

SMEs RESILIENCE AGAINST THE BACKDROP OF THE CURRENT CRISES

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Abstract

This paper considers the role of small and medium sized enterprises (hereafter, SMEs) within an economy and their capacity to adapt during the crises. Although SMEs represent one of the largest groups of companies in most countries capable of contributing to the growth and development of economic activities, these enterprises are most seriously harmed in crises.

The most recent crises, which affected the whole world, had a rippling effect across businesses especially SMEs. The health crisis and the global war crises followed by rising inflation and increasing food insecurity shows that this is the right moment to think about coping strategies for the future crises. The impact of the current crises has emphasized the need to support and increase the resilience of SMEs.

Moreover, health and military crises are not just leaving an impact on the economy, the higher threat is that they might come back, and a strong SMEs sector should be prepared to meet them or other new challenges. In this regard, policy recommendations for strengthening SMEs resilience in the future crises will be proposed. This paper has been drawn up, using the official statistical data, the most recent data and references in this field of research and own reflections of the authors.

Key words: SMEs; health crisis; resilience.

JEL: G00; G30

Introduction

Small and medium-sized enterprises play essential roles in driving growth, creating jobs, and opening new markets for sustainable development through domestic trade liberalization (Puriwat et al., 2021). Although, SMEs are well known for their important role in economy, these enterprises are most seriously harmed in crises due to their lower knowledge levels, more susceptibility, greater reliance on government and local authorities, and greater financial reliance on owners (Runyan, 2006). Moreover, SMEs usually suffer from high losses, reduced sales volume, inability of meeting contract terms, reduction in staff numbers, and even close down of the business during or after crises (Abriham, 2022). Therefore, protecting small business from economic shocks is the prime concern for policymakers because the output degradation in SMEs has spillover effects on other segments in the economy (Miocevic, 2020).

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Furthermore, SMEs face significant challenges that hinder their development and, in some cases, their survival. They face barriers accessing finance, attracting talent, reaching markets and innovating, among other areas. Because of these constraints on resources and capacity, they tend to be more vulnerable to crises and disasters (Regional Guidelines for ASEAN Governments, 2020).

One of the most recent crisis, that affected SMEs is the health crisis caused by the Covid-19. No country in the world was prepared for a shock of the magnitude, duration and impact of the pandemic. Policymakers and researchers have looked for ways to improve SMEs resilience to the health crises. Experience from Covid-19 shows that this has become a lesson to be learned for future health crises. Moreover, the global health crisis has been followed by the global war crises, which first effected the Europe and then the Middle East. All these lead to: increased inflation, homeless refugees, oil and food insecurity. The chief economist of the World Bank believes that “Policymakers will need to be vigilant. If the conflict were to escalate, the global economy would face a dual energy shock for the first time in decades—not just from the war in Ukraine but also from the Middle East.” (Wright, 2023).

The development of this paper stems from the need to protect the business environment in this uncertain times, underlining the right policies that will be able to rump up the development of SMEs sector.

Discussions

The health crisis has exposed SMEs to greater vulnerability than their larger counterparts have, in many cases, placed SMEs at a disadvantage (Erđiaw-Kwasie et al., 2023).

We also noticed that health crisis affected small business branches differently. During the pandemic, the most affected SMEs were from key activities such as accommodation, food services, transport, real estate, entertainment and recreation activities, their activity being periodically suspended due to the establishment of the lockdown, because of the increase number of diseases.

Agriculture was also among the most affected branches. The main challenge faced by the agriculture sector is related to the draught and climate change. These two negative factors, pandemic restrictions and insufficient rainfall have pushed small farmers and agricultural producers into economic vulnerability. Food supply chains have been affected by the confinement measures, which have reduced demand from tourism and restaurants, closed open markets, and led to a lack of export demand and restrictive procedures (UNDP report, 2020). Furthermore, the ongoing Russian full-scale military invasion in Ukraine seriously affected the supply chains. Port blockades and damaged of critical infrastructure followed by increased cost of transportation and logistics hinder the movement of goods, causing the increase of the poverty in the world. SMEs face shortages of materials and some of them even have to stop production.

The [Food Security Information Network](#) highlights the war as a key force – alongside the pandemic, other conflicts and extreme weather – behind a staggering rise in the number of people who are food-insecure. Nearly 258 million people in 58 countries/territories were in food crisis or moderate-to-severe acute food insecurity in 2022 – up from 193 million in 53 countries/territories in 2021 (Kilfoyle, 2023).

At the same time, the health and war crises boost e-commerce adoption and increased sales for SMEs in IT. Furthermore, it is very important to identify measures that might be applied during these crises. It is important to realize that pandemic or military conflicts are not just leaving an impact on the

economy; the higher threat is that they might come back, and a strong SMEs sector should be prepared to meet them and face new challenges.

There were different measures of supporting SMEs adopted in Europe. In the United Kingdom, the government implemented the Coronavirus Job Retention Scheme (CJRS) for waged workers. The CJRS covers 80% of employee salaries up to a maximum of 2500 pounds per month. The measures supported by the German government intended to protect businesses and start-ups affected by the Covid-19 crisis included taxation support, state supported, short-time work compensation schemes, improved measures at guarantee banks, loans and special programs (UNDP report, 2020).

These pandemic lessons may suggest that thinking hard in the after math of health crisis can save lives and businesses. In the post-Covid world, agile and resilient new businesses will be able to take advantage of their entrepreneurial orientation and find opportunities in the upheaval that the pandemic has caused globally (Zahra, 2020).

However, there is no post-crisis recovery strategy yet in place. Therefore, it is essential for the sustainability of SMEs to apply policies at this recovery stage from the crisis that will be able to boost their growth and protect them from future crises.

In this regard, according to the Regional Guidelines “Enhancing the Resilience of MSMEs to Crises and Disasters”, the crisis risk management should include four phases:

I. Prevention. “Activities and measures to avoid existing and new disaster risks. While certain disaster risks cannot be eliminated, prevention aims at reducing vulnerability and exposure in such contexts where, as a result, the risk of disaster is removed.” (Regional Guidelines for ASEAN Governments, 2020).

II. Preparedness. “The knowledge and capacities to effectively anticipate, respond to, and recover from, the impacts of likely, imminent or current disasters.” (Regional Guidelines for ASEAN Governments, 2020).

III. Response. “Actions taken directly before, during or immediately after a disaster in order to save lives, reduce health impacts, ensure public safety and meet the basic subsistence needs of the people affected.” (Regional Guidelines for ASEAN Governments, 2020)

IV. Recovery. “The restoring or improving of livelihoods and health, as well as economic, physical, social, cultural and environmental assets, systems and activities, of a disaster-affected community or society, aligning with the principles of sustainable development and ‘build back better,’ to avoid or reduce future disaster risk.” (Regional Guidelines for ASEAN Governments, 2020).

Table 1. Crisis risk management policy goals

I. Prevention	II. Preparedness
<ul style="list-style-type: none"> ▪ Reduce the exposure of MSMEs to hazards ▪ Enhance occupational safety and health in SMEs; ▪ Reduce the vulnerability of the self-employed and entrepreneurs; ▪ Strengthen SMEs’ financial resilience; ▪ Improve social and economic infrastructure. 	<ul style="list-style-type: none"> ▪ Improve the understanding of the risks faced by SMEs; ▪ Develop SMEs’ disaster planning capabilities; ▪ Strengthen public disaster risk management governance and capacity.

III. Response	IV. Recovery
<ul style="list-style-type: none"> ▪ Understand the emerging impacts; ▪ Ensure the availability of critical supplies; ▪ Support the continuity of SME operations; ▪ Ensure the subsistence of SMEs’ employees and owners; ▪ Ease SMEs’ financial pressures; ▪ Build capacity for responsive and agile public-service delivery. 	<ul style="list-style-type: none"> ▪ Expand SMEs’ access to markets; ▪ Increase the adoption of digital technologies among SMEs; ▪ Support SMEs’ “green” transformation; ▪ Upskill and reskill employees; ▪ Make innovation and entrepreneurship more inclusive; ▪ Improve the financial sustainability of MSMEs; ▪ Strengthen SMEs’ innovation capacity.

Source: Regional Guidelines for ASEAN Governments “Enhancing the Resilience of MSMEs to Crises and Disasters” United Nations Office for Disaster Risk Reduction, UNDRR (2020).

Previous crises and disasters, has exposed the vulnerability of SMEs, as well as their key role in stimulating domestic demand. While countries move forward from the pandemic, it is important to leverage the learning from this and previous crises to support a sustainable and inclusive recovery for SMEs (Regional Guidelines for ASEAN Governments, 2020).

These increasing numbers of crises and external shocks underline the need for the business and SMEs in particular to become more resilient. In this case, resilience is the ability to adapt to changing situations, rather than bouncing back to a previous equilibrium (Böhme et al., 2022).

Around the world, the social protection policies introduced in response to the Covid-19 pandemic pursued two main goals: to limit hardship caused by the pandemic and to ensure rapid and sustainable post-pandemic economic recovery (The World Bank report, 2022).

According to the World Bank’s latest Poverty and Shared Prosperity Report, the world is unlikely to meet the goal of ending extreme poverty by 2030. The study finds that Covid-19 dealt the biggest setback to global poverty-reduction efforts since 1990 and the war in Ukraine threatens to make matters worse (The World Bank report, 2022).

By allowing firms to jumpstart their operations immediately after pandemic restrictions are lifted, job protection measures could promote faster short-term recovery. However, such recovery might come at the cost of subsidizing inefficient businesses, reducing the rate of creative destruction, and ultimately hindering long-term recovery (Barrero et al., 2020).

In contrast, generous unemployment benefits and cash transfer programs could slow recovery in the short run but facilitate the reallocation of workers to the most productive sectors of the economy, securing sustainable long-term recovery.

Both policy approaches directly improve the welfare of beneficiaries by smoothing their consumption, thereby reducing poverty. Unemployment insurance, cash, and in-kind transfers help households mitigate the impact of negative income shocks. Such measures could directly affect economic growth through the fiscal multiplier effect of increased consumption (McKay et al., 2016). Job protection programs also have a direct consumption-smoothing effect on the well-being of formal workers who would have been laid off without such programs. They may play a dual role of preserving productive job matches and protecting workers’ incomes. Unemployment insurance and other transfers primarily protect vulnerable groups, such as youth and people with little education;

employment protection programs tend to protect mostly insiders and better-educated workers (Cahuc et al., 2011).

In countries with large informal sectors, income protection programs could be the dominant mode of social protection because they can reach a broader share of the population, particularly the vulnerable (Bottan et al., 2021). Job protection measures can be effective at the national scale in countries with primarily formal economies. The generosity of unemployment insurance, direct cash transfers and job protection policies also affects labour market tightness, unemployment, and job participation rates (Giupponi et al., 2020).

Conclusion

There are many discussions and arguments proclaiming that nothing-in business will be left unchanged after the health and war crises. We should not neglect the variety across SMEs, their different size, stages of development, branches where they operate. There are also differences in Governments and industry capacity to support SMEs. Still, despite all these differences the problems SMEs are confronting with are very common.

The most salient pandemic risks that SMEs suffered were logistical challenges - the commercial activity of coordinating the transportation of goods to customers. Technology adoption and digital transformation topped the list for coping strategies, demonstrating the strong need for SMEs to begin thinking of digital technologies' inevitable role in modern business survival and continuity. This is especially true if SMEs are to cope with any future global shocks (Erdiaw-Kwasie et al., 2023).

Still, due to resource restrictions, restricted access to expertise, and an ever-changing technology landscape, SMEs frequently face specific obstacles in keeping up with digitalization (Khan, 2022). All small businesses must be prepared for the “new normal” of a digitally driven economy (Meurer et al., 2021).

Entrepreneurship in the post-crises world will further fuse with the digital economy. This will take the form of entrepreneurs increasingly selling products on digital platforms. These changes probably will make SMEs more resilient to future shocks.

The lack of information and advisory assistance infrastructure and the development of entrepreneurial potential, insufficient staff qualification, low level of training and culture of entrepreneurship in SMEs, continue to be an obstacle to small business development (Erhan et al., 2022). Therefore, expanding consulting and training services for micro and family business is an important policy in reducing SMEs vulnerabilities.

In addition, the Government and policymakers need to design financial policies to diminish the negative economic impact of the crises. Providing preferential interest loans and governmental guarantees for SMEs is also essential. Together with the deferral of tax, deferral of social contributions payments and credit payments deferral for SMEs, getting access to credits with pre preferential interest and/or to governmental guarantees will be strong financial measures meant to support SMEs, allowing their survival throughout the crises and their development.

The development of the SMEs in terms of innovations will increase the competitiveness of the small business and, consequently, will promote the intensification of growth rates, market expansion, export development, increasing sales and thus profit. Moreover, it is necessary to fostering cooperation between Universities, research centers and local economic actors capable of increasing innovation of

SMEs. Business associations can also play a key role in disseminating information on hazards and their impacts, as well as reaching out to SMEs in crises and disasters (Regional Guidelines for ASEAN Governments, 2020). It is essential to highlight that SMEs have a moderate research and development capacity due to the limited innovation of many companies especially in more traditional sectors such as manufacturing, making the products of SMEs less competitive in foreign markets (Alessandrini, 2019).

As we saw, some branches were affected more in times of overlapping crises, especially the agriculture sector that was already affected by the increasing incidence of drought. Therefore, efforts need to be made to adapt to climate change and not just to compensate for its consequences with public money, but also to stimulate supporting research in agriculture, and introducing controls on annual crop rotation within the subsidy framework (Expert Group report, 2022). Regarding the energy field, the financing of energy efficiency measures and the stimulation of investments in renewable energy resources must remain a priority. Energy efficiency is one of the key factors for sustainable development.

The swift implementation of these measures can maintain SMEs confidence in economy against the backdrop of multiple uncertainties. For the coming years, the main assumptions for growth are the stabilization of the security situation in the Europe, improved energy, sustainability and innovation for SMEs. Future measures to support SMEs growth should focus on internationalization, access to finance and innovation, including the transition to the green market and entrepreneurial learning (Erhan, 2023).

SMEs remain the backbone of any economy and significantly contribute to employment and economic growth. However, they remain highly vulnerable in time of crises. Health and military crises never just appear and disappear; they leave long-terms effects on the economy and the society. The biggest threat is that they reaper from time to time causing new economic shock waves and SMEs should be prepared to face future challenges.

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