to reduce violence against women, child subsidies, actions to increase gender equality in business activities, and cultural programmes and information campaigns to change attitudes and the division of labour within households.

The close collaboration with women's business associations and other potentially non-traditional enterprise development service providers such as NGOs, faith and community-based organizations could also help navigate the gender-specificities of providing support to women. Last, but not least, the crisis support interventions can act as an opportunity to help make the voices of women entrepreneurs themselves stronger, e.g., through their direct involvement and ownership of the decisions taken for their support, or increased representation in women organizations.

▶ Examples – Supporting women entrepreneurs

Targeted measures in support of women entrepreneurs include:

- In **Malaysia**, **Philippines** and **Thailand**, an ILO-supported project targets small businesses owned by women in hard-hit sectors such as manufacturing, services and retail trade. It provides digital tools to enhance women's access to financial resources, training, market information and networks.
- Additionally, **Malaysia's** short-term National Economic Recovery Plan has launched two initiatives providing financing to women-owned microenterprises in response to the COVID-19 pandemic.
- In **Zimbabwe**, the Central Bank introduced an accommodation lending facility that funded, among other beneficiaries, the Zimbabwe Women Microfinance Bank.
- **Brazil, Colombia, Kenya, Morocco**, **The Philippines** and **South Africa** implemented cash transfer programmes targeting informal workers with additional benefits for women (e.g., Brazil doubled the benefit levels for women who head households).
- **Canada** supports women entrepreneurs through its Women Entrepreneurship Strategy Fund, providing financial aid and a range of support services to strengthen women's capacity to manage risks.

Other targets

While the informal sector and women entrepreneurs represent typically vulnerable targets in developing economies, countries might need to define their own "special targets" based on their characteristics, needs and priorities, incl. demographics, employment levels, societal inequalities. Such targets may include e.g., young workers, immigrants, entrepreneurs facing disabilities, small firms in remote rural areas or even small businesses on a high growth trajectory.

For example, younger entrepreneurs and workers could be particularly vulnerable during crises, also due to a sudden drop in apprenticeship and job opportunities.[116] In this context, special support measures such as providing small firms with grants to maintain apprenticeship programmes, organizing youth-targeted wage subsidy programmes, and work-sharing arrangements, as well as special training programmes for young workers could be useful. Special programmes could also be considered for small firms led by young entrepreneurs, including e.g., lending facilities or dedicated coaching.

In their quest to support vulnerable targets, governments could nevertheless benefit from not losing contact with high-potential small firms and potentially designing specific measures for them.

Small, high-growth firms are unique assets to developing economies. Yet, their rapid pace of growth ahead of crises might turn into a vulnerability when crises hit (e.g., they might find themselves unable to fulfill binding commitments related to financing, supply, or demand). Governments may thus choose to recognize their high potential and extend more tailored support to ensure their recovery and adaptation.

▶ Examples – Supporting young workers

Young workers were specifically targeted by some measures during the COVID-19 pandemic, both in developing and more developed countries. For example:

- **The Dominican Republic** National Employment Commission placed special emphasis on job reactivation of young workers and women.
- **Malaysia** targeted youth in its wage subsidy scheme and funding for apprenticeships.
- **Indonesia** targeted two million youth for participation in pre-employment and on-the-job trainings to adequate its Pre-employment Card program to the COVID-19 crisis.
- **The Philippines** put in place public consultations with youth leaders to draft action plans to respond to the pandemic.
- **Australia** has a Youth Allowance for jobseekers which was increased with COVID-19 supplements.
- **The United Kingdom of Great Britain and Northern Ireland** adopted measures for paying the minimum wage for 25 hours per week for six months for young workers at risk of long-term unemployment, and increased resources to enhance skills and facilitate reinsertion in the job market.

116 ILO. May 2020. *Preventing exclusion from the labour market: Tackling the COVID-19 youth employment Crisis.* ILO Policy Brief, Available at: https://www.ilo.org/wcmsp5/groups/public/---ed_emp/documents/publication/wcms_746031.pdf

Conclusion

Small businesses form the backbone of the global economy, providing 70% of the jobs worldwide and contributing 50% of developing countries' GDP. Yet, despite being economically viable, many small firms continue to be highly vulnerable to shocks, be they economic recessions, catastrophic events, or market disruptions. In developing countries, the intrinsic vulnerabilities of small businesses (including their low access to financing, lack of access to productive assets and skills, precarious role in market and supply chains, and vulnerable workforce) compound with the limitations of their host economies. With limited financial resources and implementation capabilities, developing country governments may need to carefully allocate resources and closely collaborate with key ecosystem players in deploying support measures for small firms during shocks.

This report provided a framework of potential measures to support small firms to face crisis conditions generated by shocks. The framework includes multiple levers and measures, organized around 4 core objectives, namely: 1) Improving financial stability and liquidity, 2) Supporting operational continuation and adaptation, 3) Supporting employment continuation and adaptation, and 4) Facilitating restructuring procedures.

Beyond the support that governments can provide to small firms during shocks, this report has also highlighted the value of supporting small firms build resilience and risk mitigation capacity ahead of time, as well as how governments can collaborate with other ecosystem players to deliver targeted risk management and compliance capabilities building programs, facilitate access to dedicated tools, and incentivize a better penetration of tailored insurance products.

The proposed framework is based on an ecosystem approach of interventions. A meaningful framework of providing support can nonetheless only be integrated with inclusive and self-reinforcing interventions at different levels of the ecosystems, where the coordination and interaction of consistent policy measures create enabling conditions for the vital role of small enterprises in creating jobs, investment, and sustainable growth.

The solution space of government measures in support of small firms is wide and complex, and often difficult for governments to navigate, especially under the pressure of an ongoing crisis. At the same time, there is no "one-size-fits-all" recipe, and each government would need to define the set of measures based on its local specificities, priorities, and resources. Engaging in social dialogue is key at each step to ensure that measures are relevant. This being said, this report has aimed to provide an extensive set of implementation considerations that can serve as a framework and starting point for governments to design their own portfolio of measures and implementation plans.

In doing this, policymakers could benefit from going through a 3-step thought process.

1. **Understand the type of crisis and define the priority segments.** While priority segments will often be key sectors in the national economies, governments may also consider tailoring measures to special targets, such as informal and women entrepreneurs.

2. **Choose the best-fit levers and tailor the measures.** Upon defining their issue and target segments, governments could assess each measure based on 2 criteria and 5 concrete dimensions, namely 1) Impact probability (Immediate relief, Sustainability effect, and Employment support) and 2) Resource requirements (Financial resources and Implementation capacity).

3. **Deploying, monitoring, and adapting the measures.** A close collaboration and coordination between governmental units, departments and agencies, and other ecosystem players can help measures reach their fragmented targets and evolve in an agile manner.

Beyond the successful deployment of the most effective and efficient measures, governments may also have to consider how to proactively plan and communicate the potential roll-off of measures during the recovery phase.

At the same time, there will likely be some measures born in times of crises that will help plant the seed for sustainable transformations of small firms and facilitate a step forward in countries' economic and social development. Governments could benefit from considering such measures in their efforts to create an overall business environment more conducive to business development, to the generation of decent work and to the build-up of resilience in front of future shocks.

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