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**SME Finance: How COVID-19 affects MSMEs**

The pandemic has resulted in a halt in demand, resulting in liquidity shortages and restricting the overall ability to do business. For some MSMEs, this is the first time they must come to terms with cash-flow constraints. This article reviews the current policy responses, with a particular focus on the measures that have been applied in developing countries to provide liquidity and preserve jobs.

**Country Policy Responses in Different Regions**

**Phase I - Mitigation**

- **Fiscal/ Stimulus Packages**
  - Infrastructure projects, stimulus packages, and relief on MSME costs of operations through supply chain disruptions.
  - Supply chain disruptions for those with poor online presence.
  - Disruption on exports.
  - Fill the gap in available financing by banks for a limited period.

**Phase II - Recovery**

- **Monetary and Macroeconomic Policy**
  - Reduced policy rate, lowered repo rate and buffers rates for limited period.
  - Reduced contribution insurance funds to boost liquidity.
  - Decreased taxes and social security contributions.
  - Reduced Interbank Payment and transactions up to a certain amount.
  - Removal of charges on mobile money.

- **Structural Policies**
  - Credit guarantee schemes for MSMEs.
  - Digital financial behavior is key to ensuring financial health.
  - Support green MSMEs, or the greening of the activities of MSMEs.

**Exchange Rate and Balance of Payments**

- Incentivize, between formal and informal.

**Additional Measures**

- Provide additional measures for targeting vulnerable MSMEs, including wage subsidies for MSMEs.

**Lessons and Experiences**

- Facilitating access to capital is important, particularly for the MSMEs in developing countries, which employ a large share of the population.

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