EXECUTIVE SUMMARY
of Report on

COVID-19 IMPACT
on Businesses (MSME) in Jamaica - an IDB Study

DAVID TENNANT, PhD

For the Inter-American Development Bank

July 24, 2020

EXECUTIVE SUMMARY

This study examines the impact of containment measures to combat the spread of the COVID-19 pandemic on Jamaican businesses, with a focus on MSMEs. A contextual analysis was conducted to establish the global and local context just before and throughout the first stages of the pandemic. An assessment of the impact of the pandemic on Jamaican businesses was primarily based on a survey of 390 non-financial businesses. The sample selected had representation across all sectors, parishes and business size. The main survey results were supplemented by responses from a small sample of financial firms, as well as elite interviews with key private and public sector stakeholders. A scenario analysis was conducted to assess the likely outcome of prolonged containment measures on Jamaican businesses. The business support policies of the GOJ were also assessed. Policy recommendations conclude the report.

Contextual Analysis

Prior to the outbreak of the COVID-19 pandemic, the global economic outlook was uncertain. As at October 2019, the IMF had predicted for 2019 the lowest global economic growth rate since the 2008 financial crisis. This was the result of tense trade and geopolitical relations among major economies, and the consequent toll on business confidence, investment decisions and global trade.

Projections for the Jamaican economy were positive, with increasing macroeconomic stability, falling unemployment and public debt, improved levels of foreign exchange reserves, and stable inflation. The IMF, however, projected a decline in economic growth to 0.8 percent for the fiscal year 2019/20 due to persistent drought conditions and the planned closure of a mining company. Institutional weaknesses such as crime, low financial inclusion, poor infrastructure, weak governance, and vulnerability to natural disasters have resulted in persistently low levels of economic growth.

None of these projections, however, considered the outbreak of a global pandemic and the measures adopted by many countries aimed at containing its spread. The closure of borders and businesses and self-quarantine and physical distancing orders have caused global supply chain disruptions, and falling aggregate demand for goods and services. Global economic uncertainties have prompted firms to cut back on investments. It is projected that the global economic downturn in 2020 will be the worst outside of wartimes and the Great Depression.

Jamaica reported its first case of COVID-19 in March 2020, and since then has adopted numerous measures to contain the spread of the virus. Although community spread has been limited, the containment measures have resulted in significant economic decline. The hotel industry has been directly impacted by the closure of international borders. Related services such as restaurants, travel agencies, tour and attractions services have also suffered from the decline in external demand. Nighty curfews and restrictions on public gatherings have adversely affected the entertainment industry. MSMEs, in particular, face significant challenges under normal conditions. These challenges are now magnified under the pressure of the global pandemic, and their ability to pivot is hindered by capacity constraints and access to finances.

In response to the economic contraction, the government of Jamaica suspended its fiscal rules and launched a stimulus package valued at approximately J$40 billion in both tax benefits and a spending stimulus. The government has also been implementing a phased reopening of the economy. Although a significant contraction to the Jamaican economy is projected for fiscal

year 2020/21, a recovery is forecasted for the fiscal year 2021/22. The economy, however, is unlikely to return to pre-COVID-19 levels until fiscal year 2022/23, assuming that the virus is successfully contained and a globally accessible vaccine is developed.

Impact Assessment

Jamaican Businesses' Response to COVID-19 during the Containment Phase

The most prevalent concern for the businesses surveyed is inadequate liquidity, as identified by 80.2% of respondents. Small Jamaican businesses typically only have about one to two months of cash reserves. Such liquid reserves serve as critical buffers when businesses face significant reductions in revenue, as was likely for the 66.1% of respondents who expressed serious concern about complete loss of or decrease in their local market and the 45.5% of firms who were similarly very concerned about the reduction in or loss of access to international markets. Liquidity concerns are exacerbated by the difficulties that Jamaican firms have with accessing external sources of finance, which was identified as a serious concern by 64.7% of the respondents.

Despite the significant concerns expressed, considerable resilience to the pandemic was being shown by the majority of respondent firms through May 2020. Only 1.5% of the firms responded to the pandemic by permanently ceasing operations and closing their business. The pandemic, however, precipitated some degree of retrenchment by a number of firms, including: temporarily laying off workers or sending them on no-pay leave (22.1% of respondents); closing physical offices or location of operations (16.7%); halting production of some services (15.1%); deferral or cessation of planned investment (12.1%); and permanently making some staff redundant (4.6%). Some businesses sought to forestall or preclude laying-off staff or making them redundant by negotiating reduced salaries. Of the respondents that took this course of action, most reduced salaries by more than 25%.

A number of firms also sought to pivot so as to adjust to the new realities presented by the pandemic. This involved seeking new clients or markets (22.8%), developing new products or services (17.7%) and sourcing substitutes for raw materials or supplies (8.5%). In this effort, a number of businesses saw the need to seek financial assistance (15.4%) and to develop and implement business continuity plans (11.3%). As examples, some firms were noted to have taken advantage of new export opportunities, and reports were also made of promising export opportunities in non-traditional markets in the Caribbean for goods such as foods, chemicals and sanitization material. These types of opportunities were, however, noted to have been particularly opening up in manufacturing and agriculture, and were predominantly being exploited by larger firms.

Impact of COVID-19 on Jamaican Businesses during the Containment Phase

Revenue

The majority of firms surveyed (77.3%) focused on the domestic market for the sale of the bulk of their goods and services. Just under a half of the respondents earn between 61% and 100% of their revenues from customers classified as 'other', which predominantly includes individual customers. Just over a fifth of the respondents earned the bulk of their revenues from transactions with small firms. Most of the businesses surveyed are therefore highly reliant on domestic sales to individuals and to a lesser extent small firms. This highlights an important area of vulnerability for Jamaican businesses, which stand to lose significant proportions of their revenue if there is a marked decline in local consumption by individuals and households.

Maintaining the purchasing power of individuals in the domestic market is therefore critical to the sustainability of the majority of firms surveyed.

The only exception to this result was exhibited in the agricultural sector, where 20.6% of the respondents earned a substantial proportion of their revenue (61-100%) from large firms, 18.8% from medium-sized firms and 27.3% from small firms. Jamaican agricultural firms are therefore shown to be highly integrated in domestic value chains. These firms are thus highly vulnerable to a contraction in the tourism industry and the domestic restaurant industry.

The impact of the pandemic during the containment phase, on Jamaican firms' monthly sales, has been generally devastating, with an average decline in sales of 39.01%. The largest proportion of firms (40.5%) experienced a decline in sales of between 21% and 60%, and a further 23.4% of respondents experienced a massive decline in sales of between 61% and 100%. Significantly larger proportions of micro and small firms relative to medium-sized and large firms experienced substantial reductions in sales of between 61% and 100%. Approximately 30% of respondents in the hospitality, creative and related service sectors experienced massive reductions in sales of 61% to 100%, with a further 46.3% reporting significant reductions of between 21% and 60%.

Utilization of Labour

Over half (52.2%) of the respondents laid-off workers up to the end of May 2020. On average, firms laid-off just over a quarter of their workforce (27.6%). Almost a fifth (18.3%) of the firms indicated that between 81% and 100% of their workers were laid-off, and a further 12.4% laid-off between 41% and 80% of their workers.

The relative vulnerability of micro and small firms is again highlighted, with over a fifth of the respondents in these categories indicating lay-offs of between 81% and 100% of their workforce, compared to 11% of medium-sized firms and no large firms reporting similarly large lay-off exercises. Approximately one-fifth of small and medium-sized firms reported laying-off between 41% and 80% of their workers, while only 6.2% of large firms reported lay-offs of a similar magnitude. The heightened vulnerability of the hospitality, creative and related service sectors is also confirmed, with almost 30% of the respondents reporting lay-offs of 81% to 100% of their workforce. None of the other sectors had such a prevalent rate of large-scale lay-offs.

Although more than half of the firms in our sample laid-off workers, just over a third (37.6%) had engaged in redundancy exercises up to end-May 2020, with 14% of the respondents making between 1% and 20% of their workers redundant and 10.1% making between 81% and 100% of their workers redundant.

These results provide evidence of the significant impact that the COVID-19 pandemic has had not only on businesses, but also on the Jamaican labour force. With so many Jamaicans surviving with a drastically cut income or without an income for a prolonged period of time, a significant reduction in domestic consumption is highly likely. Due to the heavy reliance of many Jamaican firms on domestic consumption, the potential for an adverse multiplier effect is amplified. Measures to slow or break this cycle are critical. This could involve incentivising firms not to lay-off workers, or by supporting the continued purchasing power of people who lose an income stream.

Access to Finance

Access to finance in Jamaica has improved with stable macroeconomic policy precluding crowding-out by the government and encouraging lowered interest rates. Institutional changes have also sought to address some of the barriers to financing faced by firms. Notably included here are the DBJ's Credit Enhancement Facility and the operation of credit bureaus. Both the survey and secondary data, however, indicate that the problem of limited access to finance remains intransigent. The COVID-19 pandemic has only exacerbated this situation.

The survey results indicate that several of the traditional sources of finance are not utilized by significant proportions of the respondents. Conversely, over half of the firms surveyed rely on personal savings to meet between 61% and 100% of their business' finance needs. There is a clear delineation by firm size, with personal savings being used to meet between 61% and 100% of business finance needs by 64.8% of microenterprises, 39.2% of small firms, 25% of medium-sized enterprises, and 16.7% of large companies.

A significant number of the firms that relied on loans for funding sought loans from commercial banks, despite the fact that commercial banks tend to be more risk averse towards MSMEs. The results also indicated that most MSMEs do not utilize non-credit sources of financing, such as equity financing. Micro and small businesses tend to rely more heavily on relatively expensive forms of credit such as credit cards and overdraft facilities, as opposed to more affordable medium/long-term loans. By contrast, none of the large or medium sized firms surveyed relied as heavily on the more costly options.

The Bank of Jamaica has noted that the banking sector's ability to lend to businesses has been bolstered by the accommodative monetary policy stance that it has taken since the start of the pandemic. This has included reducing the JMD cash reserve requirement of deposit-taking institutions and implementing a bond buying programme for GOJ and BOJ securities. Notwithstanding this, the BOJ notes that deposit taking institutions would, in the uncertain economic climate, tend to be more cautious in their lending, particularly to the more vulnerable sectors, and would seek to maintain a more liquid posture.

The BOJ has indicated a marginal growth in loans demanded by businesses in the March quarter and a continued increase in such demand for the May 2020 period. This demand is driven by firms' need for capital investment to upgrade their plants both to meet the physical distancing requirements and to exploit new opportunities. The increased demand for credit is, however, not widespread, with only 13% of the firms surveyed indicated a need for a loan to adjust to the crisis. These firms primarily expressed a desire for small loans of less than J$5m, with about half wanting interest rates of less than 5% and the other half willing to pay interest rates of between 5% and 10%. These loans would typically be used for working capital financing and to meet other operational needs of the business.

When the businesses were pressed as to why they would not seek a loan from a private or public sector financier, only 15.6% of the respondents noted that they did not need a loan. Instead, the majority of the respondents identified factors that affect the cost of credit as barriers which precluded them from even exploring this source of financing.

Only about a fifth (19.7%) of the businesses surveyed had a loan with a financial institution or public financier at the onset of the pandemic. About a third (31.2%) of these firms indicated that they did not request any variations to the terms and conditions of their loan since the pandemic, and just less than a half (46.8%) noted that no such changes were made. The

variations that were identified as being made by most of the remaining firms include primarily moratoriums on loan payments, with three-month moratoriums being most popular.

When asked to identify the top three most needed variations to loan terms and conditions, reduced interest rates were most frequently identified, followed closely by waivers or reduction of penalties and fees, and moratoria on loan payments. The few respondents who quantified the desired changes typically hoped for a halving of the interest rates currently being charged and for 6-month moratoria.

The survey results indicate that more than half of the respondents acknowledged that as at end-May 2020 their ability to repay their loans had been impacted by the pandemic. While 35.6% of the firms noted that such an impact would be low, a not insignificant 22% of the firms indicated a high impact. Note, however, that the full impact of the pandemic on ability to repay debt would not yet be evident, as numerous businesses are still benefitting from the loan moratoria that were offered in response to the pandemic. Also noteworthy is the fact that MSMEs are not seen to be any more risky than large firms in this respect.

Despite the measures implemented by the central bank aimed at supporting Jamaican financial institutions by relaxing rules regarding the volume of liquidity that can be provided, numerous businesses surveyed suggested that access to credit had worsened with the pandemic. This is because banks are even more reluctant to lend, as they are fearful that businesses' ability to repay will be adversely impacted by the pandemic-induced loss of income streams. With their responsibility to depositors and shareholders, it is unlikely that the stance of the commercial banks will change, without significant additional support from the government through guarantee programmes such as the DBJ's Credit Enhancement Facility, and direct lending by development finance institutions such as the EXIM Bank. The binding constraint to any such efforts will, however, be how issues of accessibility are addressed.

Return to normalcy versus risk of insolvency

On average, the firms sampled noted that it would take them about 4 months to return to normalcy if the containment measures associated with the pandemic ended at end-May 2020. Over a third of the respondents (35.2%) noted that they would have returned to normalcy within one to three months if the crisis ended at end-May, and a fifth indicated an even quicker return to normalcy of less than a month. With 92% of the firms speculating a return to normalcy of less than a year if the COVID-19 pandemic had ended at the end of May 2020, it is not surprising that most also noted that they faced no or low risk of insolvency in the same circumstances (no risk – 37.9%, low risk – 30.8%). The vulnerability of MSMEs relative to large companies is clearly illustrated, with about two-thirds (62.6%) of large companies indicating no risk of insolvency as compared to approximately a third of MSMEs. The precarious position of firms in the tourism sector is highlighted, with, even in the best case scenario of containment measures ending by end-May 2020, almost a half (46.2%) of the firms from this sector indicating moderate to high risk of insolvency.

Scenario Analysis: Likely Impact on Jamaican Businesses if there is a Second Wave of COVID-19

While it is hoped that the current containment measures will limit the spread of the virus, some experts argue that the premature lifting of the measures may result in a spike in infection rates during the summer of 2020. To capture this, the survey included questions that seek to estimate the impact of the pandemic on revenue, labour utilization, time to recovery and risk of insolvency under two scenarios. Scenario 1 explores the case in which the pandemic and related

moderate measures last beyond July 2020, and Scenario 2 explores the case where significantly heightened containment measures are implemented beyond July 2020. The estimated outcome of these scenarios is compared to the baseline of what the firms projected if the measures ended as at end-May 2020.

The results indicate that irrespective of firm size or sector, the impact on revenue, labour utilization, time to recovery and risk of insolvency in Scenario 2 is only marginally worse than the projected impact in Scenario 1, and both are substantially worse than the impact in the Baseline Scenario. This indicates that any measures to reverse the re-opening of the economy will have significant adverse impacts on Jamaican businesses. Even if the government attempts to be moderate in the re-institution of containment measures, the impact on the economy will be substantial. This was confirmed in the elite interviews with representatives of private sector umbrella groups, as, in some instances, even a discussion of the possibility of such a policy reversal would not be entertained.

While firms on average estimated a decline in monthly sales of 39.01% in the baseline scenario, significant worsening was projected for Scenarios 1 and 2, with sales expected to fall by 60.37% and 66.17%, respectively, if moderate or more stringent containment measures are implemented beyond July 2020. Average projected lay-offs as a percent of the total workforce increased from 27.56% in the Baseline Scenario to 41.65% in Scenario 1 and 47.39% in Scenario 2. The average proportion of staff made redundant increased from 17.88% in the baseline to 30.57% and 37.62% in Scenarios 1 and 2, respectively. The time to return to normalcy in Scenarios 1 and 2 are more than double that of the baseline scenario, and whereas in the Baseline Scenario only 10.4% of the firms surveyed indicated that they faced a high risk of insolvency, this proportion climbed steeply to 44.9% in Scenario 1 and even more steeply to 61.6% in Scenario 2.

Assessment of the GOJ's Business Support Measures

The Jamaican government has implemented a number of measures in an effort to mitigate the impact of the COVID-19 pandemic, including the waiver of import taxes on critical medical and other supplies, a reduction in GCT from 16.5% to 15%, monetary grants for the most vulnerable small businesses and individuals, as well as central bank measures aimed at supporting Jamaican financial institutions and managing rapid currency depreciation. The entire fiscal policy response is valued at approximately J$40 billion.

The Jamaican businesses surveyed were asked to assess the accessibility and adequacy of critical elements of the GOJ's efforts to provide COVID-19 support to businesses and their employees. They were given the options of indicating whether the specific measures were perceived as being accessible and adequate, accessible but inadequate, or inaccessible. They could also have indicated that their business did not qualify for the particular support measure, that the measure does not apply to their business, or that they had never heard of or seen that specific measure.

For all of the measures reviewed, the results show that the large majority of business respondents either did not know about the measures, did not qualify for the programme under which the measures fell, or did not operate in a sector that was being targeted by the measures. The large proportion of businesses facing such issues, even in areas where there was specific targeting, suggests that an assessment of the conceptualization and design of the GOJ's business support programme may be in order.

Only a few respondents identified any of the government's business support measures as being both accessible and adequate, with the Small Business Grants having the largest proportion indicating this rating (6.4%). Even when broken down to assess the responses of firms in the specific sectors and sizes being targeted, none of the following GOJ support measures had significant proportions of respondents assessing them as being accessible and adequate: Small Business Grants; Tourism Grants; Assistance to Small Farmers; General Grants; GOJ discussions with commercial banks for the provision of temporary cash-flow support; and Special soft loan fund to assist individuals and businesses.

The majority of comments submitted by the respondents related to difficulties that they faced accessing the support measures. It is noteworthy that many of the issues that affected the ability of MSMEs to access the GOJ's business support measures, are very similar to the obstacles preventing access to finance from the traditional financial institutions. MSMEs have very little human resource capacity and financial buffer to allow them to cope with bureaucratic delays and onerous application procedures. This is exacerbated in a time of crisis. If the GOJ wishes to meaningfully support this sector through the COVID-19 pandemic, careful consideration has to be given to the nuts and bolts issues relating to efficiency and efficacy of processes and procedures.

Almost a fifth of all the respondents assessed the Small Business Grant as being inadequate. Some respondents suggested that the value of the grants took no consideration of the needs of all categories of small businesses, and the extent to which the COVID-19 pandemic impacted businesses. While some respondents acknowledged the fiscal challenge that the GOJ would face in providing larger grants, others lamented the fact that the funds provided would only be a 'drop in the bucket'.

The IDB (2020) has suggested that macroeconomic policies in Latin American and Caribbean countries should focus on: the reduction of potentially higher costs resulting from forced partial closedown of the economy; the provision of support for banks so that they can continue operations and contribute to economic recovery; the provision of financial assistance for firms so that they can keep workers on their payrolls and escape liquidation; and the compensation of households that have lost income due to the pandemic, with emphasis placed on vulnerable and poor families. The policy direction that the GOJ has taken is in line with these international best practices. The results from the survey analysis, however, indicate that the GOJ needs to take closer look at the manner in which these policies are being implemented. The adequacy of the measures has been strongly called into question, as has been accessibility of the measures, particularly for MSMEs.

Recommendations: What Further Interventions are needed to Boost Economic Activity during and in the wake of the COVID-19 Pandemic?

When businesses were asked to identify forms of support needed to adjust to the COVID-19 pandemic, financial support was emphasized, through appropriately structured and accessible loans with lower interest rates, longer terms and moratoria on repayment for at least six months. More easily accessed financing for new businesses was also mentioned, as was more easily accessed grant funding. Financial support for specific COVID-19 induced expenses was highlighted. The need for tax relief for businesses was also underscored by numerous respondents, as was the need for technical assistance in areas required to grow the business, move into e-commerce and diversify the customer base and the network of suppliers.

Based on the analyses conducted in this study, the recommendations for the GOJ and its international development partners include the following:

Countercyclical Measures

With most businesses being highly reliant on domestic sales to individuals, there is a significant degree of vulnerability to marked declines in local consumption. Such declines are highly likely, as more than half of the firms in our sample laid-off workers and just over a third had engaged in redundancy exercises up to end-May 2020. Countercyclical measures are therefore needed to slow or break the likely adverse multiplier effect. Some such measures for the GOJ's consideration include:

- A significant broadening of the BESTCASH programme to include firms in other sectors and to support employment in higher income brackets.
- A quick review of the access to, adequacy of and impact of the SETCASH programme, with a view to improving its implementation moving forward.
- An assessment and possible redesign of the Small business grants, Tourism grants, General grants and grants to Small farmers to address the issues of awareness, applicability, accessibility and adequacy that have significantly limited their effectiveness. Careful consideration needs to be given to the capacity constraints faced by MSMEs, which renders them unable to navigate lengthy, bureaucratic procedures, complete complicated forms and produce detailed financial statements. Thought also needs to be given to whether the eligibility criteria for accessing such programmes could be relaxed during times of extreme crisis.
- Temporary tax relief to particular types of business to foster their survival, e.g. moratoria on the payment of statutory deductions or other tax liabilities payable in the next two quarters.
- The feasibility of unemployment insurance in Jamaica should be carefully considered.

Improving Access to Finance

The fundamental barriers to accessing credit in Jamaica continue to be largely cost-related, including high interest rates, inability to afford a loan, tedious loan application processes, short repayment periods, and miscellaneous fees and charges. Stringent credit policies also preclude access to credit for dynamic and productive MSMEs. This is, however, unlikely to change if commercial bank credit continues to be the dominant source of financing, and if equity and venture capital financing do not gain more traction in Jamaica. Crisis response measures to address the urgent need for business financing may therefore have to be focused on putting public sector financiers in a position where they are better able to fill this gap, even temporarily. Two measures to this end could include:

- Consideration by international development partners that provide funding support to MSMEs (through agencies such as the DBJ), to relaxing the terms and conditions of the loans so as to facilitate enhanced accessibility and take-up.
- Developing a line of credit to be administered by the DBJ and EXIM Bank, which offers very concessionary rates to MSMEs. Funds for this line of credit could be provided by the GOJ with the support of their international development partners. Financial support from the private financial sector could also be sought for this venture, as part of their corporate social responsibility.

Minimizing the Likelihood of a Second Wave of COVID-19

The scenario analysis revealed that any measures to reverse the re-opening of the economy will have significant adverse impacts on Jamaican businesses. All necessary measures to minimize the likelihood of a spike in COVID-19 infection rates in Jamaica will have to be taken, while continuing with the efforts to re-open the economy. Some MSMEs will need support in making the necessary adjustments. Pandemic-induced expenses can be significant and include the need for physical adjustments to workspaces to allow for physical distancing, acquisition of technology to facilitate working from home, purchasing of PPEs for staff, and sanitization routines. The GOJ and its international development partners may wish to consider the development of a grant fund to give one-time assistance with such expenditures.

Long-Term Structural Change

As businesses sought to adjust to the pandemic, many pivoted so as to reach new markets, and even changed their business to meet new sources of demand. Suggested measures to capitalize on this momentum include:

- Approaching international development partners to work with key MSME stakeholders to develop a comprehensive programme of technical assistance that will allow MSMEs exposure to and training in a variety of skill sets critical to international competitiveness and profitability in the new COVID-19 global economy.
- Working with international development partners to design technical assistance programmes to strengthen business support organizations.
- Developing programmes of capacity building technical assistance for entities providing business development support (BDS) and business support services (BSS).
- Embarking on a comprehensive drive to encourage the formalization of businesses and financial inclusion.

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