

12th Meeting of the MENA-OECD Working Group on SME and Entrepreneurship Policy

16-17 November 2020, Zoom

Key messages

Towards an inclusive, resilient and sustainable recovery: support to the small business economy in the context of Covid-19

The mission of the Working Group, which is co-chaired by Tunisia and Italy, is to engage partners in multilateral dialogue and peer learning on issues pertaining to SME growth and entrepreneurship promotion. The 2020 meeting focused on the impact of the Covid-19 pandemic on actors of the small business economy and actions to facilitate recovery and achieve more sustainable, resilient and inclusive economies in the post-crisis period.

The Working Group addressed two key topics: 1) the Covid-19 crisis and the measures being taken to address its effects and protect jobs, incomes and livelihoods; 2) longer-term, structural reforms to encourage and support the small business economy to recover and achieve more sustainable, resilient and inclusive economies, with a focus on digitalisation, entrepreneurship promotion and access to finance.

Key messages

Addressing the immediate repercussions of the Covid-19 crisis on actors of the small business economy

- The Covid-19 crisis has greatly disrupted the global economy and its main engine: businesses. More than in the global financial crisis of a decade ago, **SMEs the self-employed have been the most exposed to the economic repercussions of the containment measures** taken by governments to limit the spread of the pandemic due to their strong representation in the sectors most affected (i.e. tourism, hospitality, personal services, etc.). SMEs and the self-employed have also been importantly affected by economic uncertainty and related factor such as the disruption of supply chains, depressed demand, disrupted access to finance, etc. (see graphic). Lockdown effects have been particularly severe for **independent workers, migrant workers, women entrepreneurs** as well as **informal workers**, which constitute a substantial share of employment in hard-hit sectors.

The economic fallout is the result of a combination of different forces affecting the performance of the private sector

CONTAINMENT MEASURES

Social distancing measures and closures have led many businesses to interrupt their activity temporarily or permanently, with particularly severe impacts for informal workers.



DISRUPTIONS/INTERRUPTION IN TOURISM



The disruptions in tourism represent an important setback for the MENA region, where tourism is an important contributor to GDP and employment and where a large number of SMEs operate.

DECLINE IN ENERGY DEMAND & OIL PRICES

The decline in prices, projected at 32% for 2020 (IMF), is affecting economic activity, especially for oil-producing countries. Oil-importing countries will also be impacted from reduced remittances from migrant workers in GCC countries, decreased demand for exports and depressed investment.



SUPPLY CHAIN DISRUPTIONS



The pandemic has highlighted both the strength and weaknesses of GVCs. 90% of MENA business leaders surveyed consider that the disruption of supply chains through the COVID 19 pandemic will have important negative repercussions on businesses in the region.

- We observe **different channels of transmission of the crisis to actors of the small business economy**. In the immediate run, the main effect of the interruption or decrease in activity is **liquidity stress** as businesses, entrepreneurs and the self-employed have to continue paying their dues (wages, rent, taxes, debts, or other current expenses). **Liquidity injections have been the main driver of policy intervention over the past months in the MENA region and globally**. Governments rapidly implemented support mechanisms for businesses and vulnerable workers, including deferrals of various tax, fees and social security payments, debt rescheduling and credit guarantee schemes to facilitate lending.
- The crisis is still ongoing, and it is difficult to assess the efficiency of the measures rolled out over the past months. As governments are gradually shifting from emergency responses to more structural support needed for resilience and recovery, **a key challenge will be targeting support to firms that are viable in the long-term while ensuring the many SMEs that are still facing liquidity challenges are not left behind**. As new instruments are being implemented, **monitoring the use made of funding by SMEs and introducing some conditionality in support measures** will be critical to ensure the efficiency of government support.
- Moving forward in supporting the recovery of the small business economy, governments and business support organisations should keep in mind a number of considerations:
 - **Effective communication** is key to ensure that businesses and entrepreneurs are aware of the support mechanisms provided by the government, private sector associations and business development services operators and that support actually reaches those it is targeting.
 - **Policy responses should be tailored to the specificities of SMEs. Place-based policies are particularly relevant**, as important variations exist between and within countries in the characteristics of SMEs and start-ups, but also in their uptake rate of policy instruments, revealing differentiated needs.

Moving to more structural reforms for the recovery and transformation of the small business economy

- The discussions reaffirmed the **importance of differentiating short-term from long-term responses**. Beyond limiting the impact of the pandemic on businesses, participants emphasised the need to support the small business economy to **drive the recovery from the crisis and building a new model of development and competitiveness**. Businesses should be encouraged to adapt their business models, leverage digital tools and exploit new opportunities of high potential in the region (for example, opportunities in the green and the blue economy).
- Moving to a post-Covid-19 world will require **profound reforms to address some of the structural challenges the region faces**. For example, enhancing the **fight against corruption and strengthening the rule of law** will be essential to improve the overall business environment in MENA. Governments should also continue their efforts to **promote competition, level the playing field between private and state-owned enterprises, and encourage and support formalisation** of informal businesses.
- Three main, interrelated areas of intervention were identified as key for economic recovery and renewed development: **digitalisation, access to finance and entrepreneurship**.
- With the Covid-19 accelerating the adoption of digital technologies by consumers and by many businesses in the region, governments should enhance efforts to **promote the digital transformation of businesses**.
 - This will require **investments in digital infrastructure, platforms and services and improving digital security and data protection frameworks**. Such investments should be well planned in order to avoid creating digital divides that would exacerbate socio-economic inequalities in the region.
 - While digital connectivity is a necessary pre-condition, informing businesses and entrepreneurs on the potential of digital technologies for their development, and providing them with the necessary **digital skills** to leverage them is also crucial.

- The Covid-19 crisis has shown that **entrepreneurs are a force to reckon with and that no recovery can be sustained without them**. This will require having **sound policy frameworks for entrepreneurship and start-up development**.
 - Fostering the necessary **skills for entrepreneurship** is a key priority. Skills development should be a joint responsibility between education institutions, the government and private stakeholders.
 - Supporting **youth and women** through training and mentorship programmes will allow to **broaden the spectrum of potential entrepreneurs**.
 - Efforts will also need to be undertaken to **address some of the structural barriers to entrepreneurship**, including gaps in social protection systems and insufficient access to funding.
 - Creating an enabling environment for innovation will allow **entrepreneurs to play a pivotal role in accelerating the transition of towards a digital, green, and blue economy**.

- Leveraging the digital transformation and entrepreneurship for recovery will require **enhancing access to finance for SMEs and entrepreneurs**. Even before the Covid-19 crisis, access to finance was a major issue for SMEs in the MENA region. The pandemic has exacerbated these challenges and revealed the need to **enhance and diversify sources of finance**.
 - Actions should be taken to **enhance access to information on available sources of finance**, i.e. by developing platforms to connect start-ups and SMEs looking for funding with investors, such as the EU-sponsored SEMED initiative in MENA.
 - Measures should also be taken to **leverage public resources** to enhance funding for SMEs, for example by increasing the share of **public procurement set asides for SMEs** (while preserving the integrity and the efficiency of procurement processes).
 - Although most of governments' measures to provide liquidity during the crisis have relied on traditional lending instruments, the banking sector in MENA countries will not be sufficient to address the increasing financing needs of small businesses. Efforts should thus be undertaken to **promote the development of capital markets and alternative sources of finance** (i.e. venture capital, crowdfunding).

- The SME Working Group will continue focusing on these issues in the context of the **renewal of the mandate of the MENA-OECD Initiative on Competitiveness and Development** for 2021-2025. The new mandate will place an even greater emphasis on private sector development, economic empowerment and inclusiveness as a strong basis for the recovery, as well as on transitioning from policy dialogue to implementation of reforms. These topics will also be addressed during the MENA-OECD Ministerial Meeting to be held in the first months of 2021, which will provide impetus to the important process of structural reforms in the region.

- Under the new mandate, **the SME Working Group will evolve into a community of practice**. Learning from the new methods of work developed during the Covid-19, practitioners involved in the Competitiveness Programme's networks will engage in closer cooperation to promote OECD standards and enhance analytical work, including through regular technical dialogues in the form of webinars such as this one.