



BUILDING BACK BETTER

Reducing Risk and Building Business Resilience

Future-proofing SMEs



POSITION PAPER 2022

WASME ICSME 2022

26th International Conference on
Small & Medium Enterprises

JOHANNESBURG | SOUTH AFRICA

30th Nov – 2nd Dec 2022
Johannesburg, South Africa

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WASME is a non-profit organization founded in 1980 that operates across the world, fostering and promoting SMEs. It provides its members with a broad range of highly specialized services and solutions, including support for growth and competitiveness, access to financing, knowledge management through Policy Advocacy, Information Dissemination, Conferences, Seminars, Events, Trainings, Publication, Network linkages etc.

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Bureau of Research on Industry and Economic Fundamentals (BRIEF) Private Limited is a research and consulting organisation with focus on policy research, diagnostic studies, program implementation, industry and market research as well as assessment of various schemes and interventions in the socio-economic domain. Its past engagements have spanned across areas such as international trade facilitation, infrastructure and policy aspects, regional cooperation, industry trends and micro, small and medium enterprises (MSMEs), among others, with special emphasis on India and other countries in South Asia and the Middle East and North Africa (MENA) region.

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PRESIDENT, WASME

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MSMEs account for 90 percent of businesses, 60 to 70 percent of employment and 50 percent of GDP worldwide. As the backbone of societies everywhere they contribute to local and national economies and to sustaining livelihoods, in particular among the working poor, women, youth, and groups in vulnerable situations.

This year, the International Trade Centre (ITC) marks the 5th anniversary of MSME Day, and small businesses are more than ever in need of support, as they navigate the impacts of the Covid-19 pandemic, conflicts and the climate crisis. They are the hardest hit by these multiple shocks, given their over-representation in the most exposed sectors such as food and accommodation services.

MSMEs have to become more resilient to future shocks, and efforts and stimulus packages must target those most heavily affected by disruptions to global supply chains, rising inflation, and the continuing ramifications of the Covid-19 pandemic.

Across the world, government responses were bold and quick, through a mix of liquidity and structural support measures. According to the International Monetary Fund, financial assistance such as grants was the most used policy measure, adopted by 77 percent of 130 countries covered in the research. This was followed by public guarantees on loans, delays in loan repayments, tax relief and lower interest rates.

Policymakers must move beyond recovery and consider ways to lower and eliminate barriers faced by MSMEs, improve the business environment and access to finance, markets and technology in these fragile times. It is critical that countries and their development partners continue to support and empower MSMEs and unlock their full potential through inspiring innovation, creativity and sustainability for all.

It is heartening to see how different countries are commended by the SME Competitiveness Outlook 2020 - Covid-19 for their exemplary implementation of a series of measures to assist SMEs including those from informal sector. International cooperation and cross-country learning are vital to better equip SMEs to overcome the adverse impacts of any crisis and build risk resilience, and in this context, the timing and nature of ICSME cannot get better.

SECRETARY GENERAL, WASME

Dr. G. P. Agarwal



Due to its significant contribution to gratifying various socio-economic objectives such as export promotion, employment opportunities and entrepreneurial growth, the importance of SME sector cannot be overstated. However, the actual importance of SMEs depends on their ability to adapt to the changing global dynamics.

Since its foundation in 1985 as the global voice of SMEs, the World Association for Small and Medium Enterprises (WASME) has been one of the most representative and leading international non-governmental organisations active in the promotion of MSMEs worldwide. We collaborate closely with all MSME experts throughout the world and have consultative/observer status with various United Nations agencies. WASME has been actively involved in developing SMEs' development objectives, pushing for their increased recognition and enabling them to effectively contribute to their respective country's economic growth and social well-being.

International Conference on Small and Medium Enterprise development (ICSME) has been one of the flagship events of WASME. It's a core forum to bring together under one roof, business support organisations, policy makers, banks and financial institutions, international experts, academics, entrepreneurs, UN and other international and multi-national aid agencies concerned with small business development. It is an excellent platform for sharing expertise, experience and emerging best practices and provides ample opportunity in establishing new contacts and business linkages.

Since 1985, ICSMEs have focused on varying issues such as technological development, financing, global cooperation and sustainable industrialization. The current edition of ICSME 2022 highlights the impact of the pandemic on small enterprises across the world and the position paper elaborates different interventions undertaken by the Governments to aid SMEs and strategies adopted by the SMEs towards developing stronger resilience against unforeseen events like the pandemic.

With this common vision and shared values, I am pleased to welcome all stakeholders to join hands together and create this ripple of change.



FOUNDER, SEEZA TOURISM GROWTH NETWORK

Septi M. Bukula

In recent times we have witnessed recurring crises of different kinds globally, ranging from the financial crisis of 2008, to the most recent Covid-19 pandemic and a range of political, environmental and other emergencies in-between. Many of these have had devastating effects on the global and national economies.

Crises like these place immeasurable operational difficulties on small and medium-sized businesses, in particular, threatening their very survival, let alone their competitiveness and growth. How do SMEs remain resilient and flourishing in the face of these life-threatening events? And how do policies and regulations that shape the environment in which they operate, and the ecosystem that supports them, enable them to triumph in such times of peril?

WASME's 26th ICSME takes place against the backdrop of perhaps the most devastating crisis of recent times, which saw an unprecedented shutting down of economies around the world for an extended period of time. The 26th ICSME gathers a range of players in the SME development world to examine how SMEs can be supported to become more resilient against future shocks and crises. It is also an opportunity to celebrate those SMEs around the world that have been able to withstand the onslaught of the pandemic and other current crises, and continue to survive and even flourish.

We are grateful to our partners - All Africa Association for Small & Medium Enterprises, Gauteng Enterprise Propeller, Gauteng Tourism Authority, Joburg Convention Bureau and South Africa National Convention Bureau - for partnering with #SeezaNetwork to stage this conference. We also thank WASME for affording our network the opportunity to host the conference at a time when international travel is still a challenge. We welcome everyone and trust that all will find the experience beneficial.

CEO, BRIEF

Mohammed Saqib



Small- and medium-sized enterprises (SMEs) account for most businesses across South Asia, and contribute significantly to job creation and economic development. Promoting SMEs can create much scope for the region's countries to tackle economic woes. Seeking to strengthen the SME sector and create a positive ecosystem for these enterprises, in India and the rest of the world, BRIEF and WASME are coming together to create greater impact at the grassroots level.

When we look at the Micro, Small and Medium Enterprises (MSME) sector, there are primarily eight factors that concern MSMEs: (i) unavailable or inadequate infrastructure support; (ii) an absence of adequate and timely credit; (iii) the inability to upgrade production facilities to achieve cost competitiveness, for instance through greater automation; (iv) a lack of adequate knowledge about government schemes, in turn related to a lag in adopting Information and Communication Technology (ICT); (v) difficulty in accessing skilled personnel; (vi) constraints on the adoption of energy efficient production processes; (vii) an absence of proper means and support for brand building; and (viii) inadequate R&D support.

Over the years, these challenges continue to deter the growth of SMEs and MSMEs, further exacerbated by Covid-19 pandemic. This position paper highlights some of the impacts of the pandemic on small and medium enterprises, generally over-represented in sectors worst hit by the pandemic, and combating tools and strategies in the form of external (government-led) and internal stimuli (SME-led).

In this context, the ICSME is an important international convening to delve upon the varying impact of Government interventions and different strategic adaptations undertaken by different firms to survive and thrive through the ongoing crisis.

BRIEF and WASME are pleased to spearhead the development of knowledge repository for SME growth and resilience.

INTRODUCTION

Changing Context with COVID-19

The Covid-19 pandemic has had significant adverse effects on socio-economic activities across the globe. The impact on small businesses have been considerable, fuelled by changes in consumption patterns, reduction in demand, supply chain disruptions, lack of personnel, financial fragility and smaller cash buffers among others.

Different studies have highlighted that SMEs are more likely to permanently close their operations as a consequence of the pandemic. This conclusion is supported by the fact that SMEs are more prone to face financial difficulties and declare insolvency or bankruptcy. Small enterprises in the same region and industry are more likely than larger firms to modify their output or services in reaction to the crisis. This could include minor modifications in modes of production or service delivery, ranging from increased online interactions with clients and digital marketing to the progressive acceptance of digital payments. Because SMEs primarily serve their local communities, they are 8 percentage points more likely to begin or increase delivery of goods, services, or carry outs. But SMEs are less likely than large enterprises to start or extend remote work, effectively exposing more of their staff to health dangers. As a result,

SMEs have 7 percentage points fewer employees working remotely. Remote work is especially difficult for smaller organisations, which are 33 percentage points less likely than larger firms to use remote working arrangements, compared to 18 for medium firms. This is most likely due to a lack of established infrastructure and technologically aware staff among smaller enterprises, even in high-income regions such as Japan.¹

Governments' period of closure and movement prevention laws have also had a significant impact on SMEs, halting their operations, hurting their financial positions, and exposing them to financial risk. Because of supply chain distortions, SMEs have faced a scarcity of workers and production inputs, significantly impacting their sales and capacity to meet financial obligations and pay employees' salaries.² This issue has corresponded with a fall in consumer spending as a result of lower consumer income and widespread sentiments of uncertainty.

Moreover, the over-representation of SMEs in sectors most affected by the pandemic – transport, manufacturing, construction, wholesale and retail trade, accommodation and food services, real estate, professional

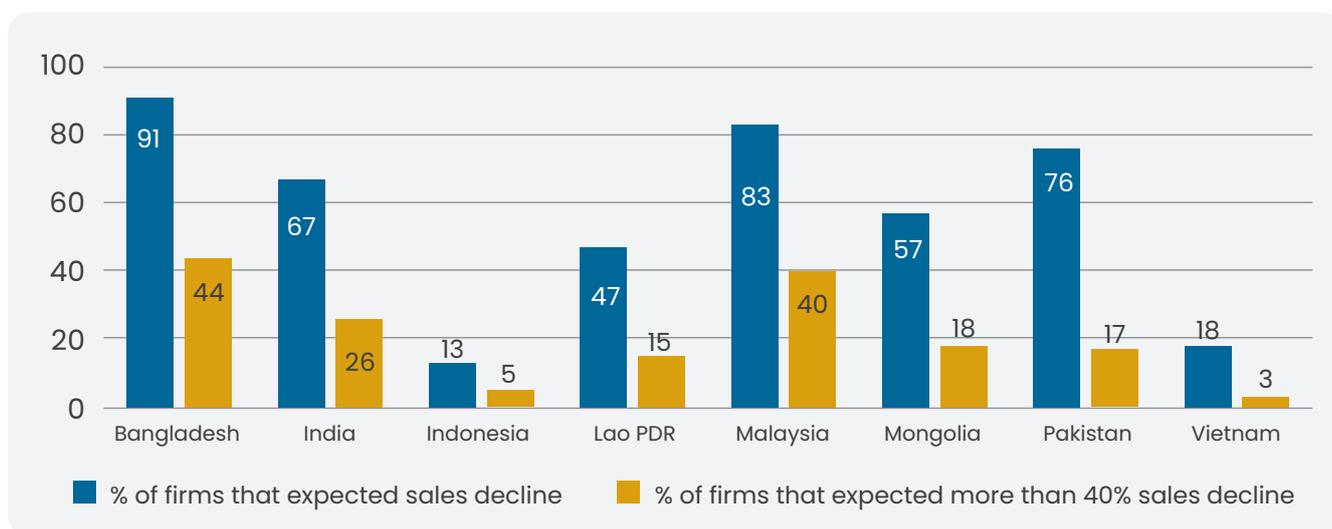
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1. OECD. (2020, July). Coronavirus (COVID-19): SME policy responses. <https://www.oecd.org/coronavirus/policy-responses/coronavirus-covid-19-sme-policy-responses-04440101/>
 2. Papadopoulos, T., Baltas, K. N., & Balta, M. E. (2020). The use of digital technologies by small and medium enterprises during COVID-19: Implications for theory and practice. *International Journal of Information Management*, 55, 102192. <https://www.ncbi.nlm.nih.gov/pmc/articles/PMC7327446/>

services and other personal services such as hairdressing³ – has been a major cause for concern. Further, the potential spill over of the impact of the pandemic on financial markets has exposed SMEs to limited credit availability.

Evidence from business surveys on the Covid-19 crisis’s impact on SMEs suggests substantial disruptions and concern among small enterprises. According to the Organization

for Economic Cooperation and Development (OECD), more than half of SMEs are experiencing significant revenue losses. A recent survey conducted by the Asian Development Bank (ADB) highlighted that a significant portion of SMEs in different countries of Asia expected more than 40 percent decline in their annual sales, during the FY 2020-21, highlighting the adverse impact of the pandemic on the SMEs across the world.

Percentage of Firms that Expected Negative Growth in the 2020 Annual sales



Source: ADBI. (2021, March). The Impacts of the Covid-19 Pandemic on Micro, Small, and Medium Enterprises in Asia and their Digitalization Responses. Asian Development Bank. <https://www.adb.org/sites/default/files/publication/692466/adb-wp1241.pdf>

Similarly, according to a recent National Bureau of Economic Research (NBER) survey, 43 percent of responding businesses in the United States are already temporarily closed.⁵ Similarly, according to an International Trade Centre (ITC) survey of SMEs in 132 countries, two-thirds of micro and small enterprises claim

that the crisis has had a significant impact on their company operations, and one-fifth are considering closing down permanently in short time.⁶

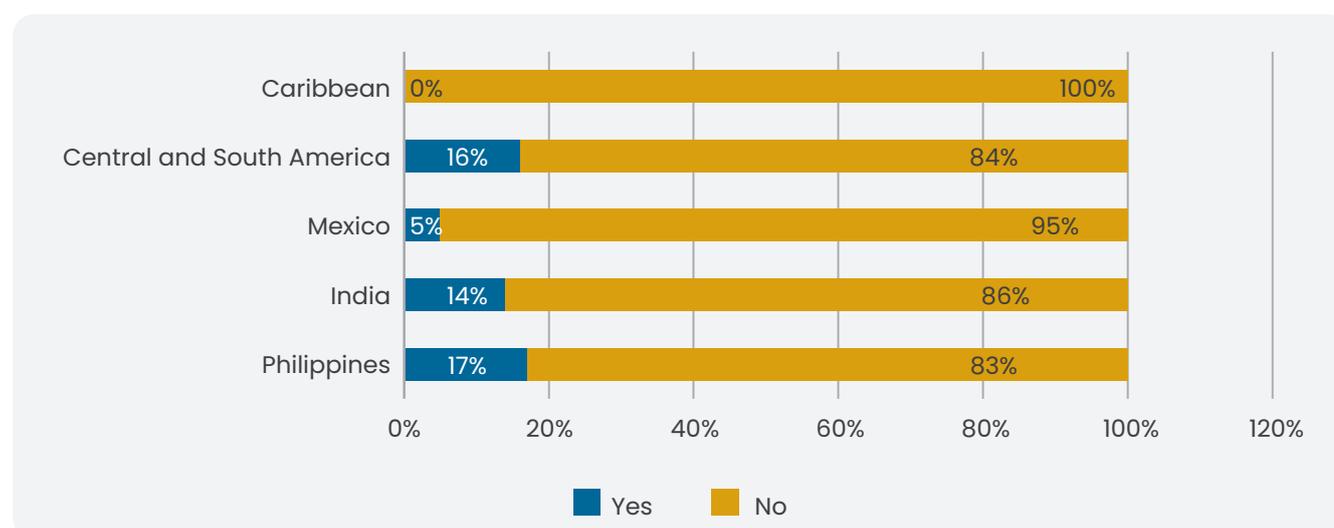
The Census Bureau of United States also established a weekly small business survey

3. OECD. (2020, July). Coronavirus (COVID-19): SME policy responses. <https://www.oecd.org/coronavirus/policy-responses/coronavirus-covid-19-sme-policy-responses-04440101/>
 4. Ibid.
 5. Bartik, A. W., Bertrand, M., Cullen, Z. B., Glaeser, E. L., Luca, M., & Stanton, C. T. (2020). How are small businesses adjusting to COVID-19? Early evidence from a survey (No. w26989). National Bureau of Economic Research. <https://www.nber.org/papers/w26989>
 6. ITC. (2022). ITC at COP27. <https://intracen.org/news-and-events/events/itc-at-cop27>

in the United States to assess the impact of Covid-19 on small businesses. The study found that over 90 percent of small businesses had a strong (51 percent) or moderate (38 percent) negative impact from the pandemic; 45 percent of firms had supply chain interruptions; and 25 percent of businesses had less than 1-2 months financial reserves.⁷

While measures to invest in building pandemic resilience may exist, there is a lack of understanding of such measures, implying that improved communication between governments and SMEs is critical. A survey conducted by United Nations Office for Disaster Risk Reduction (UNDRR) in 2019-20 highlighted lesser-than-optimal government incentives provided to the SMEs across the world.

Government Incentives for investment in resilience



Source: UNDRR. (2021). Reducing Risk & Building Resilience of SMEs to Disasters. <https://www.southsouth-galaxy.org/wp-content/uploads/2021/01/UNDRR-Resilience-of-SMEs-Report.pdf>

Though below optimal levels, different countries did adopt targeted policy frameworks towards small industries during the pandemic that have played a major role in the recovery of the SME industry. Income and profit tax deferrals, loan guarantees and direct lending to SMEs, and wage subsidies have been the most extensively employed mechanisms in response to the outbreak. This is consistent with findings from the World Bank SME Support Measures

dashboard, which indicates that of the 845 SME policy instruments deployed globally, 328 are related to debt finance (loans and guarantees), 205 are related to employment support, and 151 are related to tax.⁸ Although the number of countries establishing such regulations has grown over time, structural policies have been employed only sparingly, with a focus on teleworking and digitization. The usage of subsidies, debt moratoriums, and specific

7. US Census Bureau. (2020, May). Measuring the effect of COVID-19 on U.S. small businesses: The small business pulse survey. Census.gov. <https://www.census.gov/library/working-papers/2020/adrm/CES-WP-20-16.html>
 8. OECD. (2020, July). Coronavirus (COVID-19): SME policy responses. <https://www.oecd.org/coronavirus/policy-responses/coronavirus-covid-19-sme-policy-responses-04440101/>

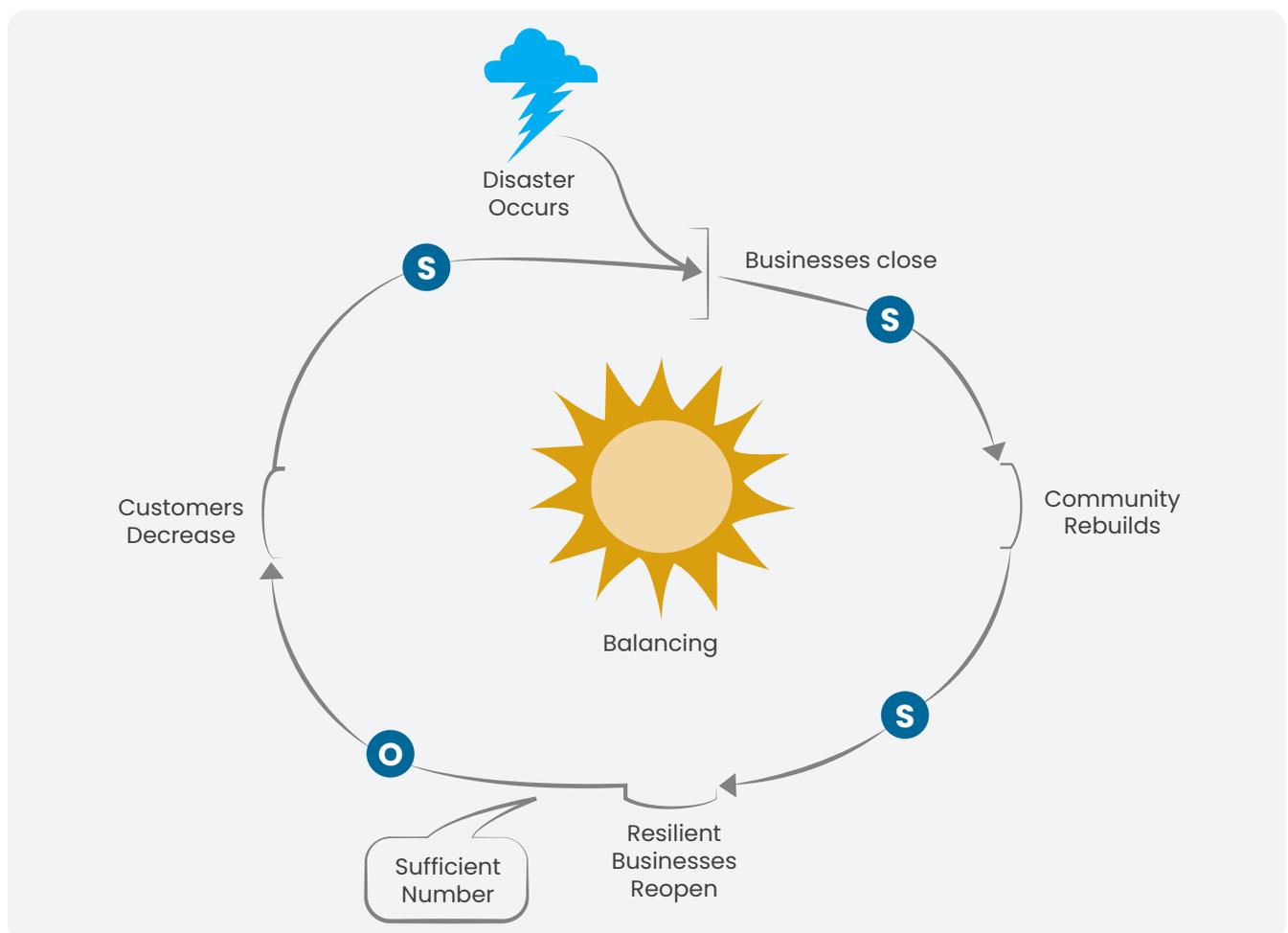
measures for the self-employed is uneven and varies greatly between nations.

An examination of small enterprises indicated that the pandemic had uncovered flaws in the companies' business models and competitive position, with modifications such as innovation, digitisation and innovative financing serving as the greatest strategic levers to address the problem. Organizations implemented new business models during the pandemic primarily focused on new digital experiences, services, and goods as a response to changing customer behaviour, as well as supply-chain, operating-

model, business management and ethical leadership adjustments to minimise risks.

Although the ill-effects of the pandemic are quite evident, different studies also pointed towards the scope of growth opportunities through internal and external interventions to the SMEs. Different SMEs became important catalysts of resilience during the pandemic given their strategic agility, exceptional entrepreneurship skills and effectiveness in providing livelihoods. The flow chart below depicts the balancing loop of SME resilience and community impact during the event of a disaster.

Balancing Loop of SME resilience during the pandemic



Source: Sauser, B., Baldwin, C., Pourreza, S., Randall, W., & Nowicki, D. (2017, September 6). Resilience of small- and medium-sized enterprises as a correlation to community impact: An agent-based modeling approach. <https://link.springer.com/article/10.1007/s11069-017-3034-9>

This paper aims to map the role of internal and external stimulus that assisted in developing resilience against the pandemic for SMEs around the world. Chapter 1 identifies different public policy interventions through relevant country-specific case studies that addressed the Covid-19 impact on SME sector in order

to find shared challenges, opportunities, and mutual learning prospects. Chapter 2 describes the internal measures and strategies in the context of the pandemic resilience adopted by different SMEs through relevant case studies from across the world.

CHAPTER – 1

External Stimuli: Public Policy Instruments and their Role in Recovery

NATURE OF EXTERNAL STIMULI FOR SMEs

Governments across the globe responded swiftly to the unprecedented challenges in the wake of Covid-19, in the form of liquidity as well as structural support measures. Countries across the world exercised an array of general as well as specific measures to support SMEs.

However, as per a report by The World Bank, policy measures to support SMEs have highly been dependent on country circumstances. The scope, choice, design and implementation of SME support instruments have been considerably dependent on pre-existing

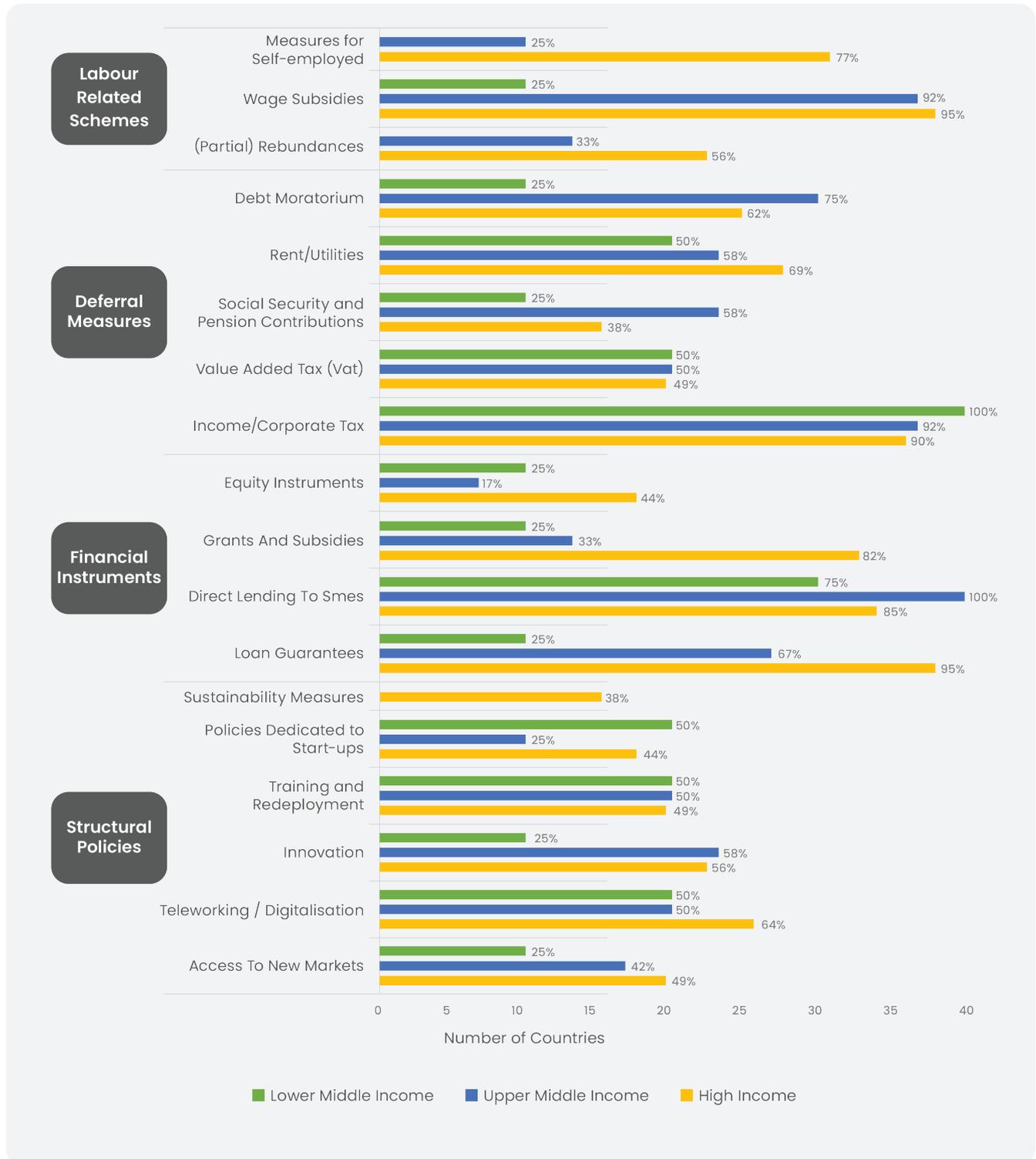
constraints faced by the firms as well as the ability of the respective governments to deliver support. For instance, in countries with limited fiscal space, firms that had liquidity pressures could potentially be supported through umbrella guarantees and loans by public banks. In countries with ample fiscal space, support measures could include tax relief, wage subsidies and direct loans for enterprises that have liquidity constraints; equity injections and/or grants could possibly be exercised for firms having issues servicing their debt.

Types of Support Schemes for SMEs

| Particulars | Low Income | Lower Middle Income | Upper Middle Income | High Income | Total Number of Instruments |
|---|------------|---------------------|---------------------|-------------|-----------------------------|
| Debt finance | 6 | 99 | 153 | 170 | 428 (38.87%) |
| Employment support | 1 | 24 | 71 | 172 | 268 (24.34%) |
| Tax | 3 | 62 | 79 | 72 | 216 (19.62%) |
| Business costs | 1 | 12 | 32 | 26 | 71 (6.45%) |
| Other finance | | 4 | 14 | 29 | 47 (4.27%) |
| Demand | 1 | 10 | 11 | 6 | 28 (2.54%) |
| Business climate | | 9 | 10 | 8 | 27 (2.45%) |
| Business advice | | | 2 | 14 | 16 (1.45%) |
| Total Number of Instruments | 12 | 220 | 372 | 497 | 1,101 |
| Number of countries with support measures | 7 (22.58%) | 26 (55.32%) | 41 (68.33%) | 50 (62.50%) | 124 (57.88%) |
| Total number of countries | 31 | 47 | 60 | 80 | 218 |

Source: The World Bank Group

The following representation shows the extent of adoption of various measures to bolster SMEs globally:



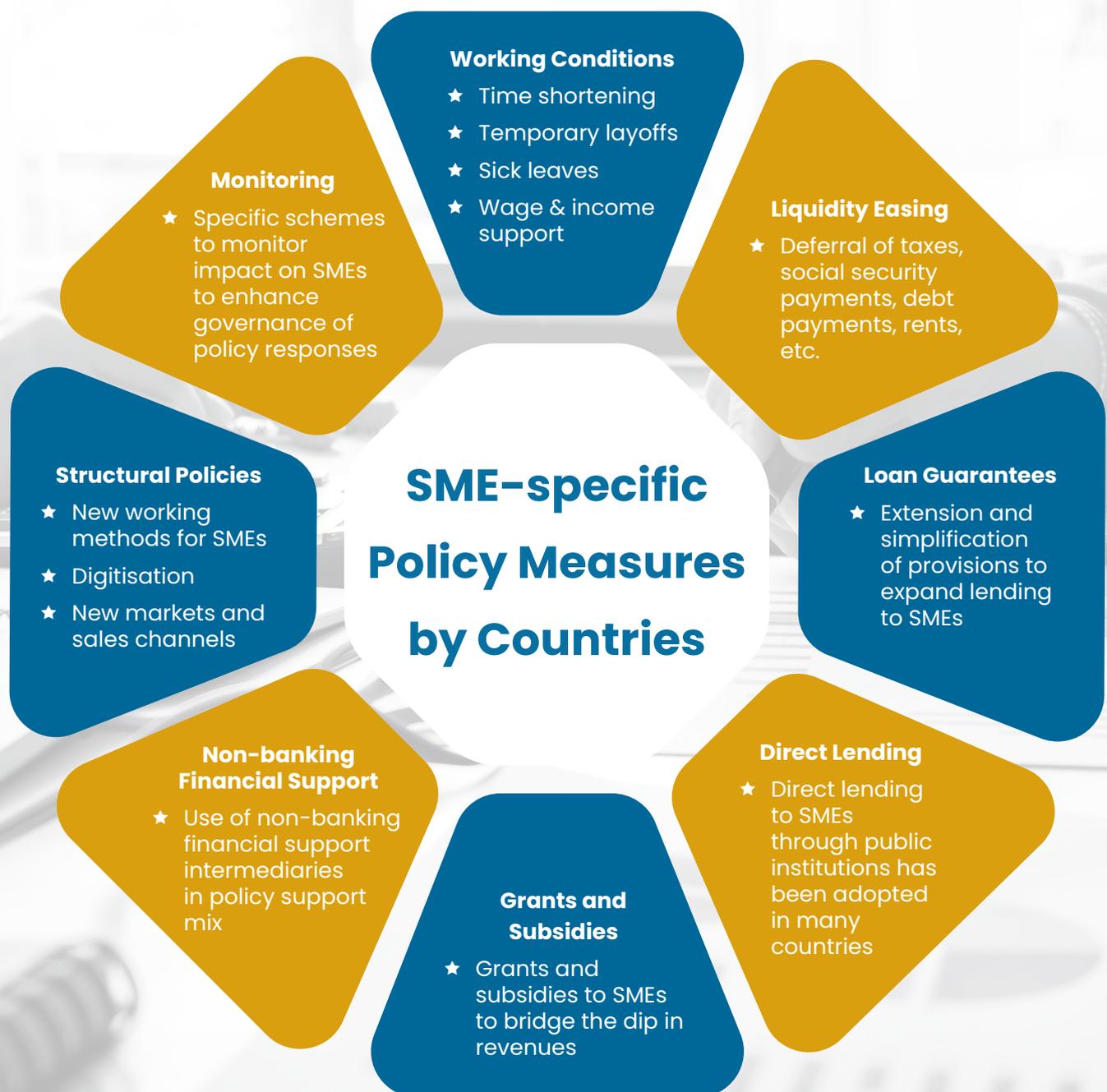
Note: The bars show the number of countries per income group that introduced a measure. The percentage label on the graph corresponds to the share of countries that use the measure in that income group. The country classification by income is based on World Bank data. 39 countries whose policy response was tracked by the OECD are classified as high income, 12 as upper middle income group and 4 countries as lower middle income group.

Source: OECD. (2021). One year of SME and entrepreneurship policy responses to COVID-19: Lessons learned to “build back better”. <https://www.oecd.org/coronavirus/policy-responses/one-year-of-sme-and-entrepreneurship-policy-responses-to-covid-19-lessons-learned-to-build-back-better-9a230220/>

According to another research by the International Monetary Fund on common government support measures used in 130 countries to help cash-strapped small businesses, the data shows that overall, financial assistance such as grants was the

most used policy measure (adopted by 77 percent of countries), followed by public guarantees on loans (50 percent), delays in loan repayments (30 percent), tax relief (28 percent) and lower interest rates (24 percent).

SME-Specific Initiatives



Source: OECD

i) Working condition related initiatives – Due to substantial adverse effects on demand dynamics and production capacities, many SMEs faced massive challenges in paying wages as well as providing sick leaves to affected workers. The governments put measures to contribute to the payment of wages of workers temporarily out of work or on leave on medical grounds. As indicated earlier, approaches differed widely across countries – owing to the variations in labour markets and social security institutions – i.e. the possible and required support measures happened to be different. In some cases, payments were directed to companies to enable them to continue to pay wages and avoid layoffs. In other cases, governments contributed to the employer's share in paid sick leaves. Measures such as temporarily reducing working hours or redundancies were exercised for SMEs to temporarily withstand the impact of the Covid-19 pandemic.

ii) Liquidity easing – A host of measures enabling SMEs to postpone payments were put in place by various countries during the pandemic, to avoid incremental erosion of the liquidity of such companies. Countries introduced measures such as deferrals in corporate and income tax payments as well as Value Added Tax (VAT). Social security payments and pension contributions were also introduced. Tax reliefs were also offered by many countries. Although the scope of the aforementioned measures differed across countries, the intensity of

such measures increased progressively in most countries during the course of the crisis. Deferrals on other domains were also introduced gradually. Commercial banks of many countries – sometimes supported by the government – introduced temporary moratorium on debt repayments. Instances of temporary deferral of payment of utility bills, mortgage payments and rent by small businesses were also prevalent in some countries.

iii) Loan guarantees – During the pandemic, many governments introduced and extended measures that incentivise commercial banks to expand their lending to SMEs. Central banks lifted reserve requirements for banks in several countries, so as to facilitate enhanced lending by such banks. Instances of central banks buying packages of loans – to SMEs and others to boost further lending – were also exercised through unconventional monetary policy measures. Many governments, especially in Europe and Asia, introduced or intensified guarantee schemes to banks to strengthen lending to SMEs. Such measures included extensions in types of eligible SMEs/firms, raising of ceilings on guarantee as a percentage of loan as well as acceleration of guarantee, lending procedures and enlargement of public funding available to support guarantees among others.

iv) Direct lending – Apart from providing guarantees to commercial banks to support SME lending, policy establishments of many

countries also increased direct lending to SMEs. Measures included utilisation of existing instruments (such as those for disaster relief), introduction of new loan instruments, expansion of funding available for loans, easing of the accessibility of loan schemes by extending the group of potential beneficiaries, simplifying the loan process, introduction of favourable terms, reductions in interest rates, etc. among others.

v) Grants and subsidies – A number of countries provided direct financial support to SMEs to help them sustain in the wake of diminishing revenues as a result of the crisis. In many cases, direct lump sum subsidies were provided, and there were cases of tax exemptions also. These measures were exercised by countries either through existing instruments or by the creation of new instruments such as solidarity funds, emergency funds, etc. In certain countries, lump sum grants to SMEs were also provided.

vi) Non-banking financial support – Apart from debt finance via bank loans – which formed a major share of the SME policy instruments exercised to offset the adverse effects of the pandemic – debt funding through other intermediaries were also disbursed. It included diversified methods including crowd funding, financing through fin-tech companies. Instances of the usage of non-debt financing instruments i.e. equity, etc. were also noted. Over the years, there

has been an augmentation in non-banking finance for SMEs and government measures to facilitate the same.

vii) Structural policies – A host of countries also focussed on systemic developments – such as the adoption of new work processes, augmented digitisation / teleworking, discovery of new/alternative markets, innovation, training of workforce, etc. – to boost the SMEs. Such policies not only addressed urgent short-term challenges but also infused enhanced resilience into SMEs in a more structural way so as to facilitate sustainable growth and competitiveness among SMEs.

viii) Monitoring – Several governments set up coordination mechanisms/ well directed schemes to monitor the outbreak and develop necessary policy responses. The focus of such measures was primarily on health aspects. Multi-level governance was also given due importance impacting the role played by regional and local governments in the SME policy response.

During the pandemic, many governments urgently deployed measures to assist SMEs and the self-employed, with a greater emphasis on steps to sustain short-term liquidity. Such policies took numerous forms, as stated above. The section on country case studies below provides an overview of select country policy initiatives towards SMEs.

COUNTRY CASE STUDIES

Summary of country SME and entrepreneurship policy responses to COVID-19 by type of policy instrument (February 2020–February 2021)

| Interventions | Chile | India | Netherlands | South Africa |
|---------------------------------|-------|-------|-------------|--------------|
| Measures for Self-Employed | | | ✓ | |
| Wage Subsidies | ✓ | ✓ | ✓ | ✓ |
| (Partial) Rebundances | ✓ | | ✓ | |
| Debt Moratorium | ✓ | ✓ | ✓ | ✓ |
| Rent/Utilities | ✓ | | ✓ | |
| Value Added Tax (VAT) | ✓ | | | |
| Income/Corporate Tax | | | ✓ | ✓ |
| Equity Instruments | ✓ | | ✓ | |
| Grants and Subsidies | | ✓ | ✓ | ✓ |
| Direct Lending to SMEs | ✓ | | ✓ | |
| Loan Guarantees | | ✓ | ✓ | ✓ |
| Sustainability Measures | ✓ | | | ✓ |
| Policies dedicated to Start-ups | ✓ | | | |
| Innovation | | | ✓ | |
| Teleworking / Digitalisation | | ✓ | ✓ | |

Source: OECD. (2021). One year of SME and entrepreneurship policy responses to COVID-19: Lessons learned to “build back better”. <https://www.oecd.org/coronavirus/policy-responses/one-year-of-sme-and-entrepreneurship-policy-responses-to-covid-19-lessons-learned-to-build-back-better-9a230220/>

CHILE

The Chilean Government incorporated a variety of measures to combat the repercussions of the pandemic, some of which have been listed below.

- ★ **Relaxation in interest rates:** Interests rates were lowered from 1.75 percent to 1 percent, which was further reduced to 0.5 percent.
- ★ **Government Support Package:** A support package of 11.7 billion dollars was announced that included extending unemployment insurance to those who were sick or unable to work from home, delay in tax payments for MSMEs, cash bonus for approximately 2 million workers. This support package was further extended to include accelerated income tax refund for the self-employed, suspension of mandatory monthly provisional payments and VAT payments for up to 3 months, accelerated income tax refund to MSMEs, deferral of the payment of Property Tax, with 0 percent interest rate.
- ★ **Guarantee Fund:** The government launched a USD 3 billion guarantee fund for small entrepreneurs by Banco Estado. The program will offer guarantees for up to USD 24 billion dollars and will benefit 99.8 percent of companies in the country.
- ★ **Income Protection Insurance Bill:** The government signed a new bill to protect 1.2 million independent workers, putting in place a new income protection insurance system that will benefit self-employed individuals whose incomes fall by at least 20 percent.
- ★ **Health contingency related disbursements considered tax expenses:** Company disbursements related to reducing the negative effects of the health contingency, such as those related to the health of workers, will be accepted as a deduction from the income tax base. The focus is on SMEs and large companies.
- ★ **Labour Related Relaxations:** Workers with Labour Code contracts and affiliated to the Unemployment Insurance can access benefits and supplements charged to the Unemployment Fund. Further, a bill established an income protection social insurance for self-employed workers to protect them against exceptional circumstances such as natural disasters, public calamities, economic or health crises, as long as these imply a decrease in the level of their income. The Insurance will apply to about 1.2 million people and in regime it will reach about 2 million.
- ★ **Structural Policy Measures:** The government also put in place a number of structural policy measures, such as launching SMEs Online portal to help with the training and sensitisation on digital platforms, changes in labour codes to regulate networking among others.
- ★ **Launched Compra Agril:** A program to facilitate the participation of SMEs as government contractors, and insolvency advisory providing free of charge legal and financial assistance to SMEs.

INDIA

A host of key economic measures were initiated by the Indian policy establishment and key institutions to ward off the adverse effects of the pandemic. The Reserve Bank of India progressively reduced rates from 5.15 percent in February 2020 to 4 percent in May 2020. Further, a package of INR 1.7 trillion was announced in March 2020, which focussed extensively on low-income people, farmers and health workers. Some of the measures relevant to the sustenance and development of SMEs are as follows:

- ★ **Relaxed Loan Repayment Terms and Tax Breaks:** One of the reform measures envisaged by the policy establishment in March 2020 to address the challenges posed by the pandemic was to offer easier loan repayment terms and tax breaks to SMEs, which included extending loan tenures and relaxing bad-debt norms for small firms.
- ★ **Special Credit Facility by State Bank of India (SBI):** The SBI opened a special credit facility for SMEs with a view to address liquidity concerns of small businesses experiencing disruptions due to the crisis.
- ★ **Relaxations in Filing Income Tax Returns:** To cushion firms against liquidity constraints, the last date for income tax filing for FY 2018-19 was extended from March 31, 2020 to June 30, 2020. Similar extension applied to the Goods and Services Tax (GST).
- ★ **Government Support Package:** In May 2022, the Indian government announced an INR 20 trillion (USD 266 billion) support package, specifically to bolster the availability of credit to SMEs and microenterprises. The package included collateral free loans with relaxed terms to MSMEs, subordinate debt to aid stressed MSMEs and equity funds for MSMEs. The package further included an emergency credit line for eligible firms, subordinate debt scheme with partial loan guarantee for stressed firms requiring equity support, funds for equity funding of firms with growth potential, exclusion of global tenders from government procurement to protect Indian firms from foreign competition as well as release of receivables from government and central public sector enterprises within 45 days to enable firms maintain their cash flows.

THE NETHERLANDS

The Dutch policy establishment took an array of measures to bolster SMEs during the Covid-19 pandemic. Following are a few major interventions:

- ★ **Guarantee Instrument for SMEs:** In March 2020, the Dutch government announced the introduction of the guarantee instrument for SMEs (BBMKB) to support SMEs affected by the Covid-19 outbreak. Through BBMKB, the government envisaged to directly provide EUR 300 million extra credit for SMEs.
 - ★ **Tax Holidays and Bridging Loans:** The measures also included a tax holiday for affected businesses – regarding corporate income tax, value added tax and payroll tax – as well as temporary bridging loans for SMEs.
 - ★ **Working Time Relaxations:** Temporary measures to reduce working time for both large and small companies – entailing compensation by the government for hours less worked – went a long way to support enterprises during the pandemic.
 - ★ **Wage Cost Compensations:** Temporary measures for compensation of wage costs for companies were undertaken, which entailed allowances for compensation of 90 percent of costs (including provision for 80 percent payment in advance) for companies expecting reductions in value added (minimum 20 percent).
 - ★ **Tax Payment Deferral:** The policy establishment also created provisions for easier deferral of tax payments (including VAT) as well as lowering of penalties.
 - ★ **Increase in Guarantee Ceiling:** At the outset, initial enhancement of the Guarantee
- Entrepreneurs finance measure (GO) – which provides guarantee on bank loans and bank guarantees – for SMEs and larger firms was undertaken by increasing the guarantee ceiling from EUR 400 million to EUR 1.5 billion. In April 2020, further extension of the GO facility was announced, raising the guarantee ceiling to EUR 10 billion and increasing the extent of guarantee from 50 percent to 80 percent for large companies and 90 percent for SMEs.
- ★ **Relaxations in Repayment of Micro Loans:** A six month delay in repayments of micro loans was offered to small firms with lowered interest rates, which was brought down to 2 percent.
 - ★ **Corona Bridge Loans:** In April 2020, the Dutch government announced Corona Bridge Loans – for start-ups and scale-ups – in the range of EUR 50,000 to EUR 2 million and created a corpus of EUR 100 million for the same. Further, provisions were put in place in order to ensure disbursement of loans under EUR 500,000 in 4 to 9 working days after request.
 - ★ **Small Credit Corona Guarantee Scheme (KKC):** The policy establishment ensured further support for SMEs through the KKC scheme, for which it created a corpus of EUR 750 million. Through the scheme, the government provided 95 percent public guarantee for small credits between EUR 10,000 and 50,000 – against a maximum of 4 percent interest – to be provided by banks as well as other finance providers.
 - ★ **Standstill Period in Loan Repayments:** The Netherlands Banking Association took notable measures to support the SME sector. It ensured that SMEs with loans worth less than EUR 2.5 million were granted a six-month standstill period in loan repayments.

SOUTH AFRICA

To withstand the adverse effects of the pandemic, a host of measures were undertaken in South Africa. Repo rate was cut from 6.25 percent to 5.25 percent in March 2020, and further to 4.25 percent and 3.75 percent in April 2020 and May 2020 respectively. In March 2020, the Prudential Authority also issued a proposal which included reductions in minimum capital requirements and compulsory reserve funds for lenders, lowering of liquidity coverage ratio from 100 percent to 80 percent as well as relaxations in accounting standards while determining potential losses.

The South African government announced a package to support SMEs, which included:

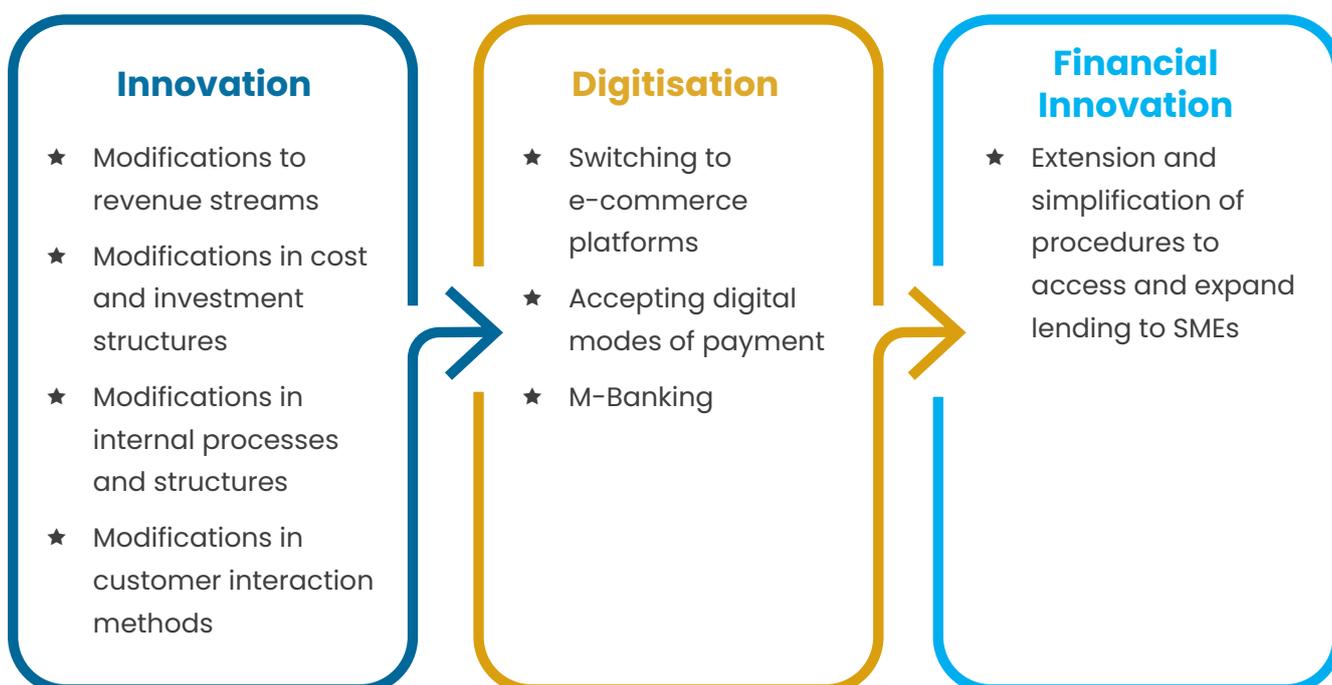
- ★ **Debt Relief Fund:** This fund aimed at providing relief on existing debts and repayments to assist SMEs during the pandemic. A centralised registration system was put in place to facilitate registration and screening of businesses impacted by the pandemic.
 - ★ **Business Growth or Resilience Facility:** Aimed at ensuring continued participation of SMEs – especially those which manufacture/supply products in demand – in supply/value chains by cushioning against possible shortages due to the pandemic. The facility is designed to provide working capital, stock, bridging finance, order finance and equipment finance.
- Further, the following fiscal measures have been taken:**
- ★ **Solidarity Fund:** This fund has been set up and is open to contributions from South African businesses, organisations and individuals as well as members of the international community. The South African government arranged for seed capital to the tune of R150 million.
 - ★ **Support for the Informal Sector:** This entailed the development of a safety net to cushion the informal sector from the effects of the pandemic. Special dispensation for distressed companies, wage payments through the Temporary Employee Relief Scheme, payment of infected employees through the Compensation Fund, etc. were some of the envisaged measures.
 - ★ **Tax Incentives:** Tax incentives included a tax subsidy of up to R500 per month for four months directed towards private sector employees earning below R6500 – under the Employment Tax Incentive – with an envisaged outreach to over 4 million workers. Also, the commercial banks were exempted from provisions of the Competition Act to facilitate the development of common approaches to debt relief and other necessary measures. Further, tax compliant businesses having turnover below R50 million were allowed to delay 20 percent of their pay-as-you-earn liabilities and a portion of their provisional corporate income tax payments without penalties or interest for specified periods. This intervention was designed to assist over 75,000 small and medium enterprises.

CHAPTER – 2

Internal Stimuli: Combating Strategies from around the world: Innovation, Digital and Financial

Towards resilience through Business Model Innovation, Digitisation and Financial Innovation

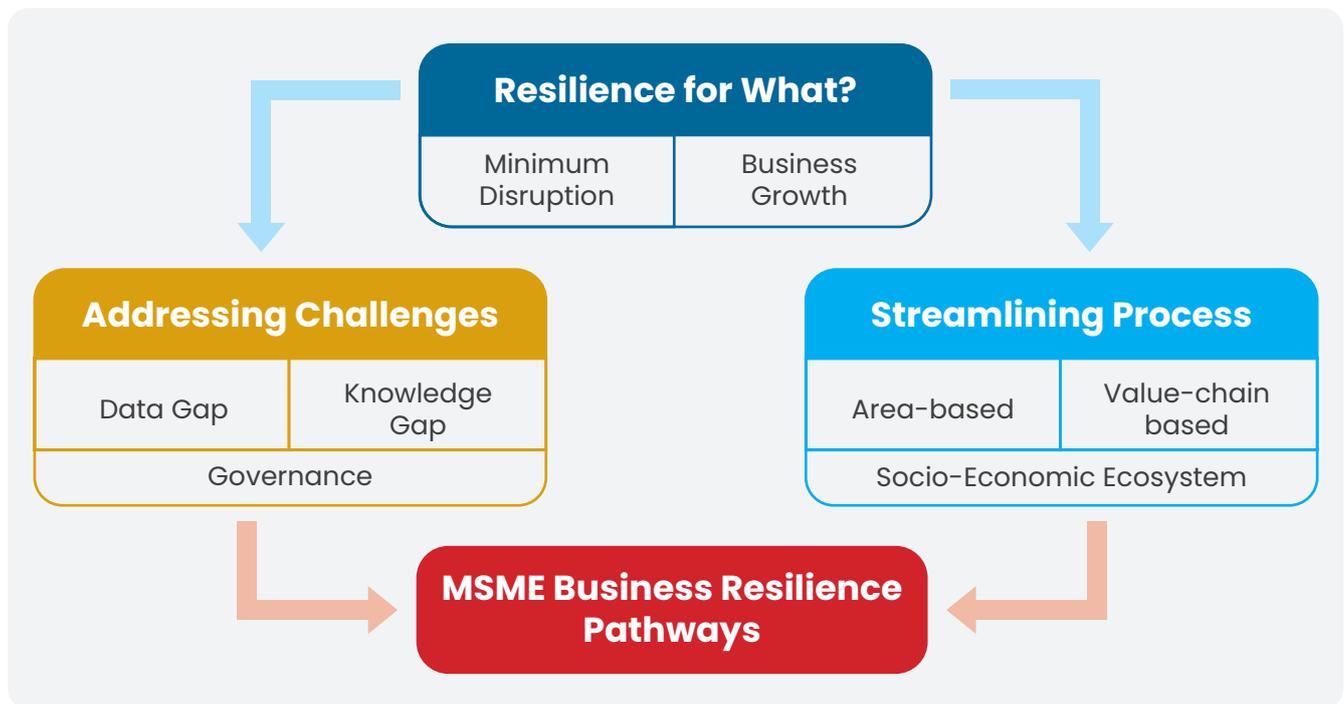
Business Response by SMEs



To deal with the adverse repercussions of the pandemic, different SMEs adopted different strategies. SMEs across the globe had to change their business models to survive Covid-19. For instance, in India, nearly 43 percent MSMEs said they changed their business model to survive the pandemic. When asked about the nature of adjustments made in their businesses, 56 percent MSME respondents said they were forced to adopt digital for marketing and payments,

while 38 percent said they focused on improving their customer relations. 35 percent respondents had to take external financial help to support their businesses, while 34 percent said they moved to a remote working model. A majority of MSMEs also gave responses such as temporary/permanent lay-offs, flexibility in working hours, reducing margins, switching to e-commerce platforms, diversification of products or services and looking for alternative supply chains.⁹

9. ILO. (2021, June 3). Situation analysis on the COVID-19 pandemic's impact on enterprises and workers in the formal and informal economy in India. International Labour Organization. https://www.ilo.org/newdelhi/whatwedo/publications/WCMS_798079/lang--en/index.htm



Source: UNDRR. (2019, December). Business Resilience of Micro, Small & Medium Enterprises. https://www.preventionweb.net/files/69379_cnagendabusinessresilienceconsultat.pdf

The way SMEs adapt to the crisis varies significantly, both within the segment and when compared to the larger firms. While cross-country variances play a role, with SMEs in countries such as Italy and Greece far more likely to be operating in the pandemic affected sectors, structural differences between SMEs and large enterprises explain a major portion of these discrepancies. These disparities could be explained by assumptions about the duration of the shutdown, which influences the type and magnitude of business reaction to the crisis. Furthermore, the crisis exacerbates any pre-existing deficiencies among enterprises, reducing their ability to cope.¹⁰

This section examines differences in business reactions to the Covid-19 crisis, which are broadly grouped into three categories: (i) Innovation (ii) Digitisation (iii) Financial

(i) Innovation: Firms that addressed the changing environment more effectively and quickly and adjusted their strategies to be able to address both opportunities and challenges through business model innovation (BMI), proved to be more resilient than others in the context of the Covid-19 pandemic. Small and medium-sized enterprises responded to the crisis by modifying their business models through business model adaptation and business model innovation. These included modifications to revenue streams, cost and investment structures (value capture), internal processes and structures (including management and leadership), and customer interaction methods (value creation). Adaptations in value capture were seen for smaller firms that were forced to implement cost-cutting measures as their operations were adversely impacted, as well

10. World Bank Group. (2020). Small and medium enterprises in the pandemic : Impact, responses and the role of development finance. Open Knowledge Repository. <https://openknowledge.worldbank.org/handle/10986/34552>

as those that strengthened their finances in the near term through small grants or more money raised. Adaptations in value creation were most visible in changes to the way SMEs access, inform, and teach customers and users remotely, as well as in changes to work allocations, processes, and routines. This was complemented by greater digitization.

Innovative value proposition and value capture strategies were also initiated to achieve long-term improvements as part of BMI. Such innovation in value propositions was overwhelmingly reported by smaller firms which faced severe adversity. These businesses strategically modified existing products and services, introduced new ones or targeted different customers with their offerings. Business model innovation in value creation encompassed strategic changes in capabilities, partnerships and value-creating activities. These were reported mainly by larger firms experiencing increased opportunities. To capture these opportunities, capabilities were strengthened, partnerships created and leveraged and value creating activities (such as solving more customer problems), were prioritised. Adopting such strategic agility measures reduced the detrimental effects of the Covid-19 crisis on the performance of SMEs.¹¹ These findings take a managerial approach to SMEs' crisis response strategies.

(ii) Digitisation: Firms benefit significantly from digital tools. Digitization reduces transaction costs by improving and speeding up access to information and communication between employees, suppliers, and networks. It can assist small and medium-sized firms penetrate into global markets by lowering the expenses of transportation and border operations, and it considerably expands the scope for trading services. It improves access to resources such as financing (e.g., peer-to-peer lending), training, and recruitment channels, as well as government services, which are becoming increasingly available online. It also encourages innovation and increased access to innovation assets, as well as the opportunity for enterprises to create data and analyse their own operations in novel ways to improve performance.¹²

Different studies have found that the usage of digital technology supported SMEs in surviving and dealing with the repercussions of the epidemic.¹³ Their findings highlight the relevance of information technology in assisting SMEs in dealing with the issues posed by the Covid-19 situation. For example, 51 percent of SMEs in the UK considered digital technology as necessary to ensure their future competitiveness, and two fifth of management viewed digital technology as their top priority.¹⁴

11. Gerald, E., Obianuju, A., & Chukwunonso, N. (2020). Strategic agility and performance of small and medium enterprises in the phase of Covid-19 pandemic. *International Journal of Financial, Accounting, and Management*, 2(1), 41-50.
12. Kergroach, S., & Bianchini, M. M. (2021). *The Digital Transformation of SMEs*. OECD Publishing.
13. Adams, R., Bessant, J., & Phelps, R. (2006). Innovation management measurement: A review. *International journal of management reviews*, 8(1), 21-47.
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However, the use of digital technology by SMEs to ensure business continuity necessitated a strategic reassessment of its implications on business processes. The issue of user and data privacy is critical for managers in all businesses. To address this problem, SMEs needed to develop procedures for data collecting, sharing, and analysis. Personal information should not be collected unless absolutely essential; only the absolute minimum of data should be taken that too with the subject's consent.

(iii) Financial: Access to financial services has substantially influenced the prospects and growth of SMEs across the world. Innovation in SME financing has arisen as a critical phenomenon in various forms. Good performance necessitates the use of both internal and external financial resources. Traditional sources of financing for SMEs include commercial banks, merchant banks, and development banks that offer financial services to SMEs. Businesses require bank loans in order to establish and operate operations properly. Other production variables, such as initial capital demand, must also be considered for

investment objectives. As a result, there is a definite association between bank credit and SME company performance, which is carried down to the tier of economic activity.

E-commerce integration in SMEs, such as mobile banking, significantly facilitates the settlement of financial transactions and increases corporate flexibility. In terms of economic effects, innovative financing modes contribute to increased financial transaction efficiency and cost reduction. M-banking usage in SMEs is thought to facilitate business diversification, cost-effectiveness, security, and accessibility in financial transaction settlements.¹⁵ M-commerce employs wireless networks and computers to conduct explicit or implicit monetary value exchanges. The number of people who use their phones and other mobile devices to buy items and services has increased and therefore greater research in mobile banking is necessary, as M-Banking is still in its early stages. Banks can deliver information and resources to their customers via online service technologies enabled by smartphone banking.

15. Muchiri, J. W. (2018). Effect of mobile banking adoption on the performance of small and medium enterprises in Nairobi County. *International Journal of Economics, Business and Management*, 2(4), 445-486.

SME Case Studies

Following these ideas, and the theoretical background discussed above, we examined four firms that engaged in internal adaptations as a direct response to the Covid-19 crisis.

Case A: Product innovation from alcohol production to disinfectants, Austria

In Case A, an Austrian company that had previously sold consumer goods (alcohol and beverages) began to create, bottle, and distribute disinfectants as a business response to Covid-19. The old BM differs significantly, necessitating the modification of various processes in order to apply the new BM. The essential competencies in production and filling, however, remained untouched. With its value creation, the company transitioned from the manufacturing of alcoholic beverages to the production of disinfectants. As new clients are targeted with this different product, the value proposition also changed; only the value capture aspect has remained unchanged.

Although one of the firm's employees developed the idea for the firm, it was decided not to make any changes when this person informed management. However, management changed their minds a few days later, and the company began producing disinfectants. Everyone was made aware of the shared objective of what they had to work on/change and how to apply the new BM.

This procedure was aided by the firm's flat hierarchy. Public authorities and partners who provided their skills to the processes further contributed in the execution. Throughout the process, the company was concerned that the change would have a negative impact on the existing brand and its high-quality beverages.

However, contrary to predictions, the firm's quick action has significantly improved awareness of its own strategic flexibility. This conveyed the impression that it is capable of dealing with complex issues and is well equipped for the future. Furthermore, it provided the firm with new contacts and a new target audience, who will be reached in the future through the current BM. As a result, the experiences and new contacts gained quickly after the temporary BM's introduction had a favourable impact on the core activities. Although the BM is now performing well, there are no long-term plans to pursue it¹⁶.

Case B- Digital innovation from a brochure display company to a multi-platform digital and offline marketing Travel Agency, South Africa

Case B comprises of a South African niche media and marketing company with a 27-year track record in delivering results in the visitor market. Their experience gave them a

16. Clauss, T., Breier, M., Kraus, S., Durst, S., & Mahto, R. V. (2022). Temporary business model innovation—SMEs' innovation response to the Covid-19 crisis. *R&D Management*, 52(2), 294-312.

competitive advantage and matched their client's marketing expectations through developing effective and relevant platforms. With over 2,500 information boards nationally, using both printed and QR DigiScan brochures, this firm managed visitors to be informed all the time. The website contains unique content, blogs, listings, news and featured articles and a regular newsletter. It creates visitor-related posts on all major social media platforms. The company is very soon launching an online travel agent platform with over 18,000 accommodation and 500 activity options.

The company has completely pivoted their business during the pandemic. It went from

being a basic brochure display business to a multi-platform digital and offline marketing entity. We will venture more into the affiliate marketing and Online Travel Agency (OTA) space once our platform is market ready. Access to operating capital whilst we are recovering still remains a challenge.

The firm plans to leverage their customer base through continuously building their digital business. Whilst still in its infancy our digital products already have good traction online and offer high value for our users. With their affiliate programmes they also plan to scale their business beyond South Africa into sub-Saharan Africa and possibly beyond. The firm also plans to maintain their offline display business and to pre-covid levels.

Case C: Business and Digital Innovation, led by a start-up businesswoman in Pakistan

When Covid-19 closed elementary schools across Pakistan in early 2020 and suspended all in-person tutoring sessions, this start-up, led by a woman reworked its business model, developed digital tools, and launched training classes in just two weeks to assist its teachers in transitioning to online tutoring sessions.

In no time, the corporation evolved into a digital one. A year later, the company has moved into several countries and is rapidly expanding, fuelled by demand from the Pakistani diaspora. The new challenge for the organisation is to hire enough teachers to keep up with all of the new students. This is an excellent example of a woman entrepreneur adapting to Covid-19 with agility, innovation, and resilience¹⁷.

Case D: Financial innovation, transitioning from providing credit on the basis of stock to developmental credit, South Africa

This ecommerce and fintech platform is structured to support an entire trading ecosystem within the informal sector. They provide a route to market solution and through their mobile App, they facilitate bulk purchases of goods sold by informal

17. Fruman, C. (2021). COVID-19 propels South Asian women entrepreneurs into the digital economy. World Bank Blogs. <https://blogs.worldbank.org/endpovertyinsouthasia/covid-19-propels-south-asian-women-entrepreneurs-digital-economy>

business owners/vendors (Spaza shops). They source these goods directly from the manufacturers.

In terms of service offering, the firm is planning to grow their credit offering to not only be limited to stock but to developmental credit. This way informal business owners who previously would not have had access to any financial products will have access to them.

Further, for growing the profiles that they are building, they are planning to create a bureau for scoring informal businesses. This means traditional lenders and corporates will also have access to these scores and profiles and would be able to offer solutions to the informal business owners. They have also been onboarded as a partner for the Spaza Support Scheme that helps to scale their solution throughout the country for the benefit of Spaza shops.

Key Learnings

While the pandemic has impacted the SMEs at multiple levels and degrees, SMEs and the Governments across the world have sorted to different combating strategies depending on their individual capacity. It can be therefore summarised that the present context of uncertainty, financial fragility, disrupted supply chains and revenue loss for the SMEs during the pandemic, can be averted through a sustainable and regenerative approach that involves risk-informed systems-based approach and decision making, consequentially leading to robust and effective government interventions, business model innovations, digitisation and financial innovation.



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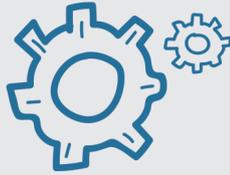
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MARKET

CREDIT



TRADE

COLLABORATION



SUSTAINABLE FINANCE



CREDIT

DIGITAL

INNOVATION



TRADE



COLLABORATION



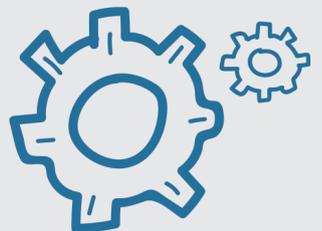
SUSTAINABLE FINANCE

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