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SME FINANCE (SMEF) WORKING GROUP

SME FINANCE RESPONSES TO COVID-19 IN AFI MEMBER COUNTRIES

Experts are forecasting for 2020 the deepest global recession since the Great Depression, due to the COVID-19 pandemic. Micro, Small and Medium sized enterprises (MSMEs), especially those in the informal sector, which includes the majority of women-led MSMEs, are acutely vulnerable to the impact of the crisis.

SUPPLY SIDE: Movement restrictions and quarantines are leading to severe disruptions in capacity and causing companies to trim their labor force.

DEMAND SIDE: The halt in demand is resulting in liquidity shortages and restricting the overall ability to do business. Financial markets are also being affected with reduced levels of confidence and credit.

HOW COVID-19 AFFECTS MSMEs

LOSS OF SALES
Particularly for those with little to no online presence.

LOSS OF MARKET
People are confined to their homes.

STAFF AVAILABILITY
Curtailed ability to work due to movement restriction and domestic responsibilities, especially for those unable to work from home.

SUPPLY CHAIN DISRUPTIONS
For those with low inventory, in need of frequent supplies and/or dependent on exports.

DISRUPTION OF FINANCE
For those with low levels of cash reserves.

MSMEs in the informal sector, including the majority of women-led MSMEs, are at higher risk of loss of incomes and may be less able to access government support. Countries are implementing various measures to encourage business operations, safeguard jobs and increase domestic investment. Some of the countries have applied two main phases with four buckets.

TWO MAIN PHASES WITH FOUR BUCKETS

PHASE I - MITIGATION
Adopting emergency measures that address immediate liquidity challenges, reduce layoffs and avoid firm closures and bankruptcies.

PHASE II - RECOVERY
Helping firms return to their pre-crisis production and employment levels and set the foundations of longer-term productivity-driven growth.

1 FISCAL/ STIMULUS PACKAGES

Relief on MSMEs costs of operations through subsidies, tax exemptions and target funding

	MITIGATION	RECOVERY
Removal of charges on mobile money transactions up to a certain amount.	✓	
Stimulus packages on fiscal interventions, including wage subsidies for MSMEs.	✓	✓
Reduced Interbank Payment and Settlement System processing fees.	✓	
Budget allocated to cover immediate expenses, mainly in health and related to the pandemic, particularly benefits women.	✓	
Credit guarantee schemes for MSMEs.	✓	✓

2 MONETARY AND MACRO-FINANCIAL

Cash boosts, rent reductions, subsidies, sector-specific credit lines, moratoriums on debt payments

	MITIGATION	RECOVERY
Reduced policy rate, lowered repo rate and Cash Reservation Ratio (CRR).	✓	
Decreased taxes and social security contributions for MSMEs.	✓	
Reduced contributions of lenders' deposit insurance funds to boost liquidity.	✓	✓
Special Incentive Refinancing Scheme for the agriculture sector.	✓	✓
Reduced compulsory reserve for commercial banks and additional liquidity injected into banks.	✓	
Capital conservation buffers with reduced buffer rates for limited period, that support banks to supplying credit to the economy.	✓	
Moratorium on monthly payments of loans and financing by banks for a limited period and without a penalty.	✓	

3 STRUCTURAL POLICIES

Online operations and business digitization enable greater accessibility to finance

	MITIGATION	RECOVERY
Encourage the use of digital channels and contactless mobile payments particularly for women.	✓	✓
Introduce measures for new markets and increase measures for existing markets aimed at reducing cash transactions and facilitate the use of mobile money.	✓	✓
Reduced/waive transaction fees for on-line transactions.	✓	✓

4 EXCHANGE RATE AND BALANCE OF PAYMENTS

Restrict financial account transactions and some current account transactions. Help limit outflows and reduce exchange rate volatility

	MITIGATION	RECOVERY
Conduct interventions in the foreign exchange market to reduce excess volatility arising from fluctuations in global financial markets.	✓	
Hold discussions with money service providers to encourage enhanced remote services and ensure uninterrupted services, including foreign currency transactions.	✓	✓

ADDITIONAL MEASURES

Provide additional measures for targeting vulnerable MSMEs and their integration in domestic and international markets, including:

- FinTech (mobile payments, financing platform).
- Public procurement.
- Legal and regulatory reforms (e.g. of licensing, labor laws, bankruptcy and debt enforcement mechanisms).
- Incentivize, between informal and women-led MSMEs to come into the formal system.

LESSONS AND EXPERIENCES

- Facilitating access to capital is important, particularly for the retail sector, which employs a large share of the population in developing countries through MSMEs.
- Support green MSMEs, or the greening of the activities of MSMEs through a broad range of recovery policies.
- Technological diversification may enhance the capacity of firms to deal with crises.
- Good financial behavior is key to ensuring financial health.
- Diversification of economies - internally and externally - mitigates potential outcomes, such as currency depreciation and as physical movement restrictions to be consistent.
- Invest in digital banking and onboarding of women-led MSMEs.
- Carefully modify and amend 'living' regulations.
- Ensure that gender lens is applied to all your activities.
- The effectiveness of policy responses can only be ascertained after the pandemic.

MORE INFORMATION (CLICK LINK BELOW)
Country Policy Responses in Different Regions >