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Small and Medium Enterprises in the Pandemic

Impact, Responses and the Role of Development Finance

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Abstract

This study highlights how COVID-19 has affected small and medium enterprises, drawing on newly released World Bank Enterprise Surveys in 13 countries. The study shows that firms of all sizes are severely affected in multiple dimensions; however, firm size matters for the intensity of the different channels of transmission and firms' responses. Small and medium enterprise sales shrink by more and their cash drains faster than large firms in the same sector and country. Among them, faster growing firms experience the demand shock somewhat less severely, but they are more exposed to international trade disruption, supply, and finance shocks. Yet, a range of firm responses to the downturn seem to be out of reach. Fewer small and medium-size enterprises, for example, start remote work, leaving their workers exposed to health risks. To make it through the pandemic, the majority of smaller firms do not turn to banks for loans; they need grants. Although development finance is not enough to fill the financing gap, development finance institutions are relevant—in investment mobilization, demonstration, and know-how—as economies move toward recovery and rebuilding. Delivering these requires rapid efforts to build partnerships and gather information in places where development finance has been limited in the past.

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1. Introduction

It took three weeks for a quarter of businesses in the United Kingdom to shut down when mobility restrictions were announced at the end of March 2020.[2] In the United States and other places contraction has been equally sharp.[3] By July 2020, five months after the coronavirus COVID-19 started to spread globally, the global economy was facing unforeseen and rising hardship; millions of workers remained unemployed; while trade, investment and financial markets had collapsed. Yet, the impact of the pandemic has not been equally spread across countries, sectors, and firms of different sizes.

This study focuses on how Small and Medium Enterprises (SMEs), employing fewer than 100 workers, have been experiencing the shock. The study discusses differences in the impact of the pandemic across firms of different sizes, but also their responses and how development finance can support them best in low- and middle-income countries. The focus on smaller firms is meaningful for many reasons. SMEs are the largest source of employment and delivery of goods and services in lower income economies; hence disruptions to this segment have major social and welfare implications for the poor and rural populations. What is more, permanent closures of small enterprises result in a loss of intangible capital, skills and innovation capacity that risk locking countries into deep recessions long after the pandemic. A range of development objectives – whether it be supporting incomes of the poor during the downturn, providing goods and services, or setting the right foundations for recovery and industrial development of the future - are therefore directly associated to what happens to SMEs during the crisis.

The availability of data is the single most important constraint to our understanding of the effects of the pandemic on business. Beyond a handful of high-income economies, in the United States and Europe, it has not been possible to track the many dimensions of impact at the pace they have been unfolding. In low- and middle-income countries the sources of information are few. By the end of July 2020, the World Bank had released new enterprise surveys from 13 different countries measuring the virus's impact on businesses - from Italy and the Russian Federation, to Albania and Zimbabwe (see Annex Table A1 for sample description). Despite their limitations,[4] the surveys, along with a variety of other sources used in this study, are telling as to how small businesses experience the shock differently than larger firms.

Without sales, half of businesses expect to shut down in less than a month according to the evidence. It is impossible to predict how many will make it through the pandemic as many close

[2] Financial Times, 16 April 2020: *Covid-19 shuts down a quarter of UK businesses.*

[3] Washington Post, 12 May 2020: *Small business used to define America's economy. The pandemic could change that forever.*

[4] The 13 countries for which follow-up surveys were released by July 2020 are located in two regions - Europe and Sub-Saharan Africa, with surveys in other regions scheduled for completion in fall 2020. Moreover, in all World Bank Enterprise Surveys, informal and micro-enterprises (with fewer than 5 employees) are not surveyed; neither are cooperative and 100% state-owned firms. The surveys encompass a broad range of industries: manufacturing, construction, wholesale and retail, hotels, transport and computer related services (ISIC Rev 3.1 codes 15-37, 45, 50-52, 55, 60-64, and 72). However, this omits some sectors with a preponderance of SMEs, such as agriculture or mining, and some services sectors that are highly affected by the crisis, such as financial services, education or health services.

temporarily, just delaying payments. Firms of all sizes, large and small, are severely affected. The strongest predictor of variation in impact across firms is in fact the combination of country-sector where they operate; in other words, market conditions. Firm size, however, makes a difference in the intensity of the different channels of transmission; a conclusion that is robust to a wide range of alternative tests, controls and weights. SMEs struggle more with reduced demand during the downturn – their sales shrink by more than large firms, and their cash drains faster. Sales revenue is in fact where the carnage takes place: SMEs experience a greater drop than large firms in the same sector and location by nearly 9 percentage points. Smaller firms are more affected by this than disruptions in international trade for example. Among them, the job-creating and productivity-enhancing SMEs that matter more for recovery experience the demand shock somewhat less severely, but are more exposed to international trade disruptions, and are more exposed to supply and finance shocks. Saving these SMEs might require addressing a range of constraints beyond liquidity.

Overall, a range of responses by firms to the downturn seem to be out of reach for businesses of smaller size. Fewer of them start remote work, leaving their workers exposed to health risks. Many try something different, like offering a new product or service that might be in demand, and a significantly greater share of them start delivering products and services at homes. These adjustments require investments that small businesses often find it hard to undertake.

To make it through the pandemic, SMEs need grants, not loans. The majority simply do not turn to banks for loans, despite record low interest rates. But not all governments have the budget for grant support. Eight out of 10 firms of all sizes expect some form of public aid in higher income countries like Cyprus for example. In lower income countries like Georgia or Moldova, the little public money available is earmarked for larger firms. In Africa even fewer expect support from the government - in fact the majority of governments in low income countries have not taken any measures to support SMEs. The combination of tight fiscal space and already high corporate debt poses the greatest risks to upper middle-income countries that have funded previous expansions through borrowing.

Development finance is not enough to fill the financing gap at the scale that is needed. The relevance of Development Finance Institutions (DFIs) however is high and structural – in investment mobilization, demonstration, and know-how that will help more as economies move towards recovery and rebuilding. DFIs can help SMEs transition through the crisis and recover through two channels: (1) providing and mobilizing financing through financial institutions, often with associated advice to these institutions on how to structure SME lending programs, and (2) advisory services to reform regulations, support firm adaptation to the crisis and support new entrepreneurship. Delivering these services quickly is critical and requires rapid efforts to build partnerships and gather information in places where DFI financing has been limited in the past.

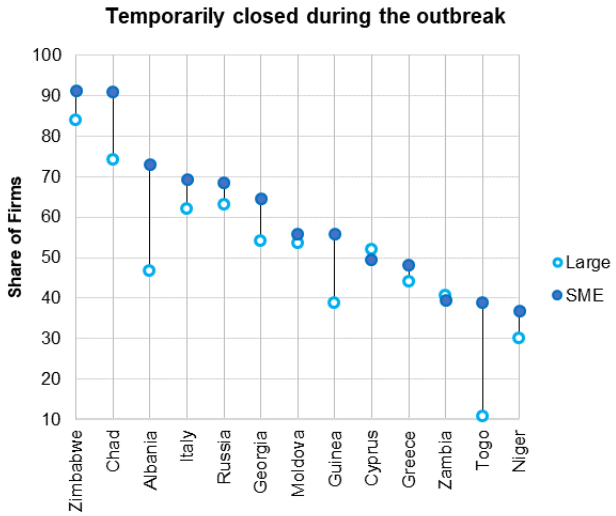
The rest of the paper is structured as follows: section 2 discusses the impact of the pandemic across firms of different sizes, with special attention to job-creating and productivity-enhancing SMEs; section 3 discusses how their responses differ from those of large firms and the last section focuses on government responses and the role of development finance during the crisis and recovery.

2. Impact of the COVID-19 pandemic on SMEs

The COVID-19 pandemic has affected firms of all sizes, but SMEs can be particularly vulnerable for several reasons. First, they tend to be more prevalent in countries and sectors more affected by the crisis. Second, SMEs are more vulnerable to some of the pandemic's channels of impact than larger firms within the same country and sector. Finally, SMEs can have fewer avenues to respond, which we discuss in the next section.

Consequently, SMEs are more 8 percent more likely to have temporarily shut down due to COVID than larger firms, across all countries and sectors in our sample (see Figure 1). In every country in our sample, SMEs are at least as likely to have shut down as larger firms, and in some cases such as Albania and Togo, they are around 30% more likely to have closed temporarily. Clearly, the country context is important, with less pronounced differences for higher-income economies – which may in part reflect differences in the characteristics of SMEs across countries and differences in the support packages available (which we discuss in section 3). The additional likelihood of SME shutdown may appear relatively small, but this is on top of the substantial impact on larger firms - on average 51% of large firms have temporarily closed (see Figure 1).

Figure 1: SMEs are more likely to have closed temporarily during COVID-19

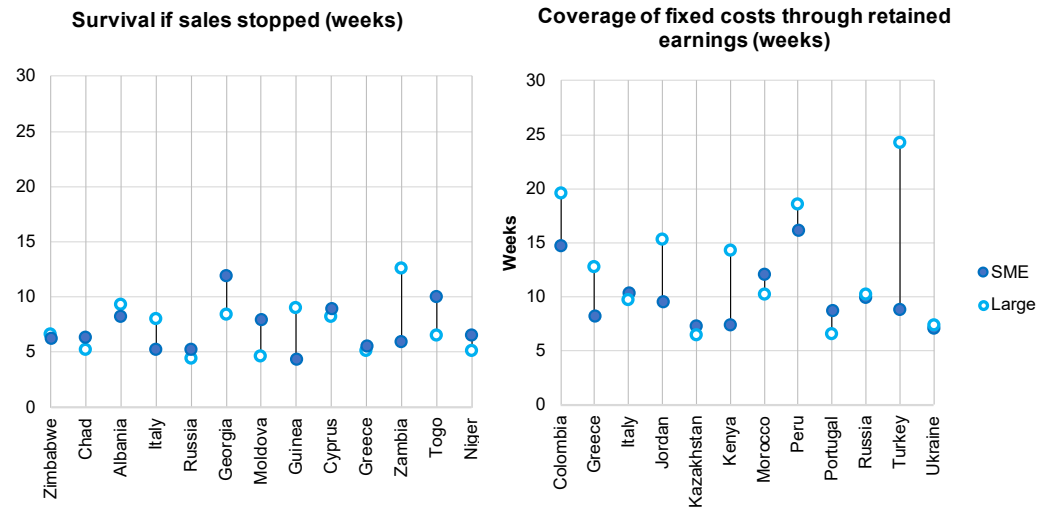


Source: World Bank Enterprise Follow-Up Surveys

Note: Mean estimates use stratification weights adjusted for the follow-up enterprise surveys according to median eligibility. The weights account for non-response, assuming that businesses that could not be re-contacted (unobtainable) have exited the market.

These temporary shutdowns may quickly translate into SME exits the longer the crisis persists. Compared to larger firms, SMEs have less liquidity from external financing or previous years' profits from which to weather any shutdown or demand shock (see Figure 2). SMEs on average are estimated to have liquidity to cover fixed costs for an average of 10 weeks, 3 weeks less than larger firms (Bosio et al., 2020).

Figure 2: SMEs have Shorter Survival Times than Large Firms to Sales Disruptions



Source: World Bank Enterprise Follow-Up Surveys and Bosio et al. (2020)

Note: Mean estimates using the World Bank Enterprise Surveys on the left panel use stratification weights adjusted for the follow-up enterprise surveys according to median eligibility.were used to produce the estimates. The weights account for non-response, assuming that businesses that could not be re-contacted (unobtainable) have exited the market.

Without any sales, the survival time they self-report is on average 4-5 weeks across countries, which is not very different to large firms. An analysis of the distribution across countries shows that, without sales, half of them will have shut down at the end of the first month, and 3 out of 4 by the end of 10 weeks (see Annex Fig A1). A protracted downturn can therefore result in an exodus of firms at these turning points.

2.1 Prevalence of SMEs in affected countries and sectors

The vulnerability of SMEs to the crisis depends in part on their prevalence in more crisis-exposed countries and sectors. Measuring exposure to the crisis is difficult because countries and sectors are interconnected through trade linkages, which can magnify the effects of demand and supply shocks. For instance, in February, Chinese lockdowns led to shortages of key inputs and disrupted production worldwide. European consumers cutting back on clothing demand led to order cancellations and delayed payments for apparel suppliers across Asia (Wall Street Journal, 2020). Recently published measures of economic risk reflecting the impact of household demand shocks explicitly allow for these trade linkages.[5]

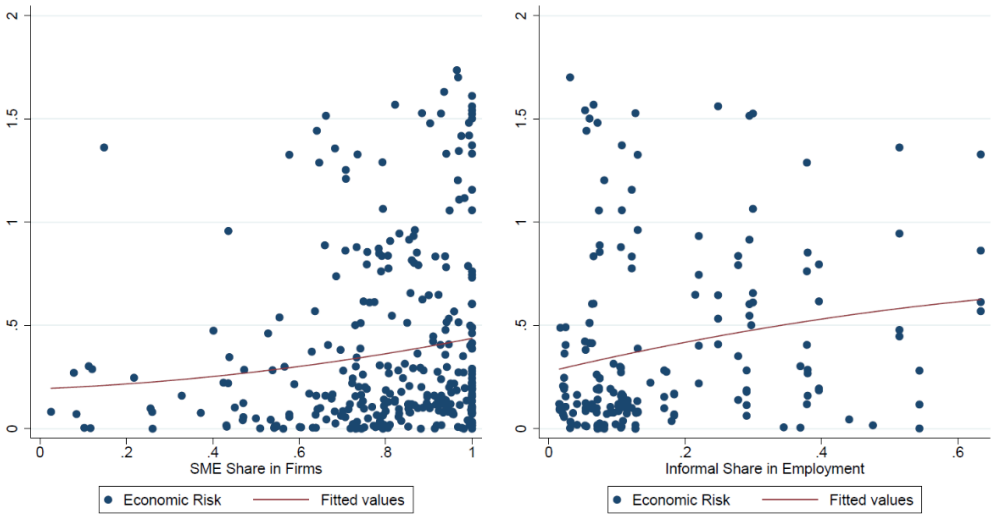
[5] Osotimehin and Popov (2020) propose sectoral measures of both health and economic risk by country-sector using the World Input-Output tables to account for demand interlinkages. The economic risk is measured as the decline in employment induced by a 90% decline in the household demand for social

Country-sector combinations at greater risk to falls in household demand tend to have higher shares of SMEs (see Fig. 3, panel A) Thus, even if individual SMEs and large firms are affected equally by the COVID shock, differences in the composition of SMEs across countries and sectors mean a larger share of SMEs will be affected.

Similar patterns arise when examining the share of informal employment among workers – informal workers disproportionately work in countries and sectors more exposed to the crisis. Although not exclusive to small firms in developing countries, informal work is typical of smaller ventures and also disproportionately frequent in low-income households.[6] Country-sector combinations with 10% higher informality rates exhibit on average 2.5% higher economic risk from the pandemic (see Figure 3, panel B).

Figure 3: SMEs and Informal Workers populate disproportionately countries and sectors more exposed to COVID economic risks

A. Share of SMEs in Total Number of Firms B. Share of Informal Workers in Employment



Source: Informality rate from the World Bank's International Income Distribution Database (I2D2), Economic Risk is from Osotimehin and Popov (2020); World Bank Enterprise Surveys.
Note: Observations are reported at the country-sector level for 23 mainly OECD and large emerging economies for which estimates of economic risk were provided by Osotimehin and Popov (2020). The trendline illustrates quadratic fitted values. Informality rate reflects the share of self-employed and non-paid workers in a sector calculated in the I2D2 database. Economic risk is measured as the employment fall from a 90% reduction in household demand for social consumption, assuming purchases of agriculture, food, chemicals and online purchases remain constant. The share of SMEs is proxied by the share of SMEs in the sum of stratification weights for every country and sector in the World Bank Enterprise Surveys.

consumption, assuming that the household retail purchases of agricultural, food and chemical products and online purchases are not affected by the shock.

[6] We measure proxy sector combinations of informality using the share of workers that are self-employed or non-paid using the World Bank's International Income Distribution Database (I2D2) including household surveys.

One important question is therefore whether the COVID impacts are mainly a story of affected sectors, countries or firms.[7] We find that the country or sector dimensions alone explain no more than 5% of the variation in *any* of the firm outcomes during the crisis – the likelihood of shutdown or measures of firm demand, supply or finance shocks. Thus, focusing on vulnerable sectors alone, or vulnerable countries alone is likely to be missing the bulk of the story. Rather, country-sector in combination explains on average nearly a third of the variation, with the majority explained by firm-level differences within a country-sector. Accordingly, in the rest of this paper, we focus our analysis on comparing SMEs to large firms within a country-sector.

2.2 Channels of impact: Sensitivity to demand shocks as opposed to supply and financial

The COVID-19 pandemic has been a unique crisis in that it simultaneously shocked firms through several channels: a supply shock (reduced labor supply as workers stay at home, unavailability of inputs, disrupted supply chains); a demand shock (reduced demand from laid off and homebound consumers, precautionary savings, investor caution); uncertainty[8] (unable to count on a stream of future revenues that justifies replacement of workers or machinery for example); and the unavailability of finance which interact to create a downward spiral of firm activity. This section examines whether SMEs are more affected by each of these shocks than large firms, within the same country and sector.

Consumers are postponing demand for non-essential goods and services, such as clothing, tourism, durable goods and so on. The fall in domestic demand directly hits domestic suppliers. But for firms in global value chains, consumer spending in high-income destination markets affects demand for their exports. Consumption patterns in these countries has been closely following the virus transmission, fewer COVID cases restores consumer confidence and more cases erodes it (Chetty et al., 2020; Leer, 2020). Therefore, the duration of the demand shock facing firms in developing countries is tied to the health response both domestically and in developed economies.
SMEs have been more severely affected by demand shocks than large firms in general; while they are less exposed to shocks to foreign demand in particular through exports (see Figure 4, top panel). According to the surveys available, SMEs are more likely by 9 percentage points to experience a fall in sales compared to one year ago than large firms and the sales of SMEs on average are lower by 8 percentage points than one year ago. Some firms and sectors are clearly experiencing demand growth in response to COVID – think of health care, home-office equipment etc. However, SMEs are also less likely to report a rise in sales than larger firms by 6 percentage points. Thus, SMEs experience more of the downside and less of the upside. In contrast, SMEs are less likely to

[7] Several papers have used sectoral classifications of COVID exposure often for the United States, for instance based on essential services, the ability to work from home and so on (e.g. Dingel and Neiman, 2020). Other approaches have constructed country vulnerability measures, often using GVC or commodity trade data (e.g. IFC Country Vulnerability heat maps).
[8] Based on the World Bank's COVID-19 Business Pulse Surveys, expectations for the next six months range from a 60% decline to a 20% increase in sales.

experience a decrease in exports, and less likely to be directly affected by import disruptions, reflecting their reduced participation in Global Value Chains compared to larger firms.[9]

One potential concern is that size is correlated with other uncontrolled firm characteristics, that may explain the variation in firm impact. Adding controls for age, export status, foreign ownership and labor productivity however does not affect the statistical significance nor the magnitude of the estimated impact.

SMEs are more likely to face financial constraints than larger firms even in normal times. Collectively, estimates have placed the financing gap faced by MSMEs around $5.2 trillion, with an additional financing demand of $2.9 trillion due to the crisis. IFC estimated that 40 percent of formal SMEs in developing countries have unmet financing needs (IFC, 2017). Evidence emerging from the United States suggests that this gap may be widening, as bank lending has particularly grown to larger existing clients, potentially to mitigate COVID risks (Li et al., 2020; US Small Business Administration, 2020). In addition, SMEs are likely to have more limited internal sources of liquidity, such as retained earnings. Here we find that SMEs are more likely to report decreased liquidity or cash flow availability due to COVID than larger firms by an average of 10 percentage points. The longer the crisis persists, the more likely that decreased liquidity will translate into insolvency and firm exit.

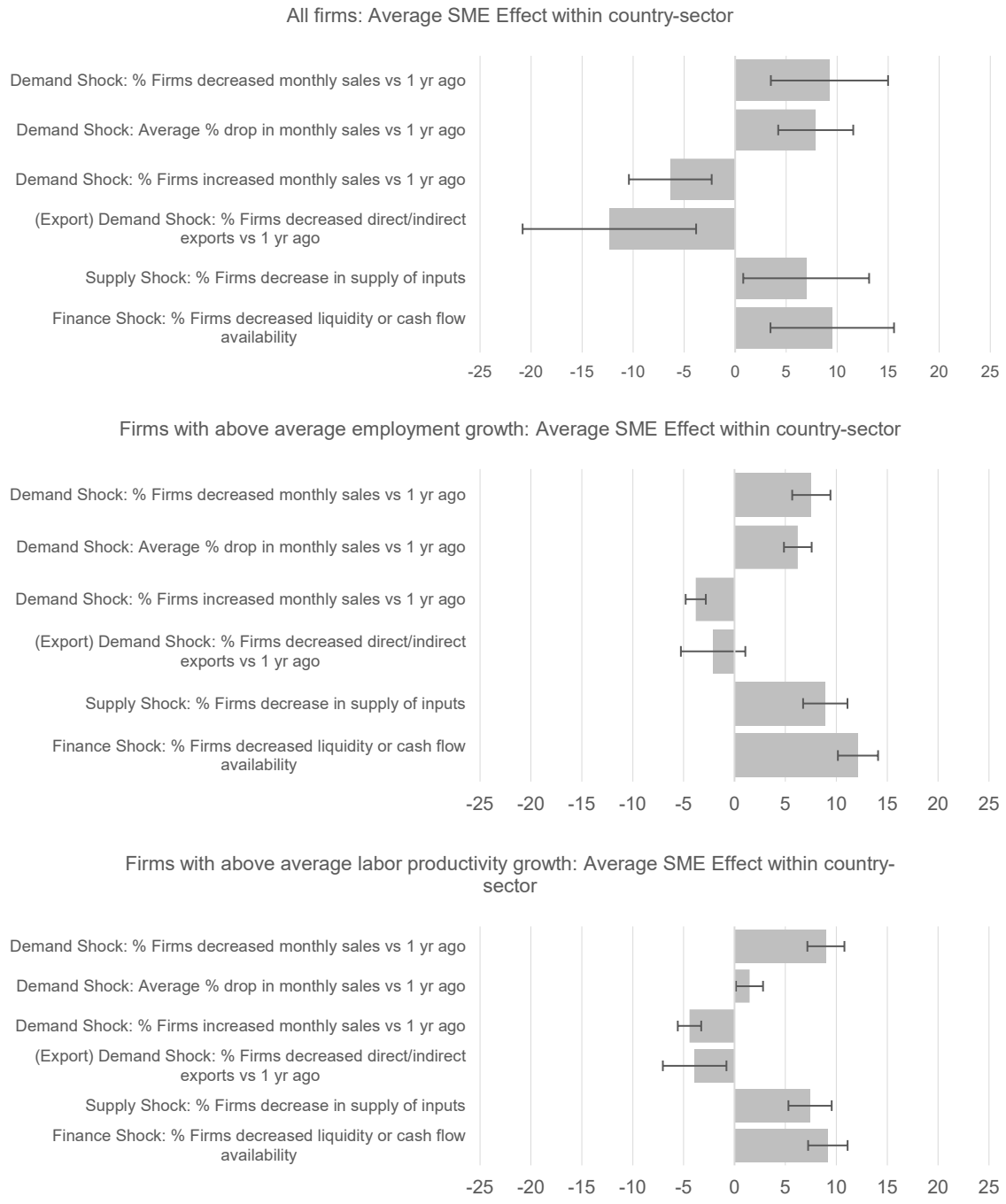
Among SMEs, small firms employing fewer than 20 workers are particularly vulnerable to demand and finance shocks (see Figure A1 in the Annex). The negative demand shock is particularly severe for smaller firms, both in terms of the likelihood of falling sales and the percentage sales fall. Small firms experience a 10 percentage point greater fall in sales than larger firms, whereas for medium firms the fall is on average 6 percentage points. Similarly, small firms predominantly explain the exposure of SMEs to financial shocks, as one would expect. In contrast, small and medium firms have similar increased exposure to supply shocks and are equally unlikely to experience positive demand shocks or export demand shocks than larger firms.

COVID has led to massive increases in uncertainty that is likely leading firms to postpone investments in capital, skills and innovation – with likely scars for the post-COVID recovery. Measuring uncertainty is not straightforward, with scarce data for developing economies. SMEs typically report higher uncertainty over sales than larger firms, in part, due to poorer access to information and due to the fact that sales is where the impact by firm size is more severe. Evidence for the United Kingdom and the United States finds that while SMEs face around 20%-30% higher uncertainty over sales both before and after COVID, firm uncertainty has reached the highest levels since records began and dwarfing the financial crisis (Altig et al., 2020).[10] Results from the 13 countries surveyed by the World Bank are mixed, with variation in the overall expectations of return to normalcy lower among SMEs than large firms in some countries (see Figure 5), suggesting somewhat greater certainty in overall outlook. Large firms might be better able to cope with the challenges, but often have additional uncertainty to take into account such as foreign suppliers or the stock market, which SMEs are less likely to be listed.

[9] Smaller firms may however be indirectly affected through disruptions to inputs imported by wholesalers. The World Bank Enterprise follow-up surveys do not allow measurement of the import supply shock.

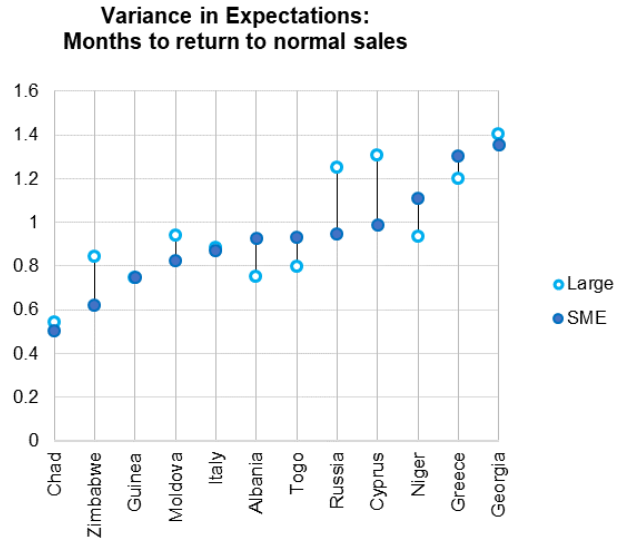
[10] The comparison group here is firms with more than 250 employees, but SMEs are defined as having fewer than 100 employees (as in the rest of this paper). Their records began in 1985.

Figure 4: SMEs are more exposed than Large Firms to COVID shocks



Source: World Bank Enterprise Follow-Up Surveys.
Note: Chart reflects the average difference between SMEs and Large Firms within a country-sector with their standard errors. Country-sector fixed effects are included. Stratification weights adjusted for the follow-up enterprise surveys according to median eligibility were used to produce the estimates. The weights account for non-response, assuming that businesses that could not be re-contacted (unobtainable) have exited the market

Figure 5: Variance in expectations for return to normalcy is not consistently higher among SMEs



Source: World Bank Enterprise Follow-Up Surveys

Notes: The chart illustrates the difference between coefficient of variation in expectations of months to return to normal sales for the sample of SMEs and Large Firms in each country. The values of coefficients for Zambia were 2.97 and 1.91 for Large firms and SMEs respectively, outside the range of the illustration. Stratification weights adjusted for the follow-up enterprise surveys according to median eligibility were used to produce the estimates. The weights account for non-response, assuming that businesses that could not be re-contacted (unobtainable) have exited the market

2.3 Impact on SMEs that matter for recovery

In normal times, most SMEs do not grow, but remain at the same size or exit, with a minority exhibiting rapid growth in productivity or scale. However, a minority of disruptive startups have the potential to shape economies through new and more productive business models. The loss of these disruptive, innovative SMEs may cause permanent scars to the post-COVID recovery. While targeting these firms is inherently difficult ex-ante, we use firm employment and productivity growth prior to COVID as a rough proxy. In this section, we consider whether SMEs recording above average growth in particular are more affected by shocks than larger firms in the same sector and country.[11]

Above average SMEs are also more vulnerable to COVID shocks than larger firms, with broadly similar levels of vulnerability as SMEs as a whole (see Figure 4). Job-creating SMEs (i.e. those with above average employment or productivity growth in their country and sector) are more likely to suffer from negative COVID demand shocks than large firms by about 8 percentage points and 4 points less likely to experience an increase in demand. However, these SMEs experience demand falls in the range of -1 to 6 percentage points less than large firms (depending on whether growth is defined in terms of employment or productivity), a somewhat smaller drop than SMEs as

[11] Our comparison group of large firms here encompasses all growth levels, although results are qualitatively similar to comparing against high-growth large firms.

a whole. In addition, there is no statistically significant difference in their exposure to export demand shocks than larger firms, reflecting their higher trade participation than SMEs more generally. The ways they experience supply and financial shocks are also statistically clearer than those of the segment as a whole: job-creating SMEs are more likely suffer supply disruptions by 5-67-9 percentage points and more likely to experience decreased liquidity availability by 8-109-12 points. Productive SMEs – i.e. those with above average productivity growth in their country and sector – experience the shock similarly to job-creating SMEs, except with a milder drop in sales, and greater access to finance.

As a general take-away, saving these SMEs might require addressing a range of constraints beyond liquidity: the supply shock, maintaining their access to international markets and addressing financial constraints.

3. SME responses and resilience strategies are different from those of large firms

There is substantial variation in how SMEs respond to the crisis, both within the segment and compared to their large counterparts. While cross-country differences play a role, with SMEs in countries like Italy and Greece much more likely to be operating in affected sectors, structural differences between SMEs and large firms explain much of these variations (OECD, 2020b). These differences could be due to expectations on the duration of shutdown affecting the type and magnitude of firm response to the crisis (see Buchheim et al., 2020, on German firms). In addition, the crisis reinforces any pre-existing weaknesses among firms, hence affecting their ability to cope.

In this section we look at differences in firm responses to the COVID-19 crisis broadly classified under three categories: i.) operational; ii.) financial; and iii.) structural.

3.1 SMEs forced to adopt sharp near-term operational adjustments

Although the shares across firms of all sizes are still low, SMEs are more likely to close their operations permanently.[12] Consistent with this observation is that SMEs are more likely to run into financial difficulties and file for insolvency or bankruptcy.[13] It is crucial to highlight that close to none of the large firms sampled have closed permanently since the crisis began. In addition, while blanket lockdowns forced large firms to at least close temporarily,[14] they tend to reopen earlier on average.[15] For some poorer countries, this can be up to a month earlier.

Small firms are not more likely than larger firms in the same location and sector to adjust their production or services in response to the crisis (Figure 6). This could include partial

[12] The closure of Italian SMEs exceeds 10%, taking into account non-response rates. Note that for countries with available data, the share of small firms that have closed even prior to COVID-19 is not insignificant (Georgia: 52%; Russia: 80%).

[13] Running counter to the general trend in other countries, large firms in some Sub-Saharan African countries like Niger, Zambia and Zimbabwe tend to file for insolvency/bankruptcy at a higher rate compared to smaller firms.

[14] Except in Greece, where less than a fifth of large firms closed temporarily during the crisis, more than half of firms of all sizes generally faced temporary closure.

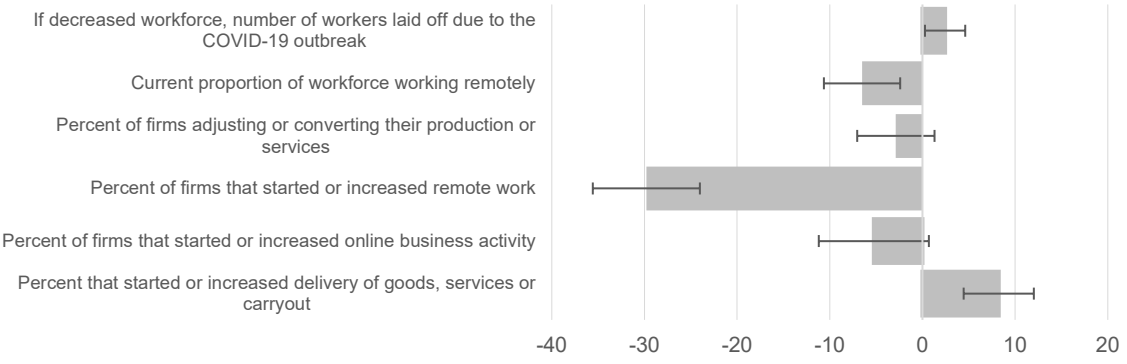
[15] For some high-income countries like Cyprus, Greece and Italy, the duration of closure for large firms is higher or comparable to that of SMEs.

adjustments in modes of production or service delivery, which can likely range from higher online interactions with customers[16] and digital marketing to a gradual adoption of digital payments. As SMEs largely cater to their respective locales, they are more likely to start or increase delivery of goods, services or carry outs by 8 percentage points. Figure A2 in the Annex shows this is predominantly explained by smaller firms, which are more likely to start delivery or carryout by over 9 percentage points.

Large firms, however, have been generally better at adapting to remote working arrangements. Compared to large firms, SMEs are less likely to start or increase remote work by 30 percentage points, effectively exposing more of their workers to health risks.[17] Consequently, SMEs have 7 percentage points less of their workforce working remotely. Remote work is particularly problematic for smaller firms, which are less likely than larger firms to employ remote working arrangements by 33 percentage points, compared to 18 for medium firms (see Figure A2). This is likely attributed to the lack of existing infrastructure and digitally-savvy employees among smaller firms, even in high-income economies like Japan (OECD, 2020a).

As supply-chains face disruption, smaller firms have little to no alternatives. Lockdowns in China, the European Union and the United States have had negative spillover effects on global trade that limit foreign market access as a response (International Trade Centre, 2020). Where these opportunities exist, larger firms seem more capable of increasing exports. Large firms, however, can also be most affected by this channel given their greater participation in global supply chains. This is the case in certain countries like Italy, where bigger shares of large firms than SMEs reported increased exports, and bigger shares reported decreased exports.[18]

Figure 6: SMEs cope with the crisis differently than large firms



Source: World Bank Enterprise Follow-Up Surveys

Note: Chart illustrates the average difference between SMEs and large firms within a country-sector pair with their standard errors. Country-sector fixed effects are included. Stratification weights adjusted for the follow-up enterprise surveys according to median eligibility were used to produce the estimates. The weights account for non-response, assuming that businesses that could not be re-contacted (unobtainable) have exited the market

[16] The usage of messenger apps could be one key measure.

[17] This is supported by the World Bank's COVID-19 Business Pulse Surveys (COV-BPS) that capture firm-level impacts, which found that digital solutions are more likely to be adopted by larger and formal firms.

[18] This also likely depends on the sectoral composition of these firms.

Managing the workforce is also important in reducing operating expenses and easing liquidity pressures. SMEs tend to adopt measures on both the intensive and extensive margins (i.e. increasing the intensity of the response, or trying something different) but are only able to focus more on the former. This is aligned with evidence from other markets: firms in Ghana and Senegal for example mostly reducing hours or pay, while firms in Bangladesh and South Africa more likely to lay off employees.[19] In India, most SMEs are not laying off their workers, but up to 25% of them (depending on the size category) are unable to pay salaries (Buteau and Chandrasekhar 2020). Naturally, all firms are found to have decreased working hours, given broad-based lockdowns in many countries. Firms that do increase working hours are most likely involved in the essential health-related sectors. On the extensive margin, while more firms reduced than increased their permanent workers, larger firms are found to be more capable of utilizing temporary workers to quickly adjust the size of their workforce.

3.2 SMEs have limited avenues amid severe financial constraints

A key concern for most firms experiencing a sudden drop in sales is liquidity constraints. Both cash inflows and outflows require careful management, without which businesses become highly susceptible to permanent closure. Firms generally cope with an abrupt economy-wide contraction in liquidity is by utilizing payment facilities on credit terms or ceasing payments altogether and facing the risk.

Yet, larger firms have generally better access to credit. In limiting immediate cash outflows, smaller firms are found to be less able to engage with their suppliers on credit terms. A general decline in creditworthiness is observed for these firms across all countries, where the declines in purchases via credit are larger or at least as bad as those among large firms. For SMEs with greater capacity, changing the credit terms with suppliers has been crucial in protecting their balance sheet, while also preserving their existing relationships (Corporate Finance Network, 2020).

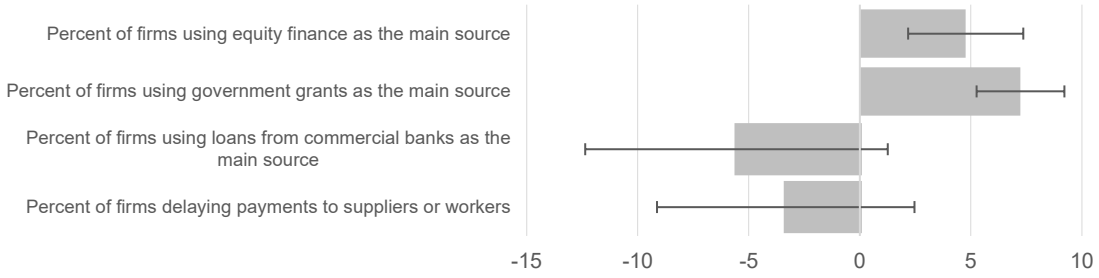
SMEs prefer grants or equity to loans - they tend to rely more on equity financing and government support to tackle cash flow shortages (Figure 7). This preference is not only due to uncertainty over repayments; in China, for example, SMEs have been reported reluctant to borrow from banks due to the complicated process, limited flexibility on loan terms and because they lacked the acceptable collateral and/or standardized financial statements required. They also preferred mid- and long-term loans with tenor above 1 year with concerns that "due on demand" loan tenor could make them vulnerable to loan reduction or rescission (CAFI 2020).

Grants however are scarce in many lower-income countries, where SMEs receive[20] or expect little assistance from the government. In addition to low state capacity in some Eastern European and Sub-Saharan African countries, awareness of the existence of assistance programs may also be lacking among SMEs. In other countries, limited assistance that reaches SMEs could also reflect disillusionment with the typically complex application process and complicated eligibility rules associated with government assistance, also evident in the United States (Bartik,

[19] Based on the World Bank's COV-BPS.
[20] For instance, almost 95% of nearly 2,000 Nigerian SMEs surveyed in April had yet to receive any business support.

2020). This underscores the need for more carefully designed, streamlined and communicated economic assistance programs.

Figure 7: SMEs rely significantly more on government grants and equity



Source: World Bank Enterprise Follow-Up Surveys
Note: Chart illustrates the average difference between SMEs and large firms within a country-sector pair with their standard errors. Country-sector fixed effects are included. Stratification weights adjusted for the follow-up enterprise surveys according to median eligibility were used to produce the estimates. The weights account for non-response, assuming that businesses that could not be re-contacted (unobtainable) have exited the market

Finally, SMEs resort to payment delays to suppliers or workers as much as other competitors in the same location and sector.[21] This is despite their low bargaining power and a greater need for SMEs to retain their existing relationships with suppliers and workers. Likely reasons for this include the knock-on effects of late payments from large and other businesses and a lack of penalty, which could incentivize SMEs to delay payments from a practical standpoint. The former remains a long-standing issue for many SMEs. In Europe, for instance, about a third of SMEs in Poland, Italy and Bosnia and Herzegovina claim that late payments threaten the survival of their business (Intrum, 2020). The COVID-19 crisis exacerbates this issue and the liquidity problems faced by SMEs.

4. DFIs are better positioned to help SMEs in the recovery rather than the crisis

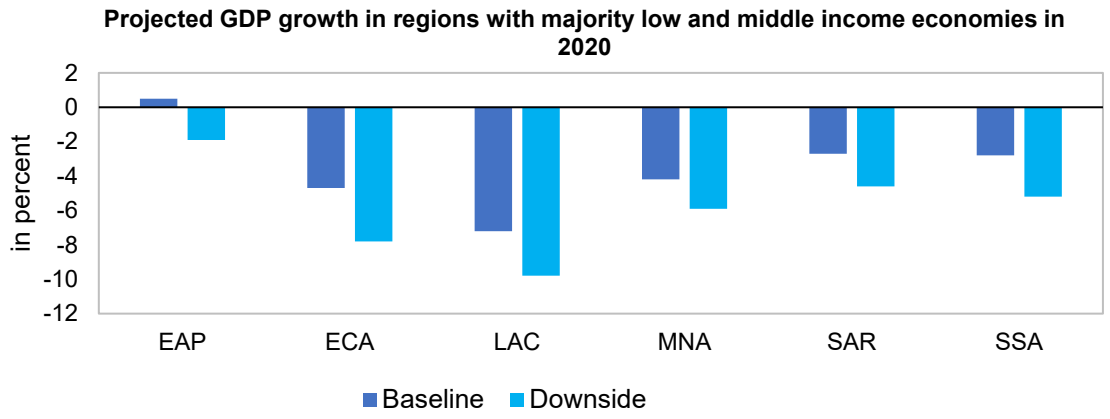
The COVID-19 crisis is expected to plunge many countries across the world into recession in 2020. Notwithstanding unprecedented policy responses, the baseline forecast predicts a 5.2 percent shrinkage in global GDP in 2020—the deepest global recession in eight decades (World Bank, 2020). The magnitude of the recession is expected to vary across regions, income groups, and by fragility status. The baseline scenario foresees a contraction in GDP of about 7 percent in advanced economies compared with only 2 percent in low and middle-income countries, the largest declines in GDP are expected to be recorded in the Latin America and Caribbean and in Eastern

[21] The survey also indicates that small firms are on average as likely as large firms to stop repaying their loans to banks.

Europe Central Asia regions (see Figure 8). With a negative growth per capita of 6 percent, fragile low-income countries would be hit harder than other low-income countries (World Bank, 2020). Economic activity in Sub-Saharan Africa is expected to contact by 2.8 percent, the deepest on record.

The scope of the recession would also vary depending on the depth and length of the COVID-19 pandemic, the strictness of containment measures, and the success of fiscal and monetary policy responses in supporting consumer and investor confidence. In the downside scenario *(more stringent lockdown measures)*, GDP in low and middle-income countries would shrink by about 5 percent, while in the upside scenario *(prompt recovery)*, a mere 0.5 percent, i.e. still negative.

Figure 8. Growth projections for all regions are negative



Source: World Bank Global Economic Prospects, June 2020.
Note: EMDE = emerging market and developing economies. The projections of growth in real GDP shown in the graph are based on the baseline and downside scenarios.

Albeit at varying levels of stringency, governments in all affected countries are responding to the COVID-19 crisis by taking containment measures and economic responses to dampen human and economic impacts of the crisis. Development Finance Institutions are also using various instruments to help firms amid the crisis. This section focuses on *(i)* how governments are supporting SMEs during the pandemic and *(ii)* how suitable are DFI instruments to support SMEs, including helping to protect jobs and limit the downside risks at different phases of the pandemic.

4.1 How are governments supporting SMEs during the crisis?

Governments around the world are taking policy actions in response to COVID-19 to protect SMEs and workers from the economic disruption associated with the pandemic. The World Bank has been recording policy actions taken by countries and registers eight main measures that are being taken by authorities in support of SMEs. These include *(i)* debt finance, *(ii)* employment support,

(iii) tax, *(iv)* business costs, *(v)* other finance, *(vi)* demand, *(vii)* business climate, and *(viii)* business advice.[22]

Channeling support to firms using their size as the sole criterion has drawn controversy over the years. To support job creation and structural transformation, economists have been calling for a greater focus on young firms, high-growth firms, exporters or innovators that associate the targets of support more directly with a range of development objectives (see Grover et al., 2018; Cirera and Malloney, 2017). In periods of crisis, however, the objective function of government policy can vary, justifying support on the basis of vulnerability which aims to prevent disorderly exit of viable firms and social disruption. Evidence-based choices are necessary for governments to offer the most effective support to firms of different characteristics, yet a set that is often missing during a crisis.

Over 1,100 SME-support actions have been adopted in the past few months in 124 countries around the world (Table 1). While there is notable disparity in the types of instruments used, many low-income countries simply do not offer support to SMEs. Among countries that do, 40 percent are high-income compared with 33 percent, 21 percent, and only 6 percent for upper-middle income, lower-middle-income and low-income countries, respectively. Upper-middle income countries are increasingly responding to the COVID crisis through SME-support measures. About 68 percent of them have announced measures. This figure compares with 62.5 percent of high-income countries, 55 percent of lower-middle income countries and only 22.6 percent among low-income countries.

Support through debt finance – central banks' actions such as lowering capital requirements to induce commercial banks to increase lending to SMEs; credit guarantees; deferral, restructuring, and rescheduling of payments; new lending under concessional terms; existing lending with reduced/no interest, lower collateral requirements; and rapid approval/dispersal arrangements, low/no fees, removal of fees/penalties – is the most predominant type of support being used across all countries (39 percent of all support measures). Employment support[23] and tax-related measures[24] are also prevalent across countries, representing about 24 and 20 percent respectively. Table A2 in the annex provides a detailed description of instruments used by type of support.

Direct intervention in the financial markets to ease access to loans is not uncommon. This could take the form of regulations – in Kenya, Mexico, and Uganda for example governments removed or prohibited bank fees and charges for crisis-driven loan restructuring. Brazil's Central Bank reduced risk-weighted assets relative to MSME credit exposures from 100 percent to 85 percent, and reduced the minimum required capital for small, non-systemic regulated institutions (deposit-taking and credit-only institutions). Brazil, India, Kenya, Philippines, and Sri Lanka relaxed selected prudential norms, such as less stringent leverage ratios. In other countries like Argentina, Brazil, India, Pakistan, the Philippines and South Africa, governments provided direct support to micro-finance providers in order to increase access to liquidity for lending to MSMEs, in the form of reduced collateral requirements, provisioning, and risk-weighted assets. Pakistan reduced

[22] The list of policy responses is not exhaustive and is being updated as governments announce other measures.

[23] e.g. wage subsidies, labor training subsidies, unemployment benefits, new working schemes, subsidies for employee sick leave.

[24] e.g. rate reductions in corporate tax, credits, waivers, and/or deferrals; simplified tax procedures and regulations; rate reductions in payroll, social security, VAT taxes, land taxes.

collateral requirements for larger loans and encouraged collateral-free loans up to Rs 5 million (IFC, 2017).[25]

But there is no blueprint for such support to enterprises - policy measures to support SMEs are highly dependent on country circumstances. First, the scope, the choice, design, and implementation of SME-support instruments depend on (pre)existing constraints firms face as well as the government's ability to deliver support (see Figure 9 for an illustration). For instance, in countries with limited fiscal space firms that have liquidity pressures can be supported through umbrella guarantees and loans by public banks. In countries with ample fiscal space, support measures could include tax relief, wage subsidies, and direct loans for enterprises that have liquidity constraints; and equity injections and/or grants for firms that have issues servicing their debt.

Table 1. Support schemes for SMEs – number of instruments by type of support

	Low-income	Lower-middle income	Upper-middle income	High-income	Total of instruments
Debt finance	6	99	153	170	428 *(38.87%)*
Employment support	1	24	71	172	268 *(24.34%)*
Tax	3	62	79	72	216 *(19.62%)*
Business costs	1	12	32	26	71 *(6.45%)*
Other finance		4	14	29	47 *(4.27%)*
Demand	1	10	11	6	28 *(2.54%)*
Business climate		9	10	8	27 *(2.45%)*
Business advice			2	14	16 *(1.45%)*
Total of instruments	12	220	372	497	1,101
Number of countries with support measures	7 *(22.58%)*	26 *(55.32%)*	41 *(68.33%)*	50 *(62.5%)*	124 *(57.88%)*
Total number of countries	*31*	*47*	*60*	*80*	*218*

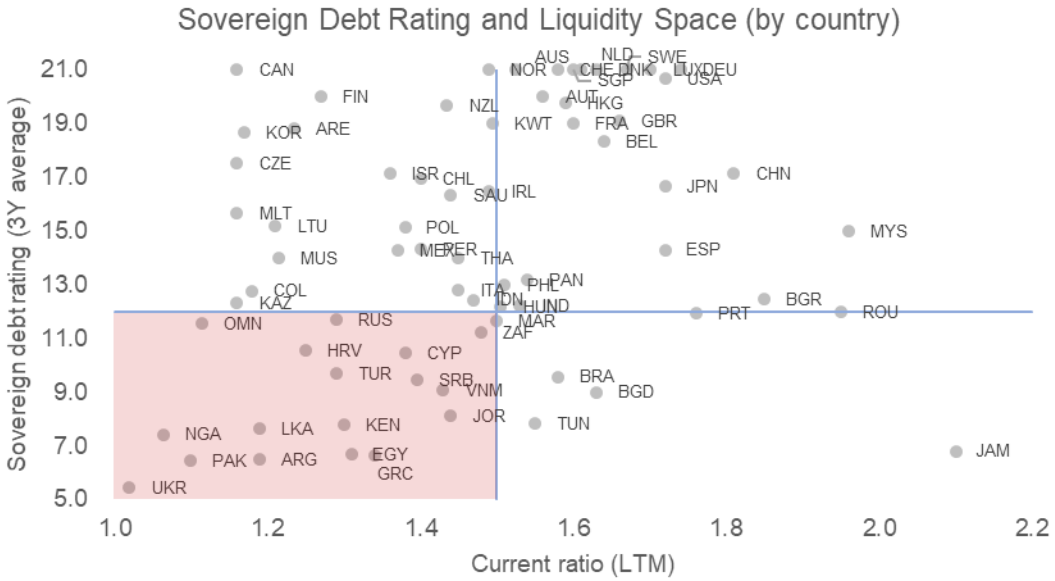
Source: World Bank Group, Map of SME-Support Measure in Response to COVID-19. https://www.worldbank.org/en/data/interactive/2020/04/14/map-of-sme-support-measures-in-response-to-covid-19

Note: In the last column, figures in brackets represent the percentage of each type of support in the total of support measures. Figures in brackets in the second last row represent the percentage of low, lower-middle, upper-middle and high-income countries that adopted support measures. The different instruments in each type of support used by countries are presented in the annex.

[25] From the Financial Services to MSMEs notes in the document "Government policy responses to support the private sector" (Aijazuddin& Savonitto, 2020). Original Source: IFC MSME Finance Gap Report, 2017).

But which countries are in highest need of external assistance? Countries that have been accumulating debt over the last years have limited fiscal space to support the private sector. When in addition a large number of firms in an economy are highly leveraged then there is simply little space for either financial institutions, or the government to fill that liquidity gap with more debt. Countries in which both these conditions hold are at greatest risk of rapid economic contraction from the shock and thus in greater need of external assistance. With all their limitations, simple measures for both dimensions – the average sovereign debt ratings of the last three years,[26] and the current ratio of publicly-listed firms – show that upper-middle-income countries like South Africa, Turkey and Russia, as well as large lower-middle-income economies like Nigeria and Pakistan are in that group (see Figure 9).[27] These indeed are places where development finance is already deployed relatively intensively. Other large economies, such as Brazil, also have limited fiscal space for support, but its companies have on average more space to take on additional debt.

Figure 9. Upper-middle income and large economies face greater liquidity shortage and risks: countries' categorization



Source: Authors' elaboration. World Bank, S&P Capital IQ database.

Many SME-support measures do not necessarily target specific firms but may only reach formal ones. In these countries, policies need to be inclusive of both formal and informal sectors, possibly using different instruments. While tax relief programs and support through formal financial institutions may not reach many SMEs in those countries, they can prevent viable firms from sliding into informality or bankruptcy.[28] Still, available data show that only a small share of SMEs receive direct support from government although take-up rates vary significantly by country. This highlights

[26] The foreign currency long-term sovereign debt ratings has an index between 1 and 21 and can be mapped to the classification used by each of the major credit rating agencies.
[27] Using a three-year average of fiscal balance yields similar results (see Figure A4 in Annex).
[28] https://blogs.worldbank.org/psd/keeping-lights-supporting-firms-and-preserving-jobs-crisis-through-recovery

the difficulty in reaching those in need (Figure 10). For instance, in Niger 39 percent of large firms received or are expected to receive government assistance compared with only 7 percent of SMEs. Whereas in Greece, SMEs (74 percent) received a relatively higher share of government support compared to large firms (70 percent).

Central banks' responses to the COVID crisis – increasing liquidity and extending long-term lending measures via the banking system to ease financial conditions and support the flow of credit in the economy – have also been critical for the survival of firms. Some countries have explicitly targeted SMEs with these measures: for instance, Mexico's Central Bank has opened 350 billion pesos financing facilities for commercial and development banks to allow them to channel resources to MSMEs and individuals affected by the COVID-19 crisis.[29] However, on average small and informal firms, and female-owned firms have less access to bank lending, and rely more on MFIs and other NBFIs. Those institutions may not receive the same level of central bank liquidity support. Moreover, central banks in some countries may have limited access to foreign exchange, so have less ability to alleviate liquidity shortages in foreign currency (e.g. to finance trade).

Further, some evidence suggests that micro-finance institutions (MFIs) are providing flexibility to their clients, either to sustain client relationships which will be important in the recovery phase, or because governments have officially mandated it. This has put pressure on the finance providers, particularly in the short term. It also poses risks to a strong trust culture on which MFIs depend for their longer-term survival (Freund & Mora, 2020).

Figure 10. Share of SMEs vs Large Firms that expect government support vary by region

Source: World Bank Enterprise Follow-Up Surveys

Note: Stratification weights adjusted for the follow-up enterprise surveys according to median eligibility were used to produce the estimates. The weights account for non-response, assuming that businesses that could not be re-contacted (unobtainable) have exited the market

[29] S&P Global. https://www.spglobal.com/ratings/en/research/articles/200603-scope-of-policy-responses-to-covid-19-varies-among-latin-america-s-central-banks-11508702

While SMEs are still largely in survival mode, a key concern as businesses reopen on a larger scale lies in whether SMEs could adapt to a new post-COVID-19 environment and adopt new business models. Going forward, SMEs will need to embrace digital technologies to strengthen their resilience and propel further growth. However, they face substantial challenges with the lack of technical knowledge and the high costs associated with shifting towards digitalization.

Given the relatively low capacity of SMEs, public initiatives are extremely critical in this area. Evidence suggests that more countries are phasing in structural policies to address not only short-term challenges faced by SMEs with remote working, but also broader and longer-term concerns with digitalization, training and innovation (OECD, 2020a). However, such measures have largely been concentrated in certain sectors and among higher-income and large emerging economies.

4.2 How adequate are DFI instruments to support SMEs at different phases of the pandemic?

Development finance is not enough to fill the liquidity gap of the crisis in the volume that is needed. In this study we argue that Development Finance Institutions are no less relevant however; their role is structural – in investment mobilization, demonstration, and know-how – all of which will help more as economies move towards recovery to recreating markets.

DFIs can help SMEs transition through the crisis and recover primarily through two channels: (1) providing and mobilizing financing through financial institutions, often with associated advice on how to structure SME lending programs, and (2) advisory services to reform regulations, support firm adaptation to the crisis and support new entrepreneurship. Delivering these services in time is critical, and requires huge efforts in terms of building partnerships and gathering information in places where DFIs have been less active in the past.

Fast track injections to support the liquidity of existing clients is where most DFIs begin. IFC, for example, has been providing $8 billion by July 2020 in fast-track financial support to banking institutions and private companies. Large preexisting networks of providers of finance to SMEs help deliver the response quickly – in the case of IFC, its relationships with a network of 400 financial intermediaries that are committed to expanding financial services to SMEs enabled the organization to respond quickly in expanding lending to SMEs. A mix of investment instruments and advisory services is necessary to help these financial institutions ramp up existing SME finance business lines, expand into new SME segments and sub-regions and add SME products and services to their overall suite of products (see Box 3.1 in annex).

Depending on market needs, DFIs rely on different instruments to support SMEs (see Figure A5 in annex). While most are not well placed to work directly with SMEs, the institution can help SMEs transition through the crisis and recover via two channels: *(1)* providing and mobilizing financing through financial institutions, often with associated advice on how to structure SME lending programs, and *(2)* advisory services to reform regulations, support firm adaptation to the crisis and support new entrepreneurship.

Addressing what is likely to be a pervasive information gap in the post-pandemic, DFI activities should aim primarily to demonstrate the viability of lending to SME segments that belong to unserved/underserved groups or regions. The identification of such underserved groups or regions

depends a lot on country-specific factors but may also include some groups that are more universally underserved (e.g. women-owned) or newly hit by the pandemic.

Financing

SME demand for financing is expected to pick up as economies reopen with greater investment confidence, especially from SMEs with good growth prospects. In many countries, banking systems struggle to allocate loans to SMEs even in normal times. Post-crisis, banks are likely to have weaker balance sheets and lower risk appetite. There is therefore potential for DFIs to support greater SME lending by working with local banks. This financing can accelerate recovery and job creation, especially if targeted towards SMEs with higher productivity and growth potential. High growth SMEs will also need additional equity to grow.

Debt: Higher potential SMEs will need long-term debt to support their growth. The initial focus of DFI financing of SMEs during the COVID crisis has been on short- and medium-term debt for working capital. This includes instruments which provide liquidity, such as trade finance and factoring. As economies reopen, SME financing needs will shift to longer-term debt. While DFIs cannot substitute for domestic resource mobilization in financing SMEs, they can play an important complementary role in filling financing gaps not easily met by banks and non-banking financial institutions (NBFIs) based on provision of liquidity through the banking system. DFI knowledge in designing new financial products can be just as or more important than the scale of its financing. At the same time, the scale of development finance is not large enough to compensate for deficiencies in overall monetary policy, such as high interest rates, lack of foreign exchange, lack of bank liquidity or solvency. In such situations, DFI financing should be highly targeted on specific financing constraints (e.g. lending to healthcare SMEs during the current crisis) rather than broader programs.

Due to their prevalent domestic orientation, SME financing demand is expected to be mainly in local currency. In countries where banks have limited ability to hedge forex risk, DFI financing will therefore need to be in local currency. To do that, DFIs will need to expand its ability to take on forex risk. Blended finance is one tool which can enable DFIs to de-risk local currency lending.

In the recovery phase, SME lending would make a greater contribution to renewed economic growth if targeted towards young and high-growth firms that can help create new markets, or re-create ones hit by the crisis. These firms generate proportionally far more jobs than SMEs as a whole and tend to have higher productivity. Young firms can disrupt existing markets, bringing new ideas, and typically grow rapidly (or exit). Innovative investments, required for high growth, are particularly likely to be postponed due to uncertainty in economies under rapid transformation. In addition, banks are often less willing to take on new clients during crises, which is a particular problem for young firms. Early lessons from the United States PPP COVID response, have found that banks often prioritize existing firms with longer relationships. One of the reasons for this focus is that banks find it difficult to identify high potential SMEs in the absence of track records on their creditworthiness, which will likely be harder during the recovery. High growth firms tend to rely mainly on equity and retained earnings for early stage growth. DFIs can enable banks and other national financial institutions to expand SME financing in well targeted ways by:

- **Selectivity and structuring –** DFI SME financing products are designed to select borrowers for attributes with high development impact (e.g. inclusive business models, female-owned).

They may be structured to incentivize banks to increase lending to SMEs (e.g. through step-down or step-up interest rates, loan covenants). Unlike lines of credit where the credit risk is with the DFI/development bank, DFI products are structured so that the financial institution takes some or all of the credit risk. This ensures that the financial institution has incentives to use market intelligence to select creditworthy SMEs.

- **Knowledge transfer** – the product innovations that DFIs bring can be adopted across the bank's lending activities and is not restricted to the amount of financing provided. This includes advice on digitization of financial services, which is expected to accelerate in response to the crisis.
- **Risk mitigation and risk sharing** – DFI products can be designed to mitigate the risks of SME lending (e.g. by introducing new borrower screening tools, using advisory services to improve borrower creditworthiness); and may be structured to transfer some of the residual risk to DFIs or another party (e.g. through first loss structures) where banks are unwilling or unable to bear the full credit risk. For example, an IFC program supporting SMEs in Côte d'Ivoire's tourism value chain re-organized resources to include a customized audit for each firm to assess their risk exposure and priority actions to survive this period if immediate stress and be better placed to resume activity during the recovery (Freund & Mora, 2020).
- **Foreign currency** – where appropriate (e.g. for trade finance), DFIs should provide forex which domestic liquidity expansion does not provide.
- Evaluation evidence suggests that DFIs SME finance operations were important components of the response to the Global Financial Crisis and have helped expand overall lending since then. In the case of the World bank Group, for example, trade finance operations and supply chain finance helped SMEs whose needs would not have been met[30] (IEG, 2012).

Equity: Venture capital plays a key role in financing innovative startups, which will particularly be needed during the recovery phase. A small proportion of SMEs have sufficiently strong growth prospects that they can afford to take on external equity. These SMEs have a disproportionate impact on job creation. DFIs provide venture capital with new fund managers in frontier markets lacking in fund management capacity. Providing equity is strongly complementary to government financial policies which expand the availability of debt capital. Without equity, SMEs will not be creditworthy borrowers, and excessive leverage can jeopardize their survival and resilience to future shocks.

A major concern is that DFIs might not necessarily be in the countries where severe disruptions are underway. According to IFC data, for example, SME projects in 2018 were in place in 71 countries and COVID related commitments in the financial sector were only reported in 16 countries. Moreover in countries where DFIs are present, their commitments might not be commensurate to the impact facing the countries.

To expand their reach and presence DFIs would need to invest in relationships with key market players and financial institutions in countries where the pandemic is having the greatest impact. Leveraging existing relationship to launch COVID-related support is one way to do this rapidly. IFC for example has non-COVID related commitments in 19 additional countries in FY2020, indicating potential. Although outstanding SME related portfolios are present in about 70

[30] IEG (Independent Evaluation Group). 2012. The World Bank Group's Response to the Global Economic Crisis—Phase II. Washington, DC: Independent Evaluation Group, the World Bank Group.

countries, active clients with SME related projects are reported in 77 countries. IFC has active clients in 88 countries, indicating there are 11 additional countries where there is currently no SME engagement but existing partnerships that can be leveraged.

Advisory Services

Lessons from past crises suggest DFI interventions are best when coupled with advisory services to help banks and firms adapt. In the short term, advice from DFIs or partner institutions (development banks, donors) could help with new health standards and adopting digital business models. This could include helping financial institutions making the transition to mobile or online banking models that reduce the costs of reaching smaller and informal businesses. In the medium term, advisory services can support entrepreneurship and the introduction of new digital business models, which are likely to have better prospects as economies adjust to a new normal following the crisis.

Some of these initiatives have already begun: IFC for example, has committed to engage local SME intermediaries in Nepal to help SMEs increase their online presence and engage ICT service providers to help farmers integrate solutions such as remote crop monitoring, greater 'no touch' marketing etc. (Freund & Mora, 2020). *Jumia*, Nigeria's largest ecommerce platform specializing in retail, food and hospitality with presence in over 23 African countries, are supporting their SME suppliers during the COVID-19 crisis and partnered with several suppliers to increase access to affordable basic foods by waiving commission. In Haiti, AgriLedger, an agricultural focused blockchain systems provider a blockchain solution, has handled the aggregation and distribution of payment to the farmers in the mango sector. The operation has completed its first five weeks of commercial shipments to the United States, ending with a full container, despite logistics service providers claiming COVID-19 as force majeure cause to interrupt the service. Over 60 participating farmers have seen their net revenues increase between 150 and 400 percent thanks to the disintermediation facilitated by the project (Gopalan & Nagayets, 2020; OAG, 2019).

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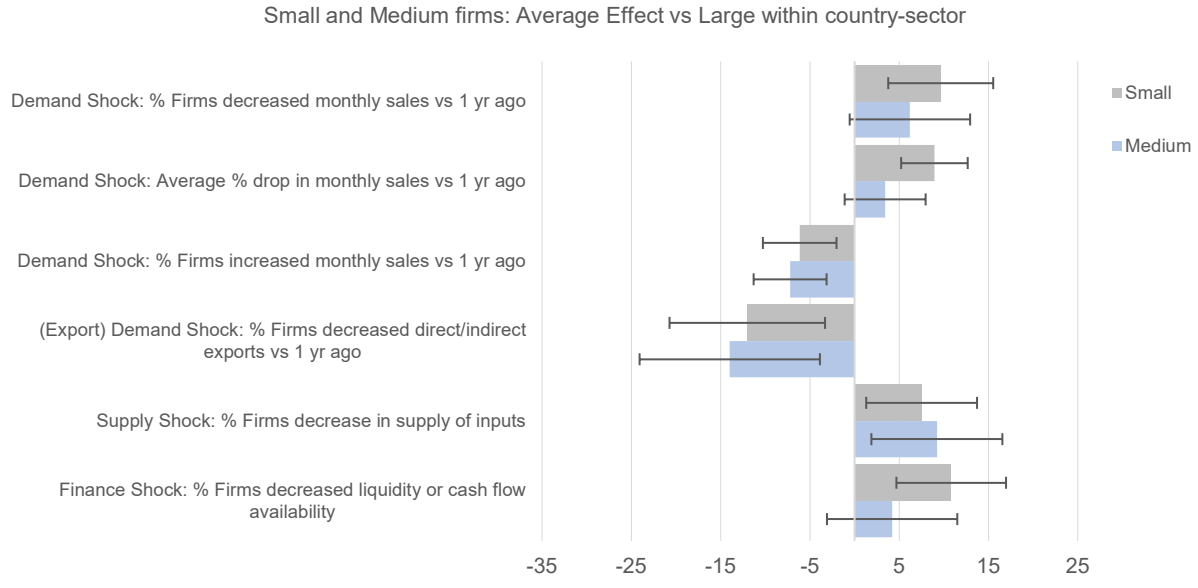
ANNEX

Table A1: Sample Description

Country	Year (Main survey)	Number of Observations			Sum of Weights		
		Large	SME	Total	Large	SME	SME Share
Albania	2019	166	211	377	2,279	6,521	74.1%
Chad	2018	36	117	153	144	668	82.2%
Cyprus	2019	75	165	240	651	2,558	79.7%
Georgia	2019	107	474	581	547	5,024	90.2%
Greece	2018	285	315	600	13,228	38,299	74.3%
Guinea	2016	72	78	150	276	364	56.9%
Italy	2019	246	514	760	30,371	262,333	89.6%
Moldova	2019	93	267	360	642	4,838	88.3%
Niger	2017	60	91	151	100	197	66.4%
Russia	2019	409	914	1,323	21,449	322,840	93.8%
Togo	2016	49	101	150	60	100	62.4%
Zambia	2019	164	437	601	1,502	3,519	70.1%
Zimbabwe	2016	329	271	600	2,595	3,313	56.1%
Total		2,091	3,955	6,046	73,844	650,573	

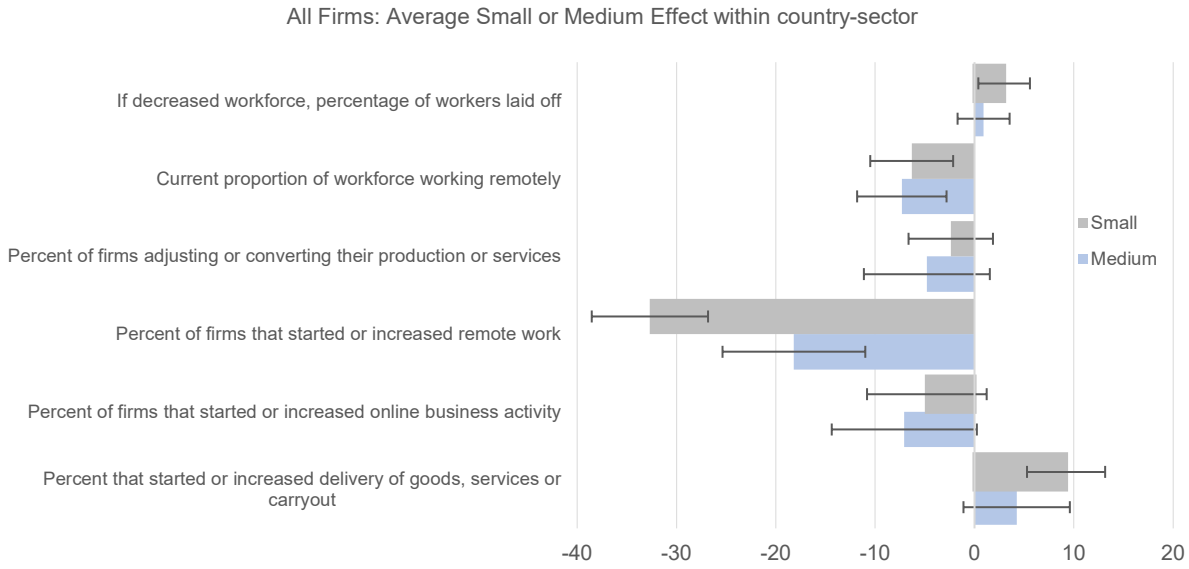
Source: WB Enterprise Follow-Up Surveys
Notes: SME correspond to establishments with less than 100 employees (full-time + part-time pro-rata) and that do not report being part of a large firm. Establishments with less than 100 employees that self-report being part of large firm are classified as Large.

Figure A1: Small and Medium firms are differentially exposed to COVID shocks



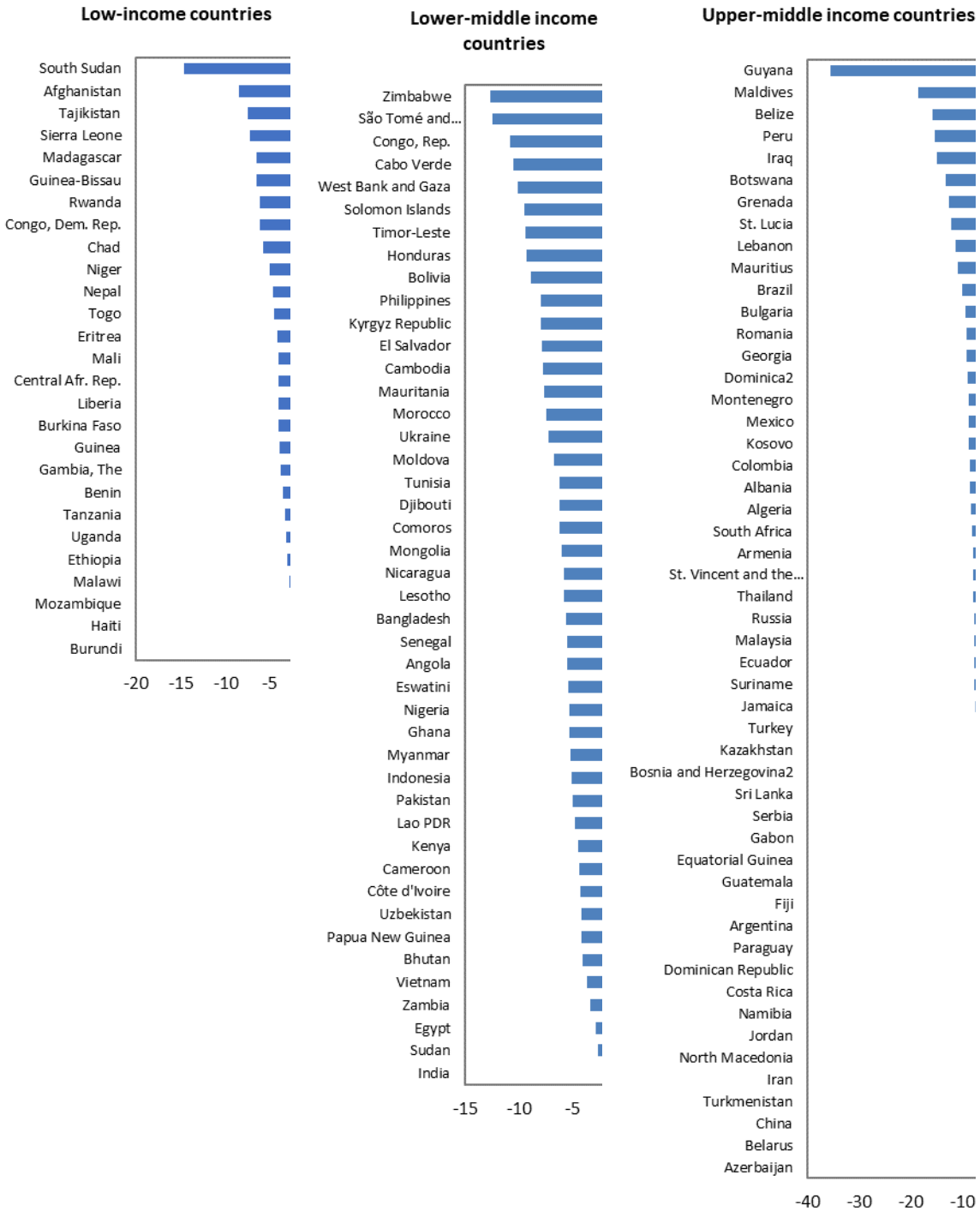
Source: WB Enterprise Follow-Up Surveys
Notes: Chart reflects the average difference between Small (firms employing less than 20 workers) or Medium-sized Firms (20-99 workers) compared to Large Firms (100+ workers) within a country-sector with their standard errors. Country-sector fixed effects are included. Stratification weights adjusted for the follow-up enterprise surveys according to median eligibility were used to produce the estimates. The weights account for non-response, assuming that businesses that could not be re-contacted (unobtainable) have exited the market

Figure A2: Small and Medium firms are differentially exposed to COVID shocks



Source: World Bank Enterprise Follow-Up Surveys
Notes: Chart reflects the average difference between Small (firms employing less than 20 workers) or Medium-sized Firms (20-99 workers) compared to Large Firms (100+ workers) within a country-sector with their standard errors. Country-sector fixed effects are included. Stratification weights adjusted for the follow-up enterprise surveys according to median eligibility were used to produce the estimates. The weights account for non-response, assuming that businesses that could not be re-contacted (unobtainable) have exited the market

Figure A3. Percentage point differences in real GDP growth projections between January and June 2020



Source: World Bank GEP, June 2020.

Note: Changes in real GDP growth forecasts in June 2020 from January 2020 represents the estimated impacts of COVID-19 on GDP.

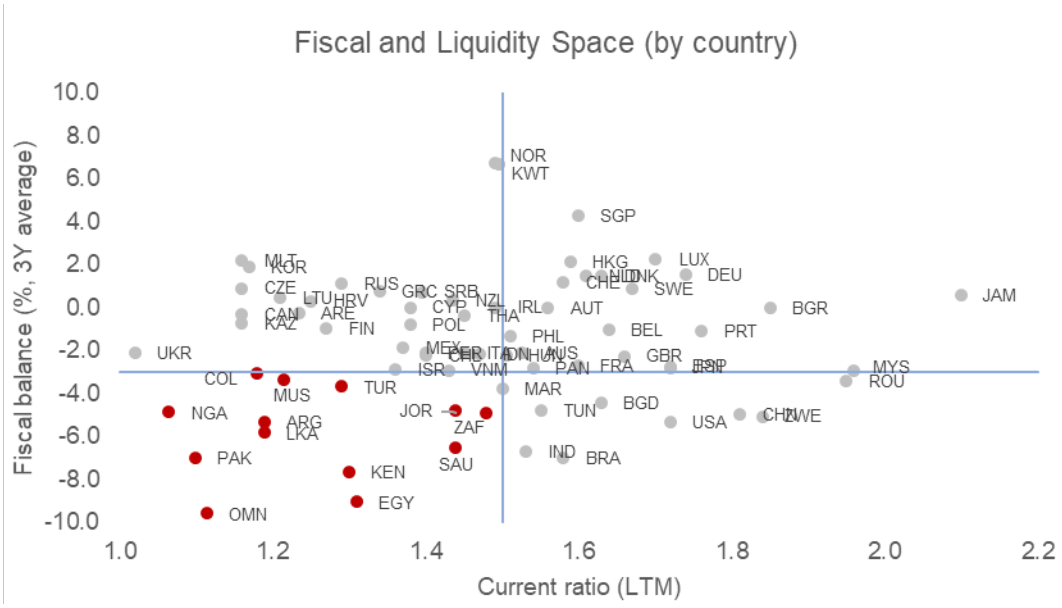
Table A2: Support schemes for SMEs and instruments used

Type of support	Instrument
Debt finance	Capital buffer safeguards requirements on banks and central banks' actions to induce commercial banks to increase lending to SMEs, such as lowering capital requirements
	Credit guarantees - new schemes, more generous guarantee levels
	Delayed repayments. Deferral of payments, restructuring and rescheduling
	Existing lending with reduced or no interest, and/or lower collateral requirements
	New lending – under concessional terms
	Rapid approval/dispersal arrangements, low/no fees, removal of fees/penalties (e.g. for overdrafts)
Employment support	Cap on layoffs
	Increased labor training subsidies
	New working schemes
	Other Employment
	Provide wage subsidies (can be broad, or targeted – e.g. apprentices) as alternative to direct payments to individuals
	Retirement funds frontloading
	Subsidies for employee sick leave
	Support for informal or self-employed workers
	Unemployment benefits
Tax	Corporate tax – rate reductions, credits, waivers, and/or deferrals
	Expedited tax reimbursements
	Incentives for capital expenditure (larger/wider limits, accelerated depreciation, broader range of products eligible)
	Other Tax
	Payroll/social security/VAT taxes/land taxes - rate reductions, credits, waivers, and/or deferrals
	Simplified tax procedures and regulations
Business costs	Changes to bankruptcy, business closure, insolvency, business restructuring regulations
	New working arrangements
	Reduction or waiver of administrative and government fees.
	Rent/leasing - reductions (if government is landlord), direct payment or indirect (e.g. tax concession for suppliers/ landlords)
	Utilities – reduction of direct or indirect (e.g. tax concession for suppliers/landlords) fees and payments
Demand	Other Public Expenditure Programs
	Procurement - Increase purchases from SMEs and/or Increase margin for SME-sourced product; ease procurement processes
	Support for corona-related production - e.g. healthcare products (grants, procurement, et al), either to ramp up existing capability or for new capability
	Targeted (sector or region) expenditure programs
Business climate	Changes to bankruptcy, business closure, insolvency, business restructuring regulations
	Reduced import restrictions (NTBs, duties) on intermediate goods
	Simplified foreign exchange arrangements (for those countries where this is an issue)

Business advice	Mediation services (contracts, financial etc) Subsidized business advice (e.g. through vouchers) and information (e.g. through chambers, industry organizations, accountants, etc.) on emergency support measures, and business operations Vouchers for remote business services (e.g. purchasing teleworking service products)
Other finance	Grants Supply chain finance, factoring, leverage online platforms for conducting reverse factoring transactions that can facilitate supply-chain finance to MSMEs and shorten the maturity of the payments involved Support for firms which need to close or have reduced their activities

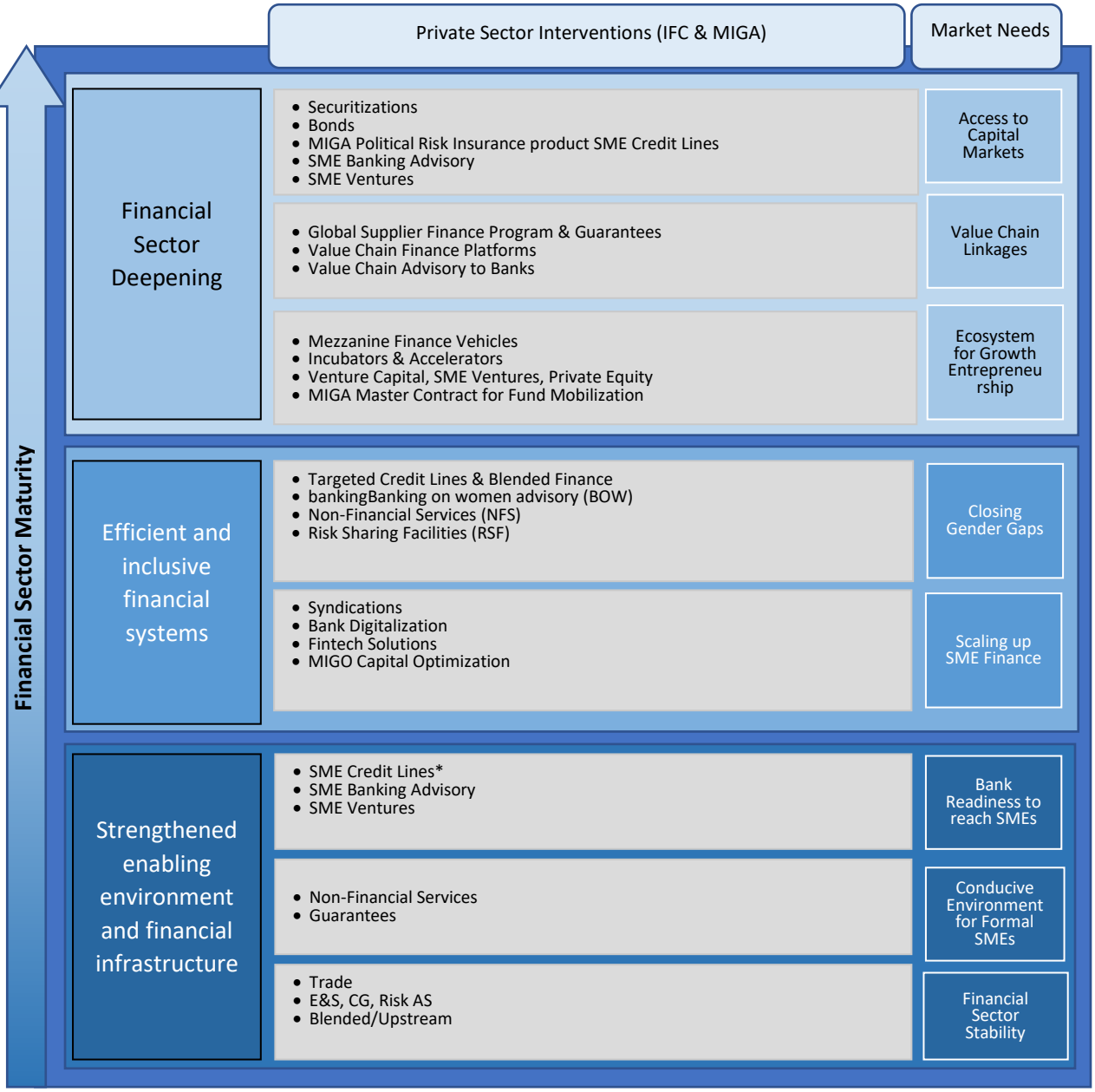
Source: World Bank

Figure A4. IFC Upper-middle income and large economies face greater liquidity shortage and risks: countries' categorization



Source: Authors' elaboration. World Bank, S&P Capital IQ database.

Figure A5. IFC Instruments for SMEs



Note: *IFC provides SME credit lines to commercial banks.

Box 3.1. IFC INVESTMENT AND ADVISORY INSTRUMENTS FOR SME FINANCE

Investment services:

Investment projects aim to increase MSME access to finance, including through improved affordability and increasing the number and variety of FIs serving this segment, expanding the range and improving the quality of financial products and services offered to MSMEs (including through business model innovations), and broadening the focus of FIs to include underserved segments (e.g. women entrepreneurs). IFC has a dedicated global industry department with an SME team that provides industry expertise and best practice to investment staff processing transactions and managing portfolio clients.

IFC primarily supports its FIs through the following investment products and services:

- direct lending to the FI for on-lending to its SME clients,
- risk-sharing facilities where IFC shares a percentage of the SME portfolio risk with local FIs, and
- capital markets solutions, including securitizations, bond issuances and loan sales.

IFC's full suite of investment solutions includes debt, equity, syndicated loans, trade finance, structured finance and securitized products as well as risk-management products and local currency financing. IFC's products are offered on commercial terms based on IFC's cost of funds and comparable pricing in the local markets. More recently, IFC has utilized blended finance resources to de-risk transactions in difficult markets such as IDA/FCS countries and incentivize FI partners to better reach the most vulnerable and unbanked segments.

IFC ensures that use of proceeds reaches the intended SME segment by selecting partners committed to expanding and delivering SME services, undertaking a detailed assessment of the client and its capacity to deliver and requiring strict eligibility criteria and reporting requirements to ensure that IFC can deliver maximum impact. Targets agreed with the FI partners and monitored during the life of projects ensure an increase in the overall portfolio of SME loans by the FI, rather than the refinancing of existing SME portfolios. More details on our investment and portfolio management process are below:

Detailed and thorough appraisal conducted by local teams and specialists: On-site bank appraisals and virtual appraisals during the COVID-19 crisis include a comprehensive assessment of the partner bank's retail and MSME lending capacity, practices, and systems. This work is carried out by a team of highly experienced investment officers and IFC's Banking Specialists.

Strict eligibility criteria: For our SME Finance loans to FIs, eligibility criteria are included in the legal agreements to ensure that the proceeds are reaching the intended segments. These requirements include that the SME borrower: (i) is a private sector institution, (ii) complies with WBG's SME definition, (iii) is in good operational and financial standing, (iv) is current on all outstanding loans with the FI (if existing client), (v) conducts business and operations in the country of the FI, (vi) is not engaged in activities on IFC's exclusion list, and (vii) is subject to KYC screening in accordance with AML/CFT procedures.

Reporting requirements: Per the investment agreement, FI clients are required to report to IFC on a quarterly basis and provide financial statements, reports on the SME portfolio and development impact reporting. For loans, the reporting requirements will include volume of SME lending and number of SMEs supported in the period. For other products like RSFs and capital markets products, more detailed reporting on the sub-loans is provided to better assess the risk since IFC is exposed to the specific portfolio of assets.

Mitigating risks through an E&S Risk Management System and Exclusion List: IFC requires every FI supporting SMEs to have an E&S management system to assess and monitor the E&S risks of the SMEs they finance commensurate with risk. All FI clients must agree to avoid supporting activities on the IFC Exclusion List and must review the operations of borrowers/investees where they present E&S risks, for compliance with national E&S laws and regulations where they exist and are applicable. IFC implements an annual program of supervision of FI investments categorized as FI-1 and FI-2 and requires such FIs to provide performance reports annually.

Strong measurement of impact through increased use of AIMM framework: IFC's AIMM SME Sector Framework provides a benchmark template to assess various components of the development impact thesis along two dimensions: Project Outcomes and Contribution to Market Creation. At the Project outcomes level, AIMM assesses the increase in access and affordability of financing to SMEs as the core outcomes. To prioritize countries where the development needs are greater, IFC's Sector Economics team has benchmarked different data sources on financing constraints for SMEs across emerging market. Contribution to market creation for SME finance projects assesses the degree to which a project or program induces market systemic changes through catalytic effects. AIMM assessments consider that individual SME projects may be part of a more concerted programmatic WBG approach at the country level. For IFC's SME financing operations, improving Competitiveness and Inclusiveness of the SME finance market are considered the primary attributes.

Advisory services

IFC supports its retail banking clients in strengthening their SME lending capacity, risk management practices and non-financial services to SMEs through tailored Advisory Services (AS). AS projects seek to encourage FIs to engage in or broaden their work in this segment, improve skills and ability of FIs to reach MSMEs with tailored products and to accurately assess risk and underwrite loans, and assist FIs in providing non-financial services that help improve the skills, productivity, and bankability of MSMEs.

Our Advisory Services team which consists of 30 dedicated SME Finance specialists offers the following products: Core SME Banking (e.g. market segmentation, product development, staff capacity building; data analytics), Risk Management (including AML/CFT support), Banking on Women, Supply Chain Finance, Sustainable Energy Finance, Non-Financial Services and SME Banker Certification. As of April 2020, IFC's AS portfolio in SME Finance consisted of 109 projects with a total volume of $71 million. In FY20, IFC also signed new engagements with 25 clients.

In line with IFC's Advisory policies, SME Finance clients provide 50% of the cost of engagements through cash fees. This highlights their commitment to implementing best in class SME lending practices and risk and compliance frameworks. Many of our SME Banks and FinTech clients are also paying members of the SME Finance Forum, a global community of practice focused on building best practice in SME Banking.