



Navigating through Pandemic Times: Challenges and Opportunities for MSMEs

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Outline of the Presentation

I. Context and Relevance

II. The Pandemic Impact

III. Opportunities and Challenges

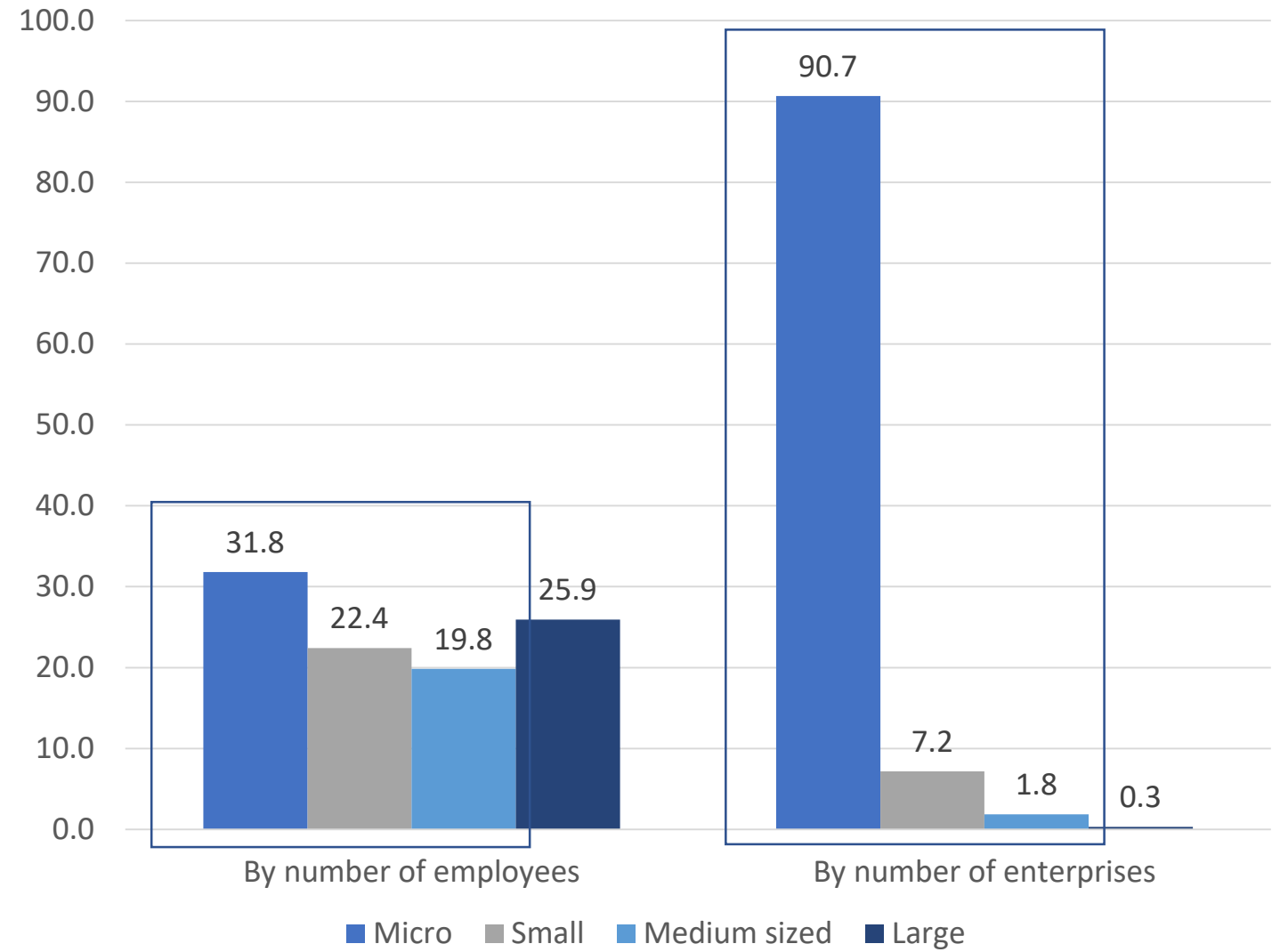
I. Context and Relevance

- **M**icro, **S**mall and **M**edium size **E**nterprises (**MSMEs**) play a vital role in the Macedonian economy, with an important contribution to employment, innovation and competitiveness, economic activity, social well-being, and environmental footprint.
- They are potentially strong drivers of **inclusive** and **green** growth
 - **Inclusive** growth: prosperity shared by large portion of the population
 - **Green** growth: Economic growth that is environmentally sustainable

Importance

- MSMEs engage **74.1%** of all employees in the business sector in MK
- **99.7%** of all enterprises are MSMEs

Enterprise classes in MK (in percent), 2019

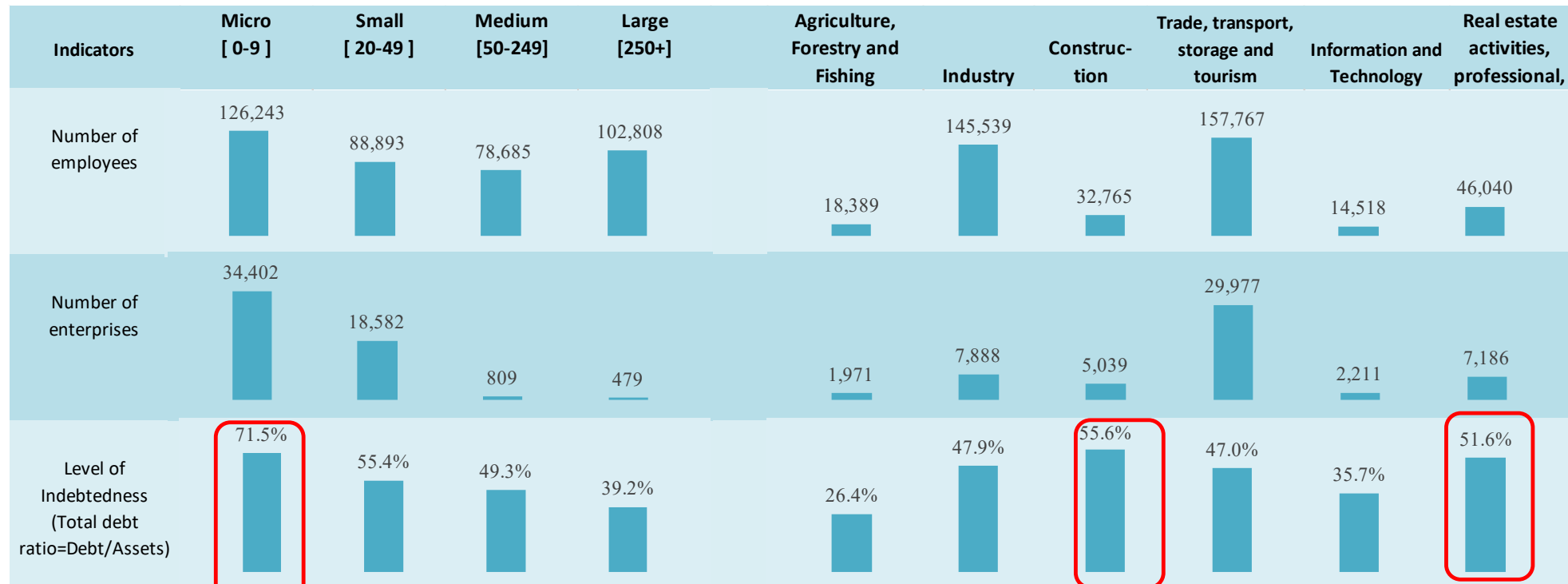


Limitations

- Limitations by definition
 - **Smallness:** Limited resources make them particularly vulnerable to internal and external shocks (e.g., loss of a critically important employee)
 - **Newness:** New organizations often suffer difficult access to finance and have a greater risk of failure.
- Pandemic-related limitations
 - **Reduced revenue:** The negative shock to MSMEs sales (turnover) has been large and is creating significant cash-flow problems
 - **Near-survival:** MSMEs are currently operating in a very difficult and uncertain environment, and some of them are following a near-survival strategy.
 - **Liquidity support:** Most of the government financial support has been used by the large enterprises

Vulnerabilities among MSMEs

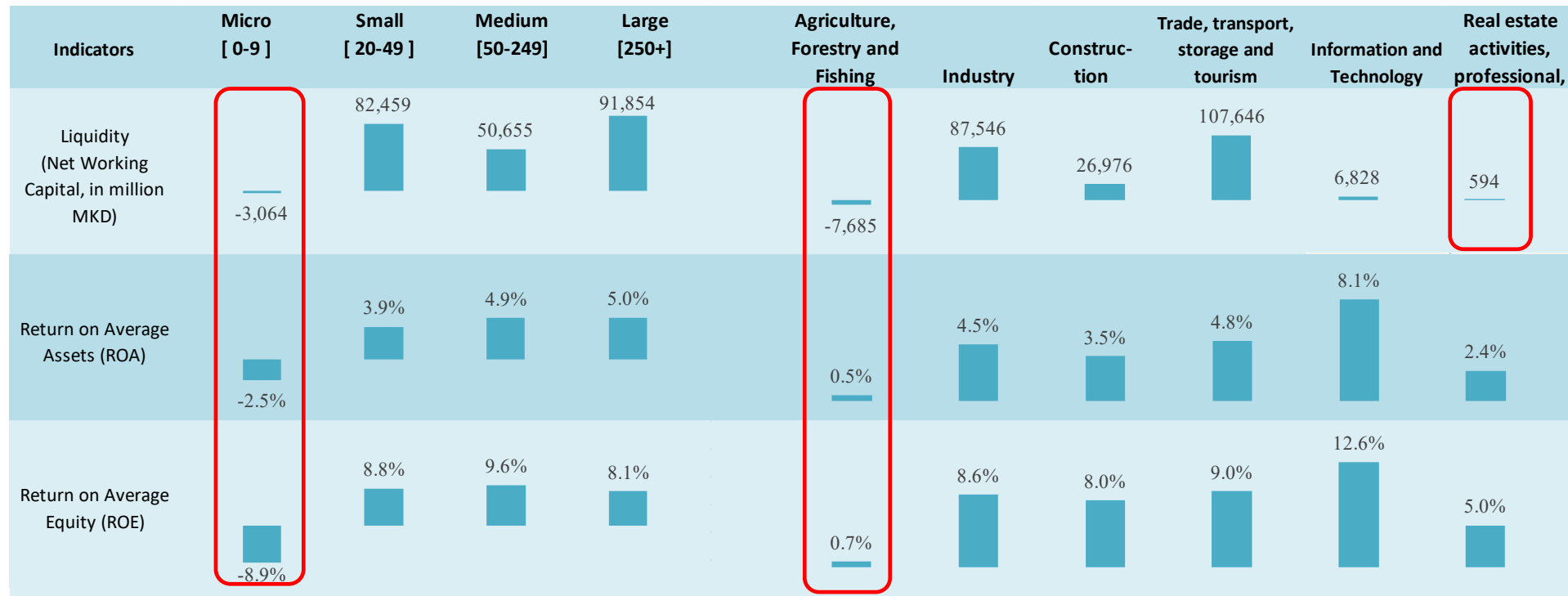
- Even before the pandemic outbreak, MSMEs showed signs of vulnerability ([UNDP's Socio-Economic Impact Assessment](#))
- Many micro- and small enterprises were heavily indebted



Source: Central Registry (2021).

Vulnerabilities among MSMEs

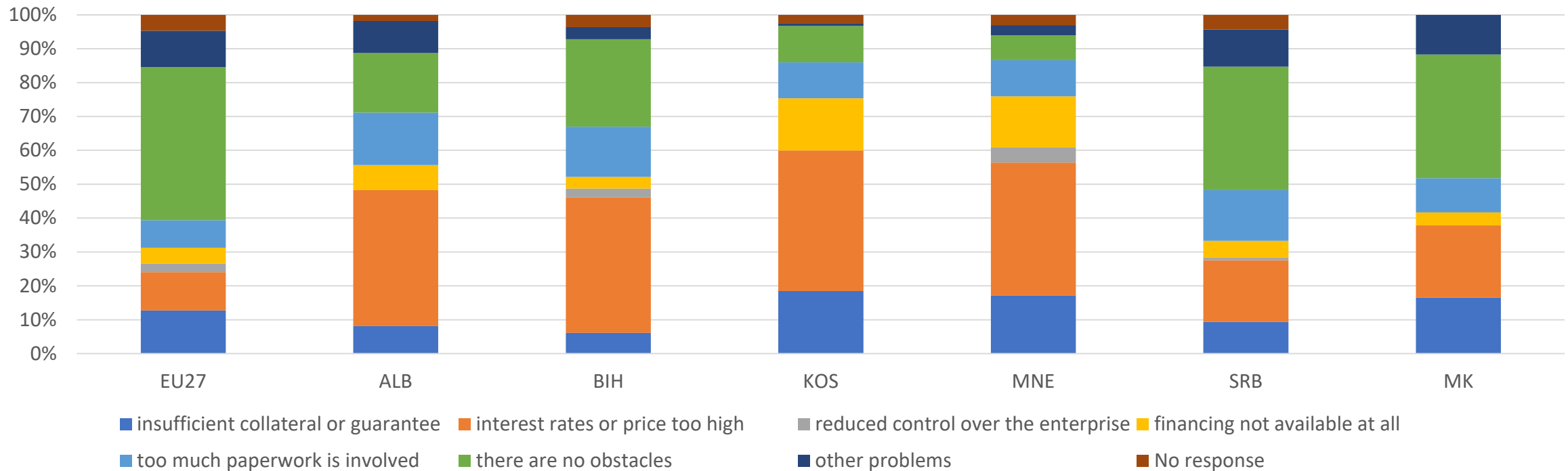
- Low liquidity and negative net working capital of micro-enterprises.
- Widespread losses among micro-enterprises.



Source: Central Registry (2021).

Limiting Factors for Access to Finance

- Major obstacles for access to finance in MK
 - Interest rates on loans too high
 - Insufficient collateral or guarantee
 - Too much paperwork



Source: European Central Bank (2021).

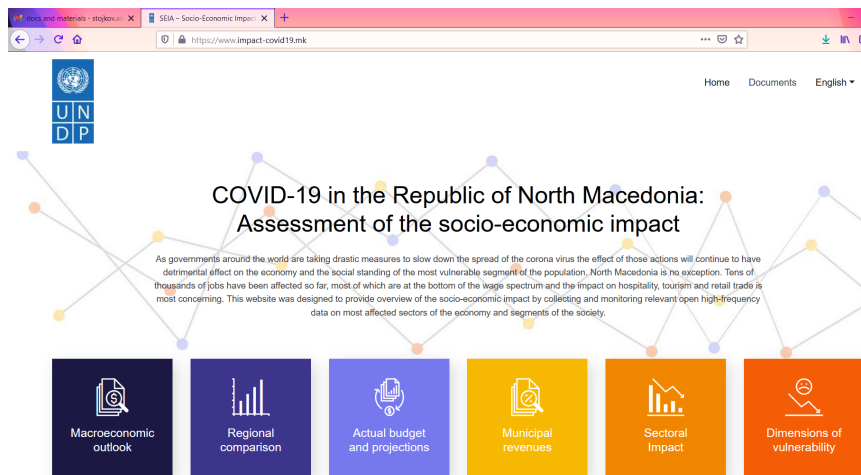


Summary of Problems

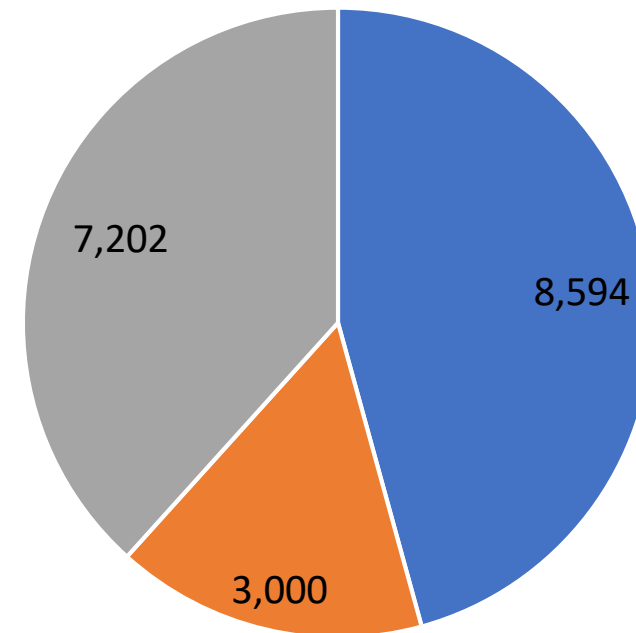
- **Demand decline** for firms' products
 - **Poor access to finance** (credit lines, overdrafts, and government subsidies as the most important sources of external financing).
 - **Payment delays** or inter-enterprise arrears.
 - **Regulatory obstacles** or administrative burdens.
 - **Lack of customer demand for their products** (particularly, for environment-friendly (green) products).
 - **Uncertainty about future trends and digital standards.**
 - About one in five MSMEs mention **lack of skills of their employees** among the barriers to engage in more sustainable practices, digitalize, and innovate.
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II. The Pandemic Impact

- ❑ The economy is likely to return to the pre-crisis trajectory by the end of 2022.
- ❑ The cumulative output losses for 2020 and 2021 are estimated to at least at 3.7 Billion U.S. dollars.



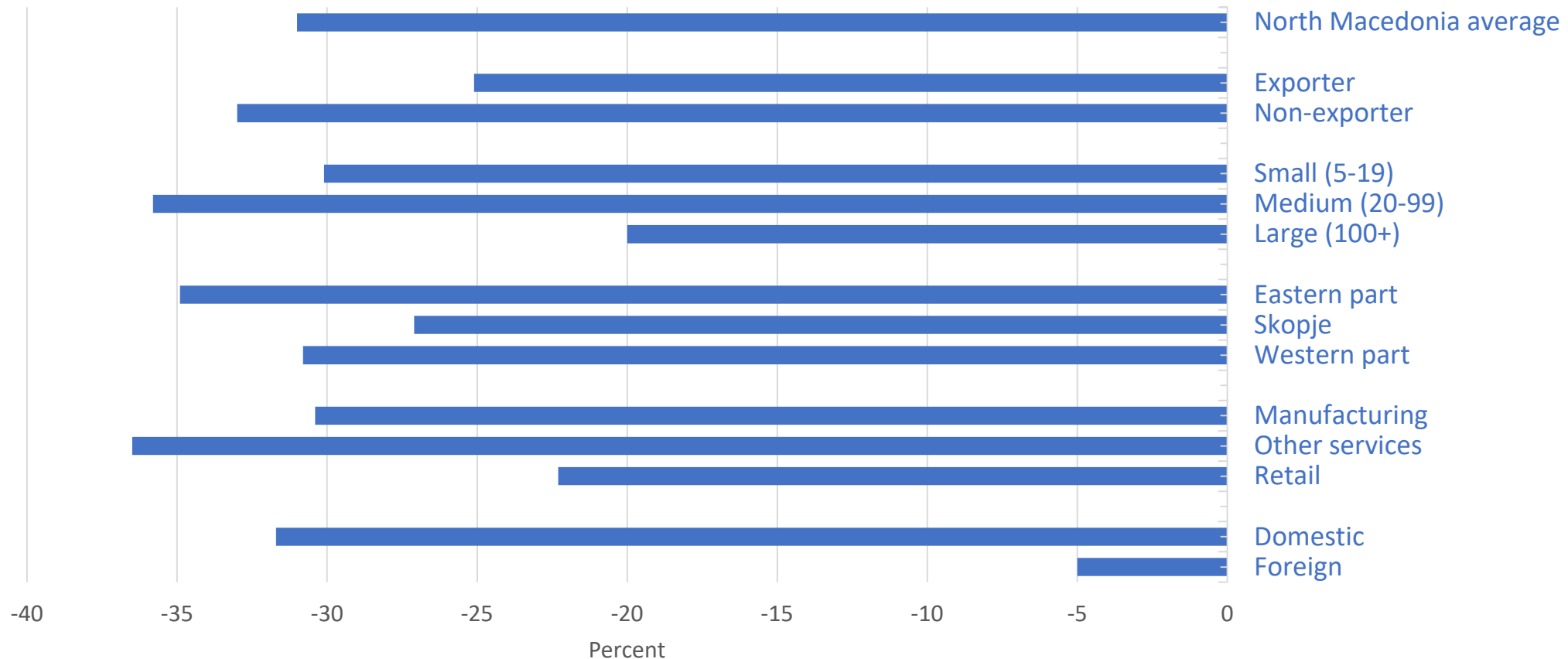
Estimated Net Job Losses by Sector



■ Manufacturing ■ Retail services ■ Other services

The Pandemic Impact

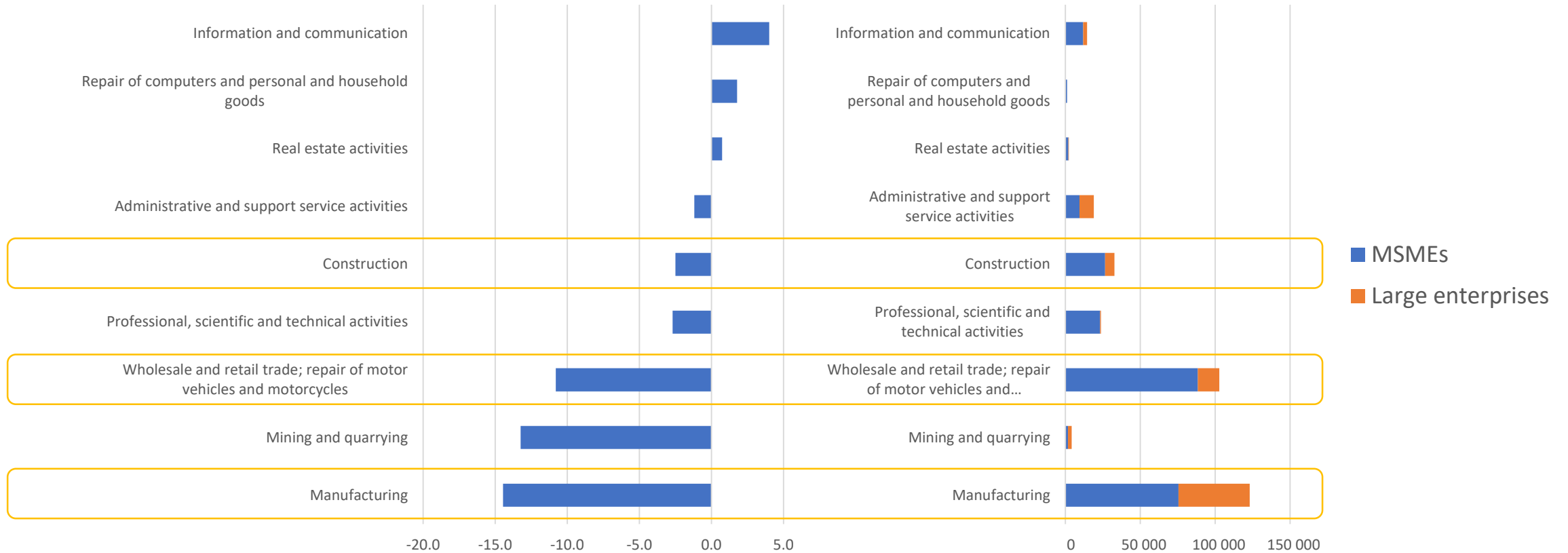
- Medium-sized enterprises hardest hit (-36%)
- Retailers experienced a decline of 22% as opposed to other services (-36%).
- Domestic hit harder than foreign ones



Source: World Bank (2021).

Real growth / decline in production (Jan-Sep 2020 over Jan-Sep 2019)

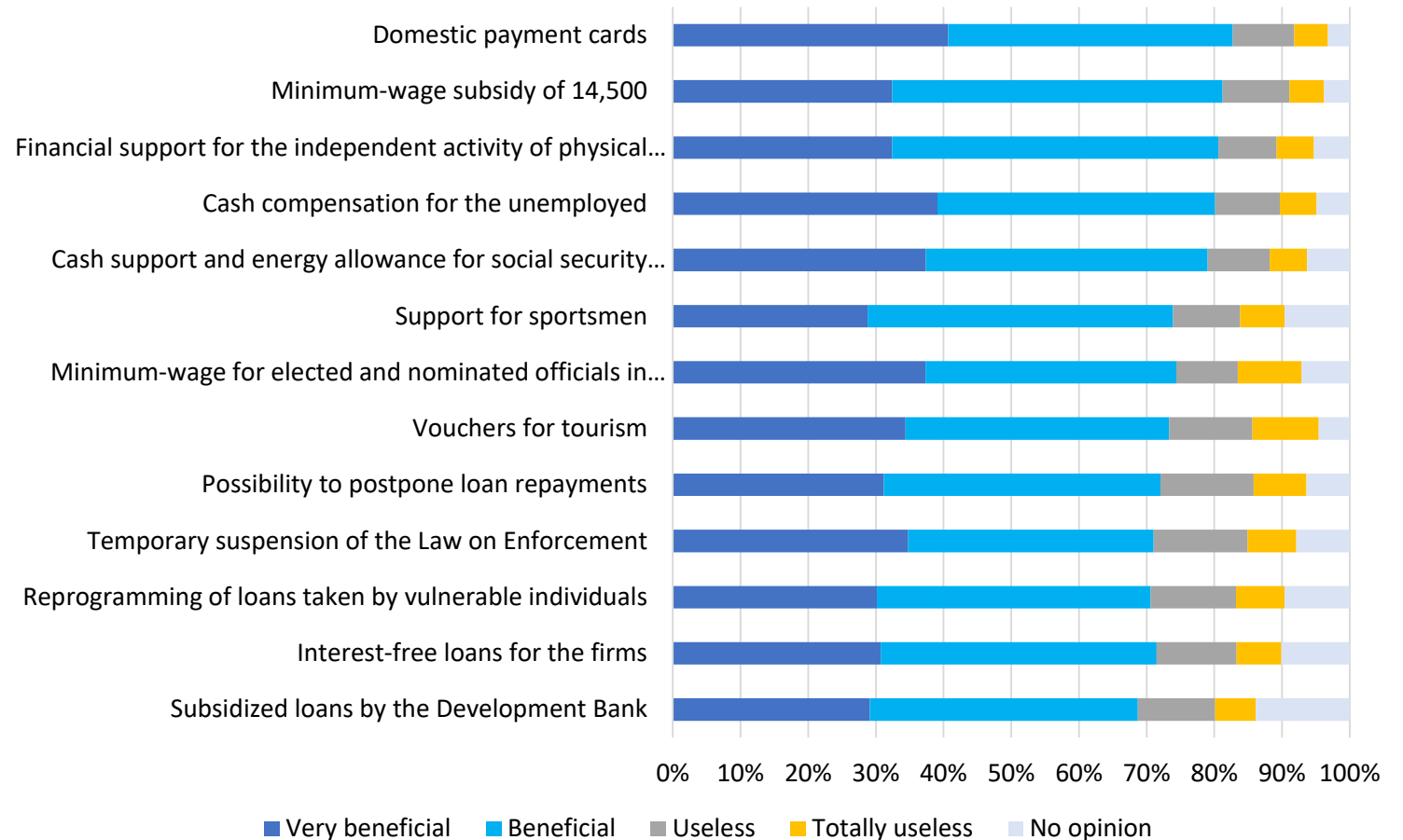
Employees in MSMEs and Large enterprises



Economic sectors with more MSMEs
hit hardest

The Pandemic-Induced Crisis and the Government Financial Support

- 71% of the firms experienced delays in payments from customers.
- Government support has reached about 40% of the firms.
- 95% of firms received some form of wage subsidies.

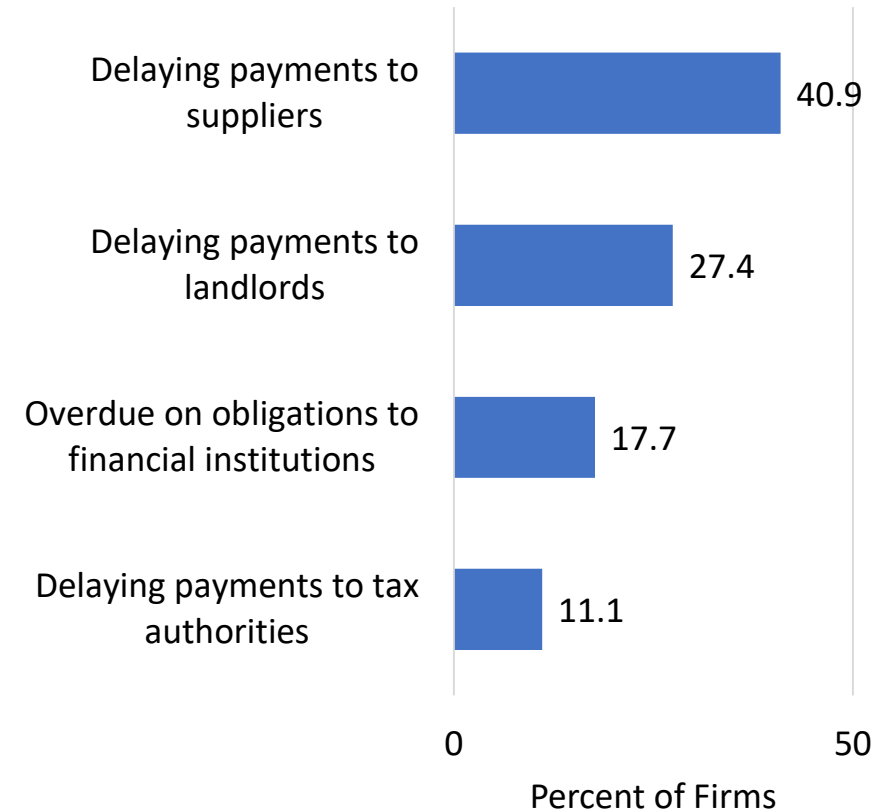


Source: Survey by *Rating* (August 2020).

Adapting to the New Normal

- MSMEs are over-represented in economic sectors that have been strongly hit by the pandemic-induced crisis
- A large survey of 600 SMEs was conducted in July 2020 by a public poll agency within the [UNDP's Socio-Economic Impact Assessment \(SEIA\) Project](#) and in September 2020 by World Bank.
- Question: “How are you adapting to the new normal?”

Coping Mechanisms for Firms

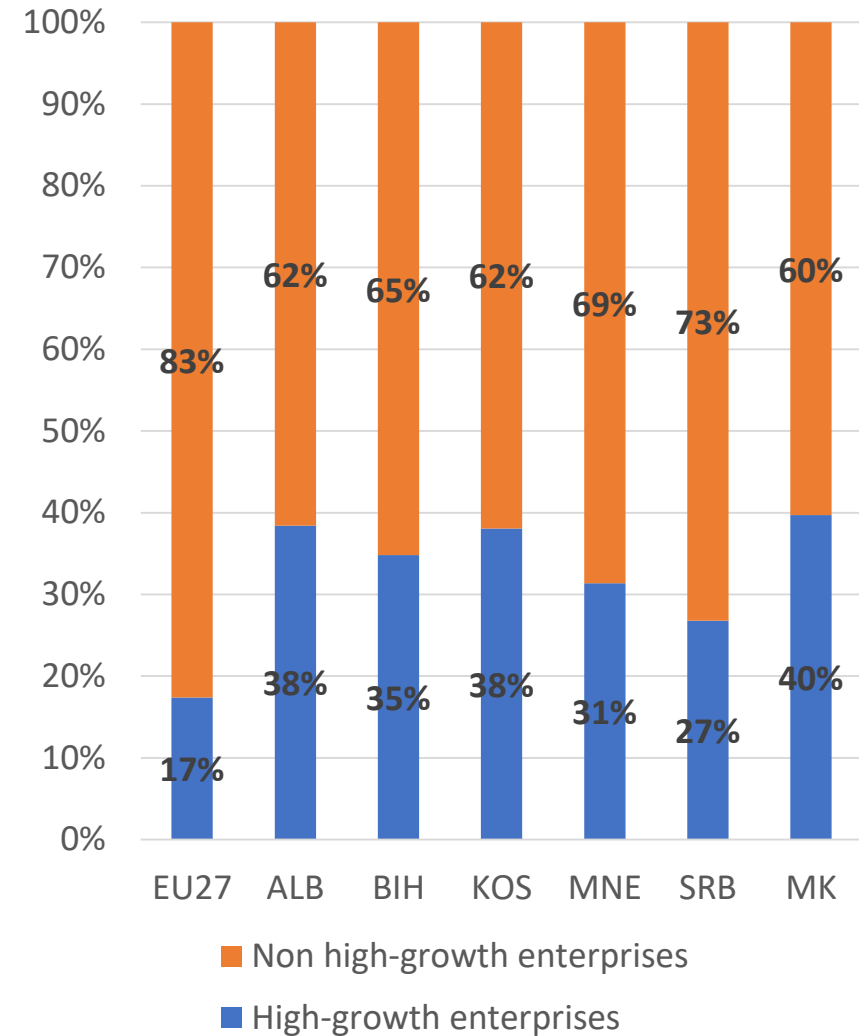


Source: World Bank (2021).

A Favorable Self-Image

- 40% of the surveyed companies in MK consider themselves as high-growth ones.
- By regional and European standards, this is a high percentage of MSMEs.
- Only 17% of SMEs in EU-27 consider them as high-growth ones.

Do you see your company as a high-growth one?



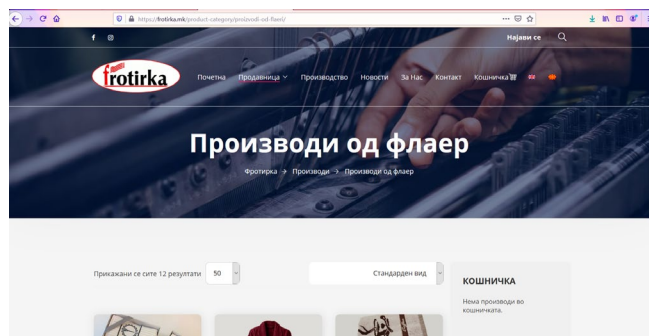
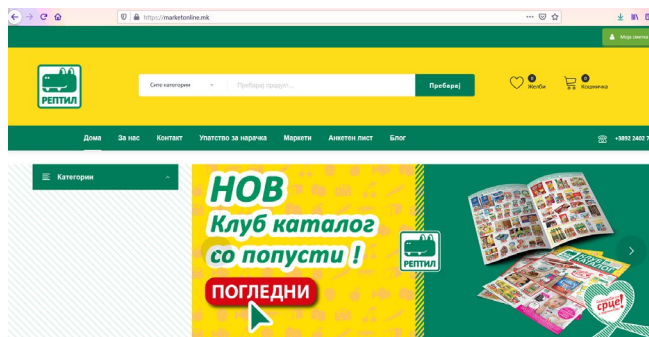
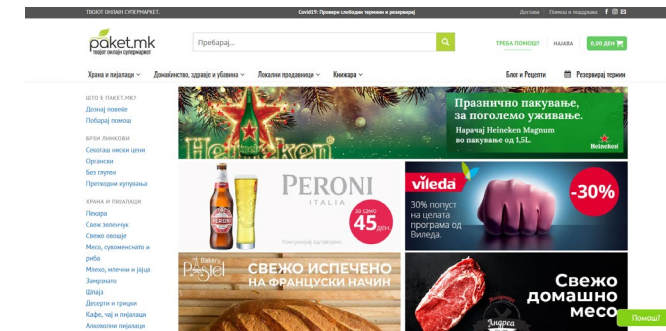
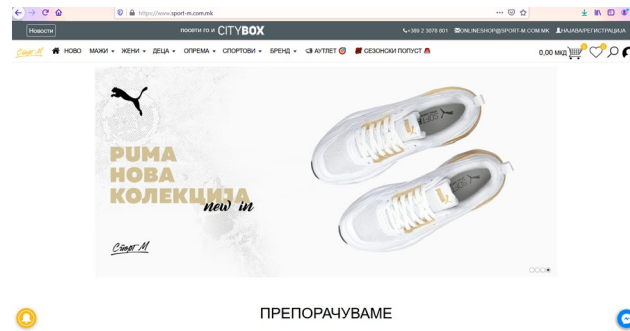
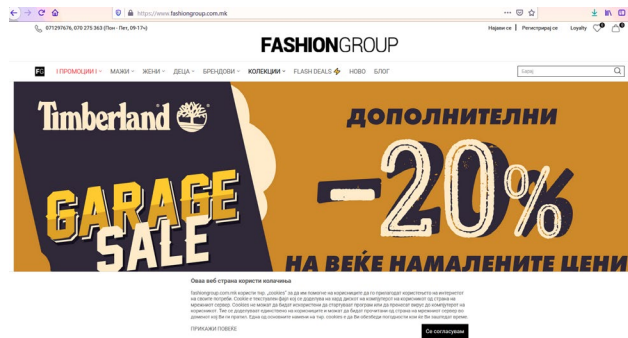
Source: European Central Bank (2021).

III. Opportunities and Challenges

- Fortunately, during the current crisis, many businesses have worked faster and better than they dreamed possible just a few months ago (McKinsey 2021).

#1: Going Digital

- Transition to Online Sales and Delivery
- Use of Artificial Intelligence and Machine Learning Algorithms
- Online courses for the clients and/or the employees
- Improvement of the existing digital platforms.



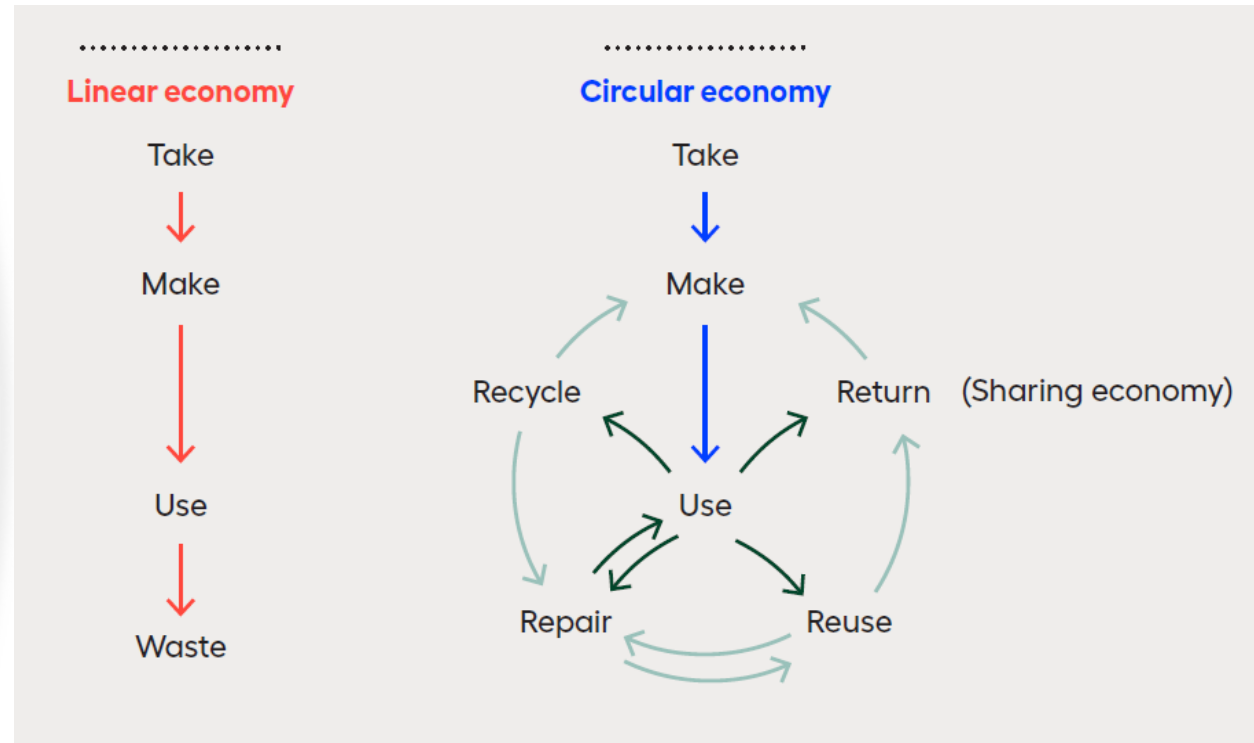
Going Digital Transition to Online Shopping and Delivery

Paket.mk; Fashion Group; Reptil markets; Frotirka; Sport-M...

III. Opportunities and Challenges

2: Green Transition

- Green Jobs and Green Economy
- Transition to Low-Carbon, Resource-Efficient Economy facilitated by EU funds and donor support from international development partners
 - Energy: Decarbonization (e.g., solar energy)
 - Materials: Disposal of unwelcome components and waste (UNDP)



Ministry of Environment and Physical Planning

THE REPUBLIC OF NORTH MACEDONIA

Fiscal Report
January 2021

Rapid socio-economic assessment of the Macedonian enhanced NDC targets/measures

ISBN: 978-608-4860-01-3

Developed within the UNDP Climate Promise Initiative, supporting the Macedonian Government to prepare and submit its enhanced Nationally Determined Contributions on Climate Change (enhanced NDC).



2: Green Transition

A Transition to Low-Carbon, Resource-Efficient Economy

- **The ‘Compensation’ Argument: Less Developed Can Pollute?**
 - The argument: We are less developed, and we have other priorities than environment.
 - COVID-19 crisis is pushing the industrial lobby for a reduction in environmental requirements or a postponement of climate policies.
 - However, the transition to low-carbon economy is inevitable
 - Guidelines of the European Commission (EC) for the implementation of the **Green Agenda for the Western Balkans (GAWB)**, to which our country adhered, on November 10, 2020.
- **The Pandemic as a Green opportunity?**
 - Creation of so-called “green” jobs
 - investments in small innovation companies
 - Investments in renewable energy infrastructure (wind, solar, hydroelectricity, residual biomass, etc.)
 - Investing in smart digital technologies;
 - Renovating buildings to increase energy efficiency
 - Support for the adoption of energy-efficient practices such as teleworking, public and active transport and the purchase of local products
 - support for the electrification of transport.



2: Green Transition

A Transition to Low-Carbon, Resource-Efficient Economy

- Greening-related cost reductions for SMEs (OECD, 2018):
 - **Process efficiency:** By optimizing current processes or introducing new more efficient ones, SMEs minimize the required inputs and waste production.
 - **Product design:** SMEs can re-design their products to reduce the required inputs without sacrificing the product's utility.
 - **Waste disposal:** In addition to reducing waste by improving process efficiency, SMEs can reuse already-generate waste or pass it along to other companies. This reduces cost of waste disposal.
 - **Source of raw material:** SMEs can reduce cost of raw materials by switching to re-cycled materials.
 - **Infrastructure efficiency:** SMEs can generate savings associated with energy- efficiency lighting, building insulation, and heating systems efficiency.
 - **Packaging and transport:** By reducing the volume of packaging and switching to local suppliers to decreasing shipping distances, SMEs can further reduce costs.

3: Women Empowerment and MSMEs

Women could play a vital role in post-pandemic recovery

- A separate government financial package with allocations for women-led firms
- Government incentives so small women-led companies avoid layoffs in hard-hit sectors;
- Invest in women's access to and participation in technology
- Provide digital skills training for women entrepreneurs
- Fully integrate gender equality in digital strategies and initiatives;
- Encourage greater representation of women in leadership.





4: Internationalization of MSMEs

- Global markets are an important source of growth for small and medium-sized enterprises
- The internationalization of SMEs is facilitated by the greater use of digital tools and e-commerce.
- An estimated 90% of global growth will originate outside the EU in the coming years (European Commission, 2021).
- Developing and emerging markets are expected to account for 60% of world GDP by 2030.

5: Government Support

- **Broad support** (not specifically targeted to women) in the form of:
 - **active labor market measures**, administered through the Agency for Employment (with significant involvement of UNDP);
 - **innovation grants** from the Fund for Innovation and Technological Development,
 - **Support for entrepreneurship** from the Ministry of Economy
 - **small-scale trainings** offered through the Agency for Support of Entrepreneurship.
- **Gender-targeted public funding** in the form of grants for existing micro-entities, small and medium enterprises managed by female entrepreneurs.
 - This support is administered through the Ministry of Economy.
 - Small-scale consultancy trainings for female entrepreneurship are also being organized by the Agency for Support of Entrepreneurship.