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# Better Local Business Environments for Pandemic Recovery in Southeast Asia

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# Small Firms are the Foundation of Local Economies

*Regional economic growth is an important policy issue in Southeast Asia, with local business environments throughout most parts of the region dominated by micro, small and medium-sized businesses.*

**Foundation of regional economies**

**Their nature and number**

*It is estimated that MSMEs account for more than 97% of all enterprises, two-thirds of the total workforce, 40% of GDP in Southeast Asia, and 80% of them are based outside metropolitan areas.*

	No. of MSMEs	Total No. of Firms	MSMEs as % of All Firms	Persons Employed by MSMEs
<b>Cambodia (2019)</b>	460,000	510,000	90% +	1,200,000
<b>Laos (2020)</b>	134,000	178,600	99.8%	3,050,200
<b>Thailand (2020)</b>	3,105,100	3,119,700	99.5%	12,060,400
<b>Vietnam (2017)</b>	5,594,900	5,607,900	99.7%	26,210,700

Source: <http://nis.gov.kh/>; <https://laosis.lsb.gov.la/>; <http://www.nso.go.th/>; <https://www.gso.gov.vn/>; Authors' calculation.

# What Matters to MSMEs?

*MSMEs in smaller Southeast Asian economies with lesser-developed governance systems face additional challenges.*

Transparency

Certainty

*There can be a lower quality of regulatory capacity, with many laws, regulations and markets poorly governed.*

	Cambodia	Lao PDR	Thailand	Viet Nam
<b>Worldwide Governance Indicators</b> (2020: Percentile rank = 0 lowest, 100 highest)				
• Voice and Accountability	12.6	3.4	26.1	12.1
• Political Stability	41.0	69.3	24.5	44.8
• Government Effectiveness	38.0	22.6	63.5	61.5
• Regulatory Quality	29.8	21.2	58.7	46.6
• Rule of Law	17.8	20.7	57.7	48.6
• Control of Corruption	11.1	14.9	38.5	42.3
<b>Enterprise indicators</b>				
Share of firms operating without official documents (%)	96.6 (2011)	69.6 (2020)	N/A	74.1 (2017)
Number of SMEs Per Capita (Persons)	1:33.5	1:51.5	1:22.2	1:16.4

Source: <http://info.worldbank.org/governance/wgi/>; <http://nis.gov.kh/>; <https://laosis.lsb.gov.la/>; <http://www.nso.go.th/>; <https://www.gso.gov.vn/>; Authors' calculation.

# How Do Governments Support MSMEs?

*Macro-level approaches that address large scale structural factors impacting on large numbers of firms: infrastructure, communications, financing, regulations, tax and broad-range sectoral industry assistance.*

Pre-COVID

Institutional support for MSMEs has been structural and of a long-term perspective

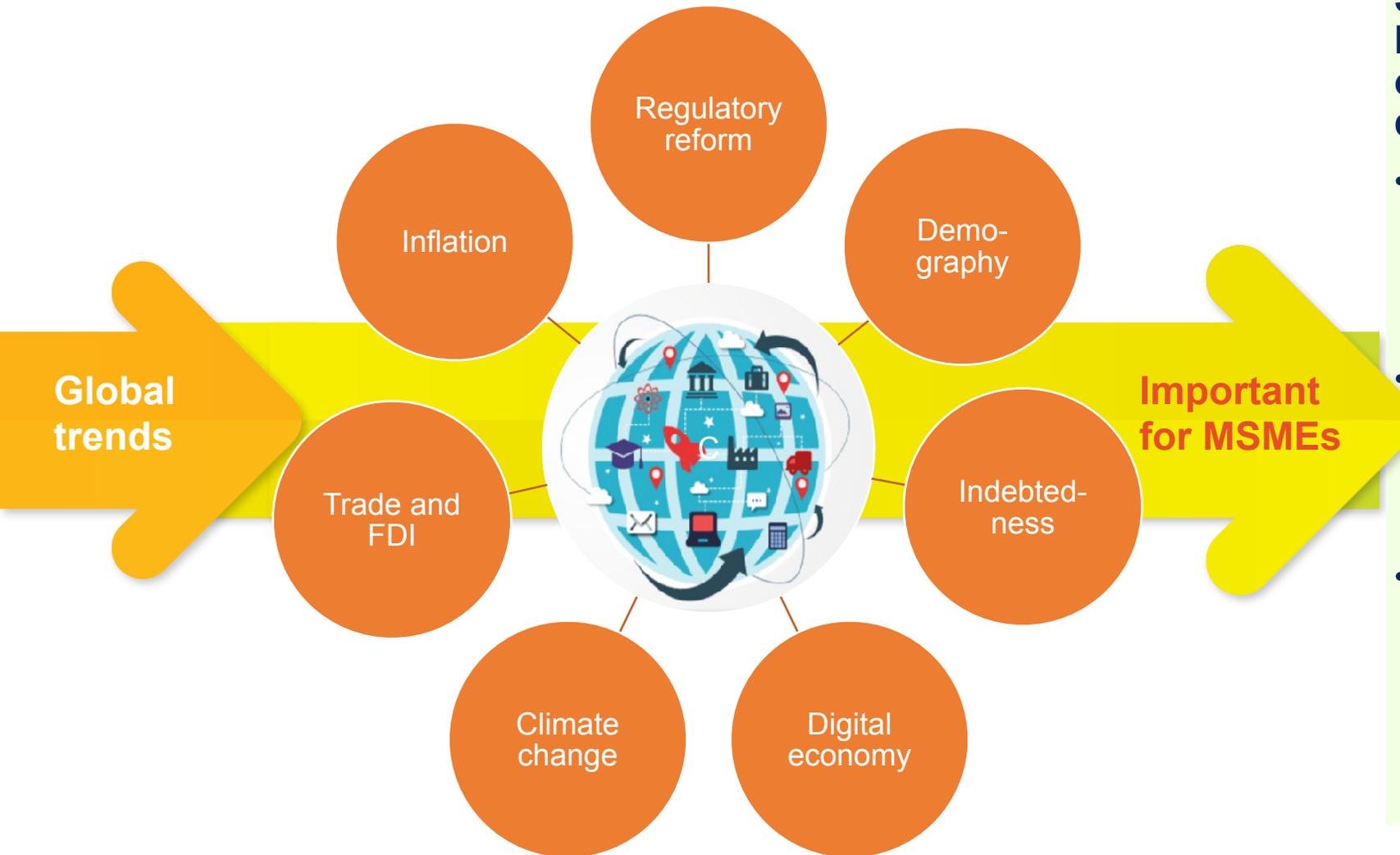
*Micro-level strategies that focus on the individual firm, its owner(s) and staff: business advisory services, training and business skills; assistance in employing staff; and helping firms develop marketing strategies.*

- *Loan rescheduling*
- *Concessional finance*

During COVID Support for MSMEs Shifted to Crisis Response

- *Tax exemptions*
- *Enterprise subsidies*

# Megatrends and MSEs



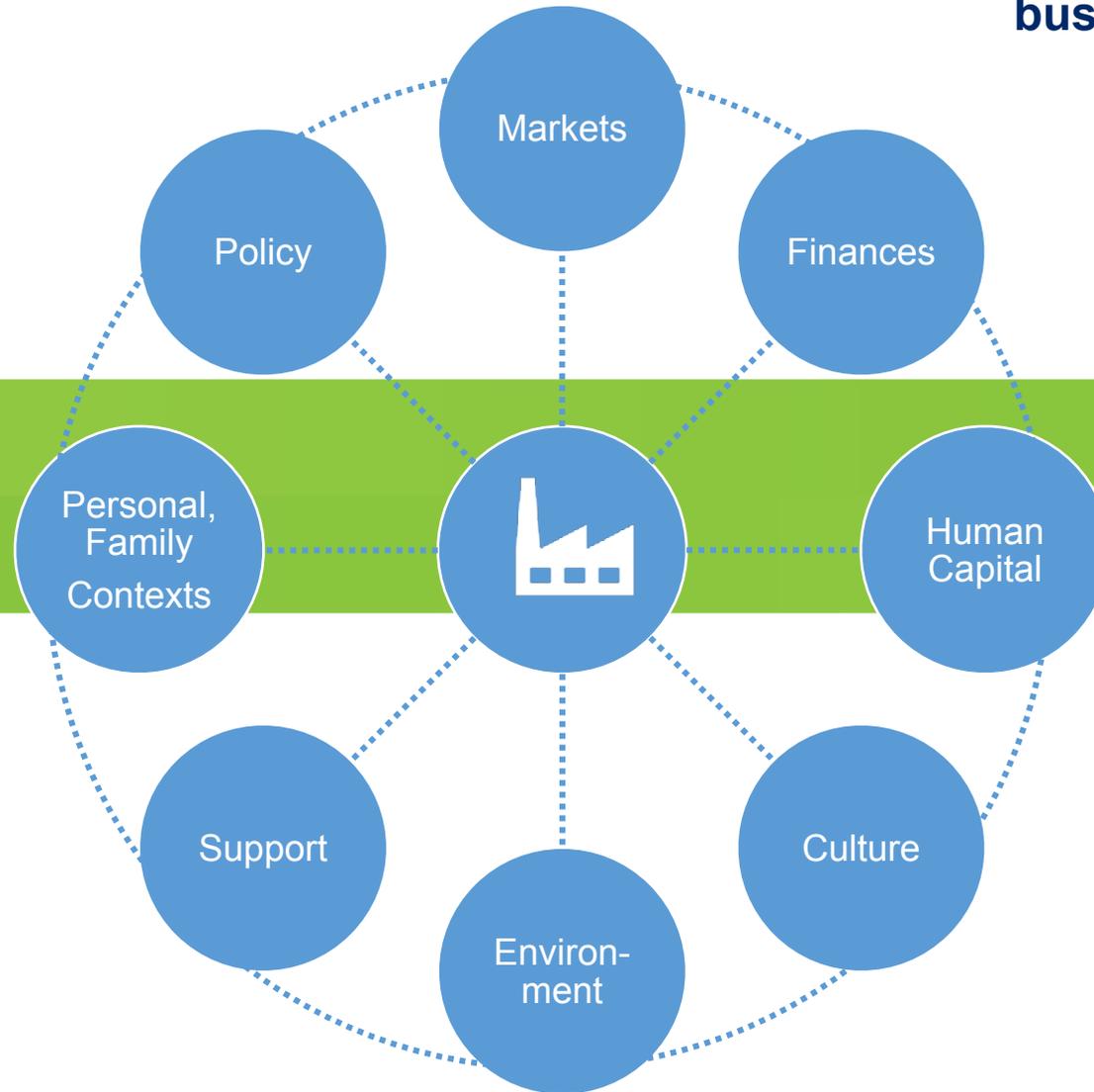
## Several important issues for MSMEs that have tended to be overlooked in policy discussions:

- *Despite their contribution to economic growth and livelihoods, MSMEs issues continue to remain hidden and largely invisible in publicly debated matters.*
- *MSMEs have remained mostly informal, and in doing so, may represent a drag on progress towards the transformational objectives of policy.*
- *It is therefore important to identify strategies to de-risk and create greater alignment between those of public policy and MSMEs as a major economic stakeholder.*

# We Need To Understand All The Factors That Drive MSME Behavior... Their Ecosystem

A wholistic approach to MSME development, dealing with the entire small business ecosystem.

Ecosystem



# Transition Process to an Ecosystem Approach

MSMEs are a major economic stakeholder. Progress on transformational policy objectives requires their alignment

See a full ecosystem of potential through MSME mapping in regional communities

Baseline

Shared Goal

Opportunities

Understand what MSMEs mean for economies and how to best support

- *Institutional: Business regulations and engagement strategies*
- *Societal: Enable coverage of self-employed in welfare scheme*
- *Knowledge: Improve and standardize MSME data*
- *Risk: de-risk the MSME sector*
- *Digital: Support digital capacity*
- *Climate: MSME adaptive strategies*

Transition targets for a range of change

Planning and solution-oriented innovation

Evaluate progress

Deploy plans and ensure quality implementation of initiative

The ADB logo consists of the letters 'ADB' in a white, serif font, centered within a dark blue square.

**SEADS**   
Southeast Asia Development Solutions

A large graphic of the Southeast Asian region, where the landmasses are filled with a dense pattern of small, light blue icons representing various aspects of development, such as infrastructure, agriculture, and industry. The background is a dark blue grid.

**Thank you!**