SPECIAL HIGHLIGHTS

COVID-19: Impact on Businesses and SMEs — Global, Regional & National Perspectives

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GLOBAL SCENARIO

The statistics on the COVID-19 pandemic are daunting. Within the first three months of the global pandemic, schools and universities were closed to more than one billion students of all ages. By November 2020, COVID-19 had spread to almost all countries and affected more than 50 million people worldwide, caused over 1.25 million deaths and more than half of the world's population was under lockdowns and living under stringent containment measures. [1]

The containment measures have had devastating impact on the global economy, especially with the pandemic occurring at a time when world trade was already softening. The systemic shocks – disruption of normal business activities, contraction in demand, breaks in supply chain connectivity as well as travel and mobility restrictions – has accelerated the decline in world trade which the World Trade Organisation (WTO) has projected would fall by between 13% and 32% in 2020. [1]

COVID-19 has brought into sharp focus the inter-connectedness as well as the risks and vulnerabilities of global supply chains. The three largest economies in the world – China, the United States (US) and the European Union (EU) – the G3 economies –

COVID-19 has brought into sharp focus the inter-connectedness as well as the risks and vulnerabilities of global supply chains. The three largest economies in the world – China, the United States (US) and the European Union (EU) – the G3 economies – are reeling from supply and demand shocks.

are reeling from supply and demand shocks. The G3 economies, which account for 63% of the world's supply chain imports and 64% of supply chain exports, are not only among the world's largest exporters but also major importers of raw materials and intermediate goods, thus making them crucial players in global supply chains. The shutdown of the supply chain hubs of the G3 economies is projected to cause a loss of USD126.3 billion in international trade in manufacturing inputs, with the ripple effects of home countries being transmitted globally and triggering shocks in partner economies. [1]

The lockdown in the EU, the world's largest importer of industrial inputs and highly integrated into global supply chains, have caused the greatest shocks to supply chain exports elsewhere. EU import of industrial inputs – largely from Asia and Africa – is forecasted to drop by USD147.1 billion in 2020. Exports of industrial inputs from Asia are projected to decline by USD71.4 billion, with the bulk of this loss originating from the lockdowns in China and the EU. About 50% of Asia's exposure to the EU is linked to the EU-China trading relationship. The exposure of Asian countries to China is largely in electronics supply chains that include Malaysia, the Philippines and Thailand. Many other African countries are largely affected due to their exports of raw materials to China. [1]

Exports from China were 21% lower in February 2020 compared with the same period in 2019. Export value has plummeted to its lowest level since August 2009 amidst the 2008 global financial crisis. Though March 2020 saw a slight recovery in Chinese exports, the volume remained 10% below the March 2019 level. Most of China did not resume normal economic activities till late March 2020 while most other affected countries imposed lockdowns either in late March or April 2020. The impact of these developments is reflected in the drop of exports of 8% from the EU, 7% from the US and 4% from other countries. [1]

Services, particularly travel and tourism, are among those that are hit the hardest. From the onset of the COVID-19 outbreak to 7 May 2020, 113 countries had imposed global travel bans. ASEAN's tourism sector is heavily dependent on Chinese tourists as well as those from East Asian economies. The World Tourism Organisation anticipates a 60% to 80% decline year-on-year in international tourist arrivals and that 100.8 million jobs in the travel and tourism sector – with more than half in Asia – are at risk. [1]

As the COVID-19 global pandemic continues, countries around the world are bracing for a deep downturn. The International Monetary Fund (IMF) has predicted a 3% decline in the global economy in a worst-case scenario. The WTO has projected that world trade volumes in 2020 would plunge by 32%. [1]

COVID-19 Impact on SMEs

The global scenario for small business amidst the pandemic is one of low confidence, over-stretched credit and looming bankruptcies. The virus containment measures affect consumers and businesses, with the latter cancelling or postponing investments while households cut spending as consumer confidence wane. SMEs, the most vulnerable group, are seeing drastic demand contraction for their products as the result of the large-scale economic disruptions in the G3 economies.

The International Trade Centre (ITC) in its COVID-19 Business Impact Survey – covering 4,467 companies in 132 countries – reported that 55% of the respondents are strongly affected by the pandemic and the subsequent containment measures. Nearly two-thirds of SMEs said their business operations are strongly affected against about 40% of large companies. One-fifth of SMEs said they are at risk of shutting down permanently. [1]

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The impact of the pandemic is uneven across sectors. Firms engaged in services are the worst affected, with those engaged in accommodation and food services getting the brunt of the impact, followed by non-food manufacturing, retail and wholesale as well as travel and transport. There is a preponderance of SMEs in most of these sectors. Of those surveyed in the accommodation and food services business, 76% reported they are strongly affected by COVID-19 as a result of partial and full lockdowns, while 75% experienced a reduction in sales. However, the outbreak has also presented opportunities for some manufacturing businesses such as agrofood processing which has recorded an increase in sales of about 10%. [1]

According to an analysis by Organisation for Economic Co-operation and Development (OECD), SMEs have an above average presence in sectors that are hardest hit by COVID-19, namely, land and air transportation, manufacturing, construction, wholesale and retail trade, accommodation and food services, real estate, professional services and other personal services. Recent data showed that while SMEs account for over 50% of employment across OECD countries in the business economy at large, the share of SMEs in employment in the affected sectors is 75% on average across these countries, and nearly 90% in Greece and Italy. In Italy and Greece, the share of microenterprises in the most affected sectors is 60% whereas their share in total employment in the economy is 45% and 55%, respectively. [2]

Various surveys on the impact of the pandemic on SMEs show severe disruptions among small businesses. More than half of SMEs face severe losses in revenues. One-third of the respondents fear they could be out of business within a month while up to 50% said they would have to close down within three months if no further support is provided. In the US, a National Bureau of Economic Research report on the outcome of a survey of 5,800 small businesses shows that 43% of responding businesses have already temporarily closed and businesses, on average, have reduced their workforce by 40%. Three-quarters of respondents indicated they have two months or less in cash reserves. Table 1 shows the outcome of 41 worldwide SME surveys on the impact of COVID-19. [3]

Table 1: SME Surveys on Impact of COVID-19

Date 2020	Country	Impact on Business	Expectations
10 February	China	80% of SMEs have not resumed operations	1/3 out of business in one month, another 1/3 in two months
25 February	Finland	1/3 anticipated a negative or very negative impact	n.a
Early March	Italy	72% directly affected	n.a
Early March	UK	63% see crisis as moderate to high / severe threat to their business	n.a.
9 March	Germany	50% expected an early impact	n.a.
9 March	Japan	39% reported supply chain disruptions, 26% decrease in orders and sales	n.a.
10 March	Poland	1/3 of SMEs experienced increasing costs and reduced sales	27% already encountered cash flow problem
11 March	US	70% experienced supply chain disruptions, 80% the impact of the crisis	n.a
12 March	UK	69% experienced serious cash flow problems	1/3 fear being out of business in one month
13 March	US	23% negatively affected, 36% expect to be	n.a
16 March	Canada	50% drop in sales	25% expect not to survive longer than one month
16 March	Israel	55% experienced no impact yet, 1/3 planning lay-offs	n.a.
16 March	Greece	60% experienced marked decline in sales	n.a.
17 March	US	50% negatively affected, 75% very concerned	n.a.

Date 2020	Country	Impact on Business	Expectations
17-20 March	Korea	61% have been impacted	42% fear being out of business in three months, 70% in six months
18 March	Belgium	75% reported declines in turnover	50% fear not to be able to pay costs in the short term
19 March	US	96% have been affected	51% indicated not be able to survive three months
20 March	Hungary	60% expect a decline in sales	n.a
20 March	Netherlands	50% start-ups lost significant revenue	50% expect to be out of business within three months
21 March	Japan	92% expected economic impact	n.a
24 March	Canada	60% experienced significant impact	1/3 expect to be out of business in a month
31 March - 6 April	Several Asian countries	30% of SMEs expect to lay off 50% of their staff	50% of SMEs have a month cash reserves or less
1 April	UK	n.a.	18% of firms could be out of business in one month
1 April	US	n.a	35% of small businesses could be out of business in three months
3 April	Australia	Two-thirds of small businesses experienced the impact of the crisis. 41% experienced a drop in income of 50% or more in the last two months	n.a.
3 April	Belgium	40% of companies see drop in revenue of 75% or more	One in 10 companies are likely to face bankruptcy
7 April	Belgium	n.a.	Over 31% of Belgium SMEs may not survive the crisis
7 April	Canada and US	90% of small business affected	1/3 lack the reserves to survive longer than a few weeks
8 April	UK	37% expect to furlough 75% - 100% of their staff in the next week	6% out of cash, 57% three months reserves or less
8 April	Netherlands	n.a	85% of SMEs in financial difficulty because of COVID-19. 20% is at serious risk
6-10 April	Portugal	37% experienced a drop in production of more than 50%	50% do not have resources for more than two months

Date 2020	Country	Impact on Business	Expectations
15-22 April	US	62% of small business experienced a drop in revenues	32% cannot stay open longer than three months
24 April	Germany	58% of SMEs experienced a drop in turnover by on average 50%	Half of SMEs have only two months liquidity reserve
4 May	Canada	81% of small businesses indicated their operations are negatively affected	32% worry about the viability of their business over the next year
5 May	US	n.a	1/5 of small businesses closed down temporarily, 1/3 expects to close permanently within two months
11 May	US	81% of firms experience and expect impact of pandemic in the next 12 - 16 months	n.a
13 May	UK	37% of firms are considering, or have already made redundancies	41% have temporarily closed, 35% fear they will re-open
15 May	Thailand	90% of firms expect extreme revenue loss	52% of small business expects to close down if containment measures last longer
8 June	Ireland	SMEs that remained closed until 18 May incurred an average cost of EUR177,000 during the lockdown period. Of businesses that remained open, 70% reported a decrease in revenue	n.a
Mid-June	Canada	78% of small business reported a drop in sales, 47% between 50% and 100%	n.a.
20 June	New Zealand	71% of SMEs have taken a revenue hit by COVID-19	39% of SMEs fear having to close down

Source: Coronavirus (COVID-19): SME Policy Responses, OECD

Note: Table 1 is presented in chronological order and shows the increasing concerns among SMEs. Sentiments have improved since then as countries began lifting lockdowns.

Survivability Risk

The survey by ITC also indicates that the survivability risks are greater for smaller firms, with 21% of SMEs reporting being at risk of a permanent shutdown. About 26% of youth-led businesses reported risks of shutting down permanently within three months compared with 18% of non-youth-led firms, indicating that the former are more susceptible to the impact of the pandemic and less able to cope due to insufficient experience, diversification, social networks and access to resources. However, young entrepreneurs are found, on average, to be more adept at leveraging on COVID-19-related Government assistance programmes compared with older respondents. [1]

The survey finds that the informal business sector is the most vulnerable and likely to go out of business, with 25% more likely to be pushed into bankruptcy. In some Asian and African countries, informal businesses account for 90% of total enterprises. These businesses have little resources to see them through a crisis of the magnitude of the COVID-19 pandemic. With informal businesses providing jobs to some of the most disadvantaged people in developing countries – and around 60% of jobs worldwide – their failure will aggravate economic woes. Their precarious situation is exacerbated by their ineligibility for emergency business support provided for by the Government while their employees do not qualify for unemployment benefits. [1]

Meanwhile, the OECD evaluated the risks of an extensive liquidity crisis through a cross-sector sample of almost one million firms – covering all manufacturing and non-financial sectors – in 16 European countries. An outcome of the evaluation is that policy intervention is critical to avert massive bankruptcies. Without any policy intervention, 20% of the firms in the sample would run out of cash after one month; 30% after two months; and 38% after three months. If the lockdown measures lasted seven months, more than 50% of firms face a liquidity crisis. [3]

Jobs at Risk

Recent studies conducted by various organisations on the impact of COVID-19 on employment showed that jobs are at the greatest risk in small businesses. In the US, a recent Brookings report said that 47.8 million jobs in 4.2 million (54%) of small businesses face immediate or near-term risks. A total of 8.7 million jobs in 2.9 million micro businesses (with fewer than 10 employees) face immediate or near-term risks. [3]

A similar study by McKinsey reported that at least two out of three jobs are at risk in an SME, and more than 30% of all jobs at risk are found in microenterprises with a workforce of nine employees or fewer. In the US, of the 20 million jobs lost in April 2020, 11 million were from SMEs. The International Labour Organisation (ILO) reports that worldwide employment in sectors most at risk is concentrated in businesses with less than 10 employees while the vast majority of employment in row risk sectors is in larger firms with more than 10 employees. [3]

The German research institute IFM (Institut für Mittelstandsforschung) developed two scenarios to assess the impact of the pandemic on SMEs. One outcome shows that most SMEs would avoid liquidation if a lockdown is limited to between two and two-a-half-months, although the impact would be harder on retail, cultural and leisure industries. The second scenario with a lockdown lasting more than six months would see job losses of between 850,000 to 1.6 million among SMEs, especially among microenterprises. [3]

EUROPEAN UNION SCENARIO

SMEs account for 99% of European businesses, with more than 25 million SMEs employing nearly 95 million people in the EU in 2018. SMEs – deemed the most vulnerable players in the EU value chains – provide significant employment in the five sectors which have been hit hard by the pandemic, namely retail, wholesale, food and beverage service activities, specialised construction activities and land transport. SMEs make up the vast majority of companies, value added and employment in OECD countries. The preponderance of SMEs is even higher in some severely impacted regions and sectors – tourism, transportation, food and fashion – which are taking the taking brunt of the containment measures. [4]

In Germany, 58% of SMEs have registered a 50% drop in turnover on average; 58% in the Netherlands experienced financial difficulties because of COVID-19; in Belgium, 40% reported a 75% or more drop in revenue; and in Portugal, 37% reported a drop of over 50% in production. By June 2020, 86% of the respondents reported some degree of impact while 24% felt a major impact, specifically in relation to maintaining fixed costs and salaries of staff. Some SMEs reported having to lay off workers while others faced challenges with suppliers and accessing goods. [4]

Majority of SMEs (71%) is most concerned about their ability to maintain fixed costs such as rent and salaries of staff, 62% are worried about maintaining healthy sales and turnover amidst declining demand for their products and 52% felt that business continuity was a key issue together with access to export markets and supply chain linkages. Majority of respondents said market information and intelligence together with a one-stop centre to support SMEs in internationalisation activities is needed to help them access alternative markets. Other key areas identified as crucial for SME survival were access to finance, digitalisation, technical and advisory support to enhance current business operations and support to develop new, innovative and more resilient business models. [4]

ASEAN SCENARIO

The pandemic has highlighted the inter-connectedness among countries created by globalisation as well as the consequent risks and vulnerabilities. Disruptions in one area of global supply chains affect other areas and may even cause the diversion of trade and investments to other regions in order to avert risks of production stoppage. The situation is exacerbated by the exposure of ASEAN to the US, EU and China, the largest economies in the world that are facing supply and demand shocks. The G3 economies are ASEAN's main trading partners and account for 50.3% of the region's total merchandise trade. ASEAN's other main trading partners – Japan, Korea and Hong Kong – are also similarly affected. [5]

With the region's supply chains being highly integrated with China's manufacturing sector and the US, EU, Japan, Korea and Hong Kong as major trading and investment partners, ASEAN member states (AMS) have faced immediate, extensive disruptions, although with varying degrees of impact across the grouping. The G3 economies collectively account for slightly over 50% of ASEAN's trade in goods. China is the region's biggest external trade partner and investor, accounting for over 17% of total trade in 2018 and contributing 6.5% to total foreign direct investment flow. [5]

Prospects of recovery from an already moderating global economy in 2019 have diminished due to the pandemic and growth forecasts by AMS have been revised downwards. Malaysia is projecting a 4.5% contraction in Gross Domestic Product (GDP) while other AMS have revised their growth projections downwards to between 0.4% to 2.5%. In a worst-case scenario, Singapore has forecasted a contraction of 4.0%. The pandemic has brought business and consumer confidence to historic lows. The Purchasing Managers Index (PMI) – an indicator of the manufacturing sector's performance – plunged in March as the outbreak surged across the US, Europe and other parts of Asia. A decline in PMI was also observed across ASEAN. [5]

Beyond businesses, the pandemic has had devastating effect on households and individuals due to loss of jobs or reduced incomes. Microenterprises and SMEs, the informal sector, the urban poor and the elderly are among the most vulnerable groups affected by the pandemic. The broader impact of the pandemic on households is caused by the widespread loss of employment in small businesses, informal workers in temporary jobs, gig economy workers as well as the services sector.

Tourism flows – China, Korea and Japan are the largest sources of tourists to ASEAN – together with air travel have plummeted. Travel and tourism contributed 12.6% to ASEAN's economy in 2018, with Cambodia, the Philippines and Thailand the most vulnerable. Excluding the civil service, 43.8% or 126.9 million people in ASEAN's workforce are employed in the services sector. Singapore has the highest percentage of employees in services sector (65.7%), followed by Malaysia (56.6%) and Brunei (56.5%). In terms of absolute numbers, however, Indonesia has the largest workforce in services sector with 57.5 million, followed by Viet Nam with 19.4 million and the Philippines with 16.3 million. [5]

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MALAYSIA SCENARIO

The adverse impact of the containment measures against COVID-19 is reflected in the 17.1% contraction of the Malaysian economy in the second quarter of 2020, from a 0.7% growth in the first quarter. Restrictions on production and consumption activities arising from the nationwide Movement Control Order (MCO) had caused supply shocks and a plunge in demand. On the supply side, most economic sectors registered negative growth while most expenditure components declined. Tourism activities were also severely affected by international border closures and restrictions on local inter-state travel. [6]

Moving on to the third quarter of 2020, the Malaysian economy recorded a smaller contraction of 2.7%, in line with the reopening of the economy from the earlier COVID-19 containment measures and improving external demand conditions. The improved growth during the quarter was also due to implementation of various economic stimulus packages by the Government. This recovery is seen across most economic sectors, particularly the manufacturing sector, which turned positive on account of strong electrical & electronic (E&E) production activity.

Impact of COVID-19 on Malaysian Businesses

The Department of Statistics, Malaysia (DOSM) conducted a Special Survey Effects of COVID-19 on Economy and Companies / Businesses Firms from 10 April until 1 May 2020 during Phase 2 to Phase 4 of the MCO. The survey covered 4,094 companies, of which 43.4% were microenterprises, 40.4% were small-sized businesses, 9.1% were medium-sized businesses and 7.2% were large firms. Findings from the survey revealed that more than two-thirds of respondents (67.8%) reported no revenue during this period, while a small portion of 12.3% generated their sales via online and 9.8% still earned their sales through physical shops. [7]

Focusing on the source of finance, majority 68.9% respondents were depending on savings for operating costs and working capital, while 19.8% were depending on loans and 11.3% on capital injections. Acknowledging the tough situation, more than half of the respondents reported they would be able to survive for one to two months only if their employees go on unpaid or half-pay leave. Meanwhile, one quarter believed they can last for three to six months and 4.7% said they can survive for more than six months. Respondents highlighted that the three key challenges they faced were payment of salaries (76.6%); lack of business during the MCO period (65.5%) and rental payment (61.4%). [7]

In easing their business difficulties, majority respondents (83.1%) cited they need financial assistance or subsidies from the Government; 67.0% said a reduction in company or any related taxes are needed and 39.1% requested for deferment of loan repayments. On their business recovery expectation, a total of 42.5% respondents estimated it would take more than six months for their business to recover; 28.7% would need four to six months; 17.9% expected between two to three months; 9.0% estimated less than two months while 1.9% expected to cease operation. [7]

Furthermore, study on Business in Turbulence: Impact of COVID-19 on Malaysian Businesses conducted jointly by Monash University Malaysia and Monash Malaysia R&D Sdn Bhd highlighted varying degrees of concern depending on the industries in which respondents are in. The food & beverage, entertainment & tourism and agriculture industries are most concerned with the fall in consumer confidence. Meanwhile, the manufacturing and food & beverage industries are worried about vulnerability to supply chain shocks. Almost half of firms in the business & financial services industry is concerned about a potential global recession while the construction industry is worried about a decline in productivity as it juggles between safeguarding the well-being of their workers and productivity. Considering the financial position and business capability to weather the impact of the pandemic, about one-third of firms in food & beverage (34.0%), entertainment & tourism (33.0%) and advanced manufacturing (31.0%) industries reported they can stay afloat for one to three months only. [9]

The survey findings evaluated the key challenges across five aspects i.e. financial, supply chain, customers, technology and people.

Moreover, Ernst and Young conducted a COVID-19: Business Impact Survey, covering 670 respondents from large and listed companies as well as SMEs. The survey findings evaluated the key challenges across five aspects i.e. financial, supply chain, customers, technology and people. Zooming in to findings for SMEs, respondents cited delay in receivables (41%) and delay in payment to vendors (28%) as their main concerns and almost half of SME respondents opted for cost-cutting measures to manage their financial. Detailed findings on the supply chain factor revealed that delay in fulfillment and delivery (42%) and delay in receiving supplies (32%) are the major challenges to SME businesses. In view of these issues, SMEs requested for waiver of cross-border and service taxes along with additional credit facilities with banks. [8]

Meanwhile, about 43% of SMEs cited that a fall in demand is their key challenge on the customer aspect. Thus, SMEs said intervention in the form of relaxing MCO restrictions (21%) and flexible Government policies such as tax breaks or fee waivers (18%) are needed and crucial to their business operations. Moving on to the technology aspect, one-third of SMEs pointed out that work-from-home connectivity is the key issue, thus SME respondents upgraded their technology capability (37%) and ensure good connectivity with employees at home (26%) by making use of networking tools such as Microsoft Teams or OneDrive that made working from home much easier. On the people aspect, 31% of SMEs faced delay in completing tasks and projects, while 30% experienced downtime in operations. SMEs took various measures to resolve these issues, particularly by enhancing their remote working approach with technical and connectivity support. [8]

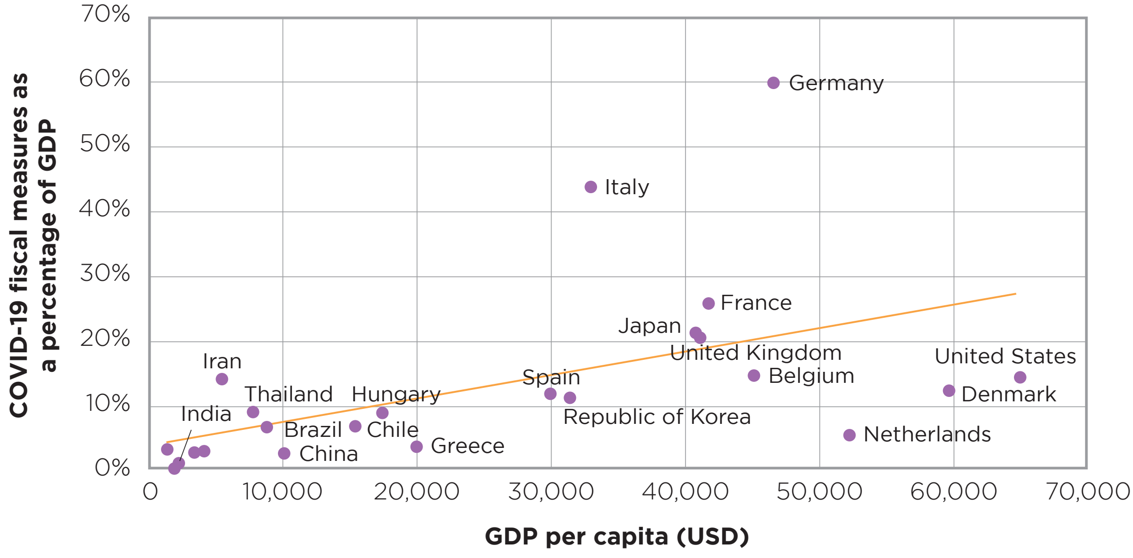
Policy Response to COVID-19

GLOBAL OVERVIEW

In acknowledging the critical economic role of small business, Governments worldwide have given special attention to mitigating the impact of the pandemic on small firms, particularly in introducing policies to help them cope with short-term financial risks and long-term business implications so as to avert job loss and bankruptcies as well as encouraging investment to boost the post-pandemic recovery process. The focus of most Governments has been on cushioning the impact of COVID-19 on health and the economy. However, the health measures and economic stimulus packages introduced by Governments vary considerably, from almost nothing to about half of GDP, indicating that GDP per capita is a key determinant in the level of support provided by Governments. The upshot is that small businesses in wealthier countries tend to get more support from their Governments than their counterparts in poorer ones.

Chart 1 shows the clear disparity in the level of support available to small businesses in rich and poor countries.

Chart 1: Richer Nations Spend More on Recovery



Note: Based on all 136 countries for which GDP per capita and fiscal measure estimates were available. Fiscal measures correspond to discretionary actions of Governments in response to COVID-19 as of 16 April 2020. Figures are expressed as a percentage of 2019 GDP.

Source: ITC calculations are based on International Monetary Fund World Economic Outlook database (October 2019) 'The fiscal response to the economic fallout from the coronavirus' by Bruegel (2020) and 'Policy responses to COVID-19' by International Monetary Fund (2020).

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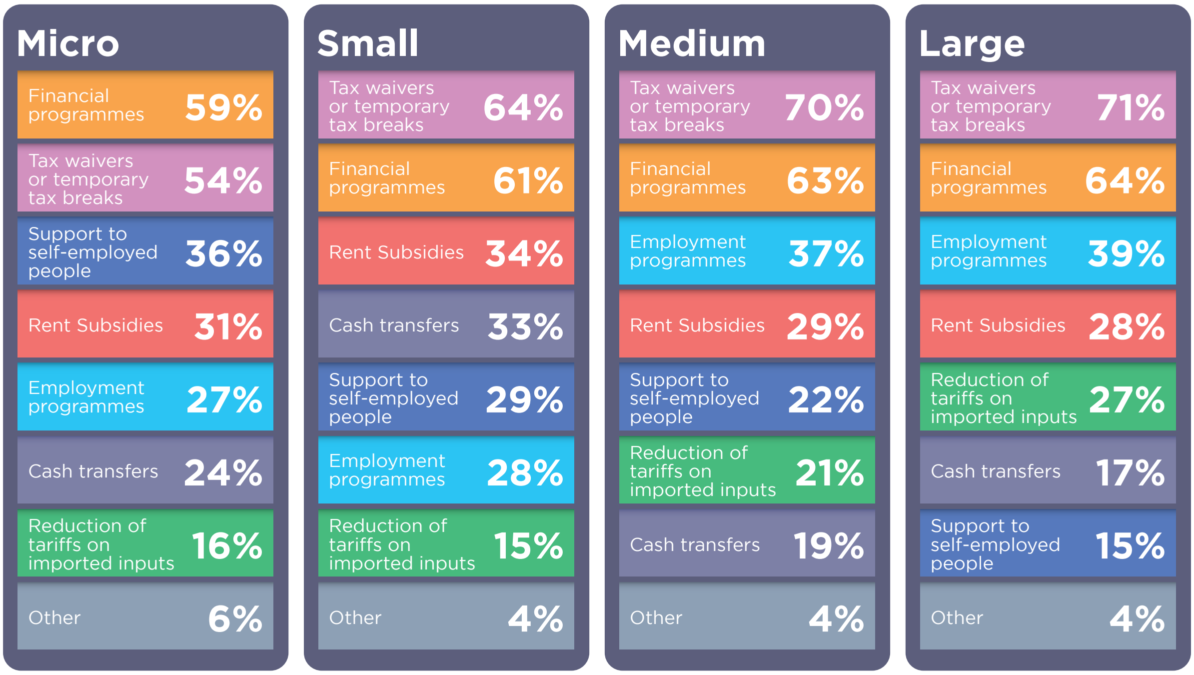
Respondents in the ITC COVID-19 business survey said that tax waivers, temporary tax relief and financial programmes would be the most helpful Government measures (Chart 2). A key concern was retaining their workforce for future production, with 37% of medium-sized businesses and 39% of large companies favouring employment programmes to support the income of their workers. [1]

Chart 2: Most Firms Favour Financial Programmes and Tax Waivers



Note: Respondents were asked 'Please select the top three Government measures that would be most helpful as you cope with the COVID crisis' and 'How many full-time employees does the business have?' Chart indicates the percentage of respondents who chose that option as one of the top three measures. Data on 2,458 businesses in 125 countries; response rates vary across countries and regions.

Source: ITC calculations based on ITC COVID-19 Business Impact Survey. Data collected from 21 April–2 June 2020

Targeted Policies to Protect Trade Flow

Protecting exports is a key economic priority of Governments in response to the disruptions in global trade as sufficient foreign currency to pay for essential imported goods. Export-oriented industries which have been built up over decades have to be protected to enable them to maintain their foothold in international markets. To safeguard its export-oriented industries, Bangladesh, for example, has committed to pay the wages of employees in these industries. In the Philippines, export-oriented industries are exempted from the lockdown while Pakistan is accelerating tax refunds to export-oriented businesses.

Customs fees are also being waived to facilitate trade and reduce domestic prices in many countries. China has reduced cargo dues and port facility fees by 20% from 1 March to 30 June 2020. The port of Sharjah in the United Arab Emirates is exempting all bulk goods from port storage fees for 90 days and has cut the tariff for truck parking at ports by 50%. Some countries are changing border procedures to facilitate issuance of international commercial documents. Indonesia, for example, has introduced fast-track customs procedures for reputable traders and authorised economic operators.

SME Policy Responses

Governments have generally focused on initiatives to sustain short-term liquidity, with some emphasising on general policies to cushion the shocks on the economy and businesses at large while others have introduced measures specific to SMEs and the self-employed. As seen in the unprecedented actions taken by the US Federal Reserve and European Central Bank, central banks support lending by relaxing monetary conditions and enabling commercial banks to provide more loans to SMEs.

An overview of country policy measures updated by OECD on 15 July 2020 as reflected in Table 2 shows that, across countries, the most widely used instruments in response to the outbreak are income and profit tax deferrals, loan guarantees and direct lending to SMEs as well as wage subsidies. This is in line with findings from the World Bank SME Support Measures dashboard, which shows that out of 845 SME policy instruments used worldwide, 328 relate to debt finance (loans and guarantees), 205 to employment support and 151 to tax. Structural policies – with a focus on teleworking and digitalisation – have been used only modestly although the number of countries initiating such policies has since increased. The use of grants, debt moratorium and specific measures provided for the self-employed highly differs across countries. [3]

Table 2: Overview of Policy Responses as at July 2020

	LABOUR			DEFERRAL					FINANCIAL INSTRUMENT			STRUCTURAL POLICIES			
	(Partial) Redundancies	Wage Subsidies	Self-employed	Income / Corporate Tax	Value Added (VAT)	Social Security Pension	Rent / Utilities / Local Tax	Debt Moratorium	Loan Guarantees	Direct Lending to SMEs	Grants and Subsidies	New Markets	Teleworking / Digitalisation	Innovation	Training and Redeployment
Argentina		✓	✓	✓	✓	✓			✓	✓		✓	✓		
Australia		✓	✓	✓				✓	✓	✓	✓				✓
Austria	✓	✓		✓		✓	✓	✓	✓	✓	✓		✓		
Belgium	✓	✓	✓	✓	✓	✓	✓	✓	✓		✓	✓			
Brazil	✓	✓		✓		✓		✓		✓					
Canada	✓	✓	✓	✓	✓		✓	✓		✓		✓			
Chile		✓	✓	✓	✓		✓		✓		✓	✓	✓		
China		✓		✓		✓	✓	✓		✓	✓		✓	✓	✓
Colombia		✓		✓	✓		✓	✓	✓	✓					

	LABOUR			DEFERRAL					FINANCIAL INSTRUMENT			STRUCTURAL POLICIES			
	(Partial) Redundancies	Wage Subsidies	Self-employed	Income / Corporate Tax	Value Added (VAT)	Social Security Pension	Rent / Utilities / Local Tax	Debt Moratorium	Loan Guarantees	Direct Lending to SMEs	Grants and Subsidies	New Markets	Teleworking / Digitalisation	Innovation	Training and Redeployment
Costa Rica	✓			✓	✓				✓	✓					✓
Croatia		✓		✓		✓		✓		✓					
Czech Republic		✓		✓			✓	✓	✓	✓	✓	✓		✓	
Denmark		✓	✓	✓	✓			✓	✓		✓			✓	✓
Egypt				✓			✓	✓							
Estonia		✓	✓	✓		✓		✓	✓				✓		
Finland	✓		✓	✓	✓				✓		✓			✓	
France	✓	✓	✓	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Germany	✓	✓	✓	✓					✓	✓	✓		✓	✓	
Greece		✓	✓	✓	✓	✓			✓	✓			✓		
Hong Kong, China				✓				✓	✓	✓					
Hungary	✓	✓	✓	✓		✓	✓	✓	✓	✓					
Iceland		✓		✓	✓				✓	✓					
India		✓		✓						✓					
Indonesia		✓		✓	✓				✓	✓			✓		
Ireland	✓	✓	✓	✓	✓				✓	✓	✓	✓	✓	✓	✓
Israel	✓	✓	✓		✓	✓	✓	✓	✓						
Italy	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	
Japan	✓	✓		✓			✓		✓	✓	✓	✓	✓	✓	✓
Korea		✓	✓					✓	✓	✓	✓	✓	✓	✓	✓
Latvia	✓	✓		✓				✓	✓	✓			✓	✓	
Lithuania		✓		✓			✓		✓	✓					
Luxembourg	✓	✓	✓	✓	✓			✓	✓						
Malaysia		✓		✓				✓	✓	✓	✓		✓		✓
Mexico		✓						✓		✓					
Netherlands	✓	✓	✓	✓	✓			✓	✓	✓	✓				
New Zealand		✓		✓			✓			✓		✓			✓
Norway	✓	✓	✓	✓	✓	✓			✓		✓			✓	✓
Peru		✓		✓	✓				✓	✓					

Special Highlights

	LABOUR			DEFERRAL					FINANCIAL INSTRUMENT			STRUCTURAL POLICIES			
	(Partial) Redundancies	Wage Subsidies	Self-employed	Income / Corporate Tax	Value Added (VAT)	Social Security Pension	Rent / Utilities / Local Tax	Debt Moratorium	Loan Guarantees	Direct Lending to SMEs	Grants and Subsidies	New Markets	Teleworking / Digitalisation	Innovation	Training and Redeployment
Poland		✓	✓	✓		✓			✓	✓				✓	
Portugal	✓	✓		✓	✓	✓			✓	✓		✓			✓
Romania		✓		✓			✓	✓	✓	✓					
Russia		✓	✓	✓		✓		✓		✓					
Saudi Arabia		✓						✓	✓	✓					
Singapore		✓	✓	✓			✓		✓	✓				✓	
Slovak Republic	✓	✓	✓	✓					✓		✓				
Slovenia		✓	✓	✓			✓	✓	✓	✓			✓	✓	
South Africa		✓		✓				✓		✓		✓			
Spain	✓	✓	✓	✓		✓	✓	✓	✓	✓	✓		✓		
Sweden	✓	✓	✓	✓	✓	✓	✓		✓	✓					
Switzerland	✓	✓							✓	✓		✓			
Thailand		✓	✓	✓	✓	✓	✓			✓				✓	✓
Turkey	✓	✓		✓	✓	✓	✓	✓	✓	✓	✓				
United Kingdom	✓	✓	✓	✓	✓	✓		✓	✓	✓	✓	✓		✓	
United States		✓	✓	✓						✓	✓			✓	
Viet Nam		✓		✓	✓	✓	✓								

Source: Coronavirus (COVID-19): SME Policy Responses, OECD

Monetary Policy Response

To ease liquidity constraints, many countries have introduced measures such as deferral of tax, social security payments, moratorium on debt payments, deferment of rent and utility payments and tax relief. Some countries have relaxed procedures for public procurement and late payments while others have introduced, extended or simplified the provision of loan guarantees to enable commercial banks to expand lending to SMEs. Public institutions in some countries have also raised direct lending to SMEs while others are providing grants and subsidies to SMEs and other companies to bridge the drop in revenues. The amount of funding available for lending to SMEs through existing lending schemes has also been increased while deferral of income and corporate tax has been targeted to specific sectors and tax relief is offered through lowering of rates or waiver of payment. Non-banking finance from crowdfunding or fintech companies is increasingly being utilised for debt as well as equity.

New guarantee schemes have also been introduced along with increased funding. In several countries, new loan schemes to support companies affected by the pandemic have been established while others focus on new loan instruments for specific sectors, as in Colombia where a new line of credit was set up specially for tourism and aviation industries. Several countries have introduced modified insolvency and bankruptcy regimes as buffers for companies facing financial difficulties during the pandemic as well as to avert bankruptcy. Such measures are particularly useful to start-ups who may not make profits in their initial years of operation and may not meet the existing solvency criteria for some schemes.

A critical challenge faced by SMEs amidst a slowdown in production and a declining market is payment of wages and sick leave for workers. Governments are contributing to wage payments for employees temporarily out of work or on sick leave in order to help SMEs retain workers.

Structural Policy Response

Countries are increasingly using non-banking financial support to help SMEs adopt new working methods and technologies as well as to find new markets and sales channels to enable businesses to continue operations under containment measures. These policies not only aim to address urgent short-term challenges, such as the introduction of teleworking, but also to boost the resilience of SMEs through technology adoption and innovation in a more structural way to support future growth and competitiveness.

In order to obtain longer-term advantages from adoption of technology and new practices, several countries have implemented measures to support SMEs in adopting these practices in their operations. The Malaysia Digital Economy Corporation (MDEC), for example, offers an array of digital solutions for SMEs by Malaysian tech companies. In Singapore, the country's SMEs Go Digital Programme provides support for businesses to make digital transitions. Countries are offering support for innovation by SMEs, with measures specifically to enable start-ups and SMEs find solutions to the COVID-19 outbreak.

Helping Informal Businesses

Informal businesses have been excluded from most COVID-19 support programmes as they are not registered entities. However, due to their critical role in contributing to employment, poverty reduction, the economy and exports, Governments have introduced measures aimed specifically at the informal sector to help reduce their costs during the pandemic. However, given the difficulty of identifying and reaching businesses in the informal sector, the most popular way to support them during the pandemic has been through cash transfers to their employees.

Brazil's Cadastro Unico programme is delivering a three-month emergency cash transfer of USD115 a month to informal workers in the country. India's state of Uttar Pradesh is giving 1,000 rupees (USD13) to 2.3 million people who have participated in the National Rural Employment Guarantee Scheme. In Nigeria's Lagos and Kaduna regions, basic needs in food, water and health supplies are provided for vulnerable informal sector populations.

ASEAN POLICY RESPONSES TO COVID-19

ASEAN member states (AMS) rolled out various policy measures as their initial defense against the pandemic. Various economic stimulus packages have been announced since February 2020, with monetary policy initially employed to address liquidity concerns as well as to boost confidence in the economy as supply chains disruptions and travel cancellations emerged. Enhanced fiscal stimulus measures, especially to boost the capacity of the health sector and cushion the impact on the broader economy, were announced as the outbreak spread and exacerbated economic conditions, particularly in hard-hit sectors.

The most common measures implemented are tax incentives for affected businesses, particularly SMEs and those in the hardest hit sectors such as tourism, subsidies in the form of cash assistance, discounts on electricity bills, cash aid to households and workers, including additional incentives for those in the healthcare sector and deferred tax or loan payments, exemptions from or lower Government fees and charges. Some AMS have announced sector-specific measures to support vulnerable groups. Brunei, for example, allows the deferment of contributions to trust or pension funds while Malaysia allows reductions in pension contributions. Singapore suspended student loans and charges while Viet Nam's banking sector has created a credit package worth VND285 trillion (USD12.3 billion) for businesses.

Targeted Fiscal Interventions

AMS have introduced a variety of fiscal packages amounting to a combined total of USD318.2 billion or equivalent to 10.1% of regional GDP in 2019. As at May 2020, Thailand offers the largest stimulus package, comprising three tranches totaling USD88.8 billion, followed by Indonesia with USD81.8 billion. The fiscal measures are geared not only towards supporting affected industries but also include additional allocations for the health sector and subsidies to households. Table 3 shows a summary of stimulus packages of AMS. [10]

Table 3: Summary of ASEAN Member States Stimulus Packages as at May 2020

AMS	Stimulus Package	USD Equivalent (billion)	Date
Brunei Darussalam	BND450 million	0.3	30 March
Cambodia	KHR 420 billion KHR 8.1 trillion	0.1 2.0	13 April 14 April
Indonesia	IDR10.3 trillion IDR120 trillion IDR22.9 trillion IDR62.3 trillion IDR405.1 trillion IDR641.2 trillion	0.7 8.1 1.5 3.9 24.6 43.0	25 February 13 March 16 March 18 March 31 March 19 May
Lao PDR	LAK30 billion	0.005	2 April

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AMS	Stimulus Package	USD Equivalent (billion)	Date
Malaysia	MYR20 billion MYR230 billion MYR10 billion	4.8 55.2 2.4	27 February 27 March 6 April
Myanmar	MMK100 billion	0.1	27 April
Philippines	HP27.1 billion PHP200 billion	0.5 3.8	16 March 31 March
Singapore	SGD6.4 billion SGD48 billion SGD5.1 billion SGD33 billion	4.6 33.7 3.4 23.3	18 February 26 March 6 April 26 May
Thailand	THB100 billion THB117 billion THB1.9 trillion	3.2 3.6 82.0	4 March 24 March 7 April
Viet Nam	VND250 trillion VND62.0 trillion	10.8 2.6	6 March 10 April

Source: ASEAN Policy Brief 2,Assessing ASEAN Economic Policy Responses in a Pandemic, ASEAN

The fiscal interventions of AMS fall into three categories:

- Household subsidies are provided in the form of cash allowances, which in some cases, are complemented with food packages and subsidies for electricity and social security contributions or pensions, especially for those in the low-income and vulnerable categories. The Philippines, for example, has re-allocated PHP200 billion (around USD3.9 billion) for subsidies in cash and basic needs while Viet Nam and Indonesia have introduced innovative measures such as 'rice ATMs'. [10]

- Exemptions on tax, fees, charges (including rents) or debt payment moratorium have been provided to affected individuals, households and businesses. Similar to subsidies to households, the moratoriums on taxes, deferment of rents and exemptions from fees and charges for bank transactions, aim at easing the financial burden of businesses and households that have lost their incomes to help them survive the COVID-19 crisis and to swiftly resume operations post-pandemic. [10]

- Fiscal measures in the form of fast and cheap credit, debt payment moratorium or restructuring of loans have been introduced. Such measures are vital, especially for the most vulnerable groups such as SMEs which are the more likely to lay off workers or close down earlier. The failure of micro, small and medium enterprises (MSMEs) would have strong repercussions on the economies of many developing countries in which they are the main contributors to employment, including ASEAN. [10]

Sector-Targeted Measures and Interventions

ASEAN Governments have also extended targeted interventions to assist sectors that are hardest hit by the pandemic. Among the initial responses taken by AMS was to redirect substantial portions of their fiscal budgets to the health sector, particularly to reinforce capacity and provide rapid responses to the health crisis. The response measures include the procurement of medical supplies such as testing kits, ventilators, face masks, and other personal protective equipment (PPEs) as well as the setting up of temporary hospitals and healthcare facilities such as isolation centers to augment stretched existing capacities, including conversion of hotels into temporary housing for healthcare professionals, persons under monitoring or those under quarantine. Indonesia allocated an additional IDR75 trillion (USD5 billion) for healthcare while Singapore allocated SGD800 million (USD564.2 million) for the pandemic response. [10]

The tourism and retail sectors together with the aviation industry have been brought to a standstill, causing severe disruptions to economies which are heavily dependent on travel and tourism. As a result of travel restrictions, passenger demand in Indonesia and Thailand has dropped by 59.8 million and 55.6 million, respectively. The disruptions in travel and tourism translate into billions in revenue lost and millions of jobs lost. Fiscal measures to support businesses affected by the pandemic, such as discounts on bills and tax moratoriums, have been extended to the aviation sector. However, given the scale of the impact on the industry, Government support is not enough to meet the needs of the industry and many airlines across ASEAN have already downsized and cut employee salaries. [10]

AMS have also implemented measures to give credit support to the agriculture sector to ensure that supply chains from farms to markets remain open. Malaysia has allocated RM1 billion to its Food Security Fund as well as providing additional support to farmers and fishermen for agricultural production. Funding was also provided to set up food storage facilities and distribution channels to safeguard supply while RM64.4 million was allocated for agrofood projects. The fiscal measures are complemented by support for access to markets and productivity enhancement, facilitation of export processes as well as rural cash-for-work programmes. [10]

Monetary Policy and Financial Measures

Since the onset of the outbreak, central banks across ASEAN have employed policy rate cuts, reserve requirement ratio reduction and asset purchases to maintain financial stability, ensure system liquidity as well as to lower the cost of credit. These measures also aimed to reassure the public that Governments are committed to steering the economy out of the crisis and to maintain the stability of the banking sector.

The State Bank of Viet Nam has urged commercial lenders to reduce the minimum settlement fees of 50% through the interbank electronic system as well as to curb dividends and operating expenses to maintain sufficient supplies of capital while the Monetary Authority of Singapore has adjusted selected regulatory requirements and supervisory programmes in addressing the operational challenges faced by financial institutions during the pandemic. The Bank of Thailand provides bridge financing to high-quality firms via its Corporate Bond Stabilisation Fund, purchased Government bonds to ensure the functioning of the

Government bond market and set up a special facility to provide liquidity for mutual funds through banks. Collectively, these measures aim to boost liquidity and market confidence while maintaining a stable monetary and financial system. [10]

COVID-19 ECONOMIC STIMULUS PACKAGE – A MALAYSIAN CHRONICLE

The Malaysian Government has announced several economic stimulus packages to ensure the well-being of the people as well as the survival of businesses that have been adversely affected by the subsequent containment measures. The packages are the RM20 billion Economic Stimulus Package 2020 (PRE2020) followed by the RM230 billion PRIHATIN Rakyat Economic Package (PRIHATIN), the RM10 billion Additional PRIHATIN Package for SMEs, RM35 billion National Economic Recovery Plan (PENJANA) and RM10 billion Kita Prihatin package. [11]

The economic initiatives introduced under the stimulus packages aimed at addressing critical pandemic-related issues faced by businesses, especially SMEs, such as financing, cost of doing business and easing cash flow challenges, job retention, human capital development, infrastructure development and adoption of technology and digitalisation. The following is a summary of some of the key initiatives of the various stimulus packages.

Financing

Some of the key financing initiatives are:
- A RM5 billion Special Relief Facility (SRF) for SMEs at a reduced interest rate from 3.75% to 3.5%. Bank Negara Malaysia (BNM), subsequently upsized the SRF to RM10 billion due to overwhelming demand from SMEs; [11]
- A RM6.8 billion All Economic Sector Facility (AES) to SMEs by BNM with lowered interest rate from 8% to 7%; [11]
- A RM700 million Micro Credit Scheme by Bank Simpanan Nasional (BSN) including a RM500 million additional allocation under PRIHATIN to provide soft loans with a 2% interest rate and without collateral for microenterprises. Subsequently under PRIHATIN SME Plus, the 2% interest rate was abolished to 0% and financing amount increased from RM50,000 to RM75,000; [11]
- A RM200 million Micro Credit Scheme with a maximum loan amount of RM10,000 per company at 0% interest rate by TEKUN Nasional; [11]
- A RM2.1 billion Special PRIHATIN Grant to provide a special grant of RM3,000 for eligible microenterprises; [11]
- A RM2 billion PENJANA SME Financing scheme to assist SMEs to sustain their business operations; [12]
- RM1 billion under PENJANA for SMEs in the tourism sector to finance transformation initiatives to remain viable and competitive in the new normal; [12]
- RM400 million under PENJANA for funding microenterprise programmes; [12]
- RM500 million Bumiputera relief facility to ensure sustainability of Shariah compliant Bumiputera entrepreneurs; [12] and
- Allowing SMEs with less than four years of operations to apply for financing from the BizMula-i and BizWanita-i schemes under Credit Guarantee Malaysia Berhad (CGC). [12]

Reducing Cost of Doing Business and Cash Flow Challenges

Some of the key initiatives to help reduce cost of doing business as well as easing cash flow challenges are:

- Loan moratorium as well as restructuring and rescheduling of loans for affected businesses by various banks and finance institutions; [11]
- Deferment of monthly income tax instalment payments to all SMEs for three months beginning 1 April 2020; [11]
- Employer Advisory Service by the Employees Provident Fund (EPF) for deferring payments, restructuring and rescheduling of employers' contributions; [11]
- Exemption of 6% service tax for hotels from March – August 2020;
- Six-month rental exemption for tenants of all premises owned by the federal Government;
- Exemption of Human Resource Development Fund (HRDF) levy for all sectors for six months beginning April 2020; [11]
- A three-month postponement of income tax instalment payments for SMEs, effective 1 April 2020; [11]
- A RM500 million to subsidise a 15% discount on electricity bills for the tourism sector and a 2% discount for the commercial, industrial and agricultural sector; [11] and
- Reduction of 25% of levy on foreign employee permits expiring between 1 April 2020 and 31 December 2020. [11]

Job Retention

Some of the key initiatives to secure jobs and address unemployment are:

- A RM13.8 billion Wage Subsidy Programme by Social Security Organisation (SOCSO) for workers earning RM4,000 and below, which were announced through several stimulus packages. A sum of RM2.4 billion Wage Subsidy Programme 2.0 was subsequently allocated under Kita Prihatin to help companies that are still affected; [11]
- RM1.5 billion under SOCSO to encourage hiring by businesses; [11]
- RM800 million to support employers and employees with flexible work arrangement incentives under SOCSO; [11] and
- Enabling employers to negotiate with their employees on terms of employment, including implementation of pay-cuts and unpaid leave options during the MCO period. [11]

Human Capital

Some of the key initiatives to raise human capital productivity are:

- RM100 million on a matching grant basis to fund training of employees from tourism and other affected sectors by HRDF; [12]
- Double deduction on expenses incurred on approved tourism-related training; [12]
- RM50 million to subsidise short courses in digital skills and highly skilled courses; [12]
- Collaboration between MyCreative and private sectors to help players adapt to new normal through training in digital distribution methods and promotion, development of new business models, and connectivity; [12] and
- Agrofood workforce mobility via incentives for pioneer companies to train and educate workforce. [12]

Infrastructure

Some of the key infrastructure initiatives to spur economic growth are:
- A RM13 billion investment by Tenaga Nasional Berhad (TNB), including accelerating implementation of LED street lights, transmission lines and rooftop solar systems; [11]
- A RM3 billion allocation for the National Fiberisation and Connectivity Plan by Malaysian Communications and Multimedia Commission (MCMC); [11]
- RM2 billion for immediate implementation of small infrastructure repair and upgrading projects nationwide, especially in rural areas; [11]
- RM100 million for facilities for food storage and distribution and crop integration programmes; [11] and
- Accelerating the implementation of 2020 projects by Government agencies and Government-linked companies (GLCs). [11]

Technology and Digitalisation

Some of the key initiatives to support SMEs in digitalisation or automation are:
- RM700 million to assist and incentivise SMEs and mid-tier companies to digitalise operations and trade channels, comprising: [13]
  - RM100 million for SME Digitalisation Matching Grant [13]
  - RM500 million SME Technology Transformation Fund [13]
  - RM100 million Smart Automation Grant [13]
- RM80 million for implementation of Technology Innovation Sandbox to encourage innovation and creativity that can propel the digitalisation of service delivery and spur start-ups; [13]
- RM70 million for Microenterprises and SMEs e-Commerce Campaign to encourage adoption of e-commerce; [13]
- RM20 million to transform *Pusat Internet Desa* into e-commerce hubs; [13] and
- RM5 million to set up an online one-stop business advisory platform namely MyAssist MSME. [13]

Summary of Achievements

The outcomes to date from the implementation of the economic stimulus packages were regularly reported by the Finance Minister through series of LAKSANA reports. As at 11 December 2020, among the main outcomes in relation to financial support for businesses and measures to stimulate economic growth are:
- A total of RM11.24 billion has been approved by local banks and agreed by 23,875 SMEs under SME Soft Loans Funds administered by BNM. This amount includes SRF, Automation & Digitalisation Facility (ADF), AES and Agrofood Facility (AF). The RM10 billion allocation for SRF has been fully utilised to benefit 21,000 SMEs and assisted to preserve more than 450,000 jobs;
- The Wage Subsidy Programme disbursed RM12.61 billion in wage subsidies to benefit 322,177 employers and 2.64 million employees;
- The Hiring Incentive Programme and Training Assistance Programme helped 106,443 people to secure jobs, including 85,242 people under the age of 40; 13,513 people in the 40 - 60 age group; 1,268 people with disabilities and 6,420 apprentices;
- A total of 129,144 individuals were approved to participate in re-skilling and up-skilling programmes conducted by various Ministries and agencies;

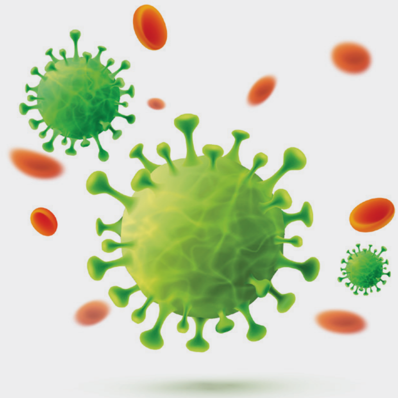
- A total of 5,576 applications were approved with a loan value of RM1.1 billion from the PENJANA SME Financing fund;
- The TEKUN Business Recovery Scheme disbursed RM99.2 million in financing to 14,861 microenterprises; and
- The PENJANA Credit Micro Financing scheme under BSN disbursed RM253.1 million to 7,252 SMEs and microenterprises.

In addition, the following achievements were recorded in LAKSANA report on 2 October 2020:
- A total of 1,634 SMEs and mid-tier companies were approved to receive grants totalling RM24.6 million to digitalise operations and trade channels from the SME Digitisation Matching Grant, SME Technology Transformation Fund and Smart Automation Grant;
- A total of RM567.9 million was injected into the economy via the ePENJANA application which credited RM50 each into 11.36 million eWallets; and
- The MyCreative Ventures RM130 million fund to support the arts, culture and entertainment industry received 182 applications for loans and grants totaling RM43 million while the Cultural Economy Development Agency's (CENDANA) RM10 million fund approved 184 applications for financial support totalling RM2.7 million.

Further to that, the initiatives to support adoption of e-commerce and digitalisation also received overwhelming responses from SMEs and generated a total of RM1.2 billion in total online sales as reported by LAKSANA on 27 October 2020. The initiatives comprised:
- The PENJANA MSMEs e-Commerce Campaign launched at the end of June to help local businesses increase their productivity and operations through e-commerce and digitalisation supported by 20 e-commerce platforms as strategic implementation partners has successfully recorded more than 45,000 new SMEs registered with the strategic partners, assisted over 115,000 SMEs and generated more than RM332 million in sales as of October 2020; and
- The Shop Malaysia Online initiative to encourage the purchase of goods by local sellers online through provision of digital vouchers. This initiative is joined by 22 e-commerce platforms as strategic partners and co-funded by the Government. Since it was launched on 1 August 2020, PENJANA Shop Malaysia Online has successfully generated sales worth RM896 million and benefitted more than 213,000 local sellers as well as 7.8 million users from all over the country.

Box Article

Surveys on Impact of COVID-19 Outbreak on SMEs



The Ministry of Entrepreneur Development and Cooperatives (MEDAC) and SME Corp. Malaysia conducted a series of surveys among SMEs which cut across various economic sectors and industries. These surveys are done to assess the impact of the COVID-19 outbreak as well as their response to the various economic stimulus packages announced by the Government:

Survey	Period	Respondents
Survey on SMEs Situation in the Wake of COVID-19	19 - 26 March 2020	1,920 SMEs
Survey on the Impact of COVID-19 Outbreak and Stimulus Package for SMEs	2 - 8 April 2020	982 SMEs
Survey on SMEs Response towards the Restarting of the Economy	4 - 7 May 2020	1,786 SMEs

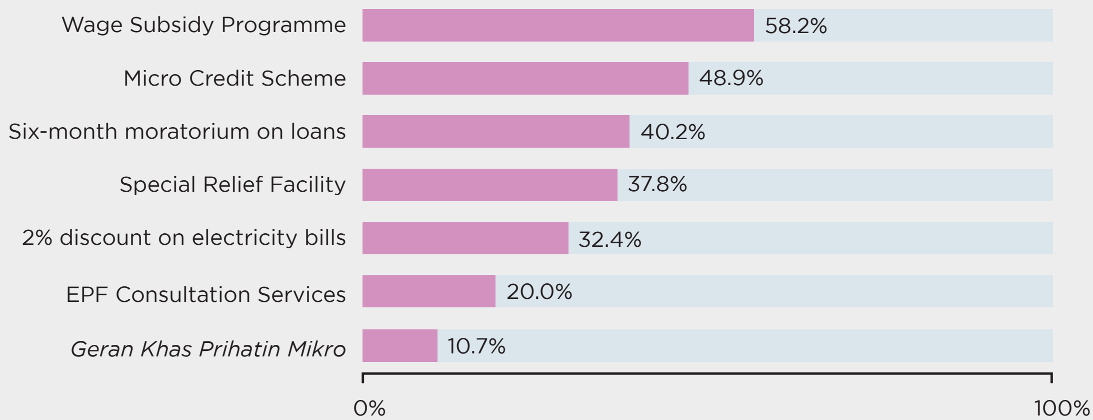
The outbreak of COVID-19 affects various spectrum of business sectors especially the SMEs in an unprecedented way. Based on the Survey on SMEs Situation in the Wake of COVID-19 which was first conducted following the implementation of Movement Control Order (MCO), a shocking 95.3% respondents experienced an immediate and substantial drop in sales in March 2020, of which 44.0% of respondents cited their sales have declined to more than 70.0%. Of the rest, 21.6% reported a decline in sales within 51.0% to 70.0% while 29.7% experienced a loss of 50.0% or less in sales. Only 1.7% reported an increase in sales particularly among the food & beverages-related industries, while 3.1% reported no significant difference in sales.

Following the nationwide quarantines, SMEs feel the heat as consumers limit their movements to just stay at home, thus leading to a sharp fall in consumer and business spending. Given the difficult situation, respondents highlighted that cash flow emerged as the key challenge during the pandemic, followed by reduced in demand and supply chain disruption. The cash flow issue was due to the significant decline in sales, partly attributed to the temporary shutdown of business operations during MCO by more than three-quarter of respondents. Moreover, respondents had issue in paying the employees' salary and benefit, serving loan repayments as well as rental and utility payments, thus worsen their financial position. The sudden plunge in sales and consequent cash squeeze resulted in 48.5% of respondents, particularly SMEs in construction sector, can only sustain their business for a month if the MCO prolongs.

Lack of sales and income is a major disruption to SMEs' cash flow which is the essence of business survival. Worth to note, a total of 57.9% sales of SME businesses were generated via physical stores, thus making them more vulnerable to the disruptions of business activities caused by the MCO. Only 21.1% of respondents reported selling their products or services via online channels such as through social media, websites and e-commerce platforms. Looking at their cash-in-hand status, majority respondents (79.3%) cited they had cash to last for less than three months while 14.8% reported their ability to survive for three to five months.

These rising issues on cash flow, demand and supply chains are causing a lot of strain on businesses especially the small players. Responding to the survival needs of the business sectors, the Government had duly announced the *Pakej Rangsangan Ekonomi Prihatin Rakyat* (PRIHATIN) on 27 March 2020 and *Pakej PRIHATIN Tambahan* for SMEs on 6 April 2020 that have benefitted the SMEs directly and indirectly. The situation on the ground remained a challenge but some objectivity persists following the initiatives given. The Survey on the Impact of COVID-19 Outbreak and Stimulus Package for SMEs showed that the economic stimulus packages had brought some relief to the SMEs. The top three incentives that have benefitted the SMEs were Wage Subsidy programme (58.2%), Micro Credit Scheme (48.9%) and six-month moratorium on loans (40.2%).

Chart 1: Impact of Stimulus Packages on SMEs



A close look at the survey findings highlighted that SMEs need assistance to sustain their business and boost their growth momentum during the pandemic. Fast access to loans at lower interest rates (60.1%); deferment or waiver of taxes and statutory payments (50.7%); and online-based platforms and virtual service provisions (34.2%) were cited as the key assistances required for the business to rebound. With the support given, as high as 85.6% respondents were confident that their business would rebound within a year or less. Of this, a total of 16.8% of respondents were optimistic that their business will recover within three months, mainly respondents from food and beverages-related industries. Considering the near-term business performance, a total of 5.1% respondents were positive that that they would gain profit in 2020, another 22.0% expected the business to break even while almost three-quarter of respondents (72.9%) reported that the year 2020 would be a loss-making year for them.

Moving on to the Survey on SMEs Response towards the Restarting of the Economy, the survey was conducted to get SMEs' feedback on the Government's decision in enabling a gradual resumption of economic activities by allowing most industries and business activities to operate starting 4 May 2020 following the commencement of Conditional MCO (CMCO). Findings revealed that less than half of respondents (49.6%) resumed business operations, particularly medium-sized firms. Among main issues cited by respondents as obstacles in restarting business were lack of customers and market access (66.7%); insufficient capital (60.6%); supply chain issue (37.2%); and difficulty in complying with the standard operating procedures (22.4%).

Some SMEs also had issues in resuming operations, thus they seek various Government assistance that may help ease their burden, particularly on the access to financial resources and soft loans as well as tax deduction.

In addition to that, more than two-thirds of SMEs suffered business losses of up to RM100,000 during MCO. Thus, SMEs made necessary adjustments in coping with the current stress caused by the pandemic which include negotiating on employees' salary and benefits (36.5%), restructuring business to reduce employees (33.5%) and limiting unnecessary business trips for employees (33.0%). Some SMEs also had issues in resuming operations, thus they seek various Government assistance that may help ease their burden, particularly on the access to financial resources and soft loans as well as tax deduction. Respondents also cited the need to have a dedicated Government agency for SME-related matters, thus further streamlining and facilitating the small players comprehensively.

As businesses are adapting to the new norm, various adjustments and positive progress have been made to their business operations. Change of priorities among SMEs can be observed, from implementing cost-cutting measures during the peak of the MCO in May 2020, to executing development measures that can help sustain the business. According to Survey on Entrepreneurs for Post COVID-19 conducted by MEDAC in July 2020, the top priorities among SMEs had shifted to using e-commerce platforms (45.8%), making changes in employment terms (25.0%) and adoption of technology and digitalisation (19.0%). Sign of optimism is growing as lesser number of firms (49.6%) reported decline in sales of more than 50% (March-May 2020: 65.6%), retrenchment of workers dropped to 12% (March-May 2020: 14.2%), while number of ceased business operations also decreased, albeit slightly, to 1.4% (March-May 2020: 1.6%). It is worth to note that a total of 43.1% respondents cited they were in the midst of developing their business continuity plans, reflecting a greater emphasis accorded by SMEs on the vitality of such plan given any economic shocks or crisis.

Preliminary impact in terms of SME GDP showed that the pandemic has caused a total business loss of RM38.6 billion in revenue as at April 2020, which is equivalent to a 7.4% decline in contribution to SME GDP. Nevertheless, there was a significant improvement following implementation of various measures under the economic stimulus packages such as PRIHATIN and PENJANA. In August 2020, lower projected revenue loss of RM30.7 billion was estimated, a drop of 20.0% compared with the one estimated in April 2020. The trend towards a lower-than-projected loss of revenue is expected to be seen across all economic sectors. Taking into account the revenue loss by business size, microenterprises which make up 76.5% of total business establishments in Malaysia unequivocally will be the hardest-hit business sector.

Chart 2: Summary of SME Scenario in Pre-pandemic, during MCO and Post-MCO

Pre-pandemic	Under MCO	Post-MCO
• 55.4% of SMEs anticipated increase in sales	• 78.9% of SMEs have cash that can last for less than three months	Drop in sales reduced from: May: 65.6% → Aug: 49.6%
• 44.3% of SMEs expected business to improve in the next six months	• 72.4% had to temporarily close business operation	Workers retrenchment dropped from: May: 14.2% → Aug: 12.0%
• 34.6% of SMEs faced cash flow problem	• 58.6% recorded no sales	Business ceasing operations decreased from: May: 1.6% → Aug: 1.4%
	• 39.4% can only able to sustain for only a month or less	
	• 19.2% experienced business loss of RM100,000 and above	

Box Article

Measures by State Governments to Mitigate SME Issues on COVID-19

PERLIS

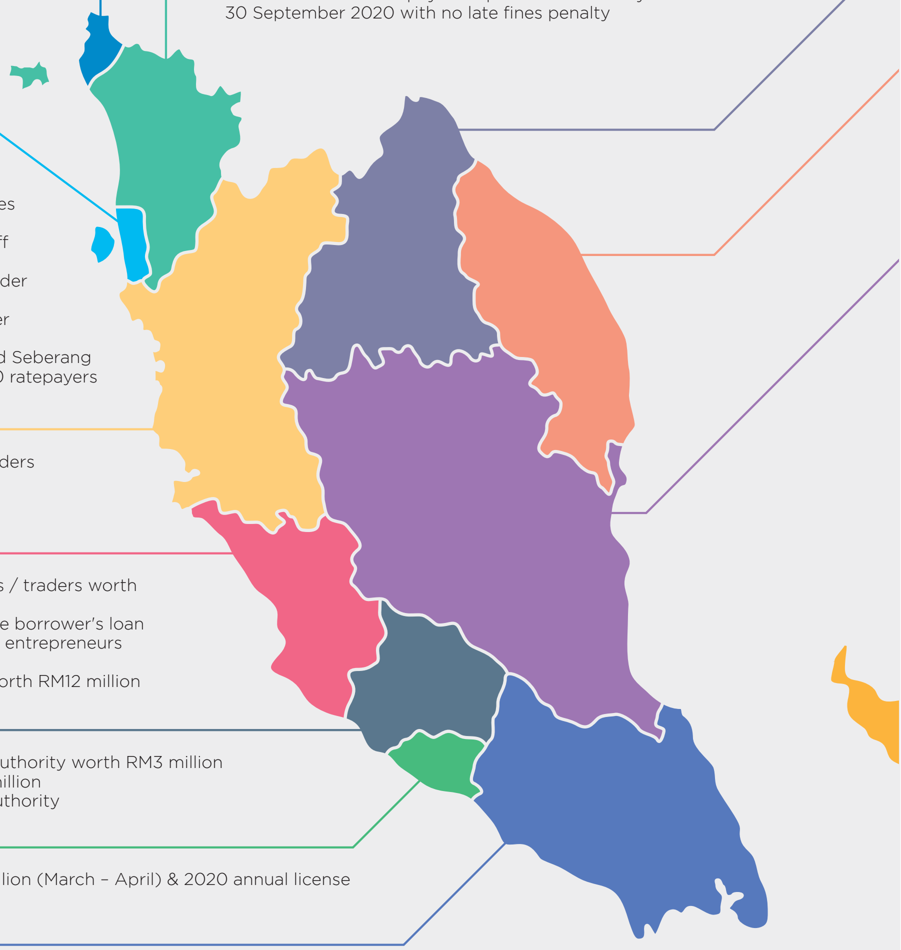
- 50% stall rental discount for small traders
- Night / day market site rent exemption

KEDAH

- RM10 million to traders, day labourers, taxi drivers, boat drivers & tour guides
- Extension of land tax payment period from 31 May to 30 September 2020 with no late fines penalty

PULAU PINANG

- Land-related tax deferment (May – August)
- A one-off payment of RM500 for small businesses and registered tour guides
- Additional RM200 for taxi drivers & trishaw owners on top of the annual RM300 they receive from the state Government
- Max RM10,000 for SME with 0% on micro loan scheme (six-month repayment schedule)
- RM500 one-off aid for 9,000 registered & unregistered hawkers, bus drivers, tour bus / van drivers and drivers of rental vehicles & tourist limousines
- Beach water sport operators will receive a one-off payment of RM300
- RM10 million fund for tourism industry players under Penang Development Corporation
- Three-month rental exemption for shop lots under low-cost flats
- Rebates in assessment fees for Penang Island and Seberang Perai City Councils worth RM47.3 mil for 600,000 ratepayers



PERAK

- RM500 one-off assistance to hawkers & small traders
- 50% rental discount for food stall and food court under Local Authority

SELANGOR

- Payment of RM500 (one-off) for 80,000 hawkers / traders worth RM40 million
- Deferment of loan repayment by restructuring the borrower's loan under the Hijrah Scheme that will benefit 40,000 entrepreneurs worth RM70 million
- Rental exemption for 80,000 licensed vendors worth RM12 million

NEGERI SEMBILAN

- RM300 to small / registered traders with Local Authority worth RM3 million
- RM300 to registered taxi / e-hailing worth RM1 million
- Two-month stall rental exemption under Local Authority

MELAKA

- Two-month site rent exemption worth RM1.04 million (March – April) & 2020 annual license fees worth RM0.90 million for hawkers & traders

JOHOR

- Flexibility & incentives for SMEs operating at 151 State-owned premises
- Rental exemption for Local Authority-owned premises & public market for 10,371 traders (April – December)
- Quit rent payment period extended till 30 September

Note: Based on information from various sources, including Government and online sites.

States and local Governments are at the forefront to forge ahead a coordinated effort by working together with the federal Government while acting proactively to implement targeted measures to swiftly address the economic onslaught caused by COVID-19. Recognising the fact that one of the main ways the pandemic can hit a local economy is through SMEs, all the states in Malaysia have adopted various measures to support the vulnerable SMEs and entrepreneurs. The following diagram illustrates the non-exhaustive list of measures undertaken by State Governments within their respective jurisdictions:

KELANTAN

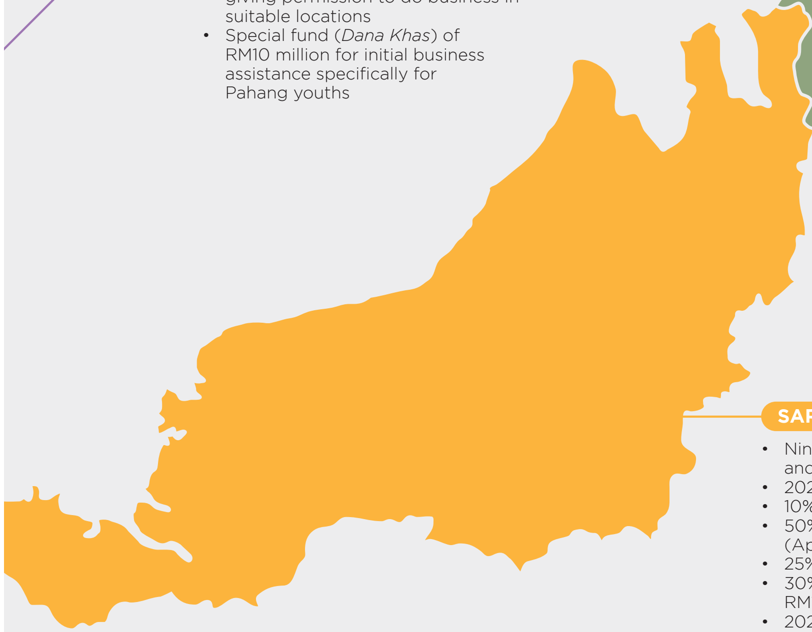
- Two-month rental exemption (April – May) for State Government premises owned by the State Government Statutory Bodies and the Local Authority

TERENGGANU

- Two-month Government loan servicing & rental payments deferment including YPU-owned commercial premises

PAHANG

- The State Government through the Kuantan Municipal Council (MPK) has relaxed the conditions for traders by giving permission to do business in suitable locations
- Special fund (*Dana Khas*) of RM10 million for initial business assistance specifically for Pahang youths



SABAH

- 2% microcredit fund for 20,000 small businesses worth RM40 million
- RM50 million SME industry fund loan at 3.5% interest rate
- 1,000 village basic infrastructure projects worth RM200 million
- 28% electricity bill discount (April – June)
- 20% discount on 2020 assessment collection by Local Authority
- 2020 license fee & six-month rent exemption for premises under Local Authority for hawkers

SARAWAK

- Nine-month loan repayment deferment for 144 borrowers of Small and Medium Scale Loan Scheme worth RM1.3 million (from April)
- 2020 land premium deferment for 1,721 stakeholders
- 10% - 25% monthly water bill discount (April – September)
- 50% market and stalls rental discount for 10,000 hawkers (April – September)
- 25% discount on 2020 annual assessment rate above RM400
- 30% discounts for 2020 land rents for 52,403 stakeholders worth RM11.84 million
- 2020 hotel licensing fees waiver for 17,289 hotel rooms / 340 hoteliers & lodging houses worth RM386,630
- Permit and license fees waiver for two million traders & hawkers
- Additional RM20 million micro credit fund for SMEs
- One-off cash payment of RM500 to each registered *'penambang'* river taxi owner
- One-off cash payment of RM600 to 959 licensed van operators, 1,976 taxi drivers and 739 school buses and van operator
- Special grant of RM1,500 to 145 tourist guides and 113 park guides
- Special grant of RM750 for hawkers and petty traders registered with Local Authorities in September

- ***Geran Prihatin Usahawan Perak* (GERUP)**

  The Perak State Government has announced the Perak State Economic Stimulus Package Phase Two 2020 on 20 May 2020 amounting to RM71.17 million. Of this, a total of RM1.0 million of fund was allocated to SME Corp. Malaysia to assist micro Bumiputera enterprises in Perak whom were affected by MCO and CMCO due to the COVID-19 outbreak. The objective is to enable them to continue and expand their business post MCO / CMCO. The assistance is in the form of 'one off' grant amounting to a maximum of RM3,000 for the following eligible expenditures:
  i. Online / e-commerce or offline marketing of business products / services;
  ii. Purchase of required raw materials within the scope of business that is being carried out;
  iii. Salary of permanent employees who work on business premises;
  iv. Rental of business premises;
  v. Purchase of suitable equipment for business use; and
  vi. Other expenses deemed eligible by the Committee.

  In addition to the grant, the recipients will also be given coaching courses valued at RM300 to be conducted by SME Corp. Malaysia.

- **GANUSHOP**

  The GANUSHOP was initially launched by Terengganu Entrepreneur Development Foundation on 30 March 2020 as a solution to resolve the problem faced by Terengganu entrepreneurs specifically eateries and restaurants whom were not allowed to operate due to the COVID-19 pandemic. Subsequently, after the Government has allowed eateries and restaurants as well as runners to operate with prescribed standard operating procedure, the situation warrants an expanded role of GANUSHOP beyond its original scope. Thus, GANUSHOP will be upgraded to a more comprehensive marketplace, similar to Shopee or Lazada and will be known as My Entrepreneur Development Foundation (MyEDF). Under the upgraded initiative, GANUSHOP will be integrated with the MyEDF system, where GANUSHOP will become an interactive Terengganu entrepreneur directory with more links including merchant websites, Instagram, Facebook, Shopee and other marketplaces as well as links to social media. This will give more opportunity to traders / sellers to market their products.

Note: Based on information from various sources, including Government and online sites.

THE WAY FORWARD

COVID-19 has wreaked havoc on an already soft global economy and forced a re-think of established systems on surviving this and future outbreaks of such a magnitude. The crisis has brought into sharp focus the need to build resilient, sustainable and inclusive systems underpinned by technology, especially in relation to SMEs, the backbone of the global economy. There is no returning to the old normal, especially with indications that COVID-19 is likely to be followed by other disruptive change such as new technologies, trade tensions as well as climate and social change.

The International Trade Centre (ITC) in its Outlook on SME Competitiveness 2020 report highlights four key features that small businesses would need to survive in the post-pandemic world, namely resilience, inclusion, digitalisation and sustainability.

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Resilience is vital to business survival when a crisis hits. Resilience can be enhanced by supportive public policy, for example, by subsidising investments in risk mitigating technologies and fostering economic and trade diversification as well as in encouraging partnerships, cooperatives and research that foster the development of agile new strategies. Trade diversification, strong cash reserves, networking in the business ecosystem and participation in international trade will also boost resilience. Diversifying one's suppliers and buyers enable businesses to fall back on alternative channels while strong cash reserves increase survival chances in times of crisis. Networking with industry players in the business ecosystem bolster ability to cope in crisis situations while participation in international trade enhances survivability through sourcing from multiple suppliers domestically and overseas to secure more reliable access to inputs. Selling to domestic and overseas buyers ensure that fluctuations in demand and price at home are balanced by those abroad and vice versa.

The need for economic inclusion has been highlighted by the impact of the economic disruptions on the economically disadvantaged, particularly those in the informal sector and SMEs. Making economies more inclusive in the post-pandemic era has to begin with decent jobs and social protection for all. SMEs provide about 70% of jobs and half of economic activity worldwide. Small businesses employ a disproportionate share of disadvantaged groups, including less qualified workers, young people and women. In the post-pandemic world, universal social protection and employer-led initiatives are needed to improve the livelihoods of the disadvantaged in order to shield this vulnerable segment of the population from future crises.

Digital technologies will take centre stage in the new normal as these technologies can help firms to better cope with the kind of disruptions – rapidly shifting consumer demand and confidence, operational disruptions, uncertainty and redundancies in the workforce – as encountered in the COVID-19 lockdown. During the lockdown, the new normal of teleworking, remote learning, teleconferencing, online health services, e-commerce and digital payments was very much evident and the experience gained is likely to lead to increasing use of big data analytics and artificial intelligence by businesses in post-pandemic decision-making. Given such a post-pandemic scenario, policy and regulatory reforms in information and communication technology services will need to be accelerated so as to increase access, improve reliability and reduce costs.

The COVID-19 crisis will likely put sustainability issues more in the spotlight as environmental concerns continue to rise, especially with evidence suggesting that the next crisis may emerge from climate change, which was ranked as the top global business risk in a 2019 survey of insurance industry experts. The focus will be on reducing costs and increasing productivity through energy efficiency and renewable energy as well as the adoption of circular economy principles to meet sustainability goals. In order to enhance competitiveness, Governments will need to embrace digital technologies, such as the use of digital cross-border trade facilitation processes which are simpler, faster and safer.

A sustainable and inclusive agenda enhances economic resilience. Those that are able to navigate a digital, service-driven business environment will gain advantage over competitors as global supply chains as well as business models are being re-shaped to meet the demands of the new normal.

Anchoring these standpoints, the Malaysian Government will continue the momentum of the economic recovery that has been mobilised since May 2020 to provide a variety of assistance to SMEs, including through the PENJANA and Kita Prihatin which are still ongoing. The sheer persistence of the Government to uphold SME development agenda amid the crisis is evident through Budget 2021 which allocated a total of RM38.7 billion, the highest allocation thus far, to either exclusively benefit the SMEs or can be accessed by SMEs along with other businesses. While the success in restoring the country's economy partly depends on the success to curb this COVID-19 pandemic, an efficient and timely implementation through close monitoring of Budget 2021 measures would be instrumental to encourage recovery, growth and investment among Malaysian businesses, particularly SMEs.