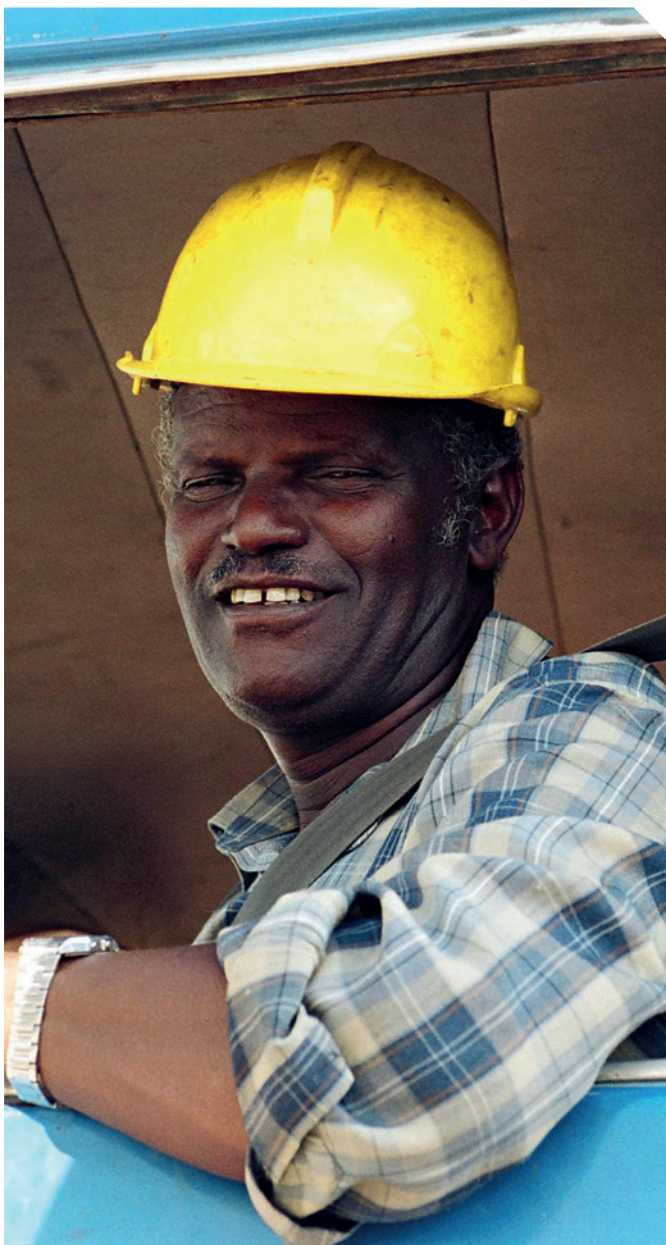




# ► Why settle for recovery?

## A guidance note on building back better micro & small enterprises and resilient market systems during crisis and after lockdown<sup>1</sup>

Date: October 2020



This ten-minute read is intended to help governments and development cooperation actors who need to develop and deliver economic recovery initiatives during and in the aftermath of COVID-19. It synthesizes findings and offers an actionable roadmap aligned with a key pillar of the ILO's policy response to the crisis: "Supporting enterprises, jobs and income".<sup>2</sup> It builds on two key sections:

1. Why are micro, small and medium enterprises (MSMEs) key in the context of COVID-19 recovery? This will answer the questions on **'who'** to target and **'where'** work will be needed (i.e. in which sub-sectors and what type of enterprises) for a job-rich recovery.
2. How can we operationalize resilience and growth for those that need it most? Here, we turn into the remaining questions: **'what'** to aim for and **'how'** we should deliver meaningful action.

### Takeaways

- Own account workers and MSMEs have been hit very hard by COVID-19 in a crisis that is jeopardizing millions of livelihoods in the poorest countries.
- How recovery happens is as important as its pace - it is critical to build back better by thinking about inclusivity, green growth and resilience in the long term.
- Governments, development programs, employers and workers will have to do "more with less" as economies shrink. Strategy matters now more than ever.
- A 'market systems development' approach can help tackle the underlying causes of market failures in order to build back better and more resilient markets.

<sup>1</sup> This brief focusses on re-activating MSMEs and markets. This brief was written by Rebeca Granda Marcos, Steve Hartrich and Merten Sievers. For more briefs from ILO's SME unit visit: [www.ilo.org/sme-resilience](http://www.ilo.org/sme-resilience)

<sup>2</sup> ILO Monitor: COVID-19 and the world of work (ILO, 2020)

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## ► 1. Why focus on MSMEs?

*Own-account workers and MSMEs in low and lower - middle income countries are likely to be some of the hardest hit*

Own-account workers and MSMEs represent 80-90% of total employment in low and middle-income countries.<sup>3</sup> Strict quarantines and other social distancing measures hamper the ability of these businesses to find inputs, coordinate logistics, produce and sell. Most own-account workers, MSMEs and their families, however, depend on daily incomes. Limited working capital, reduced investment capacity and the disadvantages associated with higher degrees of informality - including low productivity levels - put these businesses at a high risk of going out of business, directly impacting the livelihoods of workers and business owners.

### 1.1 A look into high-risk sectors

The performance and resilience of businesses of all sizes during the crisis, and hence their ability to maintain decent jobs for women and men, is inextricably linked to the performance of the value chain to which they belong.<sup>4</sup> And while all value chains are somewhat affected, **domestic value chains**<sup>5</sup> are often shorter, which can soften the disruption effect of lockdown measures. Also, local suppliers can be more reactive during times of crisis, as opposed to the longer lead times that **global value chains** (GVCs) require.

Globally, the sectors most disrupted are wholesale and retail trade, manufacturing, tourism and food services, real estate, entertainment, transportation, logistic and warehousing.<sup>6</sup> Own-account workers and MSMEs are highly represented in all these sectors, with the exception of real estate. In manufacturing, they are most present in the subsectors of garments and footwear.<sup>7,8</sup> Together, high-risk sectors represent 576 million jobs – or 40% of the global workforce – in low and lower-middle income countries. You can further explore employment by enterprise type, sector and region with [this ILO interactive map](#).

### Employment in high and high-medium risk sectors in low and lower-middle income countries

Employment, million	1.440
Employment at high-risk, million	576
Employment at high-risk / total employment, %	40%
Informal employment at high-risk, million	477
Informal employment at high-risk / total informal employment (sector), %	97%

How many people are employed in high-risk\* sectors in low and lower-middle income countries?

Source: ILO data (2020)<sup>9</sup>

*MSMEs working in agriculture, food services, entertainment and transportation may re-activate relatively fast once lockdowns end. Those in trade and manufacturing will need some support as the value chains are highly disrupted. Surviving MSMEs in the tourism sector will take longer to recover.*

Remote work, often presented as a solution for business continuity, has very limited potential in these contexts. This is because the proportion of jobs that can be done at home largely correlates with levels of economic development – the share in the US, Mexico and Mozambique is 40%, 25% and 5%, respectively.<sup>10</sup>

Livelihoods in rural areas are less affected by the epidemic as agriculture bounces back rather quickly, post-crisis<sup>11</sup>. That said, the sector is not fully shielded. For example, there has been a 20% fall in key African export products; cotton, cocoa and sugar and even domestic demand for food could be reduced if overall less income is available.<sup>12</sup>

### 1.2 How can we prioritize sectors to save jobs and avoid social hardship?

Prioritising where to work depends on a number of factors. Here, we break this down into three pieces and examine: the degree of disruption due to COVID-19, the number employed and the nature of the disruptions faced. This provides a look at where most workers are impacted while also helping understand where

<sup>3</sup> [Small matters \(ILO, 2019\)](#)

<sup>4</sup> Both internal factors to the enterprise as well as factors in the wider market system will play a role in terms of how resilient a specific business is to economic shocks. More on how this is linked to value chains and market systems here: [Value Chain Development for Decent Work \(ILO, 2015\)](#).

<sup>5</sup> In a domestic supply chain, all the companies are co-located domestically serving the local market.

<sup>6</sup> Vulnerability is proxied by severe decline in economic growth as a result of measures taken to contain the spread of the virus.

<sup>7</sup> [ILO Monitor: COVID-19 and the world of work \(ILO, 2020\)](#)

<sup>8</sup> [Different sector, different effect \(ITC, 2020\)](#)

<sup>9</sup> Only here 'high-risk' includes both high-risk and medium-high risk sectors (see table 1).

<sup>10</sup> [How many jobs can be done at home? \(Dingel et al., 2020\)](#)

<sup>11</sup> Results taken from: The Socio-Economic Impacts of Ebola in Liberia: Results from a High Frequency Cell Phone Survey Round 5. The World Bank Group. 15 April 2015.

<sup>12</sup> [Trade and the coronavirus \(ODI, 2020\)](#)

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governments, employers and workers' organizations, and development partners should prioritise efforts. Table 1 shows that interventions in wholesale and retail trade (excluding food) and garment and footwear subsectors are key as they account for a large share

of employment and are not likely to re-activate automatically after the lockdown. The nature of disruptions they suffer from are more complex than for many local value chains.

**Table 1. Estimated impact of development interventions for each selected sector.**

Sector / subsector	COVID-19 impact on economic output	+	Number of own-account workers and businesses	+	Expected disruptions in recovery	=	Likely need for strategic response
<b>Wholesale and retail trade</b>	High		232 million		Shortage / high cost of inputs, obstructed logistics (e.g. border closure), disrupted demand		<b>HIGH</b>
<i>Food</i>	Low-Medium				Limited disruptions		<b>MEDIUM</b>
<b>Manufacturing</b>	High		111 million, mainly garments & footwear		Shortage / high cost of inputs, obstructed logistics (e.g. border closure), disrupted demand		<b>HIGH</b>
<i>Garments &amp; Footwear</i>	High						
<b>Accommodation &amp; Food services</b>	High		51 million		Disrupted demand		<b>HIGH DEPENDING ON LOCATION</b>
<b>Real Estate &amp; Business and admin. services</b>	High		42 million		Disrupted demand		<b>HIGH DEPENDING ON LOCATION</b>
<b>Entertainment</b>	Medium-High		61 million		Disrupted demand		<b>MEDIUM (POSSIBLE FAST RECOVERY)</b>
<b>Transport, Storage &amp; Communications</b>	Medium-High		80 million		Obstructed logistics (e.g. border closure)		<b>MEDIUM (POSSIBLE FAST RECOVERY)</b>
<b>Construction</b>	Medium		112 million		Project suspension, constrained suppliers, shortage of labour and FDI		<b>MEDIUM (POSSIBLE FAST RECOVERY)</b>
<b>Agriculture, Forestry &amp; Fishing</b>	Low-Medium		489 million		Price fluctuations		<b>LIMITED (DEPENDING ON EXTERNAL MARKET EXPOSURE)</b>

Source: ILO (2020)

Source: Own elaboration using ILO data (2020)



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### 1.3 Which workers are at the highest risk?

*Own-account workers and informal employees in MSMEs will face severe consequences during and post-crisis, with women and young people being the most affected within these groups.*

COVID-19 related lock-downs have amplified structural challenges by disproportionately hitting sectors with greater presence of these groups, such as retail, personal services and tourism.

#### Informal workers

- Informal workers will suffer a 56% increase in relative poverty unless they find alternative income sources.<sup>13</sup>
- Their employers are less likely to benefit from support schemes and regulations. For example, in Zimbabwe, large-scale abattoirs can access movement permits, unlike small butchers who rely on informal transporters.<sup>14</sup>

- An expansion of the informal economy may follow the financial collapse and the closure of formal MSMEs.<sup>15</sup>

#### Female workers

- Women represent 70% of employment in health and social care sectors, more exposed to COVID-19 risks.
- They are disproportionately present in high-risk sectors such as tourism and trade. They are also more likely to work in informal, low-paid jobs.<sup>16</sup>
- They suffer a greater burden of care, which impacts their availability to do other work.<sup>17</sup>

#### Youth

- With less experience and less savings, youth will be more immediately affected by lay-offs and lower incomes by markets becoming less dynamic during lock-down.

13 In low and lower-middle income countries. ILO Monitor: [COVID-19 and the world of work \(ILO, 2020\)](#)

14 COVID-19 Rapid Market Impact Report (MarketLinks, 2020)

15 [COVID-19 crisis and the informal economy \(ILO, 2020\)](#)

16 [COVID-19 could drive millions of women into poverty \(Business fight poverty, 2020\)](#)

17 [How Will COVID-19 Affect Women and Girls in Low- and Middle-Income Countries? \(ODI, 2020\)](#)

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### 1.4 How will economies restart?

In contrast to natural disasters or civil conflict when markets and their supporting infrastructure are often destroyed, markets under lockdown are “paused”. So there is hope that economic re-activation might be able to restart at an accelerated pace. This, however, will depend on many factors, including a safe return to workplaces. But the exact nature and speed of recovery remains highly uncertain.

For economies to recover sustainably, four things need to occur:

- **Enhance worker safety:** For those transitioning back to the work environment, it will be important to ensure that worker re-integration is safe. This will require the promotion, integration and enforcement of adapted workplace safety and health measures.
- **Overcome major business liquidity constraints and supply disruptions:** Regarding the latter, either trade will recover or businesses will adapt - for example, by sourcing products from local markets or decentralized value chains.<sup>18</sup> The duration of work restrictions is key in determining how many businesses survive long enough to benefit from a “back to usual”. Re-starting operations is key to preserving jobs.
- **Experience an entrepreneurial expansion:** During the crisis, many workers will lose their jobs, which will force them to look for alternative income sources. This is likely to generate necessity-driven micro ventures and, to a much lesser extent, opportunity-driven businesses with higher growth potential in niches such as e-commerce. Providing the right support to these businesses can ensure that new jobs are set on a pathway to decent work.
- **Regain consumers:** As confidence rebuilds and purchasing power recovers, demand will slowly return. Currently, there is a global fall of 26-30% in consumer confidence in developing countries.<sup>19</sup> This is problematic as consumer spending makes up the majority of economies. For example, consumption represents 82% of GDP in Kenya, 67% in Bolivia and 57% in Indonesia.<sup>20</sup>



<sup>18</sup> [What Coronavirus Could Mean for the Global Economy \(HBR, 2020\)](#)

<sup>19</sup> [Global business barometer \(The Economist, 2020\)](#)

<sup>20</sup> World Bank Data (2018)



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► **2. How can we operationalize resilience and growth for those that need it most?**

Government economic stimulus packages, especially in emerging economies, will not be enough to enable full economic recovery.<sup>21</sup> So, a key question is: “How can we strategically do more with less?”

As we now know the answers to the important questions ‘**where**’ to work and ‘**who**’ to target (i.e. in which sectors and value chains and which workers), it’s time to answer the remaining questions: ‘**what**’ to aim for and ‘**how**’ we should deliver meaningful action.

**2.1 Use ‘Market systems’, a targeted and flexible approach for reactivation and recovery**

The **market systems development approach** provides a solid and flexible framework to help governments, development agencies and projects do more with less by better targeting strategic development that can build back more resilient economies. Ensuring that the re-activation and build back is done inclusively – for the most vulnerable workers and MSMEs – is as crucial as the recovery itself.



**What are market systems and how to use them to respond to COVID-19?**

A market system is made up of value chains and many ‘supporting functions’ and ‘rules’ shaping how well a market works for vulnerable groups. For example, the garment market system includes (i) all the workers and businesses along the value chain (e.g. farmers, textile and garments producers, garment distributors), (ii) supporting functions such as infrastructure (e.g. roads, electricity) and (iii) rules and regulations such as quality standards and other factors that promote a better business environment (e.g. public stimulus to increase productivity).

A market systems development approach seeks to identify, address and remove constraints and their root causes that inhibit the capacity of vulnerable people to be part of and benefit from the system. In response to COVID-19, the idea is that the approach drives toward outcomes that are also:

- **Sustainable**, having a lasting impact in the behaviour of public and private actors by adapting interventions to their own incentives and capacity to change.
- **Scalable**, having changes replicated and mainstreamed across the sector, not just among actors directly involved in the project.
- **Resilient**, having increased responsiveness of vulnerable workers and businesses to the next crisis.

Interested in market systems? Read more [here](#).

**2.2 The guiding principles**

So, where should we start and how can the market systems approach help? The following principles, which are fundamental to the market systems approach, can help guide governments, workers and employers and development projects to be more effective in their response to the economic recovery after COVID-19.

**Find the right sector for job-rich recovery for the right policy response**

Identify and prioritise sectors with high numbers of the most-affected workers (i.e. those in the informal economy, women and youth) and where development

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corporation or government funding can bring meaningful benefit to their recovery. Table 1 provides some direction on which larger sectors can be targeted. That said, getting a more contextualized picture that drills into key sub-sectors will be important and requires a quick, more localised exercise. [Here you have useful tips and tools](#) to guide sector selection from a market systems perspective.

### Ensure to be strategic about targeting

Within prioritized sectors/ value chains, identify where it makes most sense to focus as some jobs may be more negatively impacted than others. For example, customer-facing or factory jobs, with high exposure to others, will be exposed to higher risks than rural, agriculture producers. Getting that granular view demands a market systems analysis. [Here you have a user-friendly guide](#) to help you understand how to execute one.

### Involve key stakeholders

Governments agencies, workers and employers' organisations should participate in the process of analysing markets and re-activating economies. Their buy-in and role in re-activation will remain crucial.

### Remain flexible and adaptive

Stimulating economic reactivation and recovery will be new territory for governments and development projects alike, so it is important to recognise that not every intervention will be successful. With this in mind, try a number of concurrent and complementary interventions to see what works well and what does not, following an iterative approach. Measurement data can inform why interventions do or do not succeed as well as how they can be improved. It can also justify the redistribution of resources to back successful initiatives.

## 2.3 Follow a strategic roadmap

A strategy of building back better focussing on the most vulnerable would include two major phases:

1. Urgent recovery of livelihoods; and
2. Rebuilding stronger economies and creating better jobs through resilient market systems as well as more productive and competitive businesses.

Keep two things in mind. First, the plan needs to be customised to each context through an analytical foundation. Second, in the end, even short-term interventions should be guided by and facilitate longer-term goals.



### 1. First, recover livelihoods

The first step is to re-activate business activity by removing the most pressing bottlenecks they face (Box 1). At this stage, a rapid market assessment should be enough to define strategic subsectors, target groups and the best way to rebuild business networks, solve major supply chain disruptions and stimulate the return of customer confidence. Additionally, governments should play an active role in reviewing measures that can speed up recovery (e.g. fast track businesses licenses, improve access to finance and business services). Here, it is important to rely on key market systems principles and not create market distortions with these emergency measures. For example, providing free seed directly to farmers may hurt both seed supplier and agriculture retailer businesses in both the short- and long-term, whereas working through those businesses to distribute seed can strengthen business relationships and linkages.



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**Box 1. 'Recover livelihoods' phase: Recovery (1/2)**

<b>What</b>	Re-activate production and demand by eliminating most pressing bottlenecks	<b>How</b>	<b>Core business</b>
<b>Why</b>	Promote livelihoods and immediate income generation		Rebuild business networks
<b>Where</b>	Trade, manufacturing and other high-risk sectors defined through rapid market assessment		Solve supply chain disruptions: - <i>Maximize the use of local markets</i> - <i>Find alternative supply chains and business models when needed</i>
<b>Who</b>	Most vulnerable workers groups and occupations defined through rapid market assessment (e.g. female, informal, young)		Stimulate consumer trust
			<b>Public engagement</b>
			Review business policies and government instruments with direct impact on MSMEs recovery (e.g. fast track businesses licenses, working capital financing mechanisms)

Source: Own elaboration

There is also an opportunity to capitalize on the post-crisis entrepreneurial boom by facilitating the process for new entrepreneurs (Box 2). Government and development projects can help with information and support to help existing and new entrepreneurs to redirect businesses into employment and growth relevant sectors, and help them find new and more environmentally friendly business models. Post crisis entrepreneurial booms however, are often driven by

survival strategies. It will be key to identify and support those entrepreneurs that can further develop into small or medium sized operations and have the capability to create decent jobs moving forward.

Global business training programs such as [SIYB](#), with local presence and +3,000 partners, may be a fast way of operationalising parts of this. Here, the market systems development approach can be used for targeting where and how to support these entrepreneurs.





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### ► Box 2. 'Recover livelihoods' phase: Re-activation (2/2)

<b>What</b>	Support entrepreneurial boom	<b>How</b>	<b>Core business</b>
<b>Why</b>	Maximize impact by leveraging expected growth		Provide information on strategic sectors to support entrepreneurs
<b>Where</b>	Strategic sectors and subsectors defined through rapid market assessment		Identify new business niches (e.g. telemedicine)
<b>Who</b>	Most vulnerable workers groups and occupations defined through rapid market assesment (e.g. female, informal, young)		Train in business basics (i.e. start and improve a business, enviromentally business models)
			<b>Public engagement</b>
			Improve business services for micro and small enterprises by working directly with MSE support intitutions
			Facilitate access to finance (e.g. information, concesional financing)

Source: Own elaboration

## 2. Then, rebuild better jobs and economies

The focus should also be on solving market system constraints (Box 3). Families require resilient businesses for jobs, which in turn, require resilient market systems in the economy. A more comprehensive market systems analysis is key in determining strategic sectors, target groups, key market constraints and optimal recovery measures. These may include addressing underlying supply chain constraints, addressing environmental challenges or influencing regulations and other factors in the business environment that hinder the inclusion of MSMEs. These would be done through taking a flexible implementation approach, which includes various alternatives in a portfolio of interventions. Programs that allow businesses to self-assess their resilience can also help minimise the impact of future shocks. Recent surveys of Nepali business-owners, for example, show that the 2015 earthquake did not prepare them for COVID-19 in any way since they did not take (or were not able to take) additional measures to increase resilience.<sup>22</sup>

### What makes a system resilient?

A resilient market system is one that mitigates, adapts to, and recovers from shocks in a way that reduces vulnerability. Improving market system-level resilience means not only strengthening the resilience of actors within the market system (e.g. businesses), but also ensuring that the system itself is resilient and continues to provide a market for and source of goods, services and employment during and after periods of shock.<sup>23</sup>

Shocks can be, for example, of environmental nature (e.g. earthquake), health-related (e.g. COVID-19) or economic-related (e.g. food price volatility). Many of these shocks, such as the virus, come from outside the market system. This highlights the importance of understanding the interconnections and interdependence of different systems.

In the context of COVID-19, a resilient system would combine multi-level, multi actor responses such as:

- Governments, employers and workers' organizations work together to respond fast with appropriate social and economic policies
- Businesses and workers continue production by immediately switching to available providers and new channels (e.g. digital)
- Households cope with savings and alternative income sources

<sup>22</sup> ILO Nepal country office (2020)

<sup>23</sup> Markets systems for resilience (USAID, 2020)

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**Box 3. 'Rebuild better jobs and economies' phase: Resilience (1/2)**

<b>What</b> Resolve market systems constraints	<b>How</b>	<b>Core business</b>
		Eliminate structural underlying causes for market system underperformance (e.g. addressing structural issues in infrastructure and existing support services, addressing environmental challenges)
		Help businesses self-evaluate resilience (continuity under shocks) with tailored risk assessments
		<b>Public engagement</b>
<b>Why</b> Promote indirect resilience (system and business continuity)		Influence rules and regulations restricting business operations (e.g. non-inclusive public procurement)
<b>Where</b> Strategic sectors and subsectors defined through sector selection and market systems analysis		Review business measures and policies with direct or indirect impact on MSMEs
<b>Who</b> Businesses owners and workers struggling because of system constrains (special focus on most vulnerable workers groups and occupations) defined through market systems analysis		Deliver capability building for government, social partners and relevant actors to institutionalize 'resilient market systems' and 'decent work' lenses

Source: Own elaboration

Finally, spurring business upgrading (Box 4) can prepare for the future: the more competitive a business is and the more business owners and workers are able to improve productivity, the more likely it is that they can develop coping mechanisms such as savings and investing in better working conditions and social protection. Measures may include assistance in identification of new market opportunities, managerial training, access to finance, more advanced business services and incentives to improve management-worker dialogue and consolidation. These opportunities should be targeted based on findings from the market systems analyses and delivered by trialling a suite of complementary initiatives.

Access to finance should be enhanced continuously; first, to help new entrepreneurs start their businesses and then, to support businesses so they can grow and expand. MSMEs face greater financing obstacles and have less access to business support than larger firms—they enjoy less access to external finance and face higher transactions costs and risk premiums.





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### ► Box 4. 'Rebuild better jobs and economies' phase: Competitiveness (2/2)

<b>What</b>	Spur business upgrading	<b>How</b>	<b>Core business</b>
<b>Why</b>	Promote direct resilience (competitiveness)		Help identify new markets
<b>Where</b>	Strategic sectors and subsectors defined through market systems analysis		Train in advanced business, risk management and management-worker dialogue
<b>Who</b>	Businesses of all sizes, managers and workers along strategic value chains, struggling to grow or consolidate defined through market systems analysis		Help identify mechanisms to grow (i.e. vertical integration, diversification, exporting, etc.)
			<b>Public engagement</b>
			Expand MSME business services by working directly with institutions supporting MSMEs
			Facilitate access to finance (e.g. guarantees, concessional financing)
			Incentivize MSMEs consolidation and formalization through public incentives

Source: Own elaboration

In essence, governments and development agencies do need to think strategically in their economic response to COVID-19. This epidemic is *forcing* us to maximize efforts and leverage market systems strategically for those who need it most.

Using a market systems development approach can help maximize the limited resources dedicated

to the recovery and target these where the biggest employment effects are expected to bring social change to the most vulnerable workers and MSMEs.

We can indeed build back *better* and we may learn that this is the future for development action with or without the virus.



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