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**MEXICO AND
COLOMBIA: FISCAL
POLICY APPLIED IN
SUPPORT OF MYPIMES
DURING THE 2020-2022
HEALTH EMERGENCY**

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Abstract: The governments of Colombia and Mexico carried out different actions of a fiscal nature, aimed at mitigating the effects of the economic crisis caused by the COVID 19 pandemic, in particular actions were carried out to protect the productive plant and employment. The concern of both governments was based on the characteristics of the productive structure that these two countries have: with 99% of micro, small and medium-sized companies (MiPymes) that employ around 70% of the labor force. Avoiding the collapse of the productive system in the face of the strike forced by the sanitary isolation measures ordered by the health authorities, was undoubtedly the top priority in the series of actions that the Colombian and Mexican authorities had to take. The fiscal measures put into practice covered a wide range of aspects, from support for payroll payments (Colombia) to word loans for small businesses (Mexico). Despite the losses and closure of businesses that numbered in the thousands during the first six months of the pandemic (March-August 2020), recent indicators mark a gradual return to economic normality and the recovery of economic units and jobs. work that had been lost. The foregoing is not conclusive about the success or otherwise of the fiscal strategy followed in favor of the protection of MiPymes since, as has been observed throughout the year 2022, the economic variables in the world remain in a situation of uncertainty that makes analysis and categorical statements difficult.

Keywords: MiPymes, credit, fiscal policy, Mexico, Colombia.

THE PRE-PANDEMIC CONTEXT IN LATIN AMERICA AND THE CARIBBEAN

The crisis caused by COVID 19 caught the countries of Latin America and the Caribbean

in the midst of a process of deteriorating economic conditions, characterized by:

- Slowdown in economic activity
- Average growth of 0.1%
- Slowdown in domestic demand
- Fall in GDP per capita, investment and exports
- Increased social demands to reduce inequality

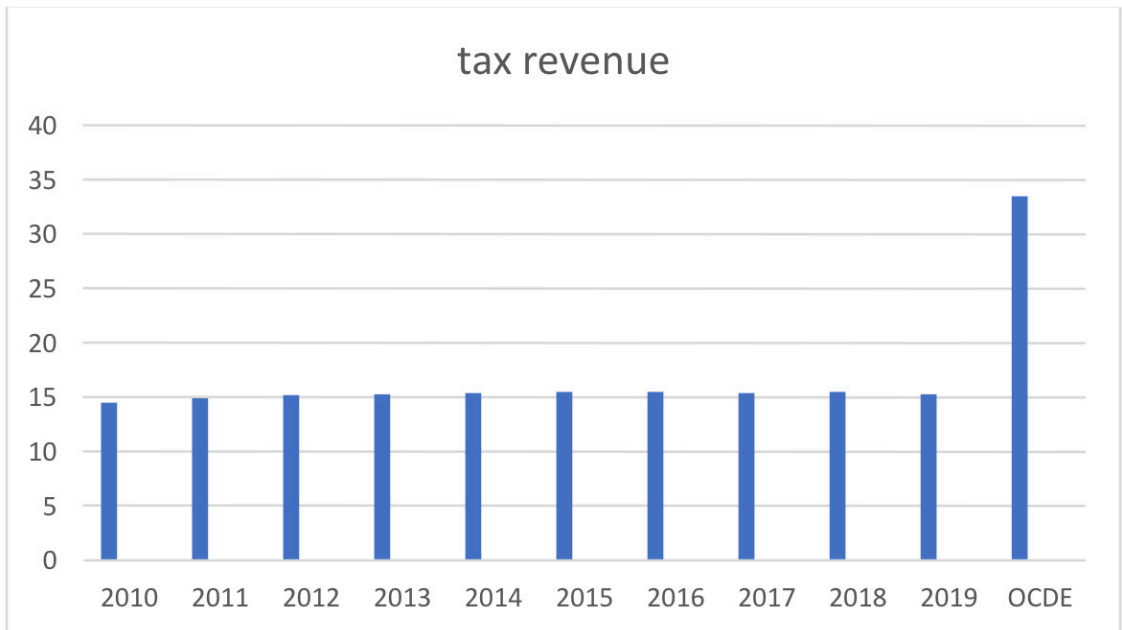
(ECLAC, 2019)

Among the various shortcomings in the economic structure of Latin America, the meager amount of public revenue as a percentage of GDP stands out, which, without going very deeply into the causes that cause it, clearly shows the reduced fiscal space available to the governments to face the needs of social development, and now aggravated by the problems caused by the COVID 19 pandemic that required enormous resources for the health sector, in the first instance, and for the attention of the economic crisis during the darkest period and now for the apparent period of recovery.

The following graph 1 shows the almost zero growth in collection during the last 10 years in Latin America.

This structural problem of weak public sector tax revenue as a percentage of Latin American GDP also afflicts Mexico and Colombia, being one of the main factors that explain the reduced capacity of the governments of these countries to have a budget that allow efficient care of the social problems that have accumulated since previous years, as well as fresh resources to encourage productive investment, leaving behind the inertial exercise of the public budget.

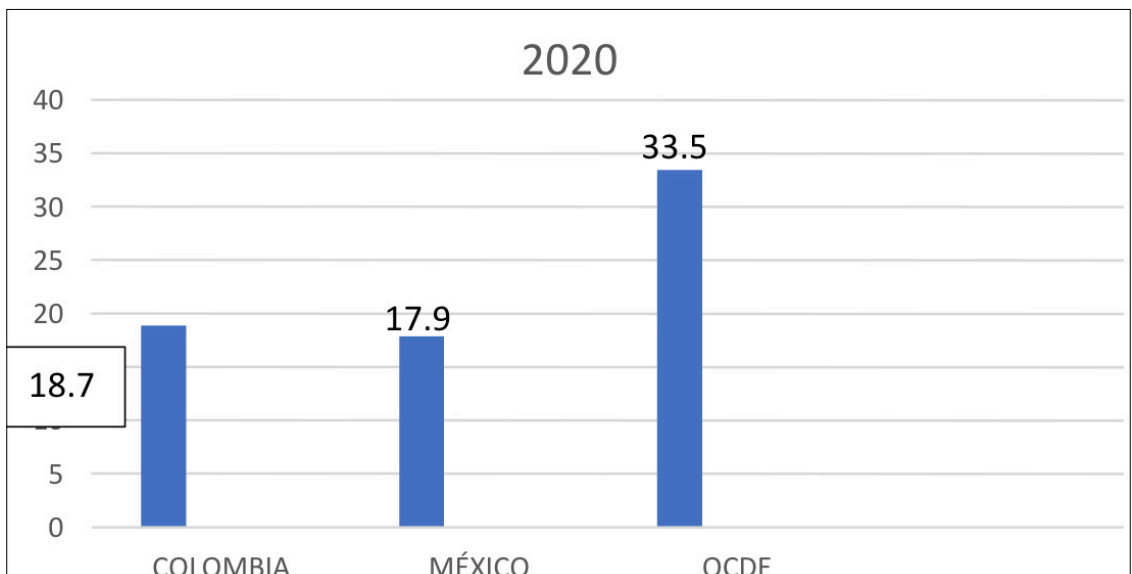
In graph 2 we will appreciate the relationship that the tax revenues of Colombia



GRAPH 1 Percentage of income of Latin American countries* in relation to GDP and comparison with OECD countries.

* Argentina, Brazil, Chile, Colombia, Costa Rica, Guatemala, El Salvador, Nicaragua, Honduras, Panama, Ecuador, Peru, Paraguay, Uruguay, Dominican Republic, Mexico.

Source: Own elaboration based on ECLAC (2019) *Preliminary balance of the Latin American economy and Tax Statistics (Revenue Statistics)* of the OECD (2021).



Graph 2: Tax revenues in Colombia and Mexico as a percentage of GDP.

Source: Own elaboration based on: OECD (2022) tax statistics for Latin America and the Caribbean. <https://www.oecd.org/tax/tax-policy/estadisticas-tributarias-america-latina-caribe-colombia.pdf>

and Mexico have in relation to the GDP and compare it with the same percentage observed in the OECD countries, of which, by the way, both countries are already part.

For its part, the economic situation in terms of economic growth showed different signs in Colombia than in Mexico. While in the first country, economic growth registered an increase of 2.8% in 2018 and 3.3% in 2019, in Mexico, on the contrary, the trend was downward, being 2.2% and -0.1% respectively. (ECLAC, 2020).

In the case of Mexico, despite the null economic growth, the economic and fiscal measures adopted by the government since its inception in December 2018, among which are:

- Austerity in the exercise of public spending
- No increase in tax and non-tax taxes
- No contracting of foreign debt
- Expansion of social spending, mainly aimed at the most vulnerable sectors through the following programs:
 - Older adults
 - working mothers
 - Young people building the future
 - disabled people
 - sowing life

These measures provided a relatively positive context to face the crisis a year later.

To the previous programs was added, in a relevant way, the inflow of remittances from the United States, which in that year of 2019 totaled 36,049 million dollars, almost 100 million dollars a day (CEMLA, 2020), which has undoubtedly lightened the burden of the Mexican government throughout this period of crisis.

PRESENCE OF MSMES IN THE ECONOMIES OF COLOMBIA AND MEXICO

Following the State Administrative Department of Statistics of Colombia (DANE, 2022) it is observed that, in terms of participation in the generation of GDP, taking into account that the national GDP amounts to approximately 1 thousand trillion 177 thousand million pesos, the contribution of microbusinesses is approximately 40% close to 470 billion pesos for the Colombian economy.

Likewise: “at the national level, the 5,780,623 micro-businesses, estimated in 2021, generated \$54.9 billion pesos in added value, DANE (2022, Page 6).

In the case of Mexico, the participation of MiPymes in the generation of GDP is 28% and they contribute 67.9% of formal employment.

Due to this situation that MiPymes present as great job capturers, fiscal policy would have to be clearly oriented towards favoring the development of these companies that, as we saw previously, lack an adequate management mechanism for their financing.

Let us now review the economic impact caused by the pandemic in Colombia and Mexico, particularly in MiPymes.

FISCAL MEASURES FOR THE PROTECTION OF MIPYMES IN COLOMBIA AND MEXICO FROM THE ECONOMIC EFFECTS OF THE PANDEMIC

In the case of Colombia and Mexico, the governments implemented the following fiscal actions (Table 3).

The measures taken alleviated the drop in income in 2020; In the case of Colombia, in addition, the profits drawn by the Banco de la República were equivalent to 0.5 of GDP, while in Mexico the collection increased 1.3%

Size	Economic Units	Busy Staff
0 -10	94.9	37.2
11-50	4.0	14.8
51-250	0.9	15.9
251 And Over	0.2	32.1

Table 1 Economic units and total employed personnel according to size (2018).

Source: Own elaboration based on INEGI (2020) Economic Censuses 2019.

Economic units:		Absolute employment:
4 800 157		27 132 927
Activity	Percentage	Percentage
Services	39.6	40.0
Trade	46.8	27.6
Manufactures	12.1	23.9
Transportation, mail, storage	0.5	3.7
Construction	0.4	2.5
Fisheries and aquaculture	0.5	0.9
Electricity, water and gas	0.1	0.8
Mining	0.1	0.7

Table 2 Economic units by activity and employment generation.

Source: Own elaboration based on INEGI (2020) Economic Censuses 2019.

Country	Fiscal measures	Application period	Benefit or obligation
Colombia	Legislative Decree 678 of 2020	From May 20, 2020 as of May 31, 2021	Until October 31, 2020, taxpayers could pay only 80% of the balance of outstanding taxes, fees, contributions and fines owed to territorial entities, without being charged interest or fines. Between November 1 and December 31, 2020, they had to pay 90%, and between January 1 and May 31, 2021, 100%, in each case without interest or fines.
	Tax normalization of active or passive not declared.	Until the 25th of September 2020	Single tax with a rate of 15% applied to the tax base. In the case of repatriating the assets and investing them permanently in the country, the tax base could be reduced by 50% and the taxpayer could benefit from a reduced rate of 7.5%.
Mexico	Increased control	Permanent	Oversight was increased to prevent tax evasion and avoidance

Table 3: Fiscal actions by Colombia and Mexico to increase collection in the scenario of the crisis caused by the COVID 19 pandemic.

Source: Own elaboration based on ECLAC (2021).

of GDP and 0.8% in real terms, thanks to the inspection measures indicated.(ECLAC, 2021).

The crisis came at a bad time for Colombia and Mexico, although for different reasons. While Colombia registered an economic growth of 3.2% in 2019, Mexico, for its part, had a decline of 0.2%. For the following year, when the crisis began, Colombia registered a fall of 7% and Mexico of 8.2% (Expansion, Macro Data 2020).

Likewise, regarding the measures of a fiscal nature applied to protect the productive plant in Colombia and Mexico, Table 5 makes a comparison of such measures.

In addition to the above, actions were carried out to protect vulnerable groups in the face of job loss.

It is important to highlight the speed with which governments had to act in the face of the unknown dynamics of the pandemic. The measures that were taken did not have sufficient information support that could give a margin of certainty to what was put into practice, creating a short-term scenario where trial and error were the pragmatic tool used by the authorities (Rodríguez, 2020).

In general terms, the meaning of each of these thematic axes is the following: (ECLAC, 2021b)

- “Liquidity: *Maintain liquidity in the short term*: these measures include the postponement of payments for basic services, tax charges, employer contributions and credit obligations.
- Employment: *Protection of the labor market* : these measures contemplate the payment by the State of a part of the salaries and employer contributions, rules to limit layoffs, as well as more flexible contractual terms (reductions in working hours or suspension of contracts).
- Support for production: *Promote the production of goods and services*: these measures especially consider support for entrepreneurship and innovation in solutions to face the pandemic, as well as actions to promote the reactivation of productive activities (biosafety protocols, online sales platforms , among other). It also includes the simplification of procedures.
- Financing: *Facilitate access to credit* : these measures include the creation of new programs and the improvement of existing programs, with respect to the amounts of the credits, access requirements, extension of payment terms, etc. Both special lines of credit and guarantee funds are included” (Page 13).

There are some indicators that can give us a measurement parameter that helps us identify the effectiveness of anti-crisis policies, with the caveat that these are partial and cannot offer an overview of the entire phenomenon.

This is the case of the indicator that measures the number of disappeared companies against the number of new companies and how it has evolved in at least two periods of time.

In the case of Mexico, INEGI (2021) published the Business Demographic Survey. In the press release of that study it is stated:

“Of the 4.9 million establishments, the EDN 2020 estimated that 619,443 establishments were born while 1,010,857 closed their doors permanently. The EDN 2021 estimated that 1.2 million were born and 1.6 million closed, which means that between October 2020 and July 2021, the proportion of births increased and the proportion of deaths decreased compared to what was observed from May 2019 to September 2020” (p.1)

Measures	Colombia	Mexico
Ban on layoffs	Yes	Yes
Remote work	Yes	Yes
Changes in working hours, establishment of exceptional working hours and reductions salary	Yes	Not
Mechanisms for temporary suspension of work contracts	Yes	Not
Use of expired or early vacation	Yes	Not
Licenses for workers and workers who are in groups vulnerable to covid-19 or who are in charge of girls, boys or adolescents who attend virtual or in-person classes sick or elderly	Yes	Not
Job creation programs	Yes	Not
Special training programs	Yes	Not

Table 4: Some employment protection measures carried out by Colombia and Mexico.

Source: Own elaboration based on ECLAC (2021b) Labor dynamics and employment protection policies.

Applied measure	Colombia	Mexico
Business support programs, including micro and small and medium enterprises	Yes	Yes
Prohibition of service cuts or reductions in the rates	Not	Yes
Investment stimulus programs (private and public)	Not	Not
Credit rescheduling	Yes	Yes
Mechanisms to facilitate payment or return of taxes	Yes	Yes
Support for specific economic activities	Yes	Yes
Mechanisms to reduce or facilitate payment of the social contribution for employers and employers or workers and independent workers	Yes	Not
Payroll support	Yes	Not

Table 5: Comparison of the fiscal measures taken by the governments of Colombia and Mexico to protect the productive plant.

Source: Own elaboration based on ECLAC (2021b) Labor dynamics and employment protection policies.

Extent	Colombia	Mexico
Emergency income or special bonuses to support the most affected households because of the pandemic	Yes	Not
Strengthening assistance programs to facilitate the payment of expenses food or housing	Yes	Yes
Use of resources from funds pension or unemployment	Yes	Yes
Support to groups of workers and workers informal and independent	Yes	Yes
Bonuses and transfers to make up for the loss of jobs	Yes	Not

Table 6: Complementary measures for the protection of vulnerable groups taken by the governments of Colombia and Mexico in the face of the impact of the COVID 19 crisis.

Source: Own elaboration based on ECLAC (2021b) Labor dynamics and employment protection policies.

Extent	Colombia	Mexico
Financing	15	4
Liquidity	5	3
Employment	5	2
production support	4	1
Total	29	10

Table 7: Number and type of fiscal measures carried out by Colombia and Mexico in favor of MiPymes in the face of the economic crisis caused by COVID 19.

Source: Own elaboration based on ECLAC (2021c) Analysis of support policies for SMEs to face the COVID 19 pandemic.

Extent	Colombia	Mexico
Financing	<ul style="list-style-type: none"> -Special Finagro Credit Line – Colombia Agro Produce: -Increase in coverage of guarantees from the National Guarantee Fund (FNG). -FNG Special Guarantee Program – United for Colombia. -Bancóldex lines of credit: Colombia Responds, Colombia Responds for All, Reactivate, Competitive MiPymes, Economy for the people. -Guarantee lines for MiPymes: payroll, working capital, independent workers. -Lines of credit: Sectors most affected, Large company. - Line of credit from the FINDETER Territorial Development Bank – Colombian Commitment 	<ul style="list-style-type: none"> - Word Credit Program (Financial Support Program for Family Microenterprises. - Credit to the word: aimed at non-agricultural family micro-businesses. -Solidarity support for the word: aimed at companies that retained the average number of their workforce. -Program of microcredits for the well-being known as Programa de Tandas del Bienestar (PTB): aimed at small family businesses (microentrepreneurs, merchants and artisans) -Support Credit 10 thousand from the Institute of the National Fund for the Consumption of Workers (FONACOT): Aimed at workers who have been working for at least 1 year with an indefinite or permanent contract.
Production support	<ul style="list-style-type: none"> -Certification processes in biosafety protocols - biosafety seal. -Compra Lo Nuestro Strategy: strategy led by Colombia Productiva, which provides trade tools electronic and digital transformation for MSMEs . -Support to the tourism sector: <ul style="list-style-type: none"> - Biosafety seal - Tourism export route 	<ul style="list-style-type: none"> - MSMEs MX: platform of the Ministry of Economy for MSMEs -Solidarity Market: platform of the Ministry of Economy that generates a socialization space for exchange of commercial information for MSMEs affected by the pandemic. -E-business roundtables: aimed at small and medium-sized exporting companies. -Registration for online self-assessment of company health safety protocols.
Liquidity	<ul style="list-style-type: none"> -Accompaniment Program for Debtors -Exemption from sales tax (VAT) for certain products -Exemption from sales tax (VAT) for hotel and tourist services; restaurants, cafeterias, pastry shops and bars -Modification of the calendar for the payment of the second installment of income tax. -Legal provisions to agree payment terms in the lease of real estate for residential use or commercial. 	<ul style="list-style-type: none"> -low consumption rates for users of domestic electricity service -Deferral of total or partial principal or interest payments for up to 4 months, with the possibility of extension for 2 additional months.
Employment	<ul style="list-style-type: none"> -Formal Employment Support Program (PAEF) -Service Premium Payment Support Program (PAP) - Temporary suspension of pension contributions to improve the cash flow of companies. - Subsistence resources for tourist guides registered in the National Tourism Registry 	<ul style="list-style-type: none"> -Digital Attorney, virtual tool for the protection of labor rights.

Table 8: Tax measures carried out by Colombia and Mexico in favor of MiPymes in the context of the crisis caused by COVID 19.

Source: Own elaboration based on ECLAC (2021c) Analysis of support policies for SMEs to face the COVID 19 pandemic.

In the case of Colombia, DANE (2022a) states:

“In the fourth quarter of 2021, the Microbusiness Survey estimated a 4.5% reduction in the number of these economic units compared to the same period in 2019.” (Page 9)

DANE (2022a) reports that the total number of micro-establishments amounts to 5.6 million. After the pandemic hit, in 2020 the loss of more than 500,000 of these productive units was estimated-small companies, businesses that operate from homes, mobile stands or semi-fixed units. (Portfolio, 2022).

Another important indicator is related to the ratio of jobs lost to those recovered, since, as indicated above, MiPymes are generators of around 70% of jobs in Colombia and Mexico.

In the case of Mexico, in 2020, which was the most critical period of the crisis, 12.5 million jobs were lost, of which 10.4 million corresponded to informal jobs and 2.1 to formal ones. (SHCP, 2021). By the year 2022, the Mexican Social Security Institute reports (IMSS, 2022) that the formal jobs lost in that initial year of the pandemic have fully recovered, now totaling 21 million, 8,483 affiliated workers.

With regard to Colombia, in 2020 5 million 629 thousand jobs were lost, which have been fully recovered by 2022 as 5 million 668 thousand have already been created, reaching a national total of 22 million 346 thousand Job positions. (DANE, 2022b).

Likewise, the GDP growth rate in the two countries analyzed here, despite the prevailing uncertainty in the international economy, has shown signs of recovery, reaching positive growth for the year 2022, registering a rate of 7.5%. for Colombia (DANE 2023) and 3% for Mexico (INEGI 2023).

The previous economic indicators can give us an overview of a tentative explanation that

the policies applied in defense of MiPymes in Colombia and Mexico avoided the collapse of the productive system and the generalized and permanent unemployment of the labor force.

CONCLUSIONS

1. Going forward and within the framework of policies for the recovery and growth of the economy, the policy towards MiPymes should be considered as a state policy, essential to achieve sustainable development of Colombian and Mexican societies.

To achieve the above, private financing must go from favoring mainly the 0.4% that make up large companies, to developing innovative mechanisms that allow financial resources to reach the 99.6% that make up MiPymes.

2. For their part, government financing institutions must act strategically:

- Mainly and strategically directing its resources towards MiPymes
- Clearly establishing a national guarantee fund, with accessible and efficient rules
- Expanding service coverage
- Facilitating national production chains and the integration of MiPymes into the export market
- Enabling permanent campaigns to strengthen the management capacity of MiPymes
- Avoiding the disintegration of efforts
- Reducing your bureaucratism

3. The economic crisis caused by the COVID 19 pandemic showed, for those who want to see it, that a healthy and strong economy is built internally from the structure of the internal market. In this, the private financial system, due to its strategic

responsibility in financing MSMEs and the state, as promoter and protector of these play a fundamental role.

4. Now it is offered that, in addition to thinking about having automatic economic stabilizers, rapid response mechanisms are added to attend to MiPymes in the event of catastrophic phenomena such as the one experienced since 2020.

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