



Concept Note

UNCTAD-ECLAC Regional Policy Dialogue on competition and SMEs policies, for Preparation of Phase 2 of the Global Initiative towards post-COVID-19 Resurgence of the Micro-, Small and Medium Enterprises (MSME) Sector: Component 2: Cluster F- Access to Markets,

1. Background

This UNCTAD, ECLAC led Pilot Activity is part of the UN-wide project dealing with the general strategic plan of the United Nations called “**UN framework for the immediate socio-economic response to COVID-19**”¹ and will specifically contribute to Pillar 3 “Economic Response and Recovery: Protecting Jobs, Small and Medium-Sized Enterprises, and Informal Sector Workers.”

At the same time, the activity F7 is part of the UN-DA project entitled “Global Initiative towards post-COVID-19 resurgence of the Micro-, small and medium enterprises (MSME) sector”, particularly within the framework of Cluster F “access to markets” of component 2 of the project. The project aims to provide hands-on assistance to countries in need of quickly addressing the specific challenges faced by MSMEs during the COVID-19 crisis. It will include several sub-components grouped in Clusters based on the capacity building programmes delivered by participating agencies of the United Nations assigned to the post-COVID-19 recovery needs.

The objective of the Access to Markets cluster is to identify barriers to competitiveness and market access, which are currently faced by MSMEs. In addition, the goal is to facilitate market access by MSMEs in the developing world (international perspective with a national focus for specific domestic market conditions and sectors).

2. The pandemic in Latin America and the Caribbean

The impact of COVID19 to MSMEs in Latin America and measures undertaken to support them, including thorough competition policy measures and interventions.

The COVID-19 pandemic has come at a time of slow economic growth in Latin America and the Caribbean. According to ECLAC, the pandemic caused a productive stoppage that will result in a sharp economic contraction estimated at -9.1% of the region's GDP. Trade will plummet by approximately 23% in terms of the value of exports. The regional unemployment rate would be around 13.5%, reaching 44.1 million people (which represents an additional 18 million unemployed compared to 2019), and an increase in poverty of around 45.4 million people, which is equivalent to almost 40% of the population of the region. The high level of informality prevailing in labor markets - 54% of total employment, according to the International Labor Organization (ILO) - makes the development of MSMEs particularly difficult.

¹<https://unsdg.un.org/sites/default/files/2020-04/UN-Framework-for-the-immediate-socio-economic-response-to-COVID-19.pdf>



The economic crisis is rooted in a lack of both supply and demand. Social distancing has led to the total or partial suspension of productive activities, as a way to contain the increase in infections. This effect has been strongest in sectors where activities involve agglomeration and physical proximity (tourism, entertainment, hotels and restaurants, transportation, personal services), and not as strong in those considered essential (food, disinfectants, cleaning articles, medicines and medical supplies and equipment) although with significant fragility.

There have been mixed responses across countries: health, social, fiscal and monetary measures. These have impacted both directly on the reaction capacity of health systems, and indirectly on the contraction of global demand and supply chains.

Most countries have adopted tax packages to provide temporary income support for formal workers and, in some cases (Brazil), informal workers and business owners. Governments have also taken measures to support business survival, with measures to provide liquidity through deferred payments and improved access to credit being the most frequent. Among the wide variety of support actions, the following stands out: the suspension of payments of social security contributions (Brazil, Chile, Colombia, Guatemala); the postponement of the payment of tax obligations as well as basic services; the creation or expansion of loan guarantee funds, sometimes with a focus on MSMEs (Argentina, Brazil, Chile, Colombia, Honduras, Paraguay, Peru, the Dominican Republic, Uruguay); the injection of funds to facilitate access to credit (Argentina, Bahamas, Bolivia, Chile, Colombia, Ecuador, Mexico). Measures were also adopted to avoid layoffs, such as the flexibility of working conditions (Argentina, Brazil, Chile, Colombia, Costa Rica, Ecuador, Nicaragua, Panama, Paraguay, the Dominican Republic, Uruguay) and, on occasions, subsidies for the payment of wages (Argentina, Brazil, Colombia, Dominican Republic).

Almost all of the countries in the region have announced special lines of credit to finance the working capital of MSMEs so that they can remain in operation and pay the wages of their workers. Many of these measures target the most affected sectors, (tourism), or sectors that are strategic for food security, (such as agriculture).

The most widely used tools have been cash transfers, in the form of grants or subsidies, or tax reductions or exemptions. MSMEs and self-employed workers, tourism-related activities (such as hotels and catering), cultural activities, and the agricultural sector are among the biggest beneficiaries of such measures. The combination of shocks in both supply and demand poses a socioeconomic challenge to the countries in the region to relaunch their economies and manage the importance of digitization, which due to this crisis will seriously affect not only global value chains but also regional ones. To face the demand that arises from the emergency, a balance is required between the lack of fiscal space and the need for new capital flows to face the crisis.

a) MSMEs in Latin America: how have they been impacted by the crisis?

The economic structures of the region are characterized by the presence of a large number of MSMEs and few large companies, mainly in the natural resources sectors. The market does not generate specific incentives to encourage smaller companies to develop in sectors with high capital intensity.



Although the crisis affects all companies, the impact will be much greater for MSMEs, due to their large participation in the business structure of the region, with widespread trade closings and job losses. ECLAC estimates that more than 2.7 million formal companies in Latin America and the Caribbean will close resulting in a loss of 8.5 million jobs. This is not including layoffs by companies that have the ability to stay in business.

The recovery will require a strong and determined support policy, especially focused on technological innovation, which is framed within a strategy of structural change and that allows MSMEs to be more competitive. One of the main axes of this policy should be the diffusion of innovative digital technologies, big data, machine learning and artificial intelligence.

b) Competition policy in pandemic times and its relevance.

From a competition perspective, it is essential to equip policy-making agencies with the appropriate tools and solutions to act in times of crisis such as the current pandemic.

Competition authorities are attentive to the development of the pandemic regarding the relaxation of standards for the duration of the pandemic, accompanying the efforts of governments to confront it. At the same time, they closely monitor potential anti-competitive practices, such as price fixing, market concentration and abuse of market power, and mergers and acquisitions. Such policies can also improve the effectiveness of law against international and cross-border cartels that may arise from the current crisis (especially in the pharmaceutical sector). Flexibility in enforcement approaches taken by most competition agencies around the world could inadvertently facilitate the formation of hardcore cartels, including cross-border cartels that may adversely affect trade and consumers worldwide.

In fact, during economic crises, competition authorities face the dilemma of making regulations more flexible in order to face the crisis, or rigorously apply the law that regulates not only cartels, but other issues as well. In the current health crisis, competitors have engaged in examples of horizontal cooperation such as joint purchases, and the management of joint actions and distributions in the form of information exchanges. These actions have been necessary to combat the effects of the pandemic, particularly the disruption in global supply chains of essential goods, sanitizing and medical products.

The health crisis has resulted in higher levels of concentration in various sectors due to disruptions and shortages in global supply chains. This could lead to cartelization, especially at the cross-border level. The formation of cartels could cause significant damage in emerging markets, as they limit the benefits of international trade and access to global supply chains. In developing countries, which are highly dependent on imports of products from industries exposed to risks of abusive pricing practices, the impact may be greater.

c) Digitization and its impact on the MSME sector in Latin America during the crisis and in the recovery.

In the short term, companies must implement business models that allow them to adjust and survive in a situation, which, for health reasons, imposes limitations on the mobility of people and the agglomeration



in workplaces and commercial areas. In this process, digital technologies can be both a rescue and survival tool and an exploration of new opportunities for a significant number of companies.

E-commerce facilitates sales at a distance, and also allows companies to interact directly with consumers in a context of disruption of some distribution chains. Some companies have strengthened this sales channel and others have had to develop it from scratch. Consequently, marketplaces and delivery applications have become privileged players. E-commerce platforms provide a complete solution for many MSMEs to showcase their products and provide methods of payment and distribution in one place.

A recovery period is expected to strengthen the transformation or at least the digital presence of companies. A strengthening of the digital channels of interaction with suppliers and current or potential customers is expected. The image and information of the company, as well as its social networks, digital marketing, financial services, and normal activities on the Internet, and any other possible form of online presence, will be enhanced. In addition, new digital ventures will emerge, and there will be a trend towards automation and replacement of workers as a way to ensure production and services.

However, not all SMEs in the region benefit from or are able to benefit equally from digital technologies. On the one hand, it depends on the area in which they operate. For example, in sectors such as transport and tourism, electronic commerce has decreased dramatically, reflecting the drop in activity in these sectors due to sanitary restrictions. Nevertheless, the benefit to SMEs also depends on the specific capabilities of each company and the particular environmental conditions. There is high heterogeneity between countries and companies in the region, showing different levels of adoption and use of digital technologies. In some countries, issues such as access to connectivity and technological infrastructure are still problems among smaller companies.

Relevance of the UNCTAD-ECLAC policy dialogue

The Pilot Activity aims to assess how the COVID19 crisis impacts MSMEs recovery and how competition policies can help the recovery across the continent. Two main issues emerged from this crisis with serious impacts on MSMEs: (1) increasing reliance on digitalization and (2) resulting market concentration.

1. Increasing reliance on digitalization

A result of this crisis is the heavy reliance on digital means to survive. Indeed, many MSMEs have gone digital during the pandemic to respond to new constraints and thus adapted their ways of doing business. This in turn creates policy and legal issues in terms data protection and privacy concerns. These concerns can be a new challenge for Latin American competition agencies to deal with digital MSMEs and their new competition issues.

The data should be treated as an asset and not as commodity. In a world where data is responsible for the valuation of intangible business, digital companies have become the largest in terms of market value. It has been shown that data allows companies to keep their monopoly positions and market power, which is no longer limited to a country, but transcends the geographical borders and therefore the scope of regulation. Two questions then arise: i) what is the role of the data in the current market concentration?



ii) what are the effects of data-driven innovation on MSMEs ? In the case of the digital economy many acquisitions actually have behind them predatory practices, acquisition of important data for the development of innovations and maintenance of positions monopoly after competitors are prevented from accessing data.

2. Resulting market concentration.

Market concentration has been a outcome of this crisis due to the absorption or collapse of MSMEs by larger companies, which were able to stay afloat during and post crisis thanks to their financial safety net (most MSMEs fail to benefit from financial stability which heavily jeopardizes their survival during crises as evidenced by COVID19). The great majority of companies in the region have recorded significant decreases in income and are having difficulty remaining in business: they have serious problems meeting their wage and financial obligations, and difficulties accessing financing for working capital. In Colombia, 96% of firms saw drop-in sales (75% of them by over 50%); 82% of formal businesses could survive for only one or two months on their own resources (CONFECAMARAS, 2020). In Brazil, 76% of industrial firms have reduced or stopped production and 55% have had difficulty accessing credit for working capital (CNI, 2020). In Argentina, 44% of manufacturing companies did not have the liquidity to pay 50% of wages in April (12.3% were unable to discharge their payroll obligations), 38% could not pay utility bills, 48% could not pay their suppliers and 57% did not pay their taxes (UIA, 2020). In Chile, 37.5% of companies reduced staff numbers between April and May; 44% of firms are in a bad or critical financial state, rising to 51% in the case of microenterprises (CNC, 2020).

3. Objective

The regional policy dialogue will have the following objectives:

- (1) Gather information on the impact of COVID19 on MSMEs to better shape recovery strategies post crisis (which will be crucial for Phase 2) in Latin America
- (2) Get an understanding of the situation of the markets considering market concentrations resulting from the crisis and the increasing reliance on digital means to survive and
- (3) Discuss how competition policy can contribute to the effective recovery of the MSMEs sector post crisis.

Having already collaborated on Phase 1 of the project, this UNCTAD, ECLAC led Pilot Activity aims to push forward ECLAC's initiatives for the sector from the perspective of the digital economy (data protection/data privacy). In addition, UNCTAD will contribute thorough analysis of MSMEs recovery and competition policy. Therefore, this Pilot Activity will be a building block for the preparation of Phase 2 of the UN_DA project, and the lessons learned may be applicable in other regional commissions.

3.1 Work programme



The Policy Dialogue will be held through a virtual webinar on 5th August 2020 from 10h00 to 12h00 (Santiago time); 16h00-18h00 (Geneva time) for relevant policy makers and competition agencies in Latin America. The event will be held exclusively in Spanish and will not be open to the public.

Co-moderators: UNCTAD & ECLAC

Opening remarks: Ms Deputy Secretary-General UNCTAD and Mr. Mario Cimoli, Deputy Executive Secretary ECLAC

Presentations by UNCTAD and ECLAC (20 minutes each)

- a) Presentation by Mr. Mario Cimoli, Deputy Executive Secretary ECLAC on *“the digitalisation of MSMEs in Latin America during and post pandemic crisis and its consequences”*
- b) Presentation by Ms. Teresa Moreira, Head, UNCTAD’s Competition and Consumer Policies Branch on the *“role of competition policies dealing with the move towards digitalisation of MSMEs and how competition policy can be relevant post crisis”*

Open Dialogue with policy makers on competition and MSMEs policies on the main topics: impact of COVID19 on MSME sector in the region, influence of digitalisation on the sector, arising main challenges (data protection/privacy), relevance of competition policy in the post crisis economic recovery.

Closing Statements: UNCTAD & ECLAC

Closure

4. Follow up activity

A report of the open dialogue will be published after the event to present key messages in both English and Spanish versions.