



BARELY STAYING AFLOAT

The Impact of COVID-19 on MSMEs
in Southeast Asia

Welcome to Issue 1.3 of *GovAsia*. Published four times a year, *GovAsia* provides a platform for The Asia Foundation and its partners to examine critical social, economic, and political issues faced by citizens and governments across Asia, drawing on the Foundation's daily engagement with the region's development challenges. *GovAsia* aims to facilitate thoughtful debate and build consensus for solutions to the most pressing governance issues facing the region today.

In this issue, we explore the impact of early Covid-19 lockdowns on micro-, small- and medium-sized enterprises (MSMEs) in Southeast Asia. Between March and May 2020, despite the limited spread of Covid-19, all Southeast Asian countries imposed a series of pre-emptive movement restrictions and social distancing measures, known as "lockdowns." From April onwards, the Foundation's teams collected data in six countries on the impact those lockdowns had and continued to have in multiple sectors, including tourism, agriculture, manufacturing, and services. We found that businesses have struggled to respond and adapt to the economic crisis caused by the situation. There are, however, many opportunities for governments and the private sector to support MSMEs during and after the pandemic. These opportunities become even more urgent as the majority of the region enters a second or third wave of the pandemic in mid-2021, and with a recovery period that is still a long way off.

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Summary

Throughout 2020 and into early 2021, The Asia Foundation conducted surveys of micro-, small- and medium-sized enterprises (MSMEs) across two or more waves of the Covid-19 pandemic in Cambodia, Lao People's Democratic Republic (PDR), Malaysia, Myanmar¹, Thailand, and Timor-Leste. While Southeast Asian countries were relatively successful at reducing the public health impacts throughout 2020, the Covid-19 containment measures known as "lockdowns" devastated many households and small businesses. During and after lockdown periods, Foundation teams surveyed MSME owners to understand how the pandemic affected their operations in the short- and medium-term. In this essay, we present an analysis of the survey findings by country, by sector, and aggregated across the region, to describe how MSMEs adapted to the first year of pandemic conditions. We also consider the ways government programs assisted these enterprises, and draw on MSME experiences and opinions to extrapolate measures governments should pursue to help MSMEs now and in the future.

Overall, these surveys revealed dramatic impacts on sales and revenue. A majority of MSMEs reported revenue losses of more than 50 percent compared to pre-Covid levels. As a result of movement restrictions, MSMEs suffered from low customer volume, and many were forced to close. Those that remained open typically did so with reduced operations. Certain sectors were hit harder than others. The greatest impact occurred within enterprises that rely heavily on tourists, such as the hospitality sector. Even though a second round of surveys suggested some MSMEs had begun to recover, other companies remained permanently closed, and most earned reduced revenues. Many of the businesses included in our research adapted to the crisis as well as they could, yet many of these changes resulted in reduced employee pay and altered working conditions. Some businesses, such as restaurants or handicraft producers, managed to adapt by shifting to home delivery, online sales, and online marketing.

Southeast Asian governments responded to the economic crisis with an array of new programs to help those most affected. Many expanded social protection schemes or introduced new programs to provide additional income, temporarily reduce expenses, or delay loan repayments. Targeting small businesses, governments introduced new subsidized loan programs, tax breaks, debt repayment holidays, and incentives for keeping employees on the payroll. However, our research shows that most Southeast Asian MSME support programs were not optimized and could have been even more effective.

As second or third waves of the pandemic sweep Southeast Asia in mid-2021, governments can and should do more to help MSMEs, the backbone of Asian economies and employment. To be even more effective, governments need to both obtain more information for their own use and diffuse more information to MSMEs, prioritizing three actions: Governments should collect more granular information about MSME characteristics, going beyond business types, sizes, and sectors to include data on registered versus unregistered businesses and business owner and employee gender. Governments should also quantify and qualify the impact and efficacy of programs they have already deployed to identify and enhance the most effective, and to fill in gaps. Applying such information to program design and access will result in more robust outcomes if governments also redouble their efforts to inform MSMEs and individuals about and facilitate enrolment in financial-aid and digital-transformation programs. More and better information can lead to more effective government programs – vital lifelines for national economies and millions of livelihoods during Covid-19 outbreaks in 2021 and beyond.



*Travelers wear masks at the airport
in Kuala Lumpur, Malaysia January 2020.
[Shutterstock, S.O.]*

INTRODUCTION

The Covid-19 pandemic and its containment measures have dramatically reversed Southeast Asia's recent economic progress. Although the region mostly contained the spread of the virus in 2020, it has suffered devastating economic impacts, largely caused when international travel ceased almost entirely in March 2020, crushing tourism and connected service sectors. Many small businesses closed permanently, unable to survive economic contractions brought on by travel restrictions and lockdowns. The situation worsened in late 2020 and early 2021, when new outbreaks and rapid transmission prompted renewed lockdowns and restrictions. As the pandemic persists in mid-2021, Cambodia, Indonesia, Myanmar, the Philippines, Thailand, and Vietnam see new spikes in infections and restrictions. Job losses initially viewed as temporary have become permanent and household incomes continue to plummet.

Despite these dire conditions, micro-, small- and medium-sized enterprises (MSMEs) across Southeast Asia are keeping economies afloat during the Covid pandemic. MSMEs are the backbone of Asian economies. They "represent between 97 percent and 99 percent of firms and between 60 percent and 80 percent of total employment" in Association of Southeast Asian Nations (ASEAN) countries.²

MSMEs have specific efficiencies and constraints: they can be more nimble than larger companies because their smaller size allows for greater operating model flexibility. But, unlike larger companies, "MSMEs typically face greater financial constraints, such as more limited access to capital, more limited capacity for future investments, and more limited resources to train and reskill employees."³ Given their significance in Southeast Asia's economy, helping MSMEs get back on their feet financially is crucial for the region's long-term recovery.

In the first phase of the pandemic, Asia Foundation teams in Cambodia, Lao PDR, Malaysia, Myanmar, Thailand, and Timor-Leste surveyed MSMEs to understand the immediate and medium-term impacts of Covid-19 containment efforts on business operations, profit, and survival. While

WHAT IS AN MSME?

Although definitions differ across governments, regions, and institutions, the terms micro-, small- and medium-sized enterprises (MSMEs), typically defined by their number of employees, refer to enterprises with fewer than 250 employees. Definitions of MSMEs (or SMEs) also differ based on industry, assets, and turnover. MSMEs can be formal and registered or informal and unregistered.

ILO firm-size classes based on a database of 99 countries ⁴	World Bank/International Finance Corporation definition of MSMEs ⁵
<ul style="list-style-type: none"> ● Self-employed: 1 employee ● Micro: 2-9 employees ● Small: 10-49 employees ● Medium-sized and large: 50 or more employees 	<ul style="list-style-type: none"> ● Micro: 0-9 employees ● Small: 10-49 employees ● Medium: 50-249 employees

There is increasing recognition that these small economic units are critical for job creation. According to the International Labor Organization (ILO), the self-employed and MSMEs account for 70 percent of employment and 50 percent of gross domestic product (GDP) globally.⁶

the respective aims and format of the surveys varied from country to country, the data collected during and shortly after the most rigorous restrictions enabled us to compare the circumstances of MSMEs during and after lockdowns, and thus develop a picture of impact and adaptation over time. The first 2020 survey round covered all six countries (Cambodia, Lao PDR, Malaysia, Myanmar, Thailand, Timor-Leste), staggered over the mid-April through August period. The second survey round was staggered through September and October and took place in just three of the countries: Lao PDR, Myanmar, and Thailand. Appendix A describes the research methodology, survey dates, and county-by-country sectors and restrictions in detail.

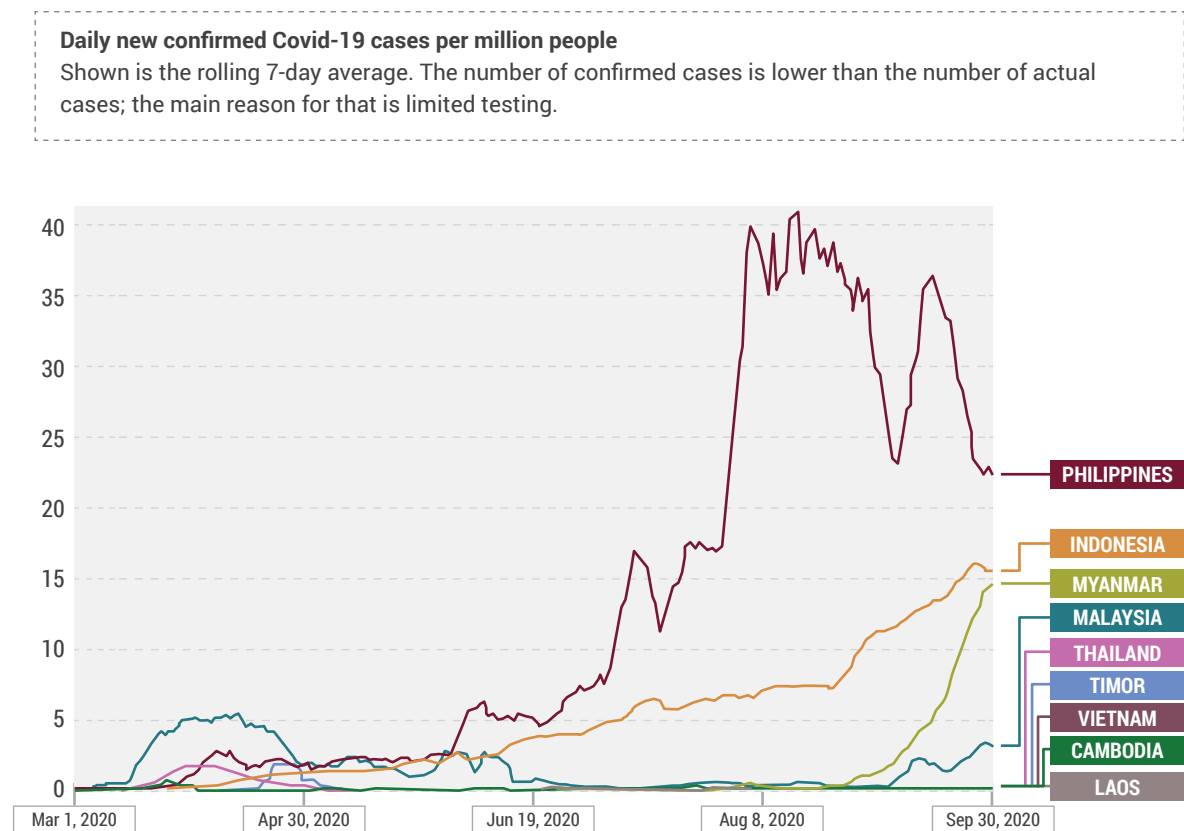
In the sections that follow, we examine the commonalities and differences between these country-level surveys to understand how Covid-19 impacted MSMEs at a regional level. We look at the immediate impact of lockdowns on MSMEs' ability to operate and how they fared in the months that followed. We assess the reported impact on sales, revenue, and formal or informal employment and identify some early signs of recovery and adaptation. Finally, we illustrate several specific operating challenges, such as reliance on physical presence for sales or manufacture, and point out key considerations for governments to support MSMEs moving forward.

The Covid-19 Pandemic and Initial Lockdowns in Southeast Asia

Throughout 2020, the economic impacts of the pandemic in Southeast Asia overshadowed its immediate health consequences. Although some countries had Covid-19 outbreaks in January 2020, the spread of the virus was generally quite low as early containment measures were effective until

March, when the number of infections rose, and countries instituted strict lockdowns (Figure A.2). The lockdowns helped many countries limit contagion, with notable exceptions in the Philippines, Indonesia and Malaysia (Figure 1). Subsequent border and business closures, combined with movement restrictions that continued beyond more restrictive lockdown periods, as seen in Table A.2, took a large economic toll, particularly on the poorest and most vulnerable. After September 2020, the public health picture shifted in the six countries we surveyed, beginning with a spike in Covid-19 cases in Myanmar. By early 2021, Malaysia and Thailand saw a sharp rise in cases, as did Lao PDR, Cambodia, and Timor-Leste in March and Myanmar again in June. For MSMEs in these six countries – representatives of all Southeast Asia – the challenges of 2020 continue and compound in 2021.

Figure 1: Number of confirmed Covid-19 cases in Southeast Asian countries during and after first lockdowns in 2020 (March-September 2020)



Source: Johns Hopkins University CSSE COVID-19 Data

Note: See Table A.2 for initial outbreak dates and lockdown dates and restrictions by country



A tuk-tuk driver stops in front of a temple entrance in Siem Reap Province, Cambodia.
[Shutterstock, S-F]

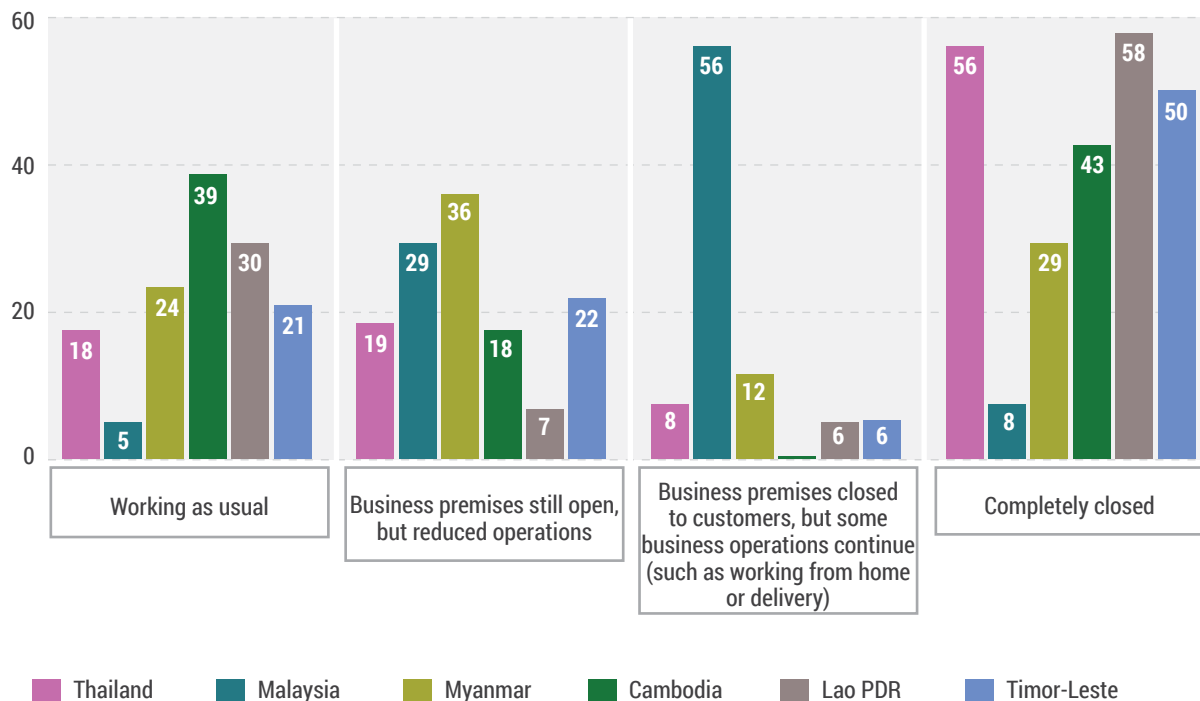
THE ECONOMIC SHOCK

Status of operations

In mid-2020, Foundation teams asked MSME owners to reflect on how they managed during the height of recent movement restrictions and the weeks following. A large majority reported being badly hit during the lockdowns. Across the region, only 5 to 39 percent of businesses reported that they worked as usual (Figure 2). Over 50 percent of all MSMEs in Thailand, Lao PDR, Malaysia, and Timor-Leste were either completely closed or had closed their premises to customers. Malaysian MSMEs appeared particularly hard hit by the lockdown, with only 5 percent of businesses reporting “normal” operations.

However, possibly because many businesses had transitioned to working from home to adapt to abnormal conditions, a major difference in economic situations appeared between Malaysia and other Southeast Asian countries, such as Timor-Leste, Cambodia, and Lao PDR: a high

Figure 2: Status of MSME operations during lockdown (percent)

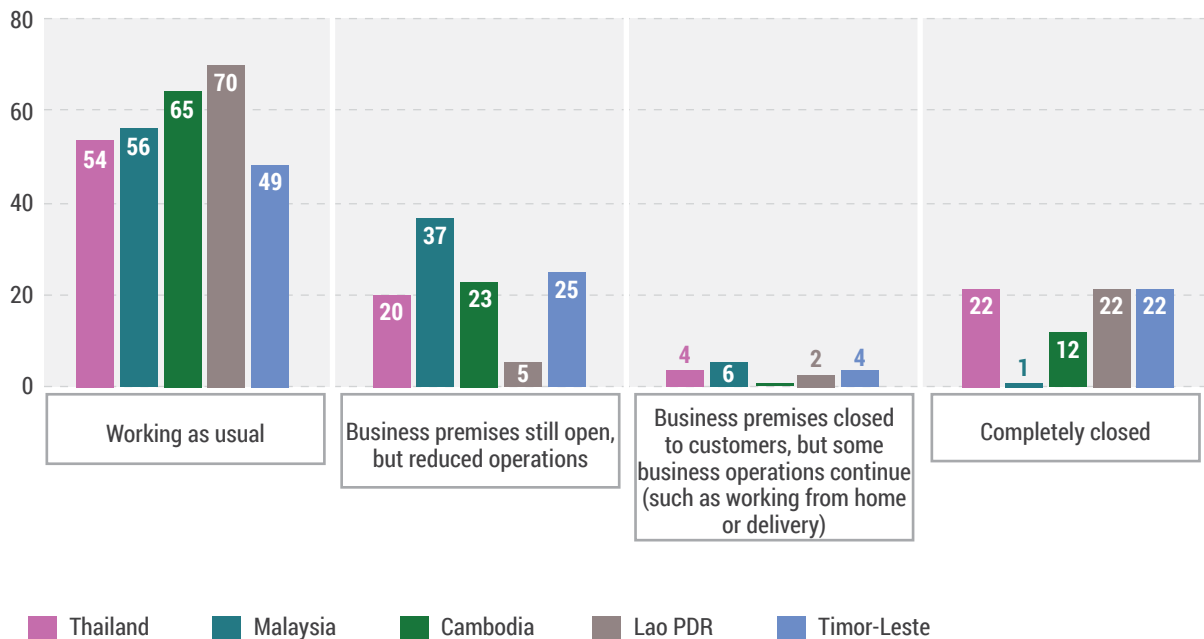


Note: Round 1 survey data April-August 2020; see Figure A.1 for exact dates

A major difference in economic situations appeared in Malaysia where a high number of businesses were able to remain operating during the lockdown.

number of Malaysian businesses were able to remain operating during the lockdown, even without physically-present customers or open premises. In contrast to Malaysia, in Thailand, where surveys focused on the tourism and manufacturing sectors (Table A.3), over half of the MSMEs interviewed reported having closed altogether. Indeed, judging by the first round of surveys, Malaysian MSMEs appear much more resilient to pandemic-related economic shocks than their regional counterparts.⁷

Data collected in June and July 2020 suggested that businesses were bouncing back from the initial shock. As some restrictions were lifted, most businesses reopened, and workers began to return to work (Figure 3). That said, even in Lao PDR, which had highest number of business-as-usual cases, 30 percent of MSMEs continued to be negatively impacted by the pandemic’s economic conditions and lockdown measures. Moreover, aside from Malaysia, a concerning number of businesses across the region – approximately one-fifth – had closed down altogether. In Lao PDR and Cambodia, the situation was marginally better, with 70 percent and 65 percent of MSMEs, respectively, open for business as usual. Of those businesses that remained closed in Lao PDR, a majority (87 percent) were in the tourism sector.

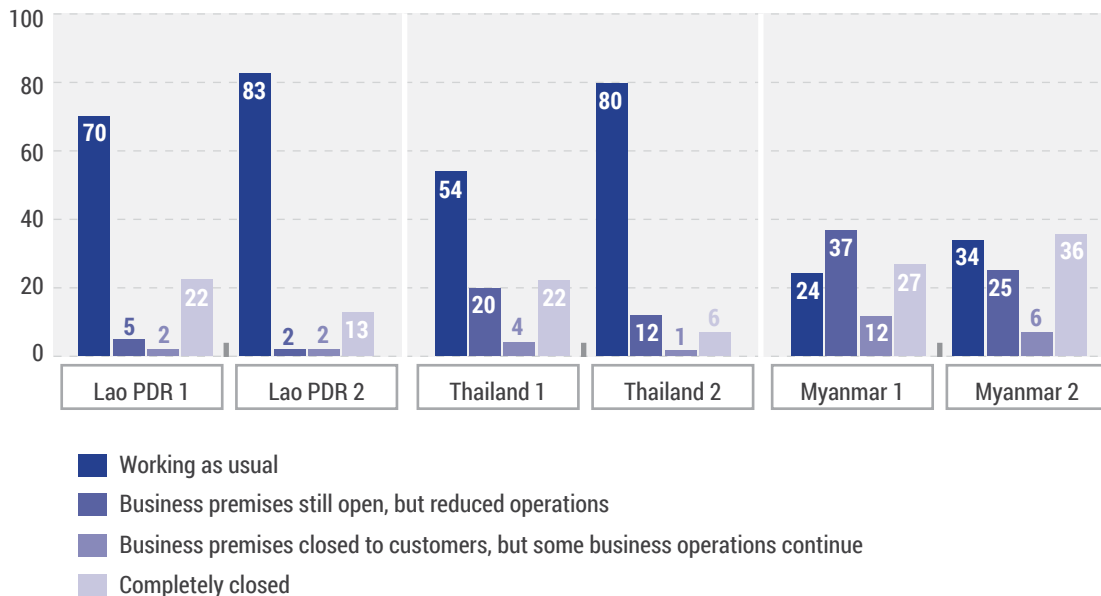
Figure 3: Status of operations after lockdown (percent)

Note: Round 1 survey data April-August 2020; see Figure A.1 for exact dates

Even though the six surveyed countries experienced relatively low levels of virus spread in 2020, their governments continued to enforce movement and social distancing restrictions. These restrictions impacted approximately 50 percent of all MSMEs in mid-2020. In Thailand, 49 percent of MSMEs surveyed felt their businesses faced the risk of permanent closure and 88 percent had experienced a significant drop in customers.

The second round of surveys in Lao PDR, Myanmar and Thailand shows the effect of lifting strict lockdown measures. In post-lockdown Thailand, for instance, despite ongoing movement restrictions and no change to international travel and cross-border trade restrictions, 80 percent of MSMEs had returned to full operations by September 2020, up from 54 percent in June (Figure 4). Of 22 percent of Thai MSMEs that completely closed in June, only 6 percent remained so. A similar trend was apparent in post-lockdown Lao PDR from data collected around the same time.⁸ These positive shifts in operation between the first and second rounds of data could be related to the length of time elapsed since the strictest lockdown was eased: Thai and Lao businesses had had time to design and roll out adaptation plans. In Myanmar, however, the first and second round surveys showed that only one-quarter of businesses were “working as usual,” compared with over 50 percent in Thailand and Lao PDR. By the second round of surveys, about 10 percent of Burmese MSMEs had improved to “working as usual” even as 10 percent had closed, and the others reduced operations. This difference with post-lockdown Thailand and Lao PDR may be because both the first and second surveys coincided with strict lockdowns in Myanmar, the second of which further hampered operations from September 2020 onwards.

Figure 4: Changes in operations status from survey Round 1 to Round 2 in Lao PDR, Thailand and Myanmar (percent)



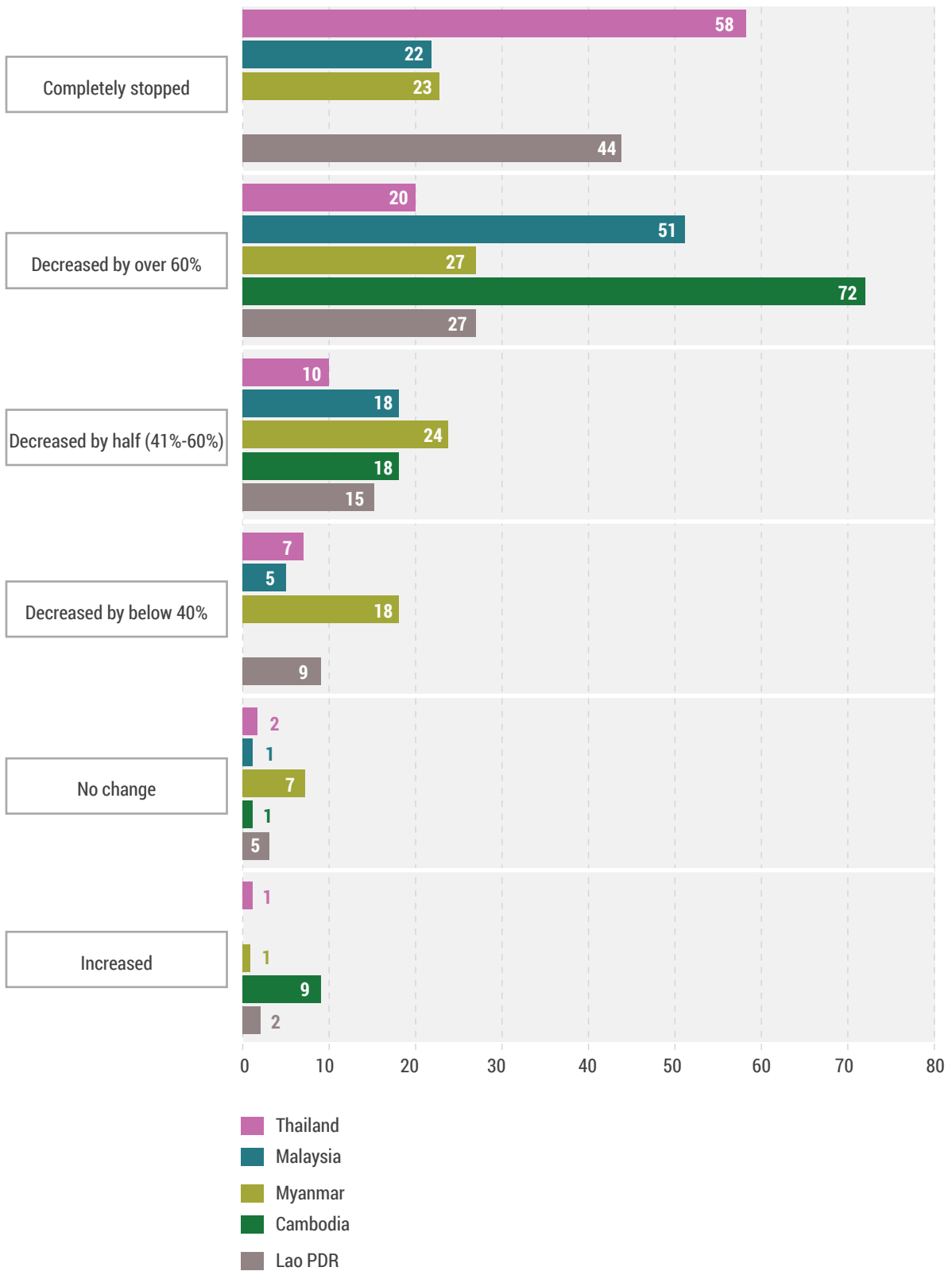
Loss of sales and revenue

The full and partial closure of businesses during lockdown had a negative impact on sales and revenue for MSMEs across the six countries, with very few businesses reporting no impact at all. For most, Covid-19 caused losses, in some cases major losses: 58 percent of MSMEs surveyed in Lao PDR and 44 percent in Thailand said they had no sales and no revenue during the lockdown period (Figure 5). Among the businesses that had sales, the vast majority claimed the lockdown reduced revenues by more than 40 percent (94 percent in Cambodia, 90 percent in Lao PDR, 90 percent in Malaysia, 74 percent in Myanmar, and 86 percent in Thailand). Generally, their costs also declined, although not by the same proportion. Reasons cited for lost income included a drop in demand, limited market access, and supply chain disruption.

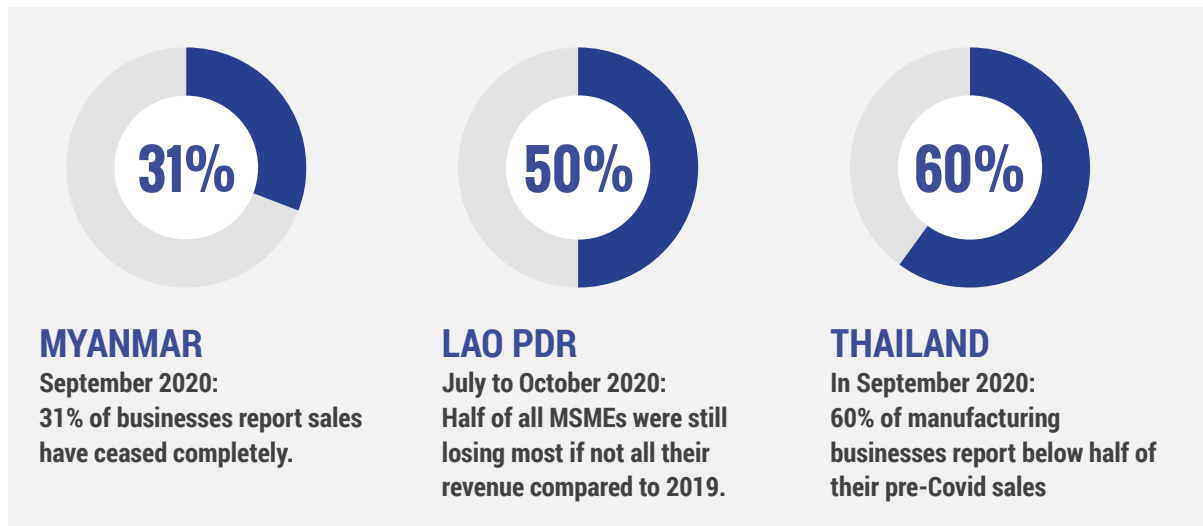
Some of the country surveys highlighted how MSMEs in certain industries were harder hit by Covid restrictions. In Thailand, 90 percent of manufacturing businesses reported substantial losses. In Myanmar, sales in the accommodation (tourism/hospitality), transportation, and textile sectors were hardest hit, with many businesses reporting they were not selling anything at all.

Lockdowns were the most restrictive Covid-19 containment measures. Easing lockdowns enabled some MSMEs to rebound, but many MSMEs failed to recover because of continued restrictions on mobility and collective gatherings. Overall, two months after the end of first lockdown, 52 percent of all MSMEs did not see any improvement in their revenue. In Lao PDR, for example, 58 percent of all surveyed MSMEs saw over 60 percent lower revenues compared to the year before. In Thailand, the

Figure 5: Lockdown impact on sales and revenue (percent)⁹



Note: Round 1 survey data April-August 2020; see Figure A.1 for exact dates



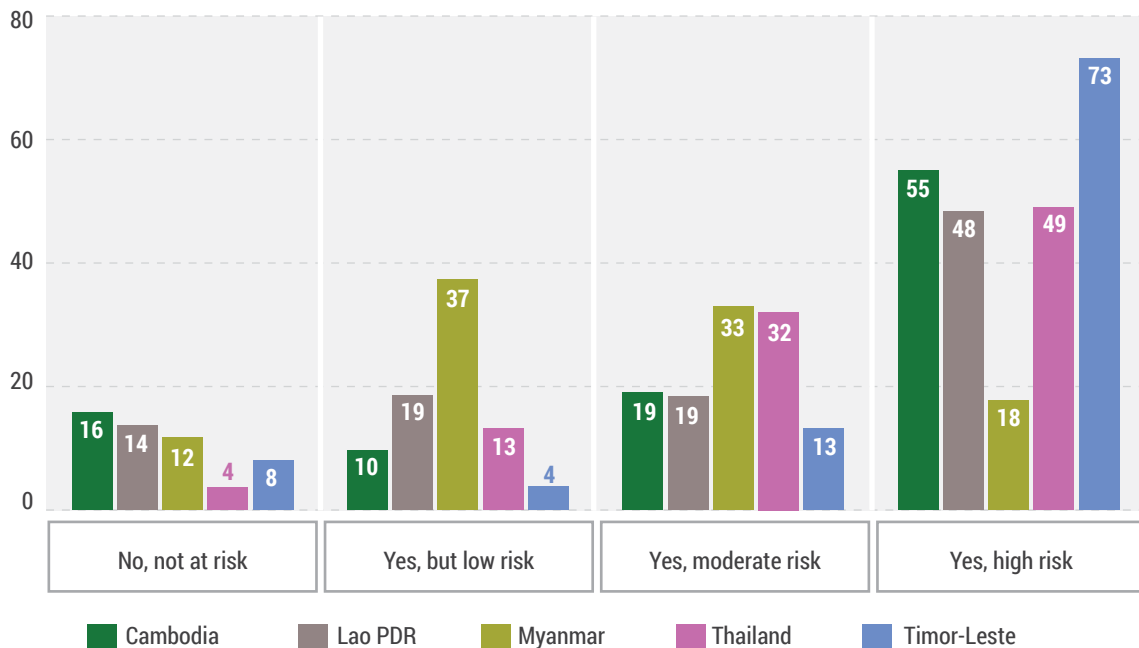
second round of data collection confirmed that MSMEs had not returned to pre-Covid levels of revenue; 23 percent of Thai manufacturing MSMEs further declined in revenue, with 60 percent reporting below half of their pre-Covid sales.

Many MSMEs in the region saw renewed losses with subsequent lockdowns and reinstated Covid-19 restrictions. Myanmar entered a second lockdown period from late August 2020 onwards, coinciding with a second wave of Covid-19 cases. During this period, 31 percent of businesses reported sales had ceased completely. In some urban townships, where the Covid-19 caseload was higher, over 50 percent of surveyed MSMEs ceased operations entirely (58 percent in Yangon and 52.5 percent in Mandalay).

Perceived risk to survival

In Cambodia, Lao PDR, Myanmar, Thailand and Timor-Leste, our teams asked MSME owners whether Covid-19 posed a threat to the survival of their businesses. Keeping in mind that only tourism MSMEs were surveyed in Cambodia (Table A.3), a high proportion of business owners reported seeing the pandemic as a very high risk in Cambodia (55 percent), Lao PDR (48 percent), Thailand (49 percent), and Timor-Leste (73 percent), while only 18 percent of businesses in Myanmar felt highly threatened (Figure 6). Across all countries, concern was greatest among businesses in service industries, such as tourism, accommodation and hospitality, and in textile and garment manufacturing. Our survey in Lao PDR polled MSMEs in agriculture, which perceived the least long-term risk to their businesses. Unlike agricultural enterprises, certain service and manufacturing businesses perceived a higher risk of failure because they require high foot traffic and interaction with patrons for sales, greater demand for travel and outdoor activity, or facility-based group production processes, all of which continue to be prohibited during the pandemic.

Nonetheless, we found that business owners in Cambodia, Lao PDR, Thailand, and Myanmar were quite optimistic about their ability to survive the Covid-19 pandemic despite the immediate impact on their operations, sales, and staff. In Cambodia, for example, 61 percent of MSME owners believed they would survive the pandemic intact, with the levels of optimism varying based on type of business, location, and registration status.

Figure 6: Perceived risk of Covid-19 to business survival April-August 2020 (percent)

Note: Round 1 survey data April-August 2020; see Figure A.1 for exact dates

Some of the research samples allowed comparisons between formal and informal MSMEs. In Cambodia, for example, our data suggests formally registered businesses were more concerned about the long-term risks posed by Covid-19: 68 percent versus 43 percent unregistered businesses. In Lao PDR, the second survey round found that in fact more unregistered businesses had permanently closed than registered ones.

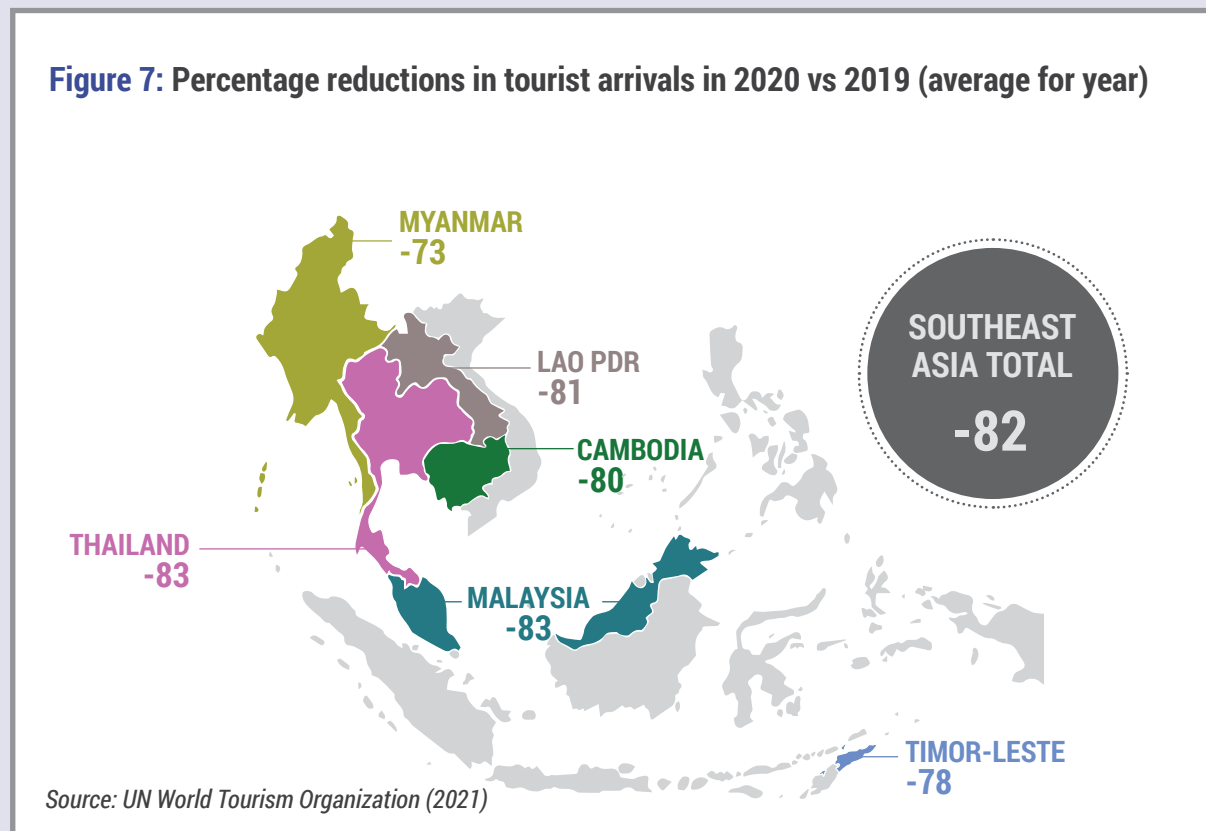
By the second round of surveys in September and October, MSMEs in Lao PDR, Myanmar, and Thailand were more optimistic, with fewer respondents in the three countries viewing the risk to their business as high, and approximately one-third of businesses in Lao PDR and Myanmar no longer regarding their business's survival as at risk at all. This more optimistic view may be related to when the surveys were conducted, the perceived Covid-19 caseload at the time of interview, and some respondent attrition. For example, in Lao PDR and Thailand, the second round of data collection took place two to five months after the strictest lockdown period ended and polled primarily its survivors. In Myanmar, second round data collection coincided with the beginning of a second strict lockdown period but prior to a peak in Covid-19 cases in the country, so respondents may have based their judgement on their first "not as bad as we thought" Covid-19 health impacts and lockdown experiences.

In Myanmar, despite no obvious overall improvement in business performance, owners were also optimistic about their business's survival during the second round of data collection: 30 percent believed that Covid-19 posed no risk to their survival, compared with only 12 percent in the first April-May round (Figure 6). This, together with the fact that a large number of businesses remained fully operational (34 percent compared to 24 percent in the first round) indicates that some had adapted to the Covid-19 situation (see Figure 4). Between July and October 2020, optimism for the future also grew among Lao MSMEs, with 79 percent of owners expecting to survive the pandemic in October 2020 compared to 68 percent in July.

HARDEST HIT BY COVID-19 CONTAINMENT STRATEGIES—CAN TOURISM MSMEs BOUNCE BACK?

Throughout the Asia-Pacific region, tourism businesses are particularly hard hit by Covid-19, largely due to their dependence on air connectivity and international travel. Prior to the pandemic, tourism was one of the fastest growing sectors in the region. The abrupt downturn in 2020 caused millions of jobs to be lost in the sector and the resulting economic hardship wiped out many firms, particularly MSMEs that catered directly to tourists or related sectors, such as hospitality and catering.¹⁰

In 2020, there was an 82 percent reduction in the number of tourists in Southeast Asian countries (Figure 7). Thailand, for example, allowed international tourists to enter the country in October 2020 under a Special Tourist Visa program for the first time since restrictions began. Thai figures of entry for that month indicates the dramatic impact on the country's tourism industry: a total of 1,201 arrivals compared with 3.07 million in October 2019.¹¹



The extent of the impact on tourism identified in other research was echoed in our data. In Cambodia, more than 90 percent of tourism MSMEs experienced reduced revenue because of Covid-19. Similarly, 79 percent of Lao tourism MSMEs lost revenue during the lockdown period and, in the months that followed, businesses reported much lower sales than pre-Covid levels. In Thailand, immediately following the most intense movement restrictions (late March to July), three-quarters of Thai tourism businesses reported revenues of less than 25 percent of pre-Covid levels. By the end of 2020, only 4 percent of Thai tourism MSMEs had reached pre-Covid income levels. Finally, in Timor-Leste, all MSMEs interviewed had reduced revenue immediately following the first outbreak, after the government announced a state of emergency. In January 2020, Timor-Leste's MSMEs made an average profit of USD 845; by April 2020, they incurred a loss of USD 336. A greater proportion of Timor-Leste's tourism MSMEs (66 percent), than non-tourism MSMEs (41 percent) reduced their operations due to Covid-19.

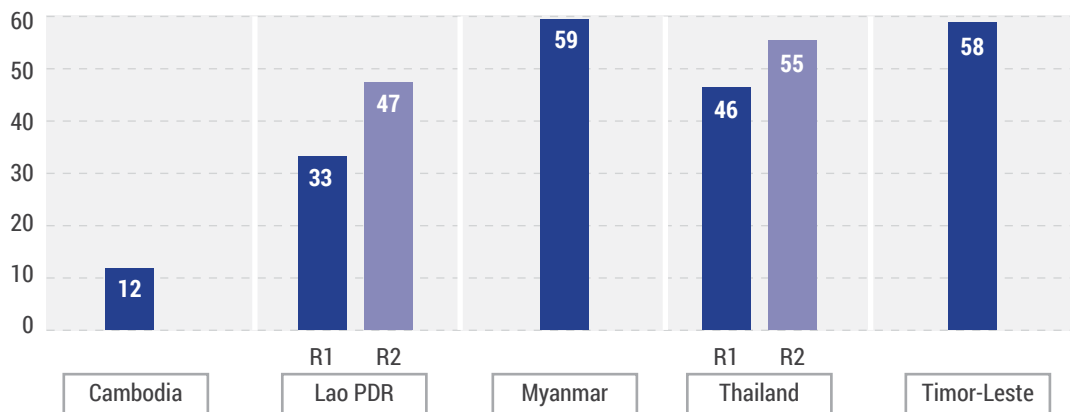


A small shop in Jalan Tunku Abdul Rahman, Kuala Lumpur, reopens in early May 2020 after lockdown [Shutterstock, Farrel Arissa]

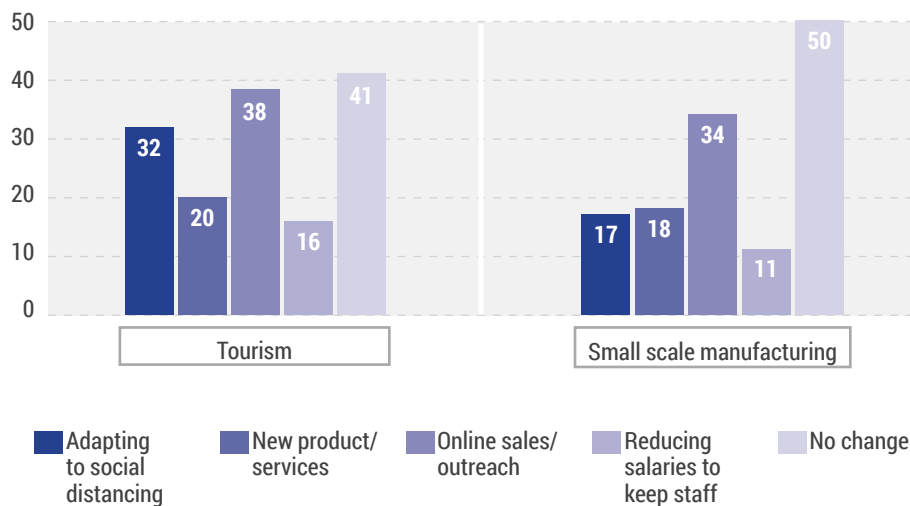
EFFORTS TO ADAPT

The ability of MSMEs to adapt to Covid-19 restrictions is key to their survival during the pandemic and during future shocks – whether through shifting to online operations, altering their position in supply chains, sourcing different customers, accessing different markets, altering products, or other measures. However, despite the dramatic impact on businesses, the will or ability to adapt varied greatly by country: the proportion of surveyed MSMEs that attempted to adapt their operations or staffing ranged from 12 percent in Cambodia to nearly 60 percent in Malaysia and Timor-Leste (Figure 8).

Figure 8: MSMEs that altered their operations or staffing to try to stay open (percent)



Note: Round 1 (blue) and Round 2 (violet) survey data; see Figure A.1 for exact dates

Figure 9: Thai tourism MSMEs are adapting more than manufacturing (percent)

Note: Round 2 survey data from Thailand survey; see Figure A.1 for exact dates

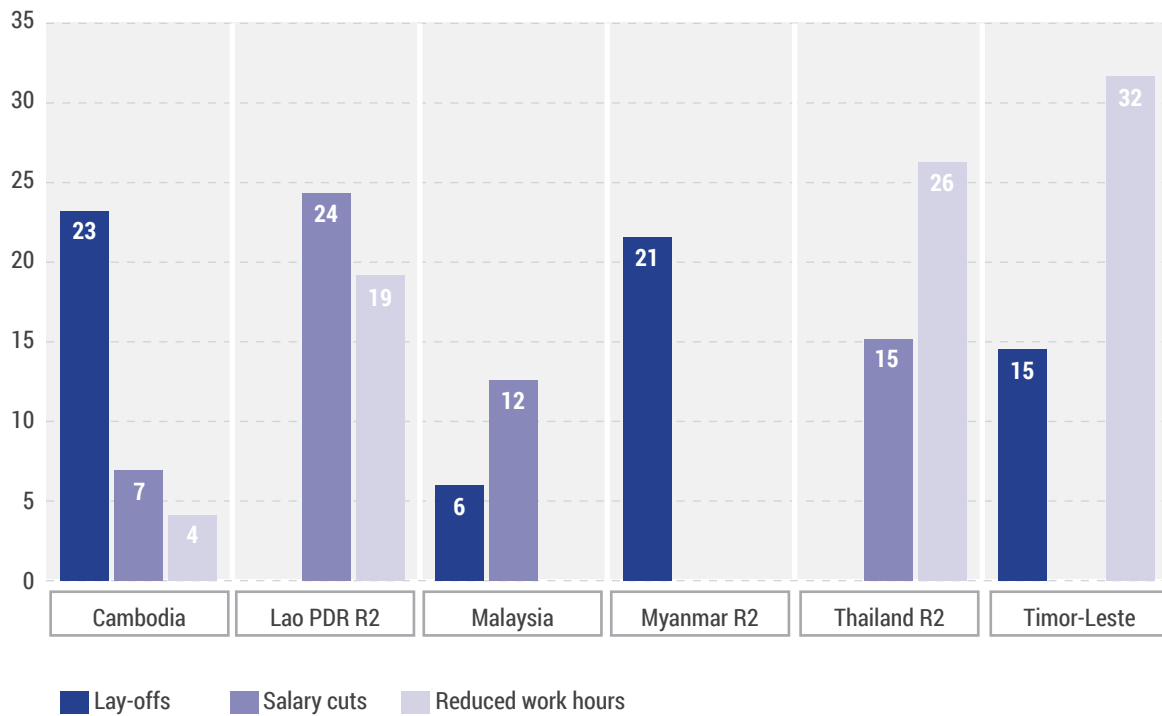
By the second round of surveys in October, there were more signs of adaptation. For example, in Thailand, the proportion of surveyed businesses trying to adapt had grown to 55 percent compared with 46 percent in June. Similarly, in Lao PDR, just one-third of businesses had tried to change by the time of the first round of surveys in July, but this increased to almost half (47%) the businesses by the second round in October.

Notably, tourism businesses in Thailand were more likely (59 percent) to adapt their operating models (Figure 9). Most popular among the measures taken were adopting online sales/outreach (38 percent) and social distancing protocols (32 percent). By comparison, half of the surveyed manufacturing businesses had not changed their business model due to the crisis. For those that did, the most common adaptation was using social media to increase their online presence and customer outreach (34 percent).

Staffing changes

In the short term, as the crisis hit, it was not surprising that most MSMEs responded by trying to protect their business model rather than attempting to alter it. The clearest indication of this was the immediate attempts to bring down staffing costs (Figure 10).

The data from Malaysia illustrates that the country's MSMEs took this approach. Almost 20 percent of MSMEs resorted to hiring more part-time rather than full-time staff to cope with higher demand without incurring unsustainable costs. A further 14 percent of MSMEs asked their staff to take unpaid leave, while 12 percent implemented pay cuts. By round two, in Lao PDR and Thailand, 19 and 26 percent respectively cut costs by asking staff to take annual leave. In Timor-Leste and Cambodia, 61 percent and 49 percent of employees laid off, respectively, were women.

Figure 10: MSMEs that made changes in employee management (percent)

Note: Round 1 and Round 2 survey data; see figure A.1 for exact dates

In Lao PDR, data collected in October 2020 revealed a large increase in part-time staff in the agriculture and handicraft/textiles sectors, especially among female staff (75 percent additional part-time staff in agriculture were women; and 91 percent in the handicraft sector). These figures accord with regional and global trends that indicate more women lost their jobs or shifted to part-time work than men during Covid-19.¹²

Informal workers were also more vulnerable to lay-offs than those on contract – not only in Southeast Asia, but globally. In April 2020, the International Labour Organization reported that 1.6 billion informal workers were impacted by the pandemic, or 76 percent of the informal labor market worldwide. High risk and heavily impacted sectors include wholesale/retail trade and manufacturing.¹³

Koh Samet, a popular tourist destination just over 200 kilometers southeast of Bangkok, was hard hit by the pandemic. Small hotels struggled to keep their businesses running. In mid-2020, we spoke to one owner of a medium-sized hotel and restaurant in Koh Samet. She told us her business revenue was 90 percent below pre-pandemic levels. She had been optimistic that the end of the first lockdown would see a fast return of customers, lured by discounts and lightly populated beaches. Yet news of a positive case in nearby Rayong resulted in the cancellation of most of her bookings. She was deeply concerned about the long-term viability of her business. She had already reduced her staff by 50 percent and the working hours of remaining staff by 50 percent. Despite this, she is still losing money. If international tourists do not return in 2021 as hoped, she expects many businesses on the island to close permanently.

In Thailand, 60 percent of informal and part-time workers, the vast majority of whom did not have unemployment insurance or social security, were removed from payrolls, compared with only 36 percent of contracted workers.¹⁴ In the tourism industry, businesses let 81 percent of their informal workers go, while MSMEs that had closed had laid off 98 percent of their informal workers.

Going online

In Southeast Asia, as elsewhere in the world, the slowdown in economic activity led to increases in e-commerce, which in turn accelerated the pace of digital transformation among many MSMEs. More goods and services became available online, rapidly expanding e-commerce to include new firms, customers, and types of products. According to the United Nations Conference on Trade and Development (UNCTAD), Thailand, for example, “saw downloads of shopping apps jump 60 percent in just one week during March 2020.”¹⁵ The increasing number of businesses using online platforms has shifted the trend from a pre-Covid focus on luxury goods to an abundance of everyday necessities available to more people, spurring behavior change among consumers across the region. These impacts are expected to be long-lasting, even after the pandemic has passed.¹⁶

In a rural district in Buriram Province, in Northeast Thailand, a 25-member women’s cooperative produces and sells banana chips, sharing the profits among the members. During the most restrictive lockdown period, their sales fell significantly when their distributors were forced to close, and the women were not able to travel out of the province to sell their products. In response, the cooperative went online and began selling their chips through Facebook and Line. In mid-July, more than two months after the lockdown ended, 50 percent of their sales had moved online, and they managed to stay afloat at 80 percent of pre-Covid income levels.

The success of this shift to greater levels of e-commerce could have important consequences for the region’s economic recovery. UNCTAD argues:

*...in many of the world’s least developed countries, consumers and businesses haven’t capitalized on pandemic-induced e-commerce opportunities due to persistent barriers. These include costly broadband services, overreliance on cash, lack of consumers’ trust, poor digital skills among the population and governments’ limited attention to e-commerce.*¹⁷

Countries that fail to harness the potential of e-commerce risk falling further behind in their economic development, because wealthy countries largely control online domains with access to solutions for teleworking and cloud computing. A lack of e-commerce opportunities will widen the enormous digital divide that already exists between and within countries.

The survey data from mid- and late-2020 suggested several shifts within e-commerce, including among lower-middle income countries, such as Lao PDR and Cambodia. In Lao PDR, for instance, between July and October 2020, 48 percent of MSMEs reported that they had adopted online marketing strategies in response to the pandemic, a quarter of which were reaching domestic and international customers. This move to online marketing led to partial and quick success, with only 18 percent of tourism

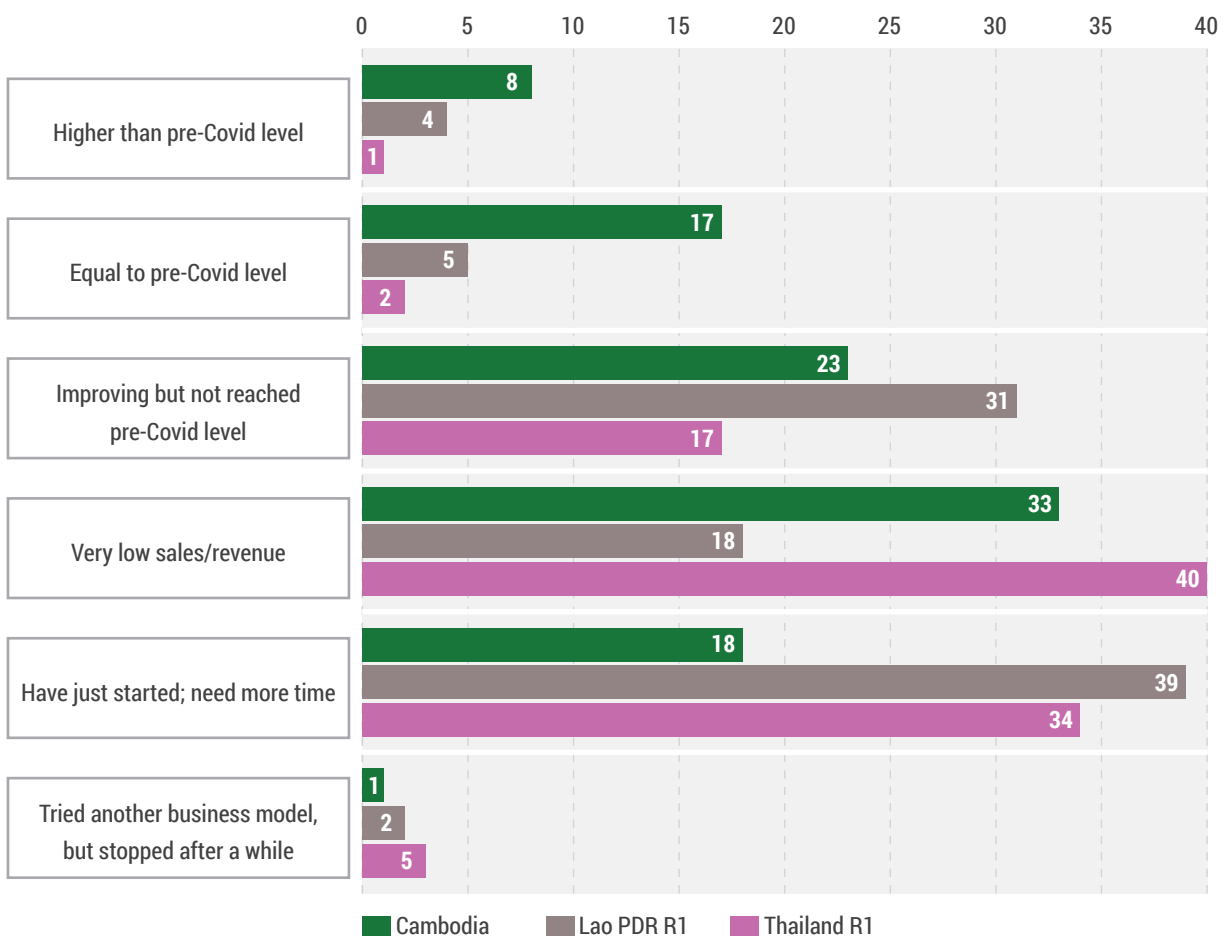
and 15 percent of handicrafts and textile businesses unable to reach any customers. A smaller proportion of businesses surveyed in Cambodia (5 percent) attempted to reach customers through the internet; 29 percent of businesses attempted to do so in Thailand, particularly through social media platforms, such as Line and Facebook.

Reluctance to adapt

From June to July, businesses in Cambodia, Lao PDR and Thailand were asked if they saw any benefits from trying to adapt their business model to the so-called “new normal” of movement restrictions and containment measures. Results were mixed: around half of the MSMEs saw little improvement, while many felt they needed more time to gauge the impact of business model adaptations (Figure 11). That said, some 25 percent of MSMEs in Cambodia reported revenues/sales comparable to or higher than pre-Covid levels following their adaptations.

Around half of MSMEs saw little improvement while many felt they needed more time to gauge the impact of business model adaptations.

Figure 11: Impact on sales/revenue from the change in business model¹⁸ (percent)

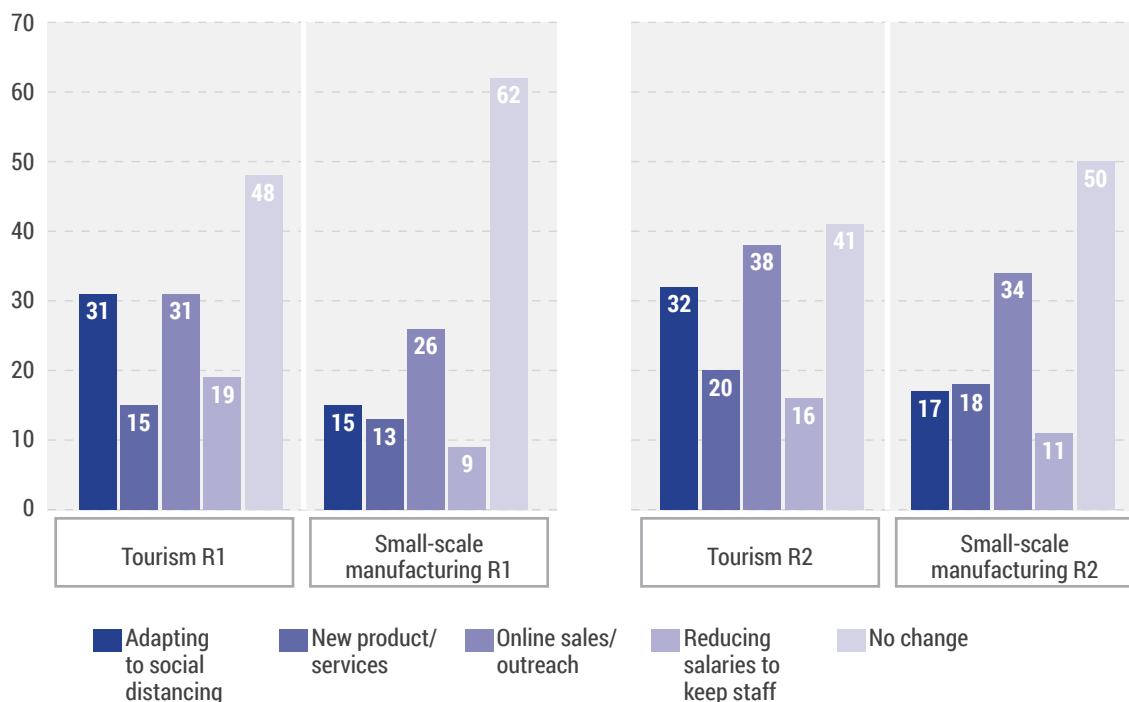


Note: Round 1 survey data; see figure A.1 for exact dates

Several factors determine whether MSMEs adapt. The Covid-19 impact surveys suggest that one major determinant is the type of business in question. The business owners that felt the most threatened made changes more quickly, hoping to ride out the worst impact of the pandemic. For example, the second round of surveys revealed that while all MSMEs in Thailand had made changes, those operating in the tourism industry had adapted more than those in manufacturing. Figure 12 shows that 62 percent of small-scale Thai manufacturing MSMEs compared to 48 percent of tourism MSMEs had made no changes to their business, according to the first round of post-lockdown surveys. By the second survey, fewer (50 percent) small-scale manufacturing MSMEs had made no changes, but even fewer tourism-related business (41 percent) had made no changes to their operating models.

Another factor is perceived risk of survival. In Thailand, 80 percent of businesses that considered their businesses at “no risk” of closing and 57 percent of businesses self-identifying as “low risk” did not bother to adapt their business as a result of the pandemic and economic slowdown. In Lao PDR, only 28 percent of those businesses that reported “not at risk” adapted their operating model across the two rounds of the survey. On the other hand, around 60 percent of Lao businesses that believed their businesses to be at “low, moderate, or high risk” of closure took steps to modify their operations. In other words, businesses with a higher perceived risk adapted their operations more and more quickly, by laying off employees, reducing salaries, altering work timings, and allowing work from home in order to cut overhead costs and/or by going online in order to increase sales.

Figure 12: Thai tourism MSMEs and manufacturing MSMEs adaptations between Round 1 and Round 2 surveys (percent)



Note: Round 1 and Round 2 survey data; see figure A.1 for exact dates

Deserted stalls at Sal Eain Tan beach
in Yangon Region, Myanmar, July 2021.
[Ye Htut Oo]



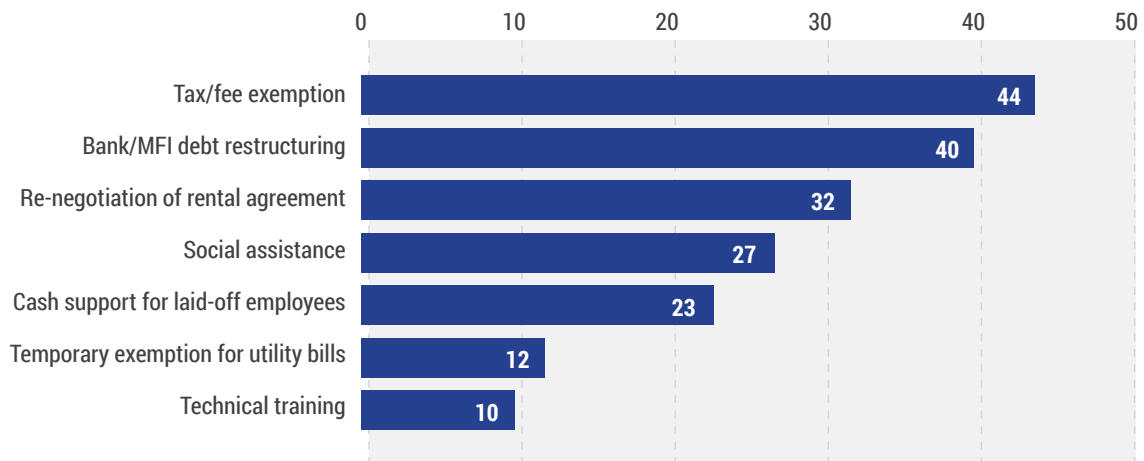
GOVERNMENT ASSISTANCE

Across Southeast Asia, in addition to efforts to improve health and social protection services, governments launched a range of special Covid-19 assistance programs for businesses. The programs varied from country to country and included direct support, such as low interest loans, tax relief, wage subsidies, one-off grants, and utility fee reductions. Governments also provided indirect support through training and business development. To understand the breadth of these programs and their effectiveness, we drew on publicly available government data and statistics in addition to Foundation survey findings and research.

In general, countries with higher incomes (Thailand and Malaysia), were quite successful in providing monetary support to MSMEs and their staff. Lower income countries, such as Cambodia and Timor-Leste, also provided cash support or wage subsidy programs without, however, reaching as many MSMEs as might be desired. In many cases, programs were not as effective because limited awareness led to low enrolment rates among businesses and their staff. However, it is difficult to fully assess many of these programs because of small respondent sample sizes.

For instance, in Timor-Leste, the government's stimulus plan included allowances of 60 percent of income for employees that were laid off or had their hours reduced; the stimulus also allowed

Figure 13: Extent of Cambodian MSMEs' awareness of government support interventions (percent)



Note: Round 1 survey data from Cambodia; see figure A.1 for exact dates

In many cases, special assistance programs for businesses were not as effective because limited awareness led to low enrolment rates.

social security contribution exemptions and provided microloans to businesses operating in tourism, commerce, industry, and agriculture. However, according to our surveys, only 65 percent of MSME owners knew about the government subsidy. Furthermore, only 51 percent were aware of the government's provision of microloans to businesses in the four sectors, and a mere 20 percent had heard of the exemption from social security contribution on the amount owed by the employer.

Similarly in Cambodia, MSMEs were somewhat aware of three government support interventions: exemption from tax and fees (44 percent); restructuring of bank and microfinance institution (MFI) loans (40 percent); and support in negotiating rental terms (32 percent) (Figure 13). However, 90 percent of businesses were unaware of support for employees' technical training and 88 percent were unaware of the temporary exemption from utility bills.

In Lao PDR, awareness of government assistance schemes for MSMEs was markedly lower among surveyed businesses. In the first survey round (July), only 9 percent of MSMEs were aware of government assistance programs and only to 16 percent by the second round (October). Among the few aware of this assistance, up to 75 percent MSMEs believed they were eligible (72 percent in round one, 75 percent in round two). However, as seen in the other low-income countries, only a very small percentage of surveyed businesses

were aware of assistance programs; therefore, those reporting sufficiency of government assistance programs cannot be considered wholly representative.

In Myanmar, awareness of an emergency loan provided through the Ministry of Investment and Foreign Economic Relations increased between the first (April-May) and second survey rounds (September-October). However, there was some confusion for businesses in accessing assistance outlined in the Covid-19 Economic Response Plan, because the various roles of Union and subnational governments, as well as official guidelines, were difficult to understand.¹⁹ In Timor-Leste, surveys indicated that MSMEs believed that the government should provide businesses with access to loans, tax waivers, and reduced operating costs.

Some of the surveys carried out by Foundation teams asked MSMEs that had accessed aid to rate their satisfaction or the sufficiency of government assistance programs. Again, since the sample sizes for this category of respondents was very small, our findings should be considered indicative rather than conclusive. That said, Cambodian businesses receiving assistance reported the highest levels of satisfaction for some government business support programs (81 percent satisfied with tax and fee exemption/reduction and rental agreement renegotiation). This was followed by support for workers (72 percent satisfied with cash support for laid-off employees), but low satisfaction levels for support for households: only 2 percent of businesses were satisfied with provision of cash, food, or hygiene materials.

Results were more mixed within Thailand. High levels of satisfaction (65 to 80 percent) were reported across all categories of assistance provided by governments to businesses (postponement of tax payment, debt restructuring or lower interest rates), to workers (cash for laid-off employees) and to households (cash provision). In Malaysia and Lao PDR, more than two-thirds of the MSMEs that had received government assistance reported satisfaction with government aid programs for businesses.

Overall, these initial satisfaction findings cannot determine whether any particular type of assistance or aid proved more effective. The survey findings primarily highlight the limited awareness among MSMEs of government assistance programs at the time of interview. Moreover, although the sample size of aid-receiving Malaysian MSMEs covered a good proportion of all surveyed MSMEs (42 percent of 153 respondents), the sample size for the Lao PDR survey was a much smaller 13 percent of 493 respondents.

Boats anchored on the river bank
of the Mekong River.
[Shutterstock, mezzotint]



RECOMMENDATIONS

Our findings provide a snapshot and highlight the initial impacts of the Covid-19 pandemic and lockdowns on MSMEs in six Southeast Asian countries. Our analysis reveals some interesting trends and challenges that will be important to monitor as attention shifts from the pandemic response to rebuilding, or to responding and rebuilding simultaneously in the face of future virus outbreaks. The immediate experience of lockdowns, movement restrictions, and the ongoing travel restrictions sent a shock through the business community in each of the countries surveyed. Beyond adapting their operations through drastic and damaging reductions in income and staffing, many MSMEs positively experimented with online markets and digital technology. Yet many also became disillusioned when profit margins did not turn around as quickly as hoped. While MSMEs have shown the optimism and drive needed to grow their businesses, there is a window of opportunity for governments to provide more support to help businesses take the needed risks to adapt, innovate, and survive.

More data, better information

Given the limited availability of data on the impact of government assistance to MSMEs during the pandemic, it is difficult to assess how well businesses were met. However, the relatively low level of awareness among survey respondents about the details of many aid programs indicates that governments clearly need to communicate more effectively about available programs and

how to access them. Governments should also collect and analyze more and better data to gauge the programs' impacts and adjust assistance where necessary.

At the same time, governments need more information on the status of different businesses and their respective needs, capabilities, and intentions in order to provide targeted programs. The Economic Research Institute for ASEAN and East Asia (ERIA) argues that:

*Policymakers need to acknowledge and take into account the heterogeneity and variety of ASEAN MSMEs (from micro firms, to family businesses, women-led ventures, high-growth dynamic start-ups, the sector in which they operate, etc.) when designing and implementing support measures for the post-pandemic recovery.*²⁰

Even where there was reasonable awareness of many Covid-related government support programs among business owners, there is more that can be done to facilitate MSMEs' access to government support structures. Governments also need to invest in real-time program evaluations to identify which are working and which are not in order to institute timely improvements and ensure greater return on investments.

Improve both digital competency and readiness

As is clear from our survey results, MSMEs will need additional support to seize digital opportunities, ultimately improving their agility and resilience. ASEAN is one of the fastest growing digital economies in the world: "The number of digital consumers nearly tripled between 2015 and 2018, from 90 million in 2015 to 250 million in 2018, to more than 300 million by the end of 2020."²¹ According to various studies, "ASEAN economies are also global leaders in terms of e-wallets and digital payment adoption."²² For these reasons, programs for digital literacy and competency are necessary to help digitally lagging MSMEs, particularly smaller and unregistered companies.

At the same time, UNCTAD and others argue for the "need to prioritize national digital readiness so that more local businesses can become producers in the digital economy, not just consumers."²³ Stronger e-commerce ecosystems will require significant changes in public policy that complement emergency support measures with efforts "to improve the digital and trading infrastructure, facilitate digital payments and establish appropriate legal and regulatory frameworks for online transactions and security."²⁴

Building back more equitably

The pandemic has disproportionately affected working women in multiple ways, due to lockdowns and the burdens of child education added to those of housekeeping and childcare. Women also tend to work in sectors hardest hit by the pandemic, such as domestic work, manufacturing, textiles, and hospitality.²⁵ Women are more likely to be without formal work contracts than men or in temporary positions. Women-owned MSMEs (which make up only a small fraction of the MSMEs in the region) are less likely to be granted loans from banks than men-owned MSMEs, starving women-owned business of funds necessary for the survival of business in times of crisis.²⁶

Greater levels of women entrepreneurship are key to an inclusive economic recovery across the region, making gender-responsive recovery efforts essential.

Greater levels of women entrepreneurship are key to an inclusive economic recovery across the region, making gender-responsive recovery efforts essential. Governments should redouble their efforts to develop and clearly communicate programs that specifically target women entrepreneurs in order to support their skills, training, and finances to start businesses.

Informal businesses and workers also need particular attention. Informal workers are excluded from labor statistics and are unreachable by official support channels.²⁷ The impact of the pandemic on uncontracted daily wage-earners and those in the so-called “gig economy” has been particularly acute, swelling the ranks of the newly poor. Governments need to improve incentives for businesses to register and formally employ workers.

Building back more sustainably

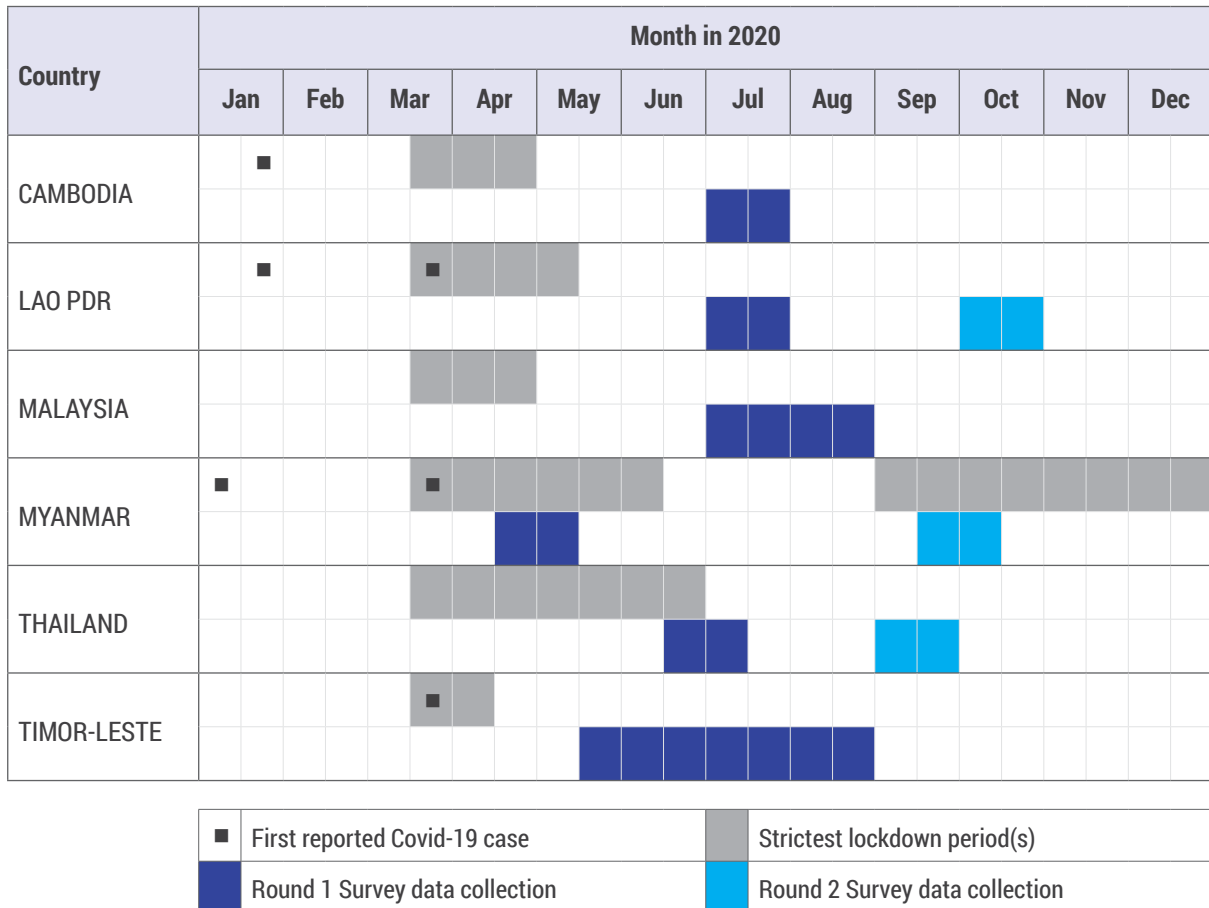
Finally, several Asia-Pacific countries have used the Covid-19 pandemic pause as an opportunity to build their tourism sectors back more sustainably. For example, Cambodia has introduced so-called “green recovery” measures with a clean-up campaign and a focus on plastic-free coastlines, Nepal is cleaning its trekking trails, and Thailand has allocated THB 1 billion (approximately USD 30.8 million) to build and renovate attractions in small communities outside the main tourist hubs. Other countries, such as Vietnam, Timor-Leste, and Lao PDR should consider doing the same. Governments should encourage sustainability practices and the circular economy by providing “incentives for MSMEs to become more innovative and equipped with better skills enabling more widespread sustainability practices.”²⁸

As the second or third waves of Covid-19 spread across many parts of Southeast Asia in mid-2021, the need for efforts such as these becomes all the more evident. The business environment for MSMEs must be supported and rebuilt in a way that is more evidence-based, digitally competent, equitable, sustainable, and, ultimately, more resilient.

Appendix

Covid-19 Impact Surveys

Figure A.1: Government lockdown dates and The Asia Foundation survey schedule (2020)



From April to October 2020, The Asia Foundation country teams conducted a first round of surveys by telephone, online and/or in-person with MSME owners and representatives across six Southeast Asian countries to understand the impact of Covid-19 restrictions and lockdowns on their operations. To better understand initial findings, a second round of surveys took place in three of the countries – Lao PDR, Myanmar, and Thailand – in September and October 2020 (Figure A.1).²⁹ The frequency, modality (whether the survey occurred in-person or over the phone), and feasibility of collecting data varied significantly across all six countries, largely due to the differing impact of the pandemic in each context (Table A.1).³⁰

All countries went into their first strict lockdown in mid-March through May or June 2020. Except for Myanmar and Thailand, the first round of surveys was carried out two or three months after the first lockdown ended (Figure A.1). The first survey round in Myanmar began in mid-April, halfway through the country's first lockdown, and the first round in Thailand began as the lockdown was ending. Subsequently, MSMEs in Thailand and Lao PDR participated in a second round of surveys

Table A.1: Survey method, sample size and sectors covered by country (2020)

Survey Particulars	Cambodia	Lao PDR	Malaysia	Myanmar	Timor-Leste	Thailand
Modality	Phone + In-person	Phone + In-person	Phone & Online	Phone	Phone + In-person	Phone
Sample size (Round 1 circa April-August)	997	572	153	750	342	982
Sample size (Round 2 circa September-October)		493	-	750	-	950

Table A.2: Initial case outbreaks, lockdown and restriction dates (2020)

Country	Date of first case (2020)	Timeframe of initial government response		Initial Response
		Initial response		
Cambodia	27 January ³¹	Mid-March	April	Restrictions on international arrivals, and closed schools, businesses, and entertainment venues. Cancelled major public holidays. ³²
Lao PDR	March	Mid-March	Early May	Movement restrictions, and business and school closures. Restricted international travel. ³³
Malaysia	Late January	Mid-March	Late April	Nationwide Movement Control Order (MCO), prohibiting mass assemblies, events, cultural activities, and religious activities. School closures. Restricted international travel. ³⁴
Myanmar	24 March	Late March	Late May	Public events cancelled, restrictions on entry of foreign visitors, movement restrictions, and restaurants and large markets closed.
Thailand	13 January ³⁵	Late March	Mid-June	Curfew, closure of non-essential businesses, and international flights suspended.
Timor-Leste	21 March	Late March	Late April	Schools closed, religious gatherings cancelled, businesses closed, and public gatherings limited to 5 people. Restricted international travel. ³⁶

post-lockdown, while MSMEs in Myanmar responded to a second round of surveys during a second strict lockdown period.

Most surveys focused on sectors that were most relevant in terms of contribution to the national economy and potential future contribution to economic recovery (Table A.3). Given the importance of the tourism industry throughout Southeast Asia, many of the country surveys focused on that sector. Other surveyed sectors included small-scale manufacturing, agriculture, and handicrafts. Each Asia Foundation team surveyed a randomly generated, representative sample of MSMEs.

Table A.3: Country surveys by business sector

	Service Industry	Tourism	Agriculture	Handicraft and Textile Manufacturing and Retail	Other Manufacturing
Cambodia		X			
Lao PDR		X	X	X	
Malaysia	X		X		X
Myanmar*	X	X		X	X
Thailand	X	X	X		X
Timor-Leste		X		X	X

* The Myanmar survey was not sector specific. However, the sample frame excluded businesses in the primary sector (agriculture, fisheries, mining, and forestry).

Endnotes

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