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Report of the UNCTAD-ESCWA-ECA Regional Policy Dialogue: The role of Competition Policy in supporting MSMEs economic recovery in the post COVID19 crisis

8 April 2021

14 :00 CET/Cairo/15 :00 Beirut



Key takeaways from the Regional Webinar

Opening remarks

Mr. Juan Luis Crucelegui, Chief, Capacity Building and Advisory Services, Competition and Consumer Policies Branch, UNCTAD emphasized:

- The role of competition policy in addressing market access challenges that MSMEs are facing due to the COVID-19 pandemic as per the resolution 74/27 of the General Assembly set out to coordinate the UN-wide response to COVID-19 through a dedicated taskforce. UNCTAD is tasked to enquire on the role of competition law and policy through the “Global Initiative towards post-COVID-19 resurgence of the Micro, Small and Medium Enterprises (MSME) sector”.
- West Asia economies are heavily reliant on oil revenues, tourism, remittances and to further compound the insidious effects of the pandemic in the economy, several countries are conflict zones with high number of displaced persons lacking social and health assistance. The United Nations reports that the region’s economy is expected to contract by 5.7 percent, with the economies of some conflict countries projected to shrink by as much as 13 percent, amounting to an overall loss of US\$ 152 billion. The pandemic implications translated in shrinking trade volumes, disruptions to supply chains, and shrinking in tourism and remittances value.



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- The potential that SMEs have to affect and lift both the youth and women in the Arab region. Given the stable high unemployment by the youth across the region (20 percent) and their significant demographic presence (1/3rd of the population), creating an enabling business environment for SMEs development can foster entrepreneurship. On the other hand, the region experiences one of the lowest shares of women-owned SMEs, 14 percent, compared to the world average of 34 percent. Even before the pandemic hit, during the 2000–2017, annual private investment in the Arab region averaged 15.1 percent of GDP.
- The role of the dialogue on the impact of COVID19 on MSMEs to better shape recovery strategies post crisis; get an understanding of the state of play of competition in light of market concentrations resulting from the crisis and the increase reliance on digital means to survive; and discuss the relevance of competition policies to contribute effectively to post crisis recovery of the sector. Dissemination of the UNCTAD reports on how COVID-19 Affects MSME access to markets and competition “Analysis of the impact of COVID-19 on micro, small and medium-sized enterprises (MSMEs) in South Africa”

Mr. Mounir Tabet, Deputy Executive Secretary, UNESCWA pointed to:

- The United Nations being global platform for building consensus for the common good to better serve member states towards achieving the 2030 Agenda and the Sustainable Development Goals by providing the necessary support to the private sector, especially small and medium enterprises.
- COVID-19 implications trickling down to supply chains and patterns of trade, travel and consumption, leading to changes in the operations and way of operating small and medium-sized companies. The pandemic accelerated the transition towards digitalization in the Arab region. However, the digitization process is not without risk; less resourced SMEs are limited in their adoption of new digital pathways and increases their vulnerability to the current crisis.
- The crisis increasing existing obstacles, especially those facing the most vulnerable; female start-ups face major challenges for their survival and creation compared to other enterprises and SMEs. Female-owned start-ups receive less funding than male-owned firms and are less likely to have a positive exit from the market. The expected economic downturn may also increase the cost of female start-ups, especially in low-income countries.



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- Effective implementation of competition law is essential to expand entrepreneurship, enhance economic efficiency, and enhance growth and development. Anti-competitive practices and market dominance are responsible for significant damage in many Arab economies. The barriers to market access for Arab SMEs are due to various aspects of the market structure amongst others, informal firms and state-owned companies compete against small firms and hinder their survival. Reforms are in order to reduce the informal character of markets and state authority, and to improve the general business environment in order to encourage small companies and increase their formal and effective entry into Arab markets.
- ESCWA's investment in SMEs related to competition in Arab countries; "Digital Small and Medium Enterprises Empowerment Portal" highlights the urgent need to take advantage of innovation in small and medium-sized companies to create job opportunities for the youth, who make up a wealth of energy and education in the Arab region. The second joint competition forum for the Arab region emphasised the commitment to develop a regional platform that facilitates coordination, cooperation and implementation of competition-related initiatives at the national and regional levels.

Dr. Mahmoud Momtaz, Chairman, Egyptian Competition Authority focused on:

- SMEs great importance in the economic development and growth for both developed and development countries, as: create job opportunities for both high skilled and low skilled labour; contribute in to the increase in productivity and income; can contribute to the creation of new technologies and new innovations, especially in dynamic markets. Indeed, it was estimated that they represent around 46% of the world's GDP and provide around 50 to 60% of the world's job opportunities.
- For Egypt specifically, SMEs play an important role in the Egyptian economy; 43% of the GDP, 70% of the market players in different markets, around 98% of all industrial facilities in Egypt and employ 47% of the work force. Therefore, they are stated explicitly in Article 28 of the Egyptian constitution as one of the priority economic aspects for the Egyptian State.
- With the globalization and the concentration of markets worldwide; SMEs can be prone to anticompetitive and unfair practices from big companies, especially in light of the difficulties that they face in accessing information about their rights (competition



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culture). In addition, in some sectors, SMEs can find it hard to compete and to exploit the digitization wave.

- With all these challenges before SMEs and their importance to the Egyptian economy, competition law and policy is one of the key aspects to alleviate such challenges, as its main objective is to insure economic freedom and competitive neutrality; guarantee market openness and investment; remove barriers to entry and expansion and; promote economic development and growth.

Presentations

Ms. Elizabeth Gachuiri, Economic Affairs Officer, UNCTAD presented:

- The Recommendations of the UNCTAD Global Report “How COVID-19 Affects MSME Access to Markets and Competition: A Review of Key Issues and Recommendations or Future Action” which provided a snapshot of the current competition and market access challenges being faced by MSMEs around the world as they seek to deal with the impact of COVID-19 on their operations. The focus of the research are competition-related challenges caused by the pandemic, ability to access existing and new markets, regulator responses to the situation that especially affect MSMEs, and related observable trends in the small firm sector.
- Observed trends during this crisis encompassed: support for incumbent firms; approval of coordinated Economic Activity; lockdowns continue to constrain market access ; MSMEs are going online ; competition authorities and policymakers working with MSMEs agencies & associations; the importance of informal sector MSMEs.
- Recommendations addressed to competition authorities and MSMEs agencies gravitated towards: consider whether competition policy objectives and laws should allow for broader economic objectives; gradually lifting COVID19 exceptions to competition law enforcement; providing minimum thresholds/safe harbour guidelines/exemptions; allow MSMEs to engage in collective bargaining; Issue clear MSME guidance notes from competition authorities; re-assessing financial support schemes to MSMEs; increased engagement with informal sector MSMEs; understanding digital market structures that impact MSMEs; facilitating regional



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dialogues and capacity building forums between MSME associations and policy/regulatory agencies; MSME training for competition and MSME officials

Mr.Niranjan Sarangi, Senior Economic Affairs Officer, ESCWA noted:

- A negative growth rate of around 5.5 per cent between 2019 and 2020, which means regional loss nearly \$150 billion real output from 2019 level. Major foreign currency earning sectors such as mining, chemical industries and tourism sectors are worst hit, comprising 71 per cent of the total drop in exports. SMEs account for a sizeable share of formal employment in several economies in the region, including Iraq, Lebanon, Sudan, State of Palestine, and Yemen, where over 50 percent of private sector employment is in SMEs. In the Arab region, government fiscal stimulus taken together is about \$90 billion (about 4% of GDP), while the global fiscal stimulus is about 18 trillion (22% of global GDP).
- ESCWA's call for policy interventions toward building forward better support people, SMEs and impacted businesses, increase social protection to the poor and vulnerable. It can take the form of fiscal policies to promote economic transformation and decent work; strategizing public investment to promote growth and enhance social spending; address structural weaknesses; improve absorption capacity; expand and sustain fiscal space by raising and diversifying revenues; improve overall public finance management.
- Debt restructuring and debt swap must be considered on case-by-case basis. Global commitment to the delivery of official development assistance (ODA) is important to avert possible shortfalls in health spending in the Arab region. Solidarity from the wealthiest countries can contribute to creating a strong "regional social solidarity fund."

Interagency cooperation: The case of Egypt

Dr. Mahmoud Momtaz, Chairman, Egyptian Competition Authority expressed:

- Small, medium and micro enterprises are a major pillar of the Egyptian economy; 98% of the total private sector projects in Egypt, 43% of the Egyptian GDP and represent more than 70% of the structure of the Egyptian economy.



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- The Agency's role in protecting small, medium and micro enterprises consists in encouraging compliance with the law and thus competition on merits; opening the door to submit reports in case they are affected by monopolistic practices; limiting licenses decisions / laws that would limit entry or expand in the market; raising awareness of the law through annual publications, workshops, training, and publishing news on the official website and social networking sites.
- Complementary in the mission of the competition authority and the SMEs development agency materialized in a Memorandum of Understanding signed between the agencies.

Mr. Mohamed Abd Elmalek, Head of Central Sector of Regional Offices MSMEs Development Agency, Egypt

- SMEs the weakest link in the economy perhaps due to the limited capacity to compete in the market. The pandemic has exacerbated further SMEs vulnerability; inability to compete in the market, people fear to work. The government has recognised the need to accelerate the legislative process; the strongest legislation adopted in Egypt in the last 10 years-comprehensive and addresses all the issues SMEs face.
- The law protects the enhances legal certainty on the various small business present in the country by identifying the framework of these activities, simplified mechanism to allow market access. The law sets up a 5 (five) year timeline for existing informal SMEs to enter the formal economy, facilitated by the government, with ease and expeditiously. As concerns market access, the law sanctions that pay specific percentage of public procurement is allotted to SMEs; increase the competition capacities through financial incentives permitting SMEs to innovate and produce quality products aligned with the requirements of local and international markets.
- MoU with the Egyptian Competition Authority instrumental to increase SMEs' awareness on competition policy; raising the capacities of SMEs and improve their quality

Member States discussion: Sharing Peer Experience

Q1: Has the competition agency continued enforcement activities during the COVID19 pandemic? How has the COVID-19 impacted SMEs in your country and can competition policy assist them?



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Ms. Jihane Benyoussef, Vice President, Competition Council, Morocco stated:

- The competition council continued its enforcement activities during the pandemic. The most imminent challenge was related to not solely prevent the spread but to protect the continuity of the economic activity under lockdown measures. The Kingdom had even prior to the pandemic constantly updated the legislative framework and this allowed to face the exceptional circumstance and accelerated the pace of digitalization.
- The legislative framework propped through regulation related to masks/PPE with the aim of fighting price gouging; establishment of an authority in charge for the pandemic; measures to follow the spread amongst the public servants and employees; track the virus and the remote working protocol; detailed newsletters circulated. Stakeholders required to use electronic documents; hearings organized through remote conferences.
- March 2021 the Council organized the International Workshop on National Competition Barometer Project, to identify recent developments in the elaboration of economic barometers in the world, and to examine the methodology, instruments and mechanisms necessary for the construction of benchmarks for measuring competition.

Mr. Ridha Ben Mahmoud, President, Competition Council, Tunisia commented that:

- Tunisia adopted special measures; 8 percent recession not recorded in 60 years. The pandemic had direct impact on supply chains, contracting demand, crash of supply, slowdown of trade and services activities.
- SMEs constitute 99 percent of the economy. The competition council has consultative role in the sector and worked alongside the government to devise measures to protect the SMEs and help overcome the repercussions of the pandemic. Amongst the catalogued interventions: postpone paying loans for 3 months; delay social security contribution; postpone tax; direct cash allocation of export enterprises.
- The Council continued in small scale, suspend the activities before the council, safeguard the right to be heard by parties, activate monitoring for the practices in designated sectors. Food supply, surgical masks, private banks monitored to limit any violation and monopolising practices/illegitimate gains prevalent during crises.

Mr. Mohammad Abu Sair, Investment Promotion Agency, Palestine maintained that:



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- The Palestinian government worked in an early proactive stage to confront the Coronavirus pandemic through circulars and instructions regarding caution in addition to stimulating social distancing, conducting random checks and tracking the global viral map. SMEs amount to 90 percent of the market in Palestine. There exist 29 institutions that support SMEs in Palestine.
- During the COVID-19 crisis, the government introduced measures related to financing, tax, facilitating communication which mitigated the adverse impacts especially in the service sector. Tourism badly hit through cancellations. Concretely, easing the loans on individuals, funding programme up to 63 months for SMEs, exemption on income tax and Value Added Tax (VAT). SMEs also volunteered in the health sector and were exempted from delay fines. Further prioritizing entrepreneurship, the Ministry of Economy exempted from registration fees any employer establishing a new company and licensees to operate business were extended.

Ms. Marwa Al Alawi, Legal researcher, Competition Protection and Monopoly Prevention Centre, Ministry of Trade, Industry and Investment Promotion underlined that:

- Government and private agencies should contribute to creating an encouraging business environment that stimulates competition and fair trade, in a way that creates markets that operate efficiently and effectively and benefit the national economy and the consumer. Cooperation and coordination with government agencies and bodies concerned with the business environment, especially in the priority sectors, with the aim of ensuring that these policies are in line with the Law on Protection of Competition and Prevention of Monopoly.
- Enabling digital awareness and applying new services quickly and flexibly, to support and raise awareness for economic institutions in order to ensure a free economic market based on the principle of market rules and free prices. Setting general rules to ensure freedom of competition in the field of electronic commerce. Preparing studies and research for the sectors according to the national priorities and the comprehensive development plans to detect the presence of any harmful practices in competition and to submit proposals to encourage effective competition in those sectors.



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Q2: What's the extent digitalization has been employed in the context of COVID-19 and the role of competition policy in keeping markets open?

Dr. Mohammad Aldaghir, Head of Economic Affairs, General Authority for Competition, Saudi Arabia stated that:

- Entrepreneurship projects have the potential to create more job opportunities, reduce the gender gap and provide a greater opportunity for innovation assisting countries to achieving sustainable development. Information and communication technology plays a major role in modern production processes and the emergence of multiple ways of trade that differ from traditional trade and are characterized by saving effort, time and easy access to local markets.
- “E-commerce” the fastest growing among the sectors, and its role has clearly emerged in light of the pandemic, and it has become an aid to the business sector to mitigate the effects. The government has facilitated licensing procedures and supported the retail sector through cash transfers, exemptions; deferral of payment. During the pandemic, the retail sector migrated to their own applications for house shopping, home delivery for pharma; witnessed huge reliance in electronic services in entertainment and streaming. The volume of e-commerce doubled and SMEs able to recoup some losses in sales through migrating online. Recommendations to enhance the digitalization focus on digital readiness through raising awareness for SMEs; adopt the state-of-the art in digital programs; introduce data protection regulation; and correct the shortage of digital skill and capacities.

Tahseen Mahmood Muthana, Head of Research, Director of Macroeconomics Division, Ministry of Planning, Iraq indicated that:

- The spread of the virus in Iraq has caused negative effects on the Iraqi economy in general and on small and medium enterprises in particular, as the initial survey of small and medium enterprises, which was conducted in April 2020, showed a decline in production at an average rate of 52%. The construction and manufacturing sector and 61% in the food industry sector. Sales decreased by 45% for the period from April to September of the year 2020 compared to the same period of the previous year, and by 27% for the period from October 2020 to January 2021. 15% of small and medium



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enterprises laid off workers between April and September 2020, with this percentage dropping to 11% for the period between October 2020 and December 2021.

- The measures to limit the effects of the pandemic included two axes: self-solutions for enterprises through establishments were able to limit the decrease in their sales by adopting the online selling platform in order to continue their commercial activities during times of social distancing and complete closures. Some companies pivoted to other sectors. Others, revised their business practices with the aim of squeezing costs and improving efficiencies as well as adjusting employee salaries by reducing working hours or wages or granting paid or unpaid leave to workers.
- The second axes focused on workers in the parallel sector, as well as delaying the repayment of the government housing fund loans and the Central Bank of Iraq loans to small and medium enterprises for three months, and such initiatives remain inconsistent with the requirements of vulnerable groups and meeting their needs in the long run.

Closing remarks

During the closing remarks UNCTAD, ECA and ESCWA ranking officials recognized the dire consequences imposed on SMEs by the pandemic. Digitalization and ITC infrastructure were identified as salient features in the post COVID-19 era for the survival of the SMEs. Public policies have a central role in bringing the informal SMEs in the formal economy and interagency cooperation and regulatory intervention should deliver market outcomes that do not leave anyone behind.

Ms. Nathalie Khaled, Economic Affairs Officer, ESCWA thanked the participants and speakers on the constructive and instructive dialogue.

Dr. Mahmoud Momtaz, Chairman, Egyptian Competition put forth the proposal to reconvene and explore mechanisms for cooperation between the Arab states, particularly in the context of interagency cooperation in the field of competition and SMEs development.

Ms. Elizabeth Gachuri, International Trade and Commodities Division, UNCTAD extended the gratitude to our co-hosting partners, ESCWA and ECA, and invited the audience to build on this first event to address the challenges identified through activities of Phase III of the project.