Micro, Small and Medium Enterprises (MSMEs) and the digital economy

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How MSMEs can better exploit the opportunities offered by the digital economy?

How can governments help?

- The value and contribution of MSMEs to the economy
- Definition and scope of digital economy
- The state of digitalization of MSMEs in the Asia and the Pacific

Factors of the digital economy
- ICT infrastructure
- Financial infrastructure
- Legal and regulatory infrastructure
- Digital skills and human capital

Challenges to the digital economy
- Data policies
- Trust in online transactions
- Anticompetitive conduct
- Cybersecurity
- Emerging taxation issues

Content of the paper:
Selection of best practices
1. MSMEs in the Asia-Pacific: From a digital perspective

- The Asia Pacific region host one of the biggest and most developed e-commerce markets.
- 2020 UNCTAD B2C E-commerce index:
  - Singapore ranks fourth,
  - New Zealand ranks eleventh,
  - Republic of Korea ranks eighteenth,
  - Japan on twentieth.
- The pandemic has been a catalyst of technological adoption.
- MSMEs can use digital media for marketing their products, they can establish e-payments, or they can adopt e-commerce.
1. MSMEs in the Asia-Pacific: From a digital perspective

- However, MSME digitalization remains low:
  - In Bangladesh only 9% of firms use the internet, specialized apps, and social media (IFC, 2020).
  - In Nepal only half of MSMEs have also started using the internet, social media and specialized apps (World Bank).
  - In Singapore have adopted digitalization at the basic level (2019).
  - Low levels of awareness of cybersecurity.
1. MSMEs in the Asia-Pacific: From a digital perspective

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- Two categories of MSMEs:
  - ‘Traditional MSMEs’: In traditional sectors, e.g. manufacturing.
  - ‘Digital native MSMEs’: Particularly in services sectors. Affected by the new challenges of the digital economy.
  - Both traditional and digital native MSMEs need to count with a legal and regulatory environment that would help them internationalize.
1. MSMEs in the Asia-Pacific: From a digital perspective

- **Did the MSME adopt digital tools?**
  - **Yes**
    - Policies to evaluate/enhance the level of digital maturity
    - Policies to facilitate international trade
  - **No**
    - Policies to foster digital entrepreneurship
    - Onboarding policies (assessment of access to ICT equipment, placement of MSMEs in digital platforms)

Source: Author’s own elaboration.
1. MSMEs in the Asia-Pacific: From a digital perspective

*Use of platforms*

**1. OPPORTUNITIES FOR LOW CAPITAL SMEs**
(Rp 1 mil - Rp 15 mil)

- **GO-JEK has more than 250K SMEs Partner**
- **8 out of 10 GO-FOOD merchant partners’ increases by 26% on average**
- **70% culinary SMEs go online after joining GO-JEK**

**2. INSTANT DIGITALIZATION**

- **GO-FOOD SME merchant partners do not need to invest in their own delivery fleet**
- **Saving up to 30% on delivery service expenses**

**3. EFFICIENT OPERATIONAL**

- Enabling culinary SMEs to become eligible for bank loans

**4. IMPROVED BOOK-KEEPING**

**5. MARKET EXPANSION**

- **8 out of 10 SMEs experience increased popularity**
- **8 out of 10 SMEs join GO-JEK to expand their market.**

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**How GO-JEK empowers culinary SMEs**

A study by University of Indonesia’s Faculty of Economics and Business Demographic Institution found that GO-JEK’s ecosystem is the much needed platform to accelerate culinary SMEs’ growth in Indonesia.

**Source:** Go-Jek.com.
1. MSMEs in the Asia-Pacific: From a digital perspective

*Platforms as ecosystems*

Source: Grab.com.
1. MSMEs in the Asia-Pacific: From a digital perspective

*Use of Blockchain in trade facilitation*

*Source: https://www.mahanakornpartners.com.*

*Figure 1. Traditional Trade Finance Transaction vs Blockchain-based Trade Finance. Mahanakorn Partners Group Research, 2020*

*Source: https://www.mahanakornpartners.com.*
2. How to leverage MSMEs participation in the digital economy

**Improving the factors that influence the digital economy**

- Infrastructure
  - ICT infrastructure
    - Investment needs
    - Smart regulation
  - Financial infrastructure
    - Fintech (regulatory sandboxes, open banking)
    - Trade finance (blockchain)
  - Legal and regulatory infrastructure
    - Promote digitalization (e-signatures, e-authentication), capacity building
    - Governments as platforms
- Digital skills and human capital
  - Digital skills
    - Digital literacy for the digital economy
    - By intermediaries/outourcing
  - Human capital
    - Long term policy responses
    - Targeted to specific groups
2. How to leverage MSMEs participation in the digital economy

*Broadband investment needs*

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**Connecting Humanity to Broadband – Investment Requirements by Region**

- South Asia: $135bn
- SSA: $97bn
- East Asia & Pacific: $83bn
- Americas: $51bn
- Europe & Central Asia: $33bn
- MENA: $28bn

**Connecting Humanity to Broadband – Investment Requirements by Country Income Group**

- High Income: 6%
- Upper Middle Income: 25%
- Low Income: 17%
- Lower Middle Income: 52%

2. How to leverage MSMEs participation in the digital economy

*Most and least implemented paperless and cross-border paperless trade facilitation measures*

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**Trade Facilitation and Paperless Trade Implementation Measures (2019)**

- (15) Automated Customs System
- (16) Internet connection available to Customs and other trade control agencies
- (18) Electronic submission of Customs declarations
- (20) Electronic Submission of Sea Cargo Manifests
- (23) E-Payment of Customs Duties and Fees
- (25) Laws and regulations for electronic transactions
- (21) Electronic Submission of Air Cargo Manifests
- (19) Electronic application and issuance of Import and export permit
- (17) Electronic Single Window System
- (26) Recognised certification authority
- (22) Electronic application and issuance of Preferential Certificate of Origin
- (27) Electronic exchange of Customs Declaration
- (24) Electronic Application for Customs Refunds
- (28) Electronic exchange of Certificate of Origin
- (30) Paperless collection of payment from a documentary letter of credit
- (29) Electronic exchange of Sanitary & Phyto-Sanitary Certificate

Degree of implementation (0 = not implemented; 3 = fully implemented)

Source: 2019 UN Global Survey on Digital and Sustainable Trade Facilitation.
2. How to leverage MSMEs participation in the digital economy

Source: Author’s own elaboration.
2. How to leverage MSMEs participation in the digital economy

Adressing the challenges

- **Data policies**
  - Personal data protection
  - Cross-border flows of data
  - ‘Balance’

- **Trust in online transactions**
  - Consumers
  - MSMEs
  - Consumer protection laws
  - Cross border dispute resolution

- **Anticompetitive conduct**
  - Platform behaviour
  - Gatekeepers
  - Data portability / data sharing
  - Open data

- **Cybersecurity**
  - Preparedness
  - Awareness
  - Cyber resilience (training & int. Cooperation)

- **Taxation**
  - De minimis thresholds
  - Collection of VAT
  - Int. coordination
2. How to leverage MSMEs participation in the digital economy

*Public-Private Partnership*

Examples: Infrastructure, digital skills and human capital, finance, cybersecurity, among many others.
3. Conclusions

1. Access to finance
   - Finntech.

2. Use of digital platforms
   - MSMEs can go immediately online.
   - Promote the adoption of digital skills.

3. Gov. should go digital
   - One-stop-shop.
   - Platform.

4. Balanced data policies
   - Data sharing or data portability.
   - Encourage lawful data utilization.
   - Enable cross-border data flows.

5. Closing the infrastrural gap
   - Access to the internet.
   - Bear in mind new gaps.

6. Training human capital for the digital economy
   - Short & long term policies.
Thank you!

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