

# CHALLENGES, RESPONSES, AND TRANSFORMATION OF MSMES IN THE POST-PANDEMIC ERA

RESEARCH FOR MSME DAY 2022

#GREATNESS  
OFSMALL



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# Forewords

Micro, small and medium enterprises (MSMEs) are the backbone of the global economy. They account for over 90% of companies and 70% of total employment. And as such play a vital role in international trade and development.

But the past two years have been tougher than usual for MSMEs due to COVID, supply chain woes, and runaway business costs. MSMEs experienced a difficult pandemic.

The primary problem was a sudden and nearly total suspension of demand due to the effects of lockdown mandates in physical-focused industries like tourism and hospitality, where MSMEs are strongly represented. At the same time, these firms experienced concurrent supply difficulties caused by congested supply chains and higher input costs. Consequently, many MSMEs have been operating on the brink of failure for the past two years. Some reports suggest they typically had only weeks to two months of liquidity before failure.

Having been a part of the MSME ecosystem since 1999, Alibaba.com has always maintained a close relationship with small businesses. More than anyone else, we know the woes that MSMEs face because we hear the voices of our sellers and see the oscillating statistics that spell difficulty for micro and small firms.

Maria Francesca Aceti, One of our female sellers in Italy, told me that she made her business global and minimized the effect of the pandemic thanks to Alibaba.com. Many sellers like Maria remind me again and again that we have a mission to stay with MSMEs all the time, help them, and thrive with them together.

We have to recognize that MSMEs are not only critical economic players but their health and prosperity are also critical to a full and sustainable global economic recovery. Consequently, we have released this report to help return MSMEs to the center stage and facilitate broader and more practical discussions about supporting MSMEs and equipping them for greater economic impact.



**Kuo Zhang**

Vice-president of Alibaba Group  
President of Alibaba.com

# Forewords

Among the economic participants in various countries and regions around the world, Micro-, Small and Medium-sized Enterprises (MSMEs) are the largest and most vigorous market participants. They have made irreplaceable important contributions to creating employment opportunities, stimulating innovation vitality, and promoting social equity, inclusive and sustainable development.

"To make it easy to do business anywhere" is the mission of Alibaba Group. Our corporate culture has always been about safeguarding the interests of MSMEs. The tens of millions of MSMEs served by Alibaba's business ecosystem are partners who share weal and woe with us. Therefore, Alibaba has become an important window to observe the growth of MSMEs, and AliResearch Institute is one of many observers.

The outbreak and continued spread of the epidemic have brought many impacts to the global economy, industry and social life, and the challenges to MSMEs are especially huge. Therefore, we hope that on the meaningful day of "United Nations Day for MSMEs", through this white paper, we will describe the severe difficulties our partners have experienced in this epidemic. Based on literature research, quantitative research, questionnaire survey and other methods, we have found effective measures to help them accelerate their recovery and call on all parties to continue to focus on helping them. Alibaba will also take an active role IN continuously improving its digital technology capabilities to help MSMEs around the world overcome difficulties and regain new life.



**Hongbing Gao**

Vice-president of Alibaba Group,  
Head of AliResearch Institute

## **Methodology**

This research report aims to discuss the challenges, responses and transformation of micro-, small and medium-sized enterprises (MSMEs) during and after the pandemic, based on a quantitative survey among MSMEs and abundant academic research on related topics in recent years.

The quantitative survey was designed and executed by Alibaba.com. The questionnaire was distributed to MSMEs globally, from May 20th to May 25th, 2022, via email and social media channels of Alibaba.com. 1,147 valid responses have been received in total. These responses cover 164 countries and regions. No weighting applied.

Unless otherwise stated, the data referred to through this research report is partly sourced from AliResearch and Alibaba.com and obtains data from a wide variety of public and academic information sources, which are verified, analyzed and presented in a consistent and summarized way. The sources include commercial databases, reports of OECD, Boao Forum for Asia, Nielson, WTO, Xinhuanet, CCPIT, ILO, ITC, United Nations, etc. and other governments. Our data is regularly updated and continually revised when new information becomes available.

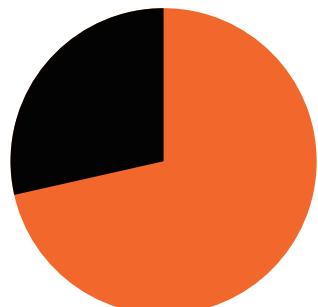
This report is initiated and compiled jointly by Alibaba.com and AliResearch. Gan Li, Professor of Economics at Texas A&M University, Director of the CHFS at Southwestern University and his academic team also contribute to this research report.

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# Key Findings

**MSMES ARE NOT JUST THE BACKBONE OF THE POST-PANDEMIC ECONOMIC RECOVERY BUT ALSO SOCIAL VALUES**



MSMEs contribute  
**70%** + of global employment

**50~60%**  
of GDP

**90%**  
of global business

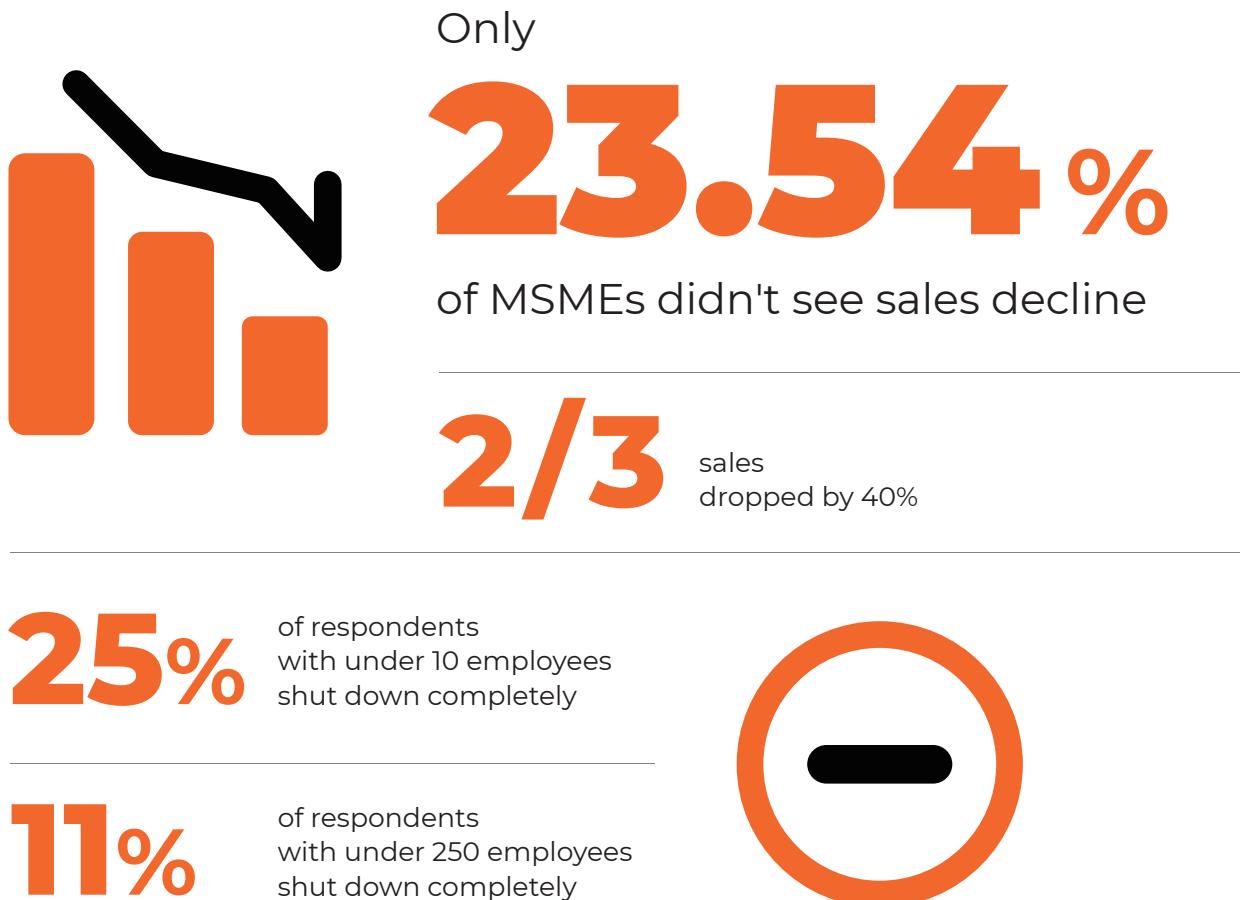
A large of MSMEs are owned by female or minority owners, in the U.S., more than

**28%**  
of small businesses are minority-owned

**33%**  
are female-owned



## THE PANDEMIC TAKES ITS TOLL ON MSMES, WITH MICRO BUSINESSES SUFFERING THE MOST



## DIGITALIZATION IS THE KEY TO SUSTAINING SMALL BUSINESSES IN CONFRONTING HUGE UNCERTAINTIES.

The survival rate  
of MSMEs is

**7 PT**

**greater** in the regions with the highest rates of eCommerce versus those with the lowest.  
During the pandemic, the economic downturn was less severe in regions with higher eCommerce penetration.



01

# Pandemic's Impact on Global Economy and Trade

## ■ Global economy continues to rebound slowly

In 2020, a public health crisis suddenly swept the world, as the pandemic claimed more than a million lives while putting a big dent in the global economy. According to the Organisation for Economic Co-operation and Development (OECD), the global real GDP growth rate was -3.4%<sup>1</sup> in 2020, making it the worst year of recession since World War II.

As countries around the world strive to overcome the pandemic, the global economy has since been picking up, though at a declining rate. Estimates show that the real GDP growth rate will drop to 4.5% in 2022 and 3.2% in 2023, slightly lower than the 2013-2019 average.

## ■ Rising costs of global trade and logistics

The real value of global trade dropped 8.4% in 2020 because of sluggish economic growth, increasing uncertainty, and severely impeded flows of people, cargo, and capital as pandemic controls took hold. In Q2 2020, transport services and global trade contracted 20% and 5.8% respectively year-on-year. Protectionism was rearing its head, not least in sectors where international supply chains were at risk of disruption.<sup>2</sup>

Small and medium-sized enterprises were severely affected by trade disruptions and ongoing frictions. In Q4 2020, 69% of SMEs in Europe reported having difficulties in importing materials, goods and services, and 46% reported specifically facing disruptions to supply chains, which led to shortages of goods. SMEs also incurred additional financial costs due to trade disruptions and frictions in 2020, with 26% reporting paying higher prices, and 39% facing late payments compared to the same period in 2019.<sup>3</sup> In October 2021, the global delivery time index registered the worst month on record. As a result, global shipping costs soared, increasing by 343% YoY. The OECD expects the global real trade growth rate to slump to 4.9% in 2022 and further to 4.5% in 2023.

## ■ Emerging opportunities amid the rise of cross-border e-commerce

While offline purchases are dampened by social distancing and other the pandemic restrictions, new opportunities are springing up in online sourcing. The pandemic e-commerce boom has bred and boosted novel forms of trade, of which cross-border e-commerce is the most typical – a "dark horse" that outcompetes the "black swan", so to speak. E-commerce traffic grows significantly in major economies around the world, and especially so in emerging ones like Pakistan (320%), the Philippines (240%), Brazil (230%), Mexico and India (about 100%).<sup>4</sup> According to WTO forecasts, the total global B2C cross-border e-commerce trade volume is expected to rise from USD 780 billion in 2019 to USD 4.8 trillion in 2026 with a compound growth rate of 27%.<sup>5,6</sup>

Among RCEP countries, the e-commerce forerunner and epicenter of the Asia-Pacific region and the whole world, the room for market expansion remains huge.<sup>7</sup> For example,<sup>8</sup> Vietnam's high-potential regional e-commerce market has grown 24 times in the past six years, from USD 5 billion in 2015 to USD 120 billion in 2021, and is expected to reach USD 234 billion by 2025.



**02**

## Economic and Social Contributions of MSMEs

## ■ MSMEs are an important global economic pillar

MSMEs are important contributors to job creation and economic growth, representing about 90% of businesses and more than 50% of employment worldwide.<sup>9</sup> In the OECD area, SMEs represent 99% of all businesses, generating about 70% of employment and totaling between 50% and 60% of GDP.<sup>10</sup> Formal SMEs contribute up to 40% of GDP in emerging economies. These numbers are significantly higher when informal SMEs are included.

Table 2-1 provides statistics on the contribution of MSMEs in major global economies in terms of economic growth, market size, employment, and export. In terms of economic growth, MSMEs contribute more than 50% of GDP in most developed economies, and about 40% in developing economies, while MSMEs in China and Indonesia contribute more than 60% of GDP. In terms of market size, MSMEs account for more than 90% of the total number of enterprises in the vast majority of economies, with the figure exceeding 99.5% in economies such as the U.S., EU, Japan, and Korea. As for employment, MSMEs in developed economies provide over 60% of jobs on average, and in Canada and South Korea, the percentages exceed 80%. MSMEs' contribution to employment varies in developing economies, reaching 40-50% in India, Brazil, and Vietnam, only 25.8% in South Africa, and 96.9% in Indonesia, while MSMEs in Pakistan and China contribute about 80% of non-farm/urban employment.

In addition, a significant proportion of MSMEs, especially small and micro-enterprises, fall into the informal sector, creating a large number of jobs for vulnerable groups. In the U.S., more than 28% of small businesses are minority-owned and 33% are female-owned, making them a key driver of inclusive growth. In Vietnam, informal employment takes up about 57.2%, consisting mainly of family businesses, micro-enterprises, and self-employed individuals. And in Pakistan, 72% of the non-farm labor force is mainly employed by MSMEs in the informal sector.

## ■ Significant potential for MSMEs' contribution to export

According to the World Trade Report by the WTO,<sup>11</sup> the participation of SMEs in international trade varies considerably in both developed and developing economies. Overall, the participation of SMEs has been limited, probably due to a lack of skills, insufficient knowledge of international markets, poor access to financing opportunities, and cumbersome regulations and customs procedures.

However, it is worth noting that the development of the e-commerce sector has led to increasing opportunities for MSMEs to participate in international trade, especially for those in developing economies. Table 2-1 shows that the share of export by SMEs in Vietnam has exceeded 50% in 2021, while Vietnam's e-commerce market has grown 24-fold in the past six years; the share of exports by China's SMEs reached 68% in 2018 and has increased ever since, which is closely related to the rapid development of e-commerce in China. This demonstrates that changes in digital technologies such as e-commerce have a positive impact on SMEs' participation in international competition, especially in emerging national markets that hold great potential for MSMEs' contribution to exports.



**Table 2-1 Contribution of MSMEs in Major Global Economies**

Economy	Economy Size	Market Size	Employment Share	Contribution to Export
China	Over 60% of GDP (2018)	Over 90% of enterprises (2018)	Over 80% of urban employment (2018)	68% of total exports (2018)
U.S.	43.5% of GDP (2019)	99.9% of businesses (2020)	48% of employment opportunities (2020)	33% of total exports (2020)
OECD	50% of GDP (2020)	99% of businesses (2020)	70% of employment opportunities (2020)	--
EU	57% of GDP (2016)	99.8% of businesses (2016)	68% of employment opportunities (2016)	37% of total exports (2019)
U.K.	52% of sales (2021)	99.9% of businesses (2021)	61% of employed population (2021)	42% of total exports (2018)
France	55.8% of GDP (2018)	99.9% of businesses (2020)	64.1% of labor force (2018)	21% of total exports (2016)
Germany	50% of GDP (2020)	99.6% of businesses (2020)	58.5% of jobs (2020)	35.3% of total exports (2020)
Italy	66.9% of sales (2019)	99.9% of businesses (2019)	78.1% employment opportunities (2019)	47% of total exports (2017)
Canada	55.3% of GDP (2016)	99.8% of businesses (2019)	88.5% of employed population (2019)	40.6% of total exports (2019)
Australia	--	99.8% of businesses (2020)	66% of private enterprise employment (2020)	--
Russia	22.3% of GDP (2019)	99.86% of businesses (2019)	26.3% of labor force (2019)	--
Japan	--	99.7% of businesses (2016)	68.8% of labor force (2016)	--
South Korea	48.5% of sales (2018)	99.9% of businesses (2018)	82% of employed population (2018)	48% of total exports (2018)
India	37.54% of GDP (2020)	95% of businesses (2020)	40% of employment opportunities (2020)	40% of total exports (2020)
Brazil	30% of GDP (2020)	98.5% of businesses (2020)	54.5% of employment opportunities (2020)	--
South Africa	39% of GDP (2020)	98.5% of businesses (2020)	25.8% of employment opportunities (2020)	--
Indonesia	60.5% of GDP (2019)	99.9% of businesses (2019)	96.9% of employment opportunities (2019)	15.6% of non-oil exports (2019)
Vietnam	40% of GDP (2021)	98% of businesses (2021)	50% of labor force (2021)	Over 50% of total exports (2021)
Pakistan	40% of GDP (2019)	90% of private enterprises (2019)	78% of non-farm labor force (2019)	25% of total exports (2021)

**Data sources:** OECD countries data is obtained from the OECD statistical database, EU data from Eurostat, and China data from China National Bureau of Statistics. Data related to the rest of the economies are retrieved from the corresponding official statistical agencies and public reports such as McKinsey's. Export data is retrieved from WTO reports and other sources.

**Note:** Due to differences in the MSME classification criteria of different economies and in the latest year of data update, the contributions of MSMEs in this table can only be used for comparison.



# 03

## Three Challenges Faced by MSMEs amid the Pandemic

On the supply side, the pandemic's impact on MSMEs is shown through the reduced labor supply and a lower capacity utilization rate due to restrictions on the movement of people and other measures. Disruptions in the supply chains lead to shortages of components and intermediate goods as well as higher prices of raw materials, which drives up production costs. The pandemic has also compounded the credit crunch,

which is more detrimental for MSMEs in view of their financial vulnerability. On the demand side, enterprises will experience a shortage of liquidity as their operating income declines. Workers who lose their livelihoods due to business closures or redundancies will naturally tighten their belts, which in turn will lead to a decline in orders.

## ■ General and sustained impact on global MSMEs

**Overall, the pandemic has taken its toll on MSMEs across the globe.** Table 3-1 summarizes the findings on the pandemic's impact on MSMEs in selected economies in regional and chronological order.

**The constant flare-ups of outbreaks have slowed the recovery of MSMEs.** About 70% of SMEs responding to the Future of Business Survey by Facebook, OECD, and World Bank in December 2020 expressed the need for more support in the future, with little variation across SMEs of different ages or sizes.<sup>12</sup> In Q2 2021, the International Labor Organization (ILO)<sup>13</sup> surveyed 784 enterprises (83% are MSMEs) in eight countries around the world, including Indonesia, Myanmar, and Peru. The survey shows that although the situation

somewhat improved compared to Q2 2020, the pandemic was still disruptive enough to stop 2 in 5 enterprises, leaving the revenues, orders, cash flows, and supply chains heavily impacted. Another survey by Chinese scholars (Zhang Xiaobo et al., 2022)<sup>14</sup> shows similar results – the overall performance of SMEs in Q1 2022 remains grim. Compared to the same period in 2019 before the pandemic, the percentage of "comeback kids" has even dropped to the lowest point since Q3 2020. The decline in operating income, cash flow duration, and profitability all at once has put many enterprises on thin ice.

Survey Subject	Date of Survey	Impact on Business	Impact on Forecasts
<b>Asia-Pacific:</b>			
China	February 10	80% of SMEs have not resumed operations	1/3 of business closed in one month, and another 1/3 closed in two months
Japan	March 9	39% of companies experienced supply chain disruptions; 26% suffered declines in orders and sales	42% of businesses worry about shutting down within three months; 70% worry about going bankrupt within 6 months
South Korea	March 17-20	61% of businesses are affected	
Japan	March 21	92% of businesses are affected by the economy	
Some other countries in Asia	March 31-April 6	30% of SMEs are expected to lay off 50% of staff	50% of SMEs have one month or less of cash on hand
Indonesia	April-May		49% of SMEs are expected to shut down
Laos	April-May		41% of SMEs are expected to shut down
Philippines	April-May		61% of SMEs are expected to shut down
Thailand	May 15	90% of businesses expect a huge loss of revenue	52% of small businesses are expected to shut down if the lockdown lasts longer
India	--		47% of SMEs are expected to shut down
Bangladesh	--		50% of SMEs are expected to shut down
Australia	April 3	2/3 of SMEs are affected by the pandemic, with 41% falling by 50% or more in revenue in the past two months	
New Zealand	June 20	71% of SMEs suffered revenue loss	39% of SMEs worry about bankruptcy

Survey Subject	Date of Survey	Impact on Business	Impact on Forecasts
<b>Europe:</b>			
Finland	February 25	1/3 of businesses expect a negative or very negative impact	
Italy	Early March	72% of businesses are directly affected	
U.K.	Early March	63% of businesses consider the pandemic a moderate to high/serious threat to their business	
Germany	March 9	50% businesses expect a negative impact	
Poland	March 10	1/3 of SMEs experienced higher costs and lower sales	27% of businesses already encountered cash flow problems
U.K.	March 12	69% of businesses face serious cash flow challenges	1/3 businesses fear shutdown within 1 month
Israel	March 16	55% of businesses have not been affected; 1/3 plan to lay off staff	
Greece	March 16	60% of businesses suffered a significant decrease in sales	
Belgium	March 18	75% of companies suffered revenue declines	50% of businesses worry about not being able to pay fees in the short term
Hungary	March 20	60% of businesses expect declines in sales	
Netherlands	March 20	50% of startups lost significant revenue	50% of businesses are expected to close within 3 months
U.K.	April 1		18% of businesses may close within a month
Belgium	April 3	40% of businesses predict a revenue decline of 75% or more	1/10 businesses may face bankruptcy
Belgium	April 7		Over 31% of Belgian SMEs may not survive this crisis
U.K.	April 8	37% of businesses are expected to furlough 75-100% of their staff next week	6% of businesses ran out of cash; 57% have three months or less of cash on hand
Netherlands	April 8		85% of SMEs face financial difficulties; 20% face serious risks
Portugal	April 6-10	37% of companies saw their production drop by more than 50%	50% of businesses do not have funds that can cover more than two months
Germany	April 24	58% of SMEs saw their turnover fall by an average of 50%	Half of SMEs have only two months of liquidity reserves
U.K.	May 13	37% of businesses are considering or have already laid off employees	41% of businesses are temporarily closed and 35% are worried that they will not reopen
Ireland	June 8	70% of companies still in business report a decline in revenue	
<b>North America:</b>			
U.S.	March 11	70% of companies experienced supply chain disruptions and 80% are affected by the crisis	
U.S.	March 13	23% of companies are negatively impacted and 36% are expected to be negatively impacted	
Canada	March 16	50% of businesses suffered a significant decrease in sales	25% of companies are expected to stay open for no more than one month
U.S.	March 17	50% of companies are negatively affected and 75% said they were very concerned	
U.S.	March 19	96% of businesses are affected	51% of businesses say they cannot last for three months
Canada	March 24	60% of businesses are significantly impacted	1/3 of businesses are expected to go bankrupt within a month
U.S.	April 1		35% of small businesses may collapse in three months
Canada & the U.S.	April 7	90% of small businesses are affected	1/3 lack cash reserves that can cover more than a few weeks

Survey Subject	Date of Survey	Impact on Business	Impact on Forecasts
U.S.	April 15-22	62% of small businesses saw income declines	32% of companies cannot survive for more than 3 months
Canada	May 4	81% of small businesses say their operations have been negatively affected	32% of companies are concerned about the viability of their business in the coming year
U.S.	May 5		1/5 of small businesses are closing temporarily and 1/3 are expected to close permanently within 2 months
U.S.	May 11	81% of companies are expected to be impacted in the next 12-16 months	
Canada	Mid-June	78% of small businesses reported a decline in sales, with 47% experiencing a 50-100% decline	
<b>Latin America:</b>			
Mexico	April-May	More than 600,000 businesses are at risk	10,000 formal businesses and 12,000 informal businesses have permanently shut down
Brazil	March-June		More than 260,000 micro-enterprises and more than 460,000 small enterprises have shut down
<b>Africa:</b>			
South Africa	July		60% of SMEs are expected to shut down

## ■ Business liquidity crisis triggers a wave of closures and unemployment

In Table 3-1, the vast majority of SMEs in surveyed countries reported a sharp decline in sales revenue, with consistent findings from another survey by Facebook, OECD, and the World Bank in 2020,<sup>15</sup> where 55-70% of SMEs saw sales fall year-on-year, with two-thirds experiencing falls of more than 40%. Cash flow shortages have directly contributed to the rise in business failures, with data from Coface showing that SME insolvencies are set to increase by one-third worldwide in 2021: Germany (+12%), France (+21%), Japan (+24%), the U.K. (+37%), U.S. (+43%), Brazil (+44%), and Turkey (+50%).<sup>16</sup> Other surveys have come to similar conclusions: the International Trade Centre (ITC) survey of SMEs in 132 economies shows that two-thirds of SMEs are severely affected by the pandemic, with more than 20% likely to close within three months (ITC, 2020).<sup>17</sup> The McKinsey survey involving multiple countries also shows that 25-36% of small businesses could shut down within four months of the outbreak (McKinsey, 2020).<sup>18,19,20,21</sup>

**The risk of MSME closures further ratchets up the unemployment rate.** Since SMEs account for the lion's share of employment in all countries,

business failures can directly lead to dramatic volatility in the labor market. The decline in employment rate is much more potent in small businesses than in larger ones, with 11 million of the 20 million jobs lost in the U.S. in April coming from SMEs<sup>22</sup> (Altonji et al., 2020)<sup>23</sup>. Data from France shows that SMEs provide 63% of jobs, but are responsible for 93% of layoffs.<sup>24</sup> Studies from Australia and Germany on their own countries also support this conclusion (Biddle et al., 2020).<sup>25,26</sup> Studies from the National Bureau of Economic Research (NBER) and the U.S. Census Bureau show nearly 90% of small businesses were impacted by the pandemic (51% saw a "large negative" impact and 38% a "moderate negative" impact). Moreover, 45% of small businesses experienced supply chain disruptions and 25% had less than 2 months of cash on hand (Buffington et al., 2020)<sup>27</sup> (Alekseev et al., 2020;<sup>28</sup> Bloom et al., 2020; Campello et al., 2020;<sup>30</sup> Fairlie, 2020;<sup>31</sup> Kim et al., 2020;<sup>32</sup> Bloom et al., 2021<sup>33</sup>).

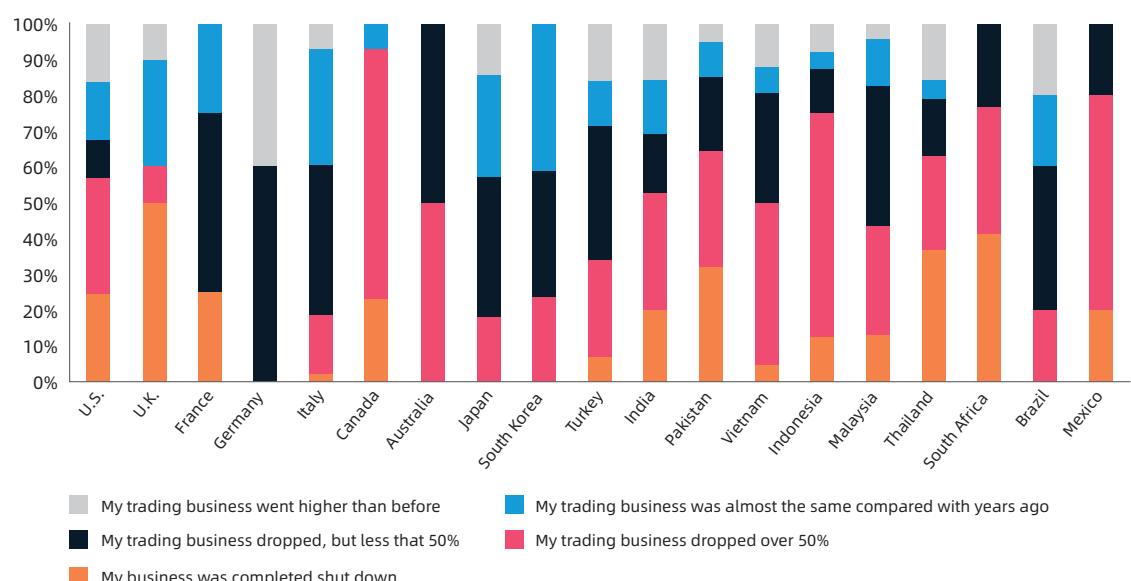
## ■ International trade companies in developing countries are more severely affected by the pandemic

The pandemic has hit global trade hard, including MSMEs in international trade, but those in developing countries have suffered more. Based on the survey results from Alibaba.com, Figure 3-1 shows the extent to which the trade business of MSMEs was affected by the pandemic. It can be seen that the proportion of MSMEs affected by the pandemic (including complete shutdown, business drop by more than 50%, and business drop by less than 50%) is extremely high in all countries. A comparison between different countries shows that the proportion of MSMEs reporting complete shutdown and business drop of more than 50% is higher in developed countries such as the U.S., U.K., Canada, and developing countries such as Pakistan, Indonesia, Thailand, South Africa, and Mexico. MSMEs in France, Germany, and Italy in Europe and those in Japan, Korea and other developed economies in Asia are relatively less affected. The majority of MSMEs in international trade has witnessed



a business drop of less than 50% or remained almost the same compared to previous years. Overall, the impact on MSMEs in international trade in developing countries is generally greater, which is probably related to their low position in the global industrial chain, their labor-intensive manufacturing structure, and policy lags.

**Figure 3-1 Trade Business of MSMEs in Selected Economies Affected by the Pandemic**



**Data sources:** Survey by Alibaba.com

**Note:** According to the OECD classification, surveyed enterprises with less than 250 employees are considered MSMEs; possible bias cannot be ruled out due to the small sample size in some countries.

## ■ Smaller enterprises and industries are less resilient to risk

The smaller the enterprise, the less established its operational and financial mechanisms might be, making it less resilient to risk. According to an ITC (2020)<sup>34</sup> survey on 2,170 enterprises in 121 countries (as Figure 3-2 shows), 55% of the enterprises were strongly affected by the pandemic, including 64% of micro-enterprises, 60% of small enterprises, and 43% of large enterprises. The proportion of strongly affected enterprises decreases as the size of the enterprise increases. The OECD (2020)<sup>35</sup> survey notes that micro-enterprises with fewer than 10 employees are most likely to experience cash flow shortages (Bartik et al., 2020) .<sup>36</sup> Data from a joint online survey by Facebook, OECD, and World Bank (2020)<sup>37</sup> also shows that the smaller the company, the more likely it is to fail. SMEs with no employees are 10% more likely to fail than those with 50 to 249 employees, all else conditions being

equal. A big data-based Chinese study shows that the pandemic led to an 11.81% decline in the survival rate of SMEs, and the younger the enterprises, the smaller their sizes and the lower their sales revenues, the greater the pandemic's impact on their survival rate (Liao Li et al., 2021) .<sup>38</sup>

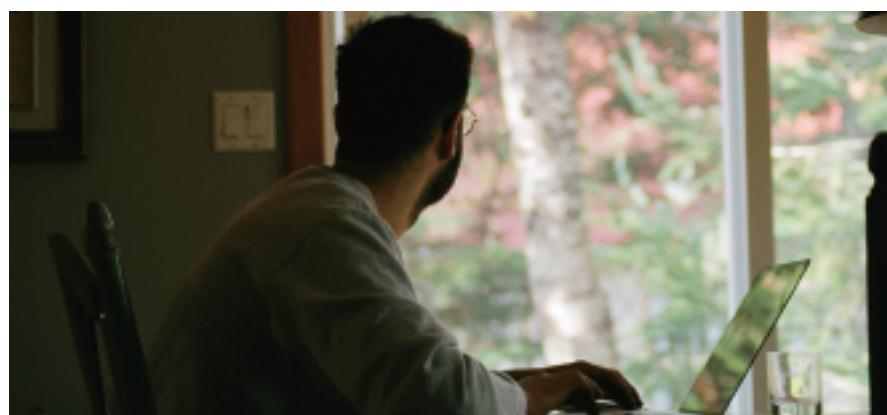
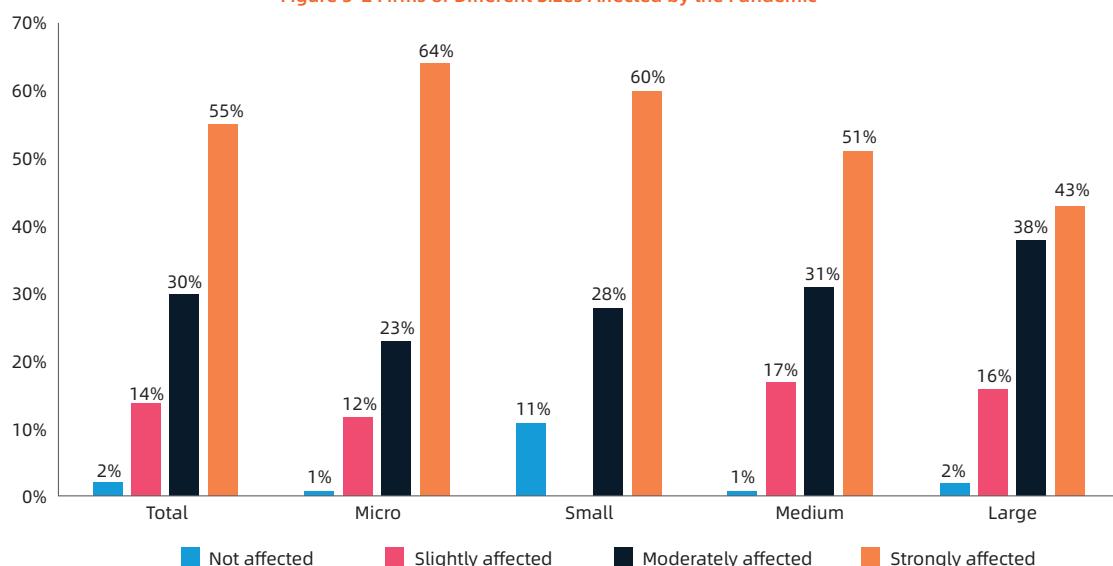


Figure 3-2 Firms of Different Sizes Affected by the Pandemic



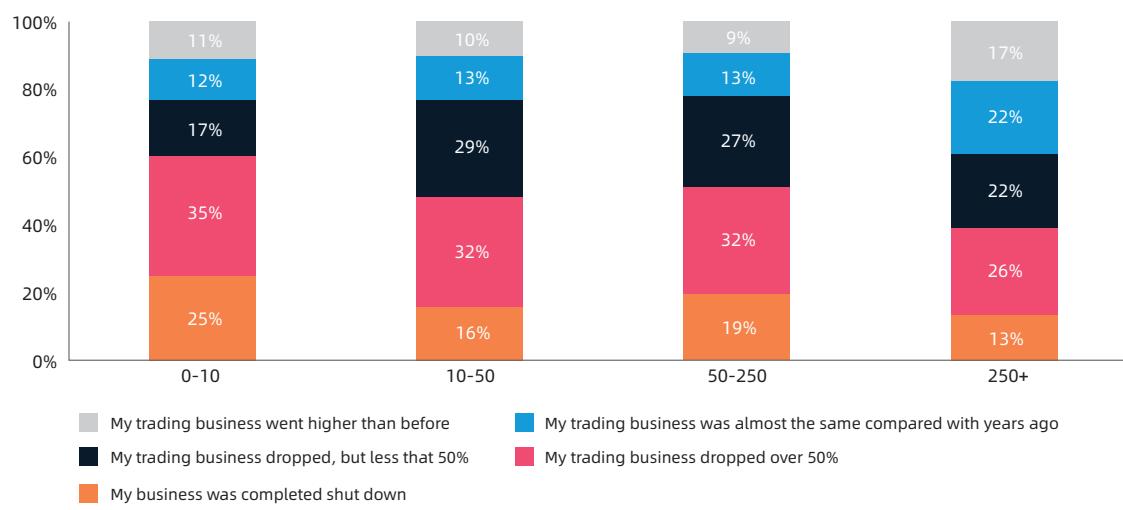
Data sources: Survey by the International Trade Center (ITC)

Note: Micro-enterprises are defined in this figure as those with no more than 4 employees, small enterprises as those with 5-19 employees, medium enterprises as those with 20-99 employees, and large enterprises as those with 100 or more employees.

**Among international trade enterprises, micro-enterprises and startups are more vulnerable. Based on the survey by Alibaba.com, Figures 3-3 and 3-4 show the extent to which trade businesses of different sizes and types of enterprises were affected by the pandemic, respectively. In Figure 3-3, micro-enterprises with 0-10 employees reported the highest percentage of complete shutdowns (25%) and business declines of more than 50% (35%), while only 13% of large enterprises with more than 250 employees reported complete shutdowns and 26% report business declines of more than 50%. Small enterprises with 10-50**

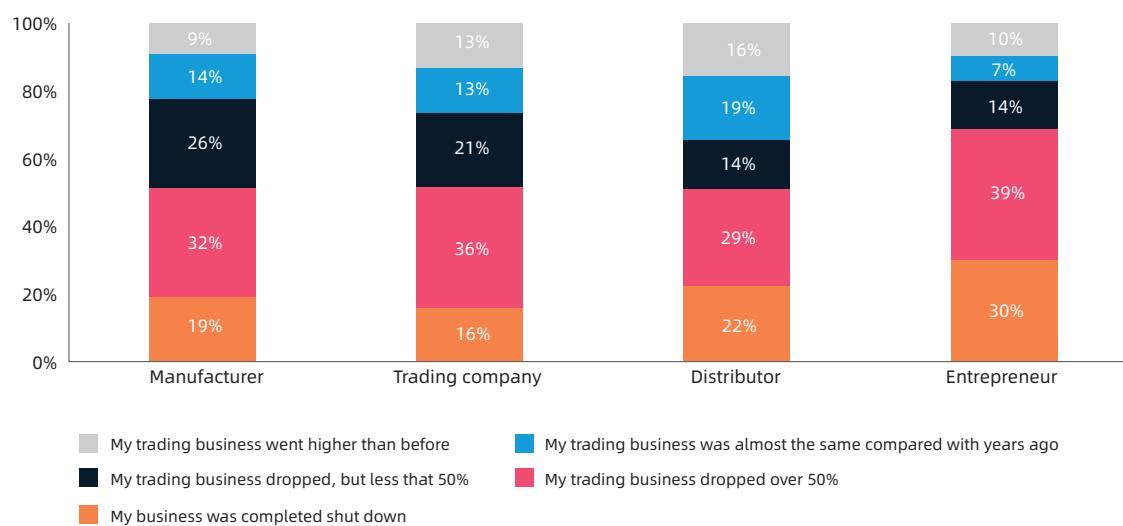
employees and medium enterprises with 50-250 employees both reported similar percentages higher than Large businesses. In Figures 3-4, startups reported a much higher percentage of complete shutdowns (30%) and business declines of more than 50% (39%) than other manufacturers, traders, and distributors. Distributors suffered from a higher percentage of complete shutdowns (22%), while traders recorded a higher percentage of business declines of more than 50% (36%). Manufacturers were relatively less impacted.

Figure 3-3 Trade Business Affected by the Pandemic for Enterprises of Different Sizes



Data source: Survey by Alibaba.com

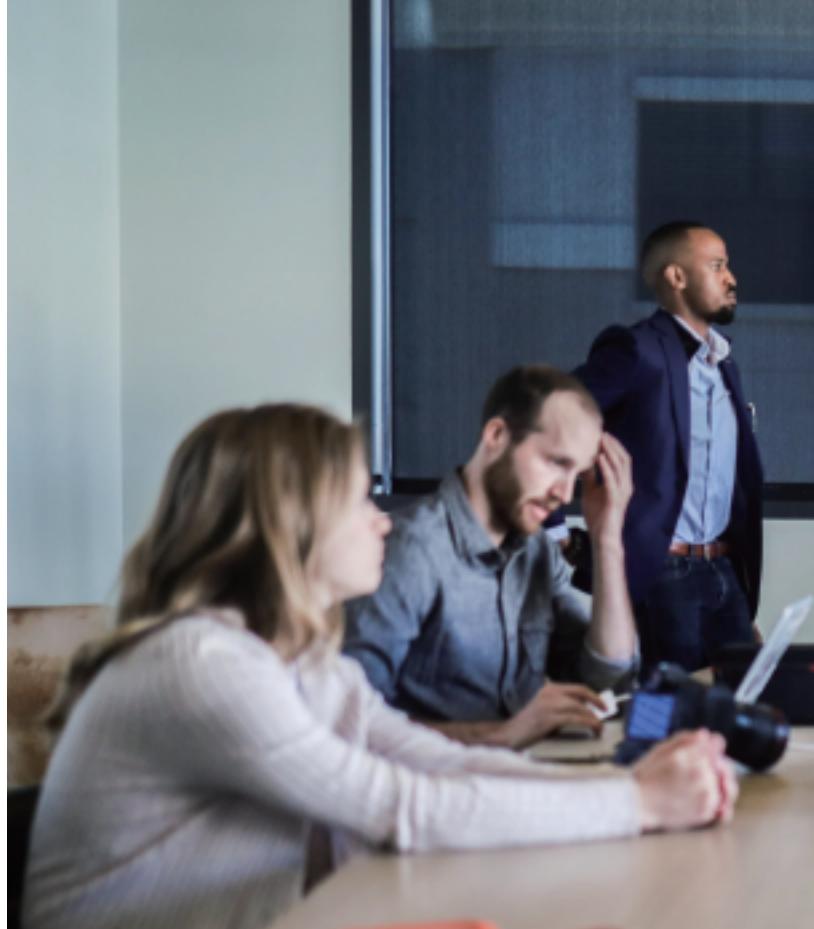
Figure 3-4 Trade Business Affected by the Pandemic for Enterprises of Different Types



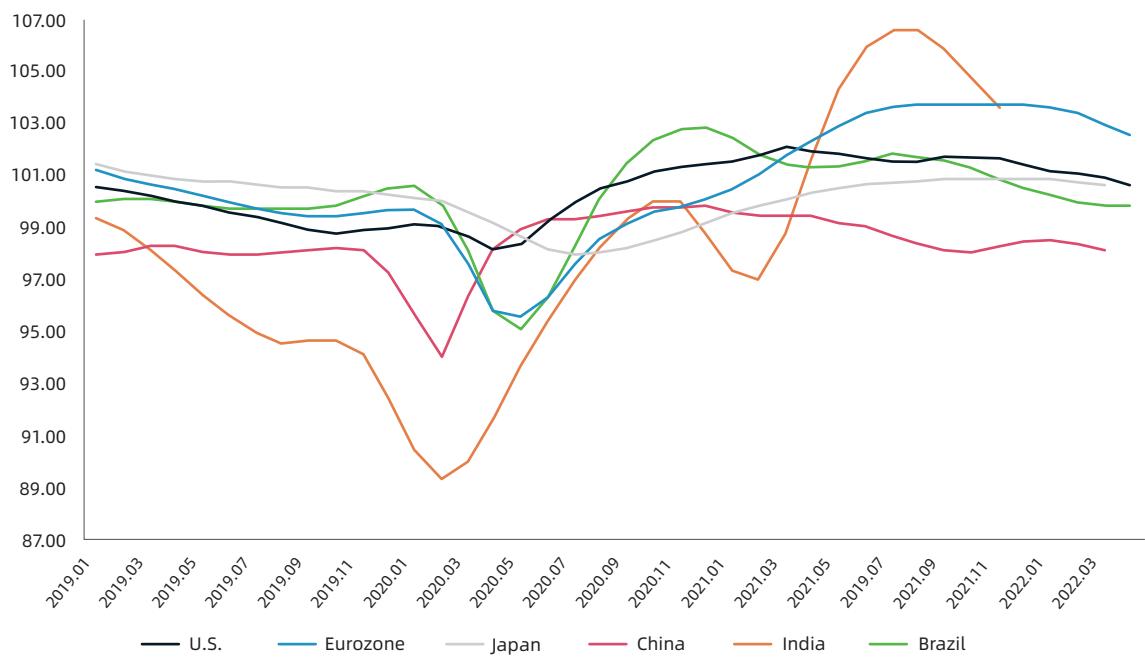
Data source: Survey by Alibaba.com

Among the industries most affected by the pandemic, the percentage of affected MSMEs is higher than the industry average. (OECD, 2020).<sup>39</sup> A report by ILO on the impact of the pandemic on jobs also noted that globally, businesses with fewer than 10 employees run the highest risk (ILO, 2020).<sup>40</sup>

Confidence and expectations of MSMEs fluctuate significantly due to the constant flare-ups of outbreaks. Most of these enterprises have not fully recovered. Figure 3-5 shows the change in Business Confidence Index (BCI) in major economies around the world. As we can see, under the persistent impact of the pandemic, especially the latest wave caused by the Omicron variant, the global economic recovery remains sluggish with a noticeable downward trend of BCI, which directly affects the confidence and expected recovery among MSMEs.



**Figure 3-5 Change in Business Confidence Index of Major Global Economies**



Data source: Wind Global Macro Database.



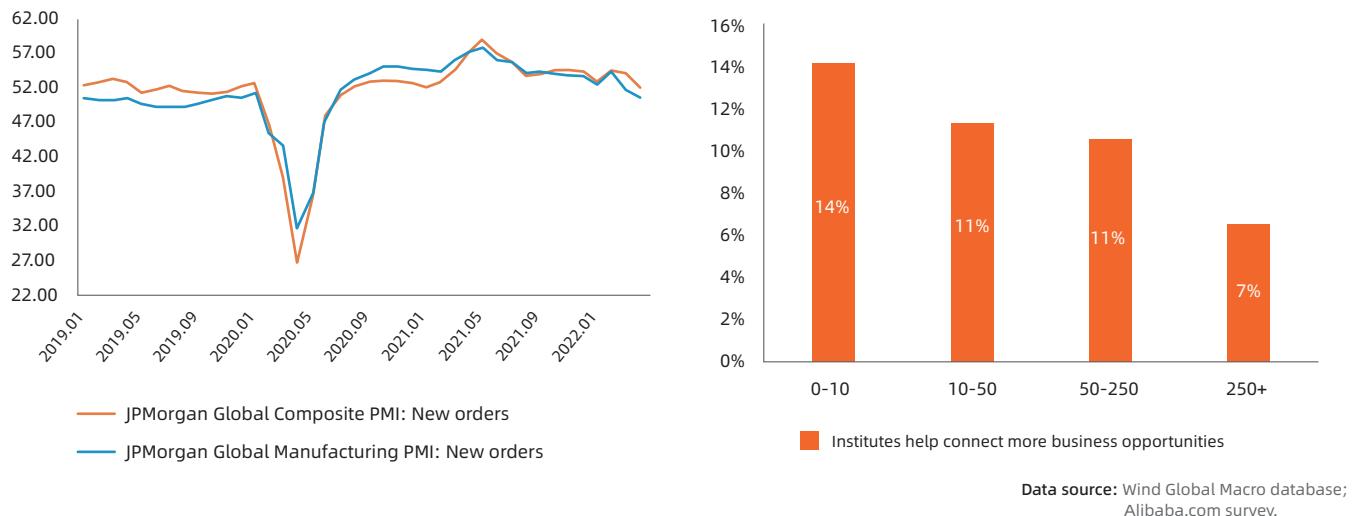
## ■ Lack of demand is the biggest long-term obstacle amid the pandemic

The shortage of demand has become one of the biggest challenges facing MSMEs in the medium to long run. Following the the pandemic outbreak, major economies around the world have rolled out a variety of relief packages which, on the supply side, have eased the shortage of raw materials, logistics resources, labor and capital. However, as the effect of pump-priming ebbs in the medium to long term, a lack of demand has emerged as a main constraint on MSMEs' recovery. Figure 3-7 (left) shows the new orders indices in the global composite PMI and manufacturing PMI. After a "cliff-like drop" during the early stages of the pandemic, the indices bounced back to the original level and then leveled off. They went through a small peak in early 2021, and visibly dipped again. Alibaba.com's survey of overseas MESEs in the trading sector (Figure 3-7, right) demonstrates that small-sized enterprises with 0-10 employees have the strongest appetite for new business opportunities (14%), and such appetite is inversely proportional to size. The appetite of large-sized enterprises with more than 250 employees (7%) is only half of that of smaller ones.

Specifically, Figure 3-8 (left) shows that the U.S. SMEs' expectation for real sales gains has not rebounded to the pre-pandemic level and is still declining. Balla-Elliott et al. (2022)<sup>41</sup> studied the U.S. SMEs' work and production resumption after the lockdown was lifted, and found that a

10% decline in expected demand resulted in a 1.5 percentage point (8%) increase in the likelihood that firms expected to remain closed for at least one month after being legally able to open, and that owners expect demand to be one-third lower than before the crisis. AliResearch's survey on the impact of the pandemic on SMEs (Gan Li et al., 2020)<sup>42</sup> shows that in February when the outbreak was at its worst in China, 46.1% of firms perceived logistics as the biggest challenge compared to 7.7% who perceived demand. In July, when the outbreak was effectively controlled, the percentage of logistics dropped to 10.8% while that of demand rose to 78%. Ant Group Research Institute's survey on MSMEs (Zhang et al., 2020-2022)<sup>43</sup> indicates that a lack of market demand is the primary cause of the decline in business, and more so for MSMEs than for larger enterprises.

**Figure 3-7 Changes in the Global PMI New Orders Indices and Appetite for New Business Opportunities Across Firms of Different Sizes**



**Figure 3-8 Changes in SME Sales Expectations and New Orders Indices in China and the U.S.**

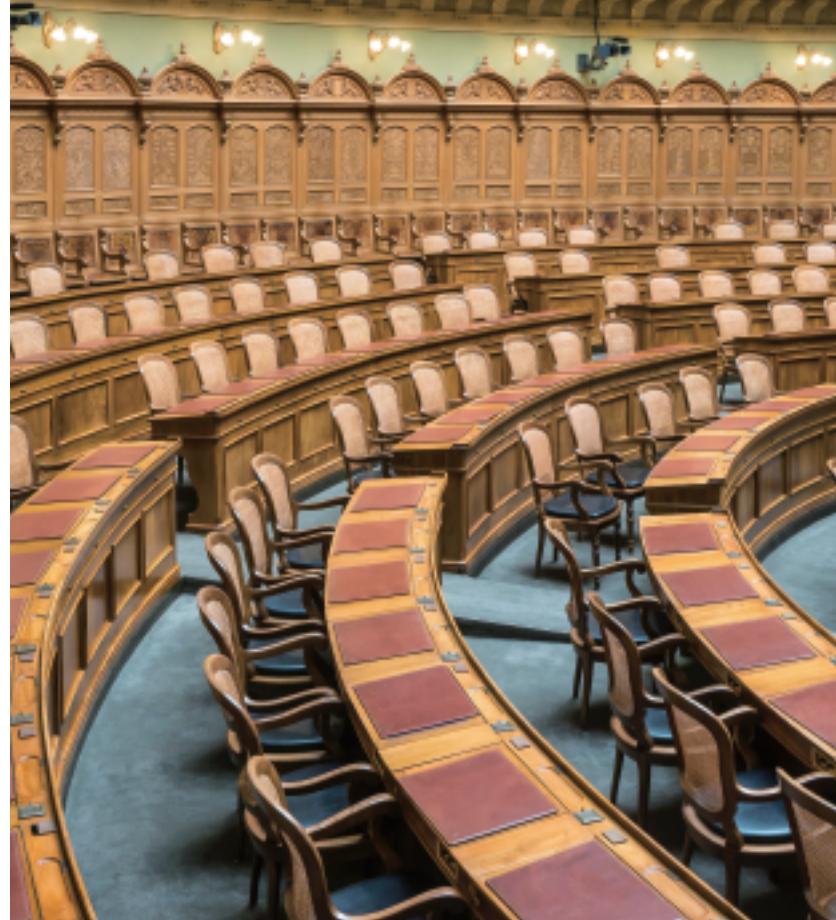




# **04**

## **Policy Responses for MSMEs**

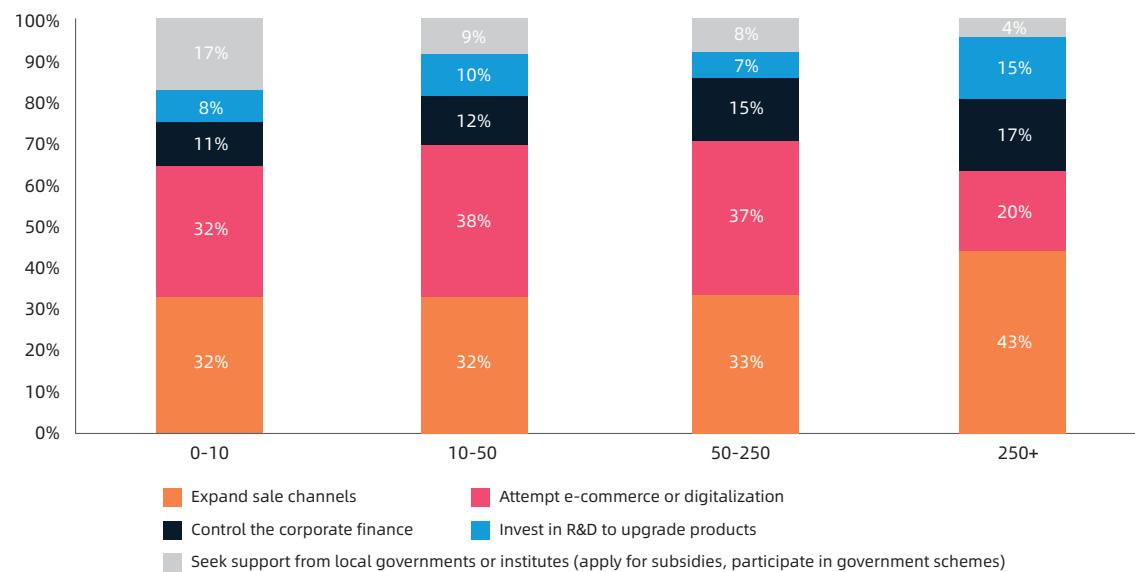
The policy instruments most widely used to address the devastating effects of the pandemic are tax deferrals, loan guarantees, direct lending, and wage subsidies. This coincides with the findings from the World Bank's survey on SME support measures.<sup>44</sup> Out of 845 SME policy instruments used worldwide, 328 relate to debt finance (loans and guarantees), 205 to employment support and 151 to tax. Increasingly, countries are putting in place structural policies to help SMEs adopt new working methods and (digital) technologies and to find new markets and sales channels. These timely and diversified policies have boosted economic growth and MSME recovery (OECD, 2021)<sup>45</sup>, but may be of limited help due to imperfections in policy design and risk accumulation.



## ■ MSMEs and startups are in urgent need of policy support

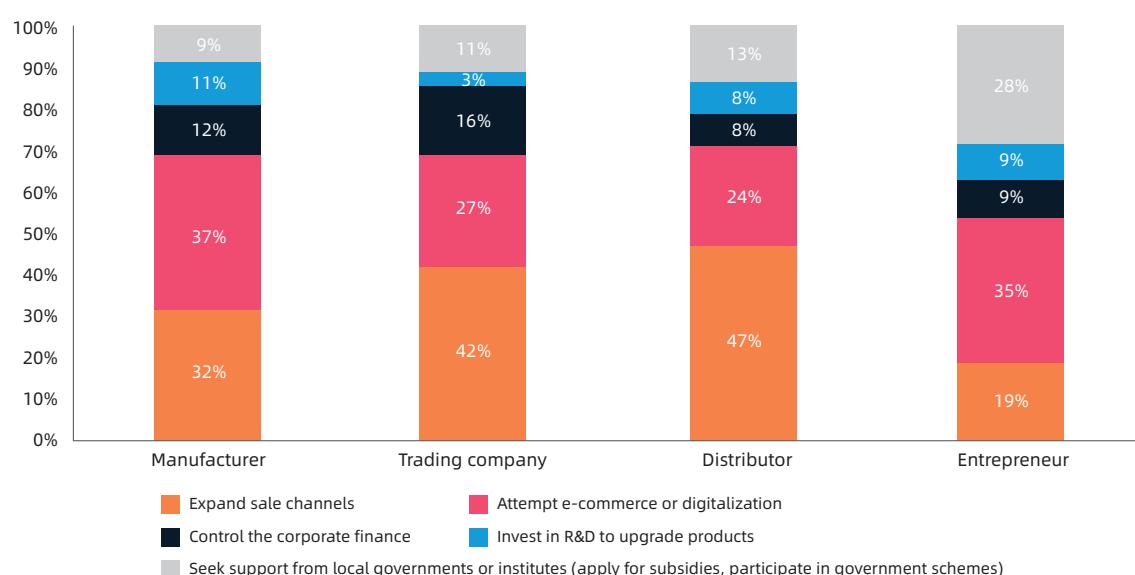
Based on the survey by Alibaba.com, [Figure 4-1](#) depicts the steps taken by enterprises of different sizes to keep their operations running during the pandemic. The figure shows that the smaller an enterprise is, the more urgently it requires policy support. Up to 17% of enterprises with 0-10 employees have sought assistance from local governments or institutes (such as applying for subsidies or participating in government programs), nearly twice as many as enterprises with 10-50 employees and four times the number of enterprises with 250 or more employees. This distinction is also seen across different types of firms ([Figure 4-2](#)), with startups requiring the most immediate government or institutional assistance compared to other types of firms such as those in the manufacturing, trade, and distribution sectors. Up to 28% of startups, more than three times the number of manufacturing enterprises, ask for government assistance. This shows that MSMEs, particularly MSEs and startups, are in desperate need of policy interventions and support as a result of their vulnerability to risks.

**Figure 4-1 Steps Taken to Keep Business Going During COVID-19 by Firms of Different Sizes**



Data source: Surveys by Alibaba.com.

**Figure 4-1 Steps Taken to Keep Business Going During COVID-19 by Firms of Different Sizes**



Data source: Surveys by Alibaba.com.

## ■ Policy responses are timely, diversified, and heterogeneous

Countries have reacted quickly to the grave situation faced by MSMEs, putting in place measures to maintain short-term liquidity. Table 4-1 lists the policies some major economies have implemented to help MSMEs (see Exhibit 2 for details).

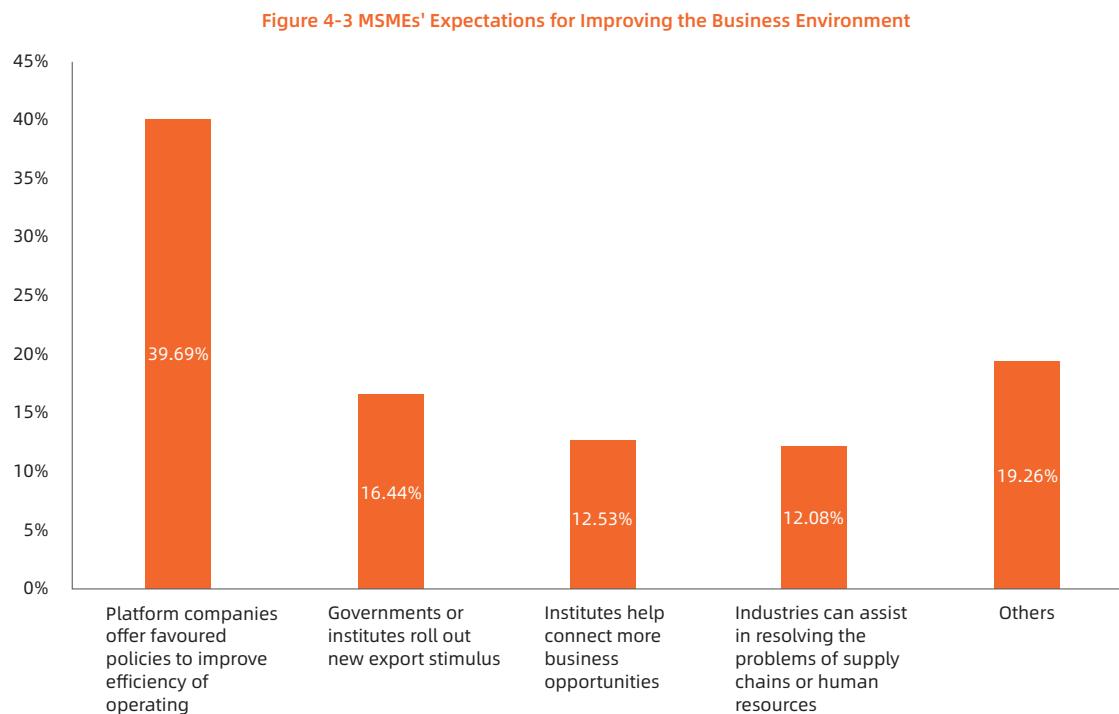
Figure 4-1 Steps Taken to Keep Business Going During COVID-19 by Firms of Different Sizes

	Policy responses for MSMEs										
	Human resource policy		Tax deferral policy			Financial policy		Structural policy			
	Self-employed	Wage subsidies	VAT	Income tax / Corporate tax	Temporary layoff	Debt payment suspension	Rent / Water & electricity fees	Social security and pensions	Loan guarantee	Stock instruments	Sustainability
China	●		●		●	●		●	●	●	●
U.S.	●	●	●	●				●	●	●	●
U.K.	●	●	●	●	●	●	●	●	●	●	●
France	●	●	●	●		●	●	●	●	●	●
Germany	●	●	●	●				●	●	●	●
Italy	●	●	●	●	●	●	●	●	●	●	●
Canada	●	●	●	●	●	●	●	●	●	●	●
Australia	●	●	●	●			●	●	●		●
Russia	●	●	●	●		●	●	●	●		
Japan	●	●		●		●		●	●	●	●
South Korea	●	●	●			●	●	●	●	●	●
India		●		●					●		●
Brazil	●	●		●	●	●	●		●		
South Africa	●			●		●	●	●	●	●	
Indonesia	●		●	●	●		●	●			
Vietnam	●		●	●	●	●					
Pakistan	●						●	●			

Data sources: Coronavirus (COVID-19): SME Policy Responses and One Year of SME and Entrepreneurship Policy Responses to COVID-19: Lessons Learned to "Build Back Better" released by OECD.

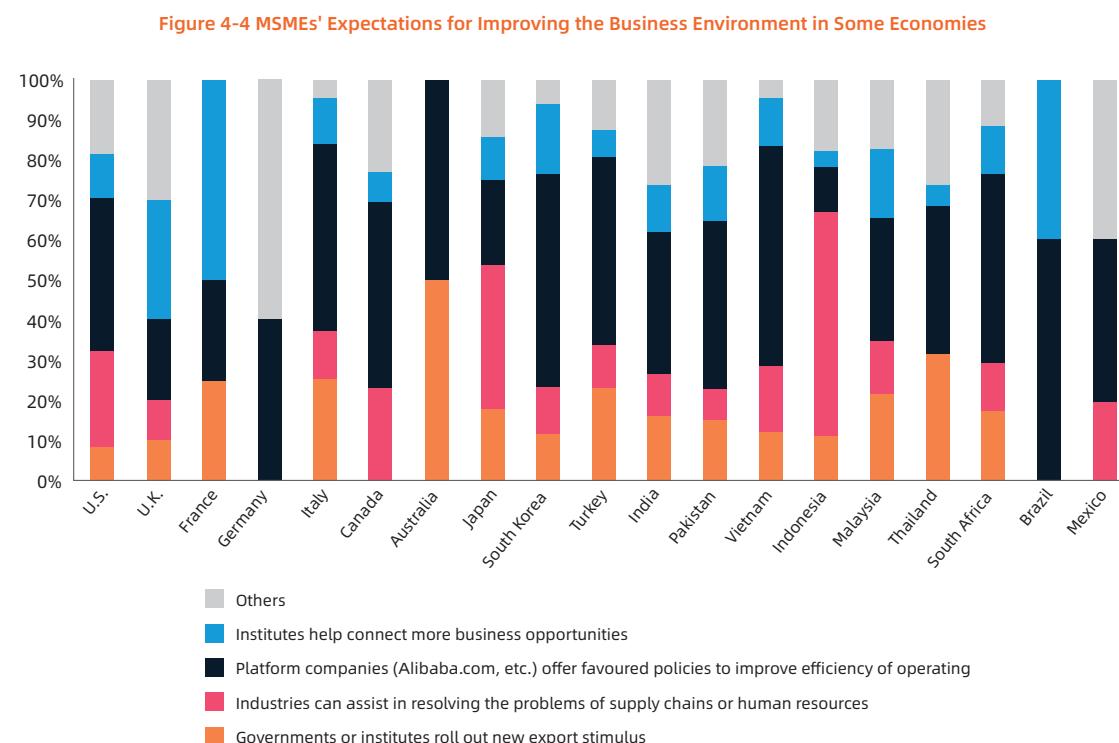
Note: This table is updated to February 2021; these statistics are not exhaustive due to the changing situation, but they do reflect countries' response policies in the year since the COVID-19 outbreak.

**Figure 4-3** depicts MSMEs' expectations for improving the business environment, with the top three being that institutes help connect more business opportunities (12.53%), governments or institutes roll out new export stimulus (16.44%), and tech companies offer favored policies to improve operating efficiency. Figure 4-4 further illustrates the expectations of MSMEs in some economies.



**Data sources:** Surveys by Alibaba.com.

**Note:** Based on the OECD criteria, MSMEs are enterprises with less than 250 employees.



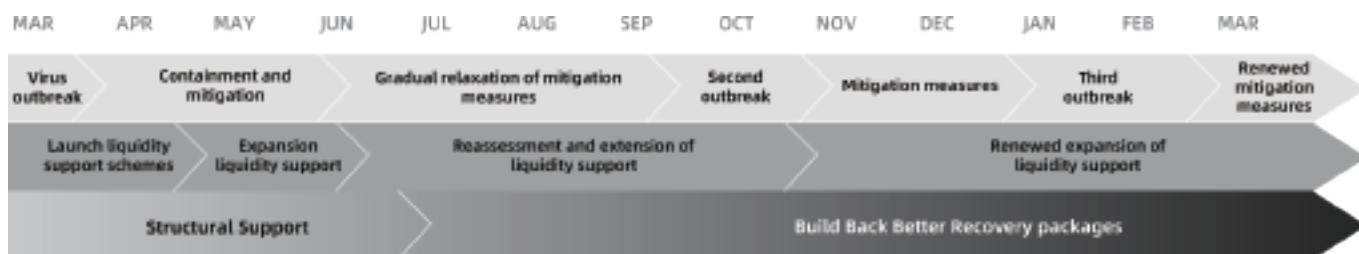
**Data sources:** Surveys by Alibaba.com.

**Note:** Based on the OECD criteria, MSMEs are enterprises with less than 250 employees. Possible bias cannot be ruled out due to small sample sizes in some countries.

## ■ Global policy responses to the pandemic have a positive but limited help

On the whole, the MSME policy focus shifted from liquidity support measures to support for recovery and better reforms from June 2020. The OECD has mapped the timeline of MSME policy responses to the pandemic all over the world (Figure 4-5).

Figure 4-5 Timeline of MSME Policy Responses to the pandemic



**Data sources:** One Year of SME and Entrepreneurship Policy Responses to the pandemic: Lessons Learned to "Build Back Better" by the OECD.

**Note:** The timeline spans from March 2020 to March 2021; these statistics are not exhaustive due to the changing situation, but they do provide an overview of the changes in policy responses for MSMEs globally in the year since the pandemic outbreak.

**The policy responses were unprecedented in terms of frequency and scale and changed as the pandemic progressed, producing a positive effect.** A study by OECD (2020)<sup>46</sup> on almost one million firms in 16 European countries, shows that government interventions would decrease the share of firms running out of liquidity from 30% to 10% compared to the non-policy scenario. Gourinchas et al. (2020)<sup>47</sup> stimulated the pandemic shocks in 11 countries and found that absent government support, SME failures would have increased by 6.15 percentage points, representing 3.15% of employment. Studies on the UK (Belghitar et al., 2022)<sup>48</sup>, the U.S. (Bartlett & Morse, 2021)<sup>49</sup>, and China (Wan Xiangyu et al., 2021)<sup>50</sup> also found that government assistance programs have effectively extended the life cycle of small businesses and improved their chances of survival.

In most economies, policy responses for MSMEs were of limited benefit compared to large-scale government investments due to imperfections in policy design and risks amassed early on.

First, government support does not reach the industries and enterprises that need it the most. Studies by OECD (2021)<sup>51</sup>, Belghitar et al. (2022)<sup>52</sup>, Kuchakov & Skougarevskiy (2022)<sup>53</sup> and Gourinchas et al. (2020)<sup>54</sup> on SMEs in the U.K. show that industries that are worst hit by COVID-19 are not those that benefit most from the government support scheme. A study by Guerrero-Amezaga et al. (2022)<sup>55</sup> on SMEs in

Latin American countries also shows that policies had a limited impact on small and informal firms. These firms were less aware of programs, applied less, and received less assistance.

Second, government support allows firms to maintain an immobile state, which reduces their competitive efficiency (Bank for International Settlements, 2020)<sup>56</sup>. Doerr et al. (2022)<sup>57</sup> also found that the policy response to the pandemic has triggered a backlog of insolvencies in Germany that is particularly pronounced among financially weak, small firms, having potential long-term implications on economic recovery. **After the pandemic outbreak in 2020, the Chinese government devised a set of relief packages to support MSEs to survive the pandemic, the most effective of which were social security exemptions and issuance of coupons.**



**05**

## Digital Transformation Initiatives for MSMEs

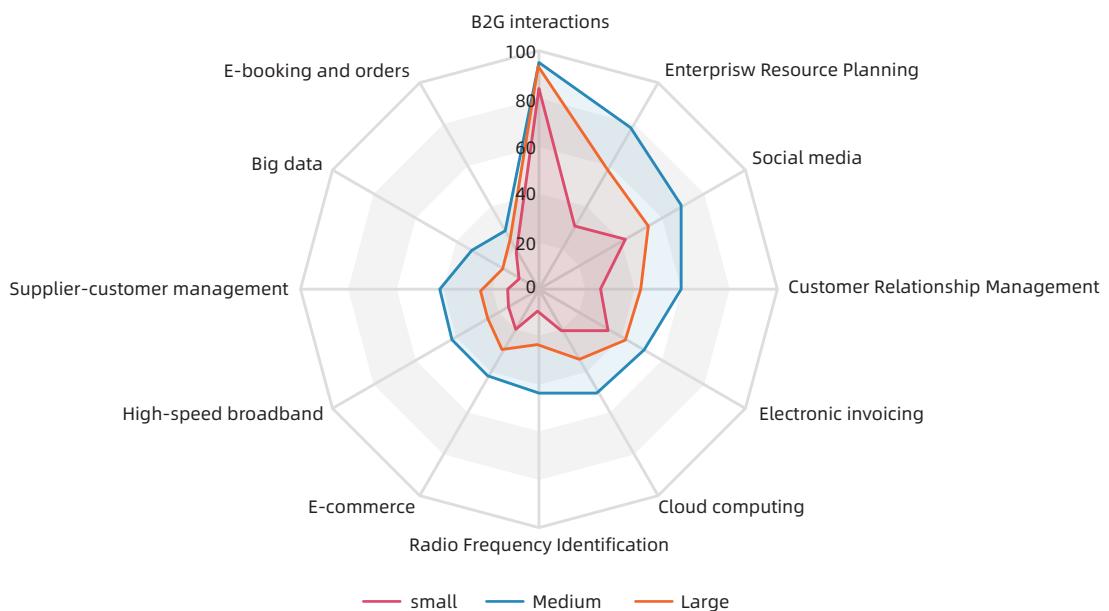
Despite potentially tremendous benefits, MSMEs lag in the digital transformation (OECD, 2021)<sup>58</sup>. Smaller firms have less resilience and flexibility in dealing with the costs the pandemic shocks entail. Digitalization reduces the costs for MSMEs by providing timely access to policy response information and changing the workflows. The expanding new markets, such as e-commerce, have brought economies of scale and facilitated access to global markets.



## ■ the pandemic accelerates the digital transformation of MSMEs

Digitalization is a major driver of competitiveness. However, smaller firms remain less digitalized (OECD, 2021)<sup>59</sup>. SMEs lag in the digital transformation. Figure 5-1 shows the digital gaps among small-, medium- and large-sized enterprises in OECD countries, which suggests that smaller enterprises have lower adoption of digital technologies; SMEs are less likely to implement more sophisticated technologies and tend to digitalize only general administration and marketing functions.

**Figure 5-1 Digital Diffusion among Enterprises of Different Sizes**



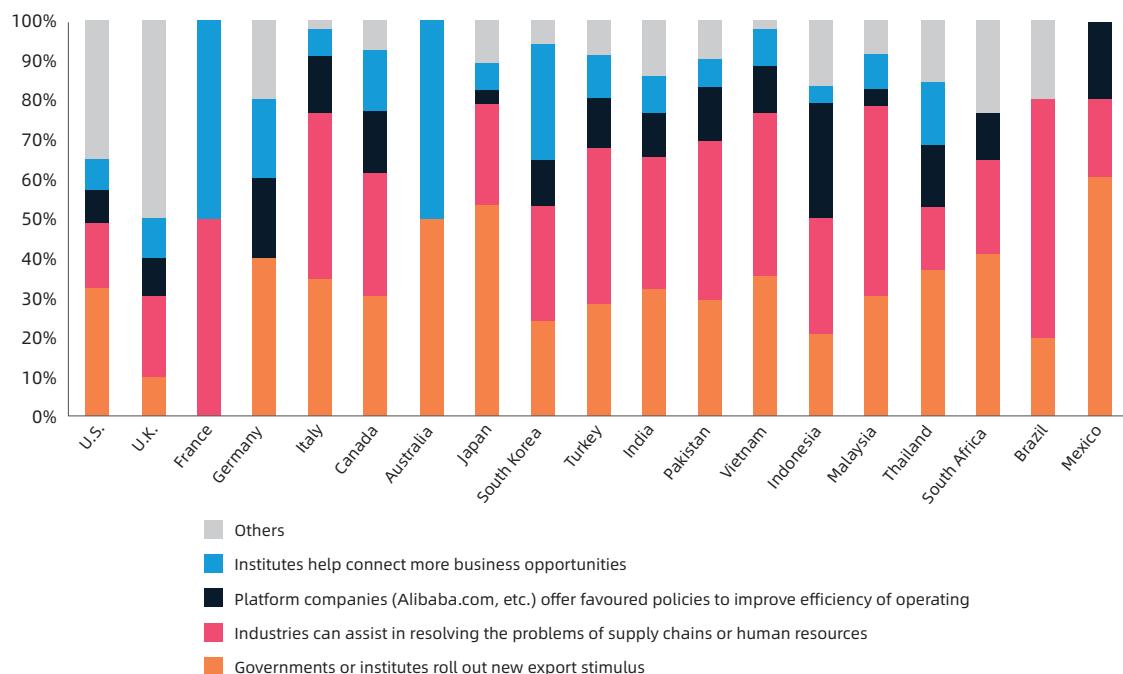
**Data sources:** SME and Entrepreneurship Outlook 2021 and the Digital Transformation of SMEs 2021 released by OECD.

**Note:** Values represent the median of diffusion rates in OECD countries. Country diffusion rates are average rates calculated over the period 2015–2018.



The pandemic highlighted the importance of digital transformation of SMEs and has served as an accelerator. While pandemic and the containment measures hamper face-to-face working and offline business operations, digitalization helps MSMEs move their operations online. Digital technologies, such as telework, e-commerce, and fintech, have boomed (see Exhibit 4). Figure 5-2 depicts the steps taken by MSMEs in some economies to keep their business going during the pandemic, with a large proportion of enterprises in all countries engaging in e-commerce or digitalization. Studies on major economies show an upsurge in SMEs' adoption of digital technologies and online commerce from May 2020.<sup>60</sup> Digital transformation becomes a structural and long-term change as the pandemic persists. A survey by HP (2020)<sup>61</sup> on 1,600 enterprises in the Asia-Pacific region at the end of 2020 shows that Vietnamese and Chinese SMEs are the most optimistic, with 47% believing digital adoption held the key to post-pandemic growth.<sup>62</sup>

Figure 5-2 Measures Taken by MSMEs in Some Economies to Keep Their Business Going During the Pandemic



Data sources: Surveys by Alibaba.com.

Note: Based on the OECD criteria, MSMEs are enterprises with less than 250 employees.

**Policies and platforms play a key role in the digital transformation of MSMEs.** The MSME digital lag arises from a range of factors and barriers, including lack of information and awareness, skills gaps, or insufficient capital. Smaller businesses often face more difficulties in digital transformation (OECD, 2019)<sup>63</sup>.

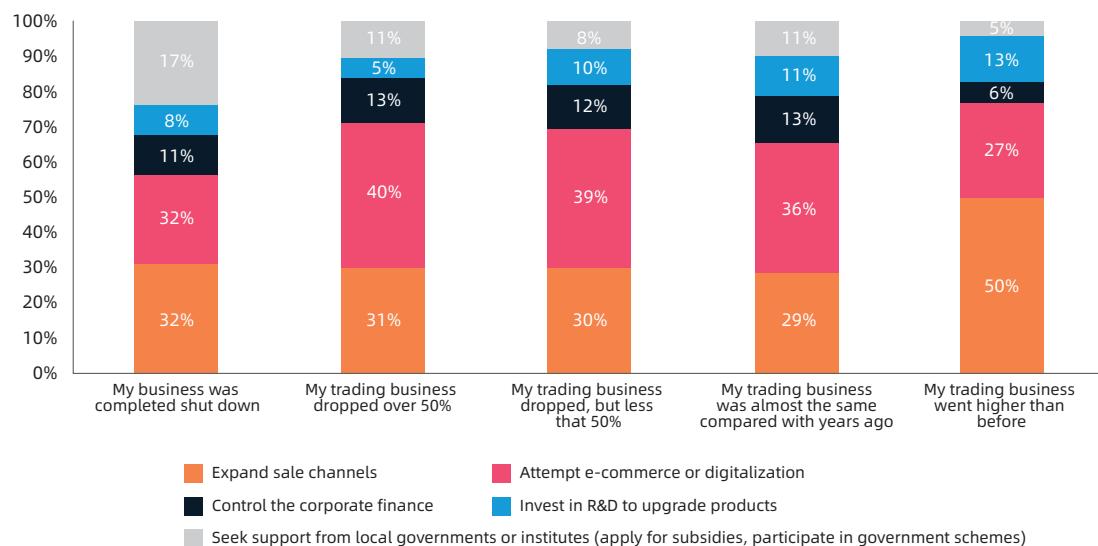
## ■ E-commerce mitigates the pandemic impact and expands exports

**The growing demand for online retail accelerates MSMEs' shift to e-commerce.** While social distancing and strict lockdown measures against the pandemic force most brick-and-mortar stores to close, online retail sales soared in such markets as the U.S., the EU, the U.K., Latin America, Africa, and Thailand (OECD, 2020)<sup>64,65</sup>.

**E-commerce platforms are more helpful for hardest-hit smaller businesses.** Small-sized enterprises (35%) were more likely to sell on e-commerce platforms than medium-sized (29%) and large-sized enterprises (23%) before the pandemic, according to EU data.<sup>66</sup> Figure 5-3 depicts the measures taken by MSMEs hit by the pandemic to varying degrees to keep business afloat. Enterprises with declining/unchanged sales and a bigger share of enterprises with a sales decline of more than 50% predominantly attempted e-commerce or digitalization and expanded sales channels. Those on the verge of shutting down may require more government support, but those with rising sales may have already benefited from the pandemic-induced e-commerce boom and are more eager to expand their markets. Furthermore, Figure 5-4 shows how enterprises of various sizes rate Alibaba.com. During the pandemic, the percentage of enterprises that consider Alibaba.com very important is highest among micro-sized enterprises with 0-10

employees and lowest among large-sized enterprises with more than 250 employees, while the percentage of enterprises that consider Alibaba.com important to some degree is lowest among micro-sized enterprises and highest among large-sized enterprises. The findings show that e-commerce platforms can help mitigate the effects of the pandemic, and that e-commerce platforms are more helpful for smaller businesses during the pandemic. The MSME survival rate is 7 percentage points higher in the regions with the highest e-commerce penetration than in those with the lowest.<sup>67</sup> During the pandemic, the economic downturn was less severe in regions with higher e-commerce penetration. The higher the e-commerce index is, the higher the work resumption rate and the greater the expectations of MSMEs for their own development and the macro-economy because higher e-commerce penetration accelerates corporate digital transformation and reduces financial constraints (Wang et al.)<sup>68</sup>.

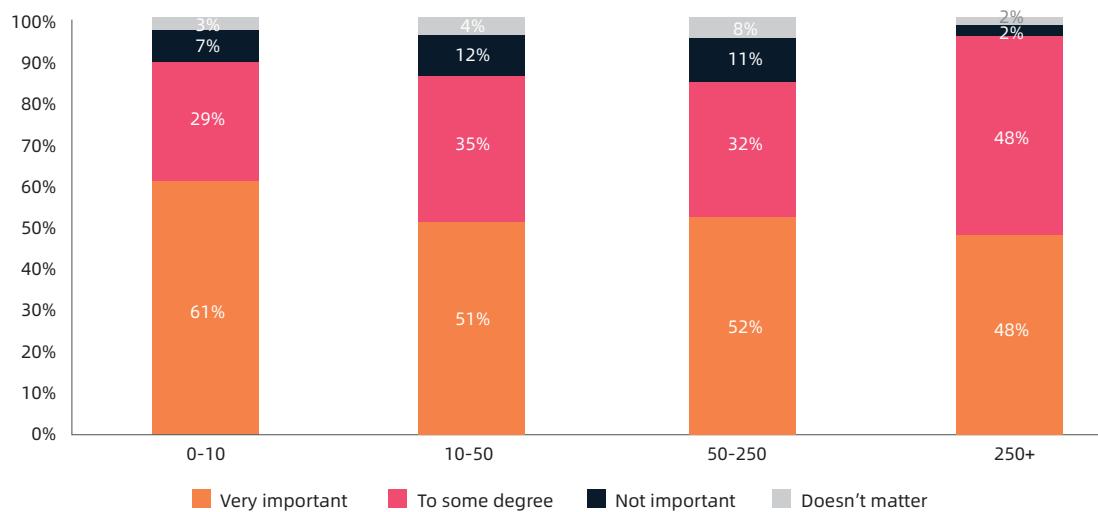
**Figure 5-3 Measures Taken by MSMEs Hit by COVID-19 to Varying Degrees to Keep Business Afloat**



**Data sources:** Surveys by Alibaba.com.

**Note:** Based on the OECD criteria, MSMEs are enterprises with less than 250 employees.

**Figure 5-4 Ratings for Alibaba.com from Enterprises of Various Sizes**



**Data sources:** Surveys by Alibaba.com.

**New forms of digital trade, including cross-border e-commerce, accelerated MSME exports during the pandemic.** According to estimates from the WTO<sup>69</sup>, the volume of world merchandise trade fell 5.3% in 2020. Cross-border e-commerce keeps lowering the threshold of international commerce while global trade is becoming increasingly fragmented and high-frequency. MSMEs are more flexible in response to market demand and more motivated to provide products and services in vertical segments than large-sized enterprises, allowing them to engage in broad global trade<sup>70</sup> and become

"micro-multinationals". With less than 100 employees, most Asian cross-border e-commerce enterprises are "micro-multinationals". They take advantage of digital platforms and have an average of 3.56 overseas sites, and they're expected to have a robust growth cycle in the next three years (Deloitte, 2021).<sup>71</sup>

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