The Economic and Social Commission for Asia and the Pacific (ESCAP) serves as the United Nations’ regional hub promoting cooperation among countries to achieve inclusive and sustainable development. The largest regional intergovernmental platform with 53 member States and 9 associate members, ESCAP has emerged as a strong regional think-tank offering countries sound analytical products that shed insight into the evolving economic, social and environmental dynamics of the region. The Commission’s strategic focus is to deliver on the 2030 Agenda for Sustainable Development, which it does by reinforcing and deepening regional cooperation and integration to advance connectivity, financial cooperation and market integration. ESCAP’s research and analysis coupled with its policy advisory services, capacity building and technical assistance to governments aims to support countries’ sustainable and inclusive development ambitions.

* The designation employed and the presentation of material on this map do not imply the expression of any opinion whatsoever on the part of the Secretariat of the United Nations concerning the legal status of any country, territory, city or area or of its authorities, or concerning the delimitation of its frontiers or boundaries.
POLICY GUIDEBOOK
FOR MSME DEVELOPMENT
IN ASIA AND THE PACIFIC

2nd Edition
Foreword

The majority of firms in the Asia-Pacific region are micro, small and medium-sized enterprises (MSMEs), and it is undeniable that they are an important source of economic growth for the region. A large number of people are employed by MSMEs, and they provide a key proving ground for new business models and technological innovation.

Across the region, MSME policy and coordination mechanisms vary widely. Some countries have key ministries through which MSME policy is coordinated, while others address MSME issues at the sectoral level and do not make extensive efforts to coordinate MSME policy across industries. There is no single best way to organize MSME institutions in a country, as the situation of Asia-Pacific States is diverse. Policies affecting MSMEs, however, should be generated in a consistent manner that reflects a broad understanding of their place in the economy and their potential to contribute to growth, GDP, employment, and overall development. As MSMEs typically draw on limited pools of accounting, regulatory and legal expertise, they stand to be advantaged by government policy, but also face difficulties in understanding changing policies and accessing benefits available to them.

To enhance the work of policymakers seeking to address the multi-faceted problems faced by MSMEs, ESCAP has produced the second edition of the Policy Guidebook for MSME Development in Asia and the Pacific. This Guidebook sheds light on the issues that high-level policymakers will need to think about when modifying the structure of relevant MSME institutions in their States, and provides many solid examples of what Asia-Pacific States are doing to improve the business environment for MSMEs. We hope that by presenting a wide-ranging guide that considers both economy-wide policies, and lower level, micro-level policies affecting MSMEs, policymakers will be better able to understand the interconnections that make this area of policy so challenging.

In addition to covering broad economic policies that affect MSMEs, the Guidebook is organized to address specific MSME issues under two predominant themes – competitiveness and sustainability. Competitiveness of MSMEs is always of interest to policymakers, because fundamentally improving competitiveness of MSMEs will be the primary way to allow them to become more successful and to grow. Sustainability, on the other hand, is of key importance for achieving the Sustainable Development Goals (SDGs) and enabling countries to progress along a path of more inclusive, environmentally sound growth.

Given that each country has evolved its own policies, institutional frameworks and support mechanisms for MSMEs according to its needs and its progress with its own development strategy, the policies discussed in this Guidebook may not be universally relevant. Nevertheless, the Guidebook aims to present examples of best practice and illustrate the connections between different areas of sustainable development and MSMEs, in order to better allow policymakers to respond to the individual circumstances of their economies.

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Explanatory notes

The term “Asia and the Pacific” in this MSME Policy Guidebook refers to the 58 regional members and associate members of the United Nations Economic and Social Commission for Asia and the Pacific (ESCAP). They include the following group of countries and territories: Afghanistan; American Samoa; Armenia; Australia; Azerbaijan; Bangladesh; Bhutan; Brunei Darussalam; Cambodia; China; Cook Islands; Democratic People’s Republic of Korea; Fiji; French Polynesia; Georgia; Guam; Hong Kong, China; India; Indonesia; Iran (Islamic Republic of); Japan; Kazakhstan; Kiribati; Kyrgyzstan; Lao People’s Democratic Republic; Macao, China; Malaysia; Maldives; Marshall Islands; Micronesia (Federated States of); Mongolia; Myanmar; Nauru; Nepal; New Caledonia; New Zealand; Niue; Northern Mariana Islands; Pakistan; Palau; Papua New Guinea; the Philippines; Republic of Korea; Russian Federation; Samoa; Singapore; Solomon Islands; Sri Lanka; Tajikistan; Thailand; Timor-Leste; Tonga; Turkey; Turkmenistan; Tuvalu; Uzbekistan; Vanuatu; and Viet Nam.

A. Countries and territories by geographic subregion

Time series data are presented according to geographical classification, with the exception of developed economies, which are grouped separately. Throughout this Guidebook, countries and territories may be referred to by a shortened version of their official name or, for some of the graphs presented, their International Organization for Standardization (ISO) code. Where the designation “country or area” appears, it covers countries, territories, areas and/or cities.

Developed Economies: Australia, Japan and New Zealand.

East and North-East Asia: China; Democratic People’s Republic of Korea; Hong Kong, China; Macao, China; Mongolia; Republic of Korea.

South-East Asia: Brunei Darussalam; Cambodia; Indonesia; Lao People’s Democratic Republic; Malaysia; Myanmar; Philippines; Singapore; Thailand; Timor-Leste; Viet Nam.

South and South-West Asia: Afghanistan; Bangladesh; Bhutan; India; Iran (Islamic Republic of); Maldives; Nepal; Pakistan; Sri Lanka; Turkey.

North and Central Asia: Armenia; Azerbaijan; Georgia; Kazakhstan; Kyrgyzstan; Russian Federation; Tajikistan; Turkmenistan; Uzbekistan.

Pacific: American Samoa; Cook Islands; Fiji; French Polynesia; Guam; Kiribati; Marshall Islands; Micronesia (Federated States of); Nauru; New Caledonia; Niue; Northern Mariana Islands; Palau; Papua New Guinea; Samoa; Solomon Islands; Tonga; Tuvalu; Vanuatu.

B. Notes on legal responsibilities

The opinions and estimates set forth in this publication are the responsibility of the authors and should not necessarily be considered as reflecting the views or carrying the endorsement of the United Nations. Any errors are the responsibility of the authors. The designations employed and the presentation of the material in this publication do not imply the expression of any opinion whatsoever on the part of the secretariat of the United Nations concerning the legal status of any country, territory, city or area, or of its authorities, or concerning the delimitation of its frontiers or boundaries.

Mention of firm names and commercial products does not imply the endorsement of the United Nations.

Bibliographical and other references have, wherever possible, been verified. The United Nations bears no responsibility for the availability or functioning of URLs.
C. Notes on style

References to dollars ($) are in United States dollars, unless otherwise stated.

A space is used to distinguish thousands and millions. Use of a hyphen between dates (e.g., 2005-2010) indicates the full period involved, including the beginning and end years. The following symbols have been used throughout the publication: A hyphen (-) indicates that the item is not applicable. A point (.) is used to indicate decimals. A space is used to distinguish thousands and millions. Totals may not add up precisely because of rounding off.
Acronyms and abbreviations

ADB  Asian Development Bank
APCICT  Asian and Pacific Training Centre for Information and Communication Technology for Development
APEC  Asia-Pacific Economic Cooperation
APITUDE  Asia-Pacific Technology Information Tracking and Unified Data Extraction
ASEAN  Association of Southeast Asian Nations
B2B  Business-to-business
BDS  Business development services
BEE  Business enabling environment
CGS  Credit guarantee schemes
CSR  Corporate social responsibility
DCED  Donor Committee for Enterprise Development
DFIs  Development financial institutions
EMPRETEC  Entrepreneurs and technology programme
ESCAP  Economic and Social Commission for Asia and the Pacific
FDI  Foreign direct investment
GDP  Gross domestic product
GEM  Global Entrepreneurship Monitor
GSC  Global supply chain
GTZ  Deutsche Gesellschaft für Technische Zusammenarbeit GmbH (German Technical Cooperation)
ICT  Information and communications technology
IFAD  International Fund for Agricultural Development
IFC  International Finance Corporation
ILO  International Labour Organization
IMF  International Monetary Fund
IP  Intellectual property
ISO  International Organization for Standardization
ITC  International Trade Centre
JETRO  Japan External Trade Organization
LDCs  Least developed countries
M&E  Monitoring and evaluation
MFIs  Microfinance institutions
MSMeS  Micro-, small- and medium-sized enterprises
NGO  Non-governmental organization
NPO  Not-for-profit organization
NTB  Non-tariff barrier
OECD  Organisation for Economic Co-operation and Development
PPP  Public-private partnership
R&D  Research and development
SDC  Swiss Agency for Development and Cooperation
SEZ  Special economic zone
SIDBI  Small Industries Development Bank of India
SMEs  Small and medium-sized enterprises
TNCs  Transnational corporations
UNCTAD  United Nations Conference on Trade and Development
UNDP  United Nations Development Programme
UNIDO  United Nations Industrial Development Organization
USAID  United States Agency for International Development
VAT  Value-added tax
WEF  World Economic Forum
WIPO  World Intellectual Property Organization
WTO  World Trade Organization
Introduction

Background for this Guidebook

Micro, small and medium-sized enterprises (MSMEs) are widely recognized for the important contributions they make to sustainable development, in terms of contributions to economic growth, creation of decent jobs, provision of public goods and services as well as poverty alleviation and reduced inequality. MSMEs comprise a major share of total private sector entities, both in developed and developing countries.

Statistics on MSMEs, in particular, are scarce as most are active in the informal sector. Surveys indicate that MSMEs in the Asia-Pacific region comprise 98 per cent of all enterprises and employ 50 per cent of the workforce. They contribute from about 17 per cent to national GDP in low-income countries, including India, to between 40 and 50 per cent in the higher income countries such as Malaysia and Singapore. MSMEs account for more than 90 per cent of licensed companies in the Asia-Pacific region. In general, MSMEs increase production and exports, and facilitate income growth while providing fertile ground for enterprise development.

This Guidebook and the Sustainable Development Goals

MSMEs are instruments of inclusive growth that touch the lives of the most vulnerable and marginalized. The critical contribution of MSMEs to broader social economic objectives, including job creation, makes them a key priority area for achieving the Sustainable Development Goals (SDGs). Job creation through MSMEs will often directly benefit the poor and vulnerable, particularly women and youth, thereby directly reducing poverty, increasing income and creating a positive impact on household investments in education and health over time. MSME development has the potential for wide-reaching impacts on the SDGs globally, including SDG 1 (end poverty), SDG 2 (zero hunger), SDG 3 (good health and well-being), SDG 5 (gender equality), SDG 8 (promote inclusive and sustainable economic growth, employment and decent work), and SDG 9 (improve sustainable industrialization and fostering innovation).

MSMEs are crucial to the “Leaving No One Behind” principle that is central to the 2030 Agenda for Sustainable Development. Given MSME contributions to achieving the SDGs, the Addis Ababa Action Agenda on Financing for Developmentunderline the importance of MSMEs for job creation as well as innovation for sustainable development in developing countries. MSMEs are also more likely to hire from groups with lower probabilities of finding employment such as young people, older workers and less-skilled workers including women workers. MSMEs also contribute to the SDGs through the business practices they prefer to adopt, the sectors in which they operate and the impact they have on the broader economy. MSMEs replace obsolete patterns with innovative ones through ‘creative destruction’, create jobs for people excluded from the traditional labour market and run businesses with pronounced social purposes (social entrepreneurship). The 2030 Agenda for Sustainable Development also advocates for national Governments, financial institutions and development banks to support MSME growth by providing a conducive regulatory framework, innovative financing solutions and systematic entrepreneurship training programmes.

1 The Asian Development Bank (ADB, 2013) has found that SMEs contributed, on average, 30 per cent of total export value in Asia during 2007-2012. Asia SME Finance Monitor (ASM), p. 5.
Purpose and aims of this Policy Guidebook

In the Asia-Pacific region, countries have evolved their own policies, institutional framework and support mechanisms for MSMEs according to their individual needs, stage of economic development and culture. Country experiences from this vast and diverse region offer a considerable marketplace to draw upon. However, most of these policies target MSMEs operating in the formal sector, while in fact the vast majority of MSMEs operate in the informal economy. According to the International Labour Organization (ILO), two billion people worldwide work informally, most of them in emerging and developing countries. In Asia and the Pacific, more than 68 per cent of the workforce is in the informal sector. Because of the large number of MSMEs operating in the informal sector, reliable and accurate statistics on the sector are often lacking, preventing effective policies.

MSMEs still need wider policy support to continue to promote business ownership and entrepreneurial skills, facilitate their transition from the informal to formal economy, help businesses grow and participate actively in the global economy. MSMEs play an important role in the overall social and economic well-being of their countries, contributing to far-reaching solutions to pressing issues facing humanity, i.e., health, education, decent work, societal and gender equality, food security, more sustainable agriculture, advancing sustainable industrialization and innovation, disaster risk reduction as well as to resilience-building. On top of all these, MSMEs help large enterprises grow by supporting backward linkages supplying primary, secondary and intermediate raw materials along the supply chain, thus contributing significantly to the socioeconomic development of a country.

To address the above non-exhaustive list of issues, this Guidebook aims to provide information to relevant policymakers in Asia-Pacific countries on what one needs to know, and what one needs to do, to implement MSME policy measures that can be most useful for MSME development given the specific country conditions in the face of macroeconomic impacts, intense domestic and international competition as well as internal and external shocks, including the climate change and pandemics such as COVID-19, among others. In particular, the Guidebook aims to outline policies based on best practices that help MSMEs to become more sustainable, develop international competitiveness and participate effectively in regional and global value chains (RGVCs).

The Guidebook takes further account of the challenges that Asia-Pacific countries face. It is also intended act as a guide and reference point for Governments and regulators by providing a roadmap for planning, assessing and implementing policy and legal measures to support more robust and resilient MSMEs. The Guidebook also shares innovative approaches for evidence-based decision-making and highlights relevant best practices. Thus, this Policy Guidebook offers comprehensive and practical policy interventions to facilitate MSME development in the region. Policies shared here highlight two issues of importance in developing MSMEs – competitiveness and sustainability.

The Guidebook comprises four parts plus an epilogue:

1. Setting the scene – mapping the current policy, institutional and legal framework for MSMEs in Asia and the Pacific;
2. General policies influencing MSMEs;
3. Specific MSME targeted policies – competitiveness;
4. Specific MSME targeted policies – sustainability (robust and increased resilience).

The target audience for this Guidebook

The target audience consists of policy and decision-makers working towards the development of sustainable and competitive MSMEs. The MSME Policy Guidebook aims to reach, inform and inspire policy and decision-makers, professionals, practitioners, young professional officials and researchers working towards evidence-based sustainable development across all sectors.

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Part I

Setting the scene: Mapping the current policy, institutional, and legal framework for MSMEs in Asia and the Pacific

MSMEs serve as fertile ground for enterprise development. MSMEs contribute to maintaining high mobility of the labour market, and narrow development gaps among localities. Each country has evolved its own policy, institutional and legal framework, and support mechanism suiting its needs, stage of development, ethos, culture and understanding of the role of MSMEs. Many countries in the Asia-Pacific region as well as various multilateral and bilateral development agencies have implemented a variety of interventions as part of their MSME development strategies.

In order to set the scene, chapter I provides a general overview of the current policy, institutional and legal framework prevalent in countries of the vast and diverse Asia-Pacific region. Due to this diversity, there are a multitude of policies on developing MSMEs from which to draw. In addition, there are many regional agencies that operate and provide technical assistance in the MSME policy space. With the above in mind, chapter I ties into all the other parts of the Guidebook and can serve as reference when navigating this publication. It will link to an online knowledge hub and database providing details of each country’s policy, institutional and legal framework.
Don't Get a Job...
Make a Job

Design, When Everybody Designs
An Introduction to Design for Social Innovation
Chapter I

Definitions, typologies and contributions of MSMEs

There is no official or universally accepted definition of an MSME. References to employment, annual turnover and size of balance sheet can be used but the most common indication remains the number of employees. The ILO, the International Finance Corporation (IFC) and the Eurostat's Structural Business Statistics identify commonly used definitions as follows – micro enterprises have 1-10 employees, small enterprises have 10-50 employees, while medium-size enterprises employ 50-200 employees, or even up to 250. From a survey of 93 economies where a breakdown between MSMEs was available, the IFC notes that 83 per cent of all MSMEs are micro enterprises, reflecting the importance of very small businesses worldwide.6

A. Definitions of MSMEs

The definitions used vary widely among countries, and depend on the phase of their economic development, the size of the country as well as on the prevailing social conditions. Although various measures/criteria are used to define MSMEs – such as the number of employees, invested capital, assets, sales volume and production capacity – employment is the most frequently used. In general, an MSME is considered to have fewer than 500 employees, although many countries use a lower threshold, at about 300 or 100 employees. The Eurostat definition (fewer than 250 employees) is applied in 19 European countries and is currently the most widely accepted definition. In the Asia-Pacific region, some countries, such as Malaysia, differentiate between manufacturing and services MSMEs (in this case, services MSMEs are usually defined as smaller than manufacturing MSMEs). Often, statistics on MSMEs exclude cottage and micro enterprises; for example, China distinguishes between township and village enterprises (TVEs)7 and MSMEs. Singapore distinguishes between local and overseas MSMEs. Some countries distinguish between autonomous MSMEs and those connected to a large enterprise or group, or identify an MSME in terms

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7 TVEs in China include collectively-owned enterprises at the county and village levels, which are part of the cooperation enterprises operated by farmers and the self-employed enterprises operated by families in rural areas.
of management structure. However, regardless of definitional discrepancies, when viewed from a managerial and organizational perspective, MSMEs are distinguished from others by the following characteristics: (a) they are usually independently owned and operated; (b) they are closely controlled by owners/managers who also contribute most, if not all, of the operating capital; and (c) the principal decision-making functions rest with the owners/managers. MSMEs are, therefore, a group of firms, heterogeneous in size and nature that, when taken together, has a significant direct and indirect participation in the national product as well as in employment absorption and creation. Therefore, MSMEs are also important in terms of equity benefits and distribution of income. Table I.1 provides examples of definitions of MSMEs in some advanced countries of the region.

Table I.1
Sample of country definitions of MSMEs

<table>
<thead>
<tr>
<th>Country</th>
<th>MSME definition</th>
<th>By number of employees</th>
<th>By size of assets, capital, or turnover</th>
</tr>
</thead>
<tbody>
<tr>
<td>Armenia</td>
<td>Micro Enterprises: Employing up to nine people.</td>
<td>Micro Enterprises: Enterprises with a maximum annual sales turnover of AMD 100 million (US$ 20,991); and/or with an annual balance sheet not exceeding AMD 100 million (US$ 20,991).</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Small Enterprises: Employing up to 49 people.</td>
<td>Small Enterprises: Enterprises with a maximum annual sales turnover of AMD 500 million (US$ 1,049,349); and/or with an annual balance sheet not exceeding AMD 500 million (US$ 1,049,349).</td>
<td></td>
</tr>
<tr>
<td>Brunei Darussalam</td>
<td>Micro Enterprises: Employing up to nine people.</td>
<td>Micro Enterprises: Enterprises with net assets under B$ 60,000 (US$ 44,544), excluding land and buildings used by the business; or with annual sales under B$ 100,000 (US$ 74,263).</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Small Enterprises: Employing between 10 and 29 people.</td>
<td>Small Enterprises: Enterprises with net assets under B$ 600,000 (US$ 445,440), excluding land and buildings used by the business; or with annual sales under B$ 1 million (US$ 742,630).</td>
<td></td>
</tr>
<tr>
<td>India</td>
<td>Micro Enterprises: Enterprises with net assets under Rs. 1 crore (US$ 133,173) and annual sales turnover under Rs. 5 crore (US$ 4,665,865).</td>
<td></td>
<td></td>
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<tr>
<td></td>
<td>Small Enterprises: Enterprises with net assets under Rs. 10 crore (US$ 1,331,729) and an annual sales turnover between Rs. 5 crore (US$ 665,864) and Rs. 50 crore (US$ 6,658,645).</td>
<td></td>
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</tbody>
</table>
### Table I.1. (continued)

<table>
<thead>
<tr>
<th>Country</th>
<th>MSME definition</th>
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</thead>
<tbody>
<tr>
<td><strong>Indonesia</strong></td>
<td></td>
</tr>
<tr>
<td>Micro Enterprises</td>
<td>Enterprises with maximum net assets of IDR 50 million (US$ 3,528), including</td>
</tr>
<tr>
<td></td>
<td>land and buildings used by the business; or with a maximum annual sales turnover</td>
</tr>
<tr>
<td></td>
<td>of IDR 300 million (US$ 21,172).</td>
</tr>
<tr>
<td>Small Enterprises</td>
<td>Enterprises with net assets between IDR 50 million (US$ 3,528) and IDR 500</td>
</tr>
<tr>
<td></td>
<td>million (US$ 35,287), excluding land and buildings used by the business; or</td>
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<tr>
<td></td>
<td>with an annual sales turnover between IDR 300 million (US$ 21,172) and IDR 2.5</td>
</tr>
<tr>
<td></td>
<td>billion (US$ 176,499).</td>
</tr>
<tr>
<td>Medium Enterprises</td>
<td>Enterprises with net assets between IDR 500 million (US$ 35,264) and IDR 100</td>
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<tr>
<td></td>
<td>million (US$ 705,285), excluding land and buildings used by the business; or</td>
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<tr>
<td></td>
<td>with an annual sales turnover between IDR 2.5 billion (US$ 176,321) and IDR 50</td>
</tr>
<tr>
<td></td>
<td>billion (US$ 3,526,425).</td>
</tr>
<tr>
<td>Japan</td>
<td></td>
</tr>
<tr>
<td>MSMEs in the retail trade</td>
<td>Enterprises whose capital or total amount of investment does not exceed ¥ 50</td>
</tr>
<tr>
<td></td>
<td>million yen (US$ 439,798).</td>
</tr>
<tr>
<td>MSMEs in the service</td>
<td>Enterprises whose capital or total amount of investment does not exceed ¥ 50</td>
</tr>
<tr>
<td></td>
<td>million yen (US$ 439,798).</td>
</tr>
<tr>
<td></td>
<td>Others: Enterprises whose capital or total amount of investment does not</td>
</tr>
<tr>
<td></td>
<td>exceed ¥ 100 million (US$ 879,659).</td>
</tr>
<tr>
<td>Lao People’s Democratic</td>
<td></td>
</tr>
<tr>
<td>Republic</td>
<td>Micro Enterprises: In production of commercial goods, trade and service.</td>
</tr>
<tr>
<td></td>
<td>Enterprises employing up to five people.</td>
</tr>
<tr>
<td>Small Enterprises</td>
<td>In trade: Enterprises with maximum net assets of LAK 150 million (US$ 14,764);</td>
</tr>
<tr>
<td></td>
<td>or with a maximum sales turnover of LAK 400 million (US$ 39,359).</td>
</tr>
<tr>
<td>Medium Enterprises</td>
<td>In services: Enterprises with maximum net assets of LAK 200 million (US$ 19,692);</td>
</tr>
<tr>
<td></td>
<td>or with a maximum sales turnover of LAK 400 million (US$ 39,359).</td>
</tr>
</tbody>
</table>

*Source: ASEAN SME policy index, OECD, 2018.*
Table I.1. (continued)

<table>
<thead>
<tr>
<th>Country</th>
<th>MSME definition By number of employees</th>
<th>MSME definition By size of assets, capital, or turnover</th>
</tr>
</thead>
<tbody>
<tr>
<td>Malaysia</td>
<td>Micro Enterprises: In manufacturing, services and other sectors, Enterprises employing up to four people.</td>
<td>Micro-Enterprises: In manufacturing, services and other sectors. Enterprises with a sales turnover under RM300,000 (US$ 72,265).</td>
</tr>
<tr>
<td></td>
<td>Small Enterprises: In manufacturing, enterprises employing between five and 74 people. In services and other sectors, enterprises employing between five and 29 people.</td>
<td>Small Enterprises: In manufacturing, enterprises with a sales turnover from RM300,000 (US$ 72,265) to RM15 million (US$ 3,613,323).</td>
</tr>
<tr>
<td></td>
<td>Medium Enterprises: In manufacturing, enterprises employing between 75 and 200 people. In services and other sectors, enterprises employing between 30 and 75 people. Source: Circular on New Definition of SMEs, 2014.</td>
<td>In sales and other services: Enterprises with a sales turnover from RM300,000 (US$ 72,265) to RM3 million (US$ 722,606). Source: Circular on New Definition of SMEs, 2014.</td>
</tr>
<tr>
<td>Myanmar</td>
<td>Micro and Small Enterprises: In retail business, wholesale business and services, enterprises employing up to 30 people. In manufacturing, enterprises employing up to 50 people. In labour-intensive manufacturing, enterprises employing up to 300 people.</td>
<td>Micro and Small Enterprises: In retail business, enterprises whose capital or total amount of investment does not exceed MMK 50 million (US$ 26,862).</td>
</tr>
<tr>
<td></td>
<td>Medium Enterprises: In retail business and wholesale business, enterprises employing between 31 and 60 people. In services, enterprises employing between 51 and 100 people. In manufacturing, enterprises employing between 51 and 300 people. In labour-intensive employing manufacturing, enterprises between 301 and 600 people. Source: Myanmar SME Development Law, 9 April 2015.</td>
<td>In services and wholesale business, enterprises whose capital or total amount of investment does not exceed MMK 100 million (US$ 53,724). Source: Myanmar SME Development Law, 9 April 2015.</td>
</tr>
<tr>
<td>Pakistan</td>
<td>Micro Enterprises: Enterprises employing up to 10 people. Source: Circular No. 3. 2014 issued by the State Bank of Pakistan, Agricultural Credit and Microfinance Department.</td>
<td>Small Enterprises: Enterprises with a maximum annual sales turnover of PKR 150 million (US$ 866,133.90). Source: Circular No. 02 of 2016, issued by the State Bank of Pakistan, Infrastructure, Housing and SME Finance Department.</td>
</tr>
<tr>
<td></td>
<td>Small Enterprises: Enterprises employing up to 50 people. Source: Circular No. 02 of 2016, issued by the State Bank of Pakistan, Infrastructure, Housing and SME Finance Department.</td>
<td>Medium Enterprises: In manufacturing and services, enterprises employing between 51 and 250 people. In trading, enterprises employing between 51 and 100 people. Source: Circular No. 02 of 2016, issued by the State Bank of Pakistan, Infrastructure, Housing and SME Finance Department.</td>
</tr>
<tr>
<td></td>
<td>Medium Enterprises: In manufacturing, services and trading, enterprises with an annual sales turnover between PKR 150 million (US$ 866,133) and PKR 800 million (US$ 4,619,380). Source: Circular No. 02 of 2016, issued by the State Bank of Pakistan, Infrastructure, Housing and SME Finance Department.</td>
<td></td>
</tr>
</tbody>
</table>
### Table I.1. (continued)

<table>
<thead>
<tr>
<th>Country</th>
<th>MSME definition</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>By number of employees</strong></td>
<td><strong>By size of assets, capital, or turnover</strong></td>
</tr>
<tr>
<td></td>
<td>Small Enterprises: Enterprises employing between 10 and 99 people.</td>
</tr>
<tr>
<td></td>
<td>Medium Enterprises: Enterprises employing between 100 and 199 people.</td>
</tr>
<tr>
<td>Thailand</td>
<td>Micro Enterprises: In manufacturing, trade and service sectors, enterprises employing up to five people.</td>
</tr>
<tr>
<td></td>
<td>Small Enterprises: In manufacturing, enterprises employing between six and 30 people.</td>
</tr>
<tr>
<td></td>
<td>Medium Enterprises: In manufacturing, enterprises employing between 51 and 200 people.</td>
</tr>
<tr>
<td>Viet Nam</td>
<td>Micro Enterprises: In every sector, enterprises employing up to 10 people.</td>
</tr>
<tr>
<td></td>
<td>Small Enterprises: In agriculture, forestry, fisheries industry and construction, enterprises employing between 11 and 100 people.</td>
</tr>
<tr>
<td></td>
<td>Medium Enterprises: In agriculture, forestry, fisheries, industry and construction, enterprises employing between 101 and 200 people.</td>
</tr>
</tbody>
</table>

Note: Exchange rates from www.xe.com from October and November 2021.
The importance of MSMEs to long-term economic growth and stability derives from their size and structure which, under adequate conditions (i.e., well-developed factor markets), allow them the flexibility and ability to confront adverse economic conditions. MSMEs are generally more labour-intensive than large firms and, therefore, have lower capital costs associated with job creation (although digitalization is rapidly picking-up pace during COVID-19, with greater numbers of MSMEs made of individuals known as digital nomads). Consequently, MSMEs play an important role in fostering income stability, growth and employment. The development of MSMEs is also important for poverty alleviation and the promotion of more pluralist societies. According to the data provided by the International Council for Small Business (ICSB), formal and informal Micro, Small and Medium-sized Enterprises (MSMEs) make up more than 90 per cent of all firms and account, on average, for 70 per cent of total employment and 50 per cent of GDP.8

B. Common characteristics of MSMEs

The MSME population is typically composed of very diverse businesses in terms of age, size, ownership, business models, and entrepreneurs’ profiles, motivations and aspirations. Despite this, MSMEs have some common characteristics. MSMEs typically have low revenue, but it should be noted that lower revenue does not necessarily translate into lower profitability. Established small-scale businesses often own their facilities and equipment outright which, in addition to other factors, helps to keep costs lower than more leveraged businesses. Often, MSMEs employ smaller teams of employees than companies that operate on larger scales. The smallest businesses are run entirely by single individuals or small teams. A larger small-scale business can often get away with employing fewer than 100 employees, depending on the type of business. MSMEs generally have a smaller market area, although with digitalization this has changed to more niche marketing that can have a global reach, depending on product delivery. Yet, in general, small-scale businesses serve a much smaller area than corporations or larger private businesses. The smallest-scale businesses serve single communities, such as a convenience store in a rural township.

The very definition of small-scale prevents these companies from serving a locale much larger than a local area, since growing beyond that would increase the scale of a small business’s operations and push it into a new classification. MSMEs are often sole proprietorships, partnerships or limited liability companies. These forms of organization provide the greatest degree of managerial control for company owners, while minimizing the hassle and expense of business registration. MSMEs often operate only in a limited area. These firms are not likely to have sales outlets in multiple municipalities, provinces or countries, for example. A large number of small-scale businesses operate from a single office, retail store or service outlet, or from home.

Given the above, characteristics of MSMEs are evolving in the face of technology and innovation. The Internet, with its social media platforms such as Facebook, offers online opportunities to set up business homepages with little or no investment involved. In general, the Internet has created and expanded the space for MSMEs to fill various gaps left by larger corporations. Digitalization can reduce overheads, increase online shopping and facilitate payment, and thus expand the number of people who shop or procure services from the comfort of their own homes. Today, delivery services such as Grab Food have opened opportunities and increased access for even the smallest vendors to provide products and services that were once mainly in the realm of large chains or big business.

C. Typologies of MSMEs

1. Formal or informal sector

The informal sector accounts for a huge number of firms and workers across the world, and the informal sector in the Asia-Pacific region absorbs, on average, about 68 per cent of the labour force, although the average for developing and emerging economies alone is 71 per cent.9 Informal MSMEs tend to be small in size, are often less productive than formal enterprises, yet contribute significantly to economic activity and employment. Unregistered firms rely mostly on informal financing, which is

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associated with lower firm growth and increased firm illegality.\textsuperscript{10} Small businesses remain informal as they lack the incentives or capacity to formalize. Creating the appropriate environment for informal MSMEs to formalize takes time, as many do not see incentives such as access to new market opportunities and to financial and non-financial services, making it a profitable decision for them to register their business. The degree of informality varies significantly across developing economies. For example, at the low end of the scale, studies have estimated that the percentage of employment in the informal sector in non-agricultural activities is less than 10 per cent for countries. At the high end of the scale, the percentage surpasses 75 per cent for countries. As a result, different country strategies to cope with informality may be necessary depending on the degree of informality present in the economy.\textsuperscript{11}

Informal sector businesses are defined as all firms that are unregistered with a registration office, municipality or tax authority, or owners and employers of micro enterprises that employ few paid workers.\textsuperscript{12} Informal employment is defined as employment without a contract, unregistered with the relevant authority such as the social security agency or Ministry of Labour, and employment not entitled to receive social security benefits.

Given the background on informal MSMEs, formal MSMEs tend to perform better than informal enterprises. At the macro level, an increase in the number and/or size of formal enterprises translates into higher GDP levels and growth rates. The ILO\textsuperscript{13} highlights that the costs associated with becoming and remaining formal include: entry costs (registration costs); taxes, fees and social contributions; and compliance costs (e.g., with labour regulations and property registration). Benefits associated with being formal include a reduction in the risk of closure or having to pay fines or bribes, and greater ease to establish an enterprise at a permanent location. Formal enterprises have better access to (public) business development services, financial services and insurance services, and get better access to more diverse markets.

2. Manufacturing; agricultural/rural, and services MSMEs

Manufacturing MSMEs are enterprises engaged in the manufacturing or production of goods pertaining to any industry, or employing plant and machinery in the process of value addition to the final product having a distinct name or character or use. In Malaysia, for example, MSMEs in the manufacturing sector are involved in activities such as processing and production of raw materials, e.g., food, beverages, textiles, petroleum, wood, rubber as well as the assembling and manufacturing of electrical and electronics appliances and components, among others. Malaysian MSMEs account for more than 90 per cent of the total manufacturing establishments in the country.\textsuperscript{14}

Agricultural and rural MSMEs play a key role in securing access to food, alleviating poverty and growing the economy in rural areas that are often underserved. Small companies are found at each link of value chains as input suppliers, farmers, traders, processors, wholesalers and retailers. In countries such as India, population growth is increasing pressure on land, and agricultural production cannot absorb the ever-increasing rural labour force in agricultural employment. This leaves rural non-farm MSMEs to absorb those released from agriculture but not absorbed in the urban industries. The scope of rural industries relies on utilizing the natural and human resources existing in the countryside. The features of rural industrialization are low investment of capital, labour intensity and use of simple technology by employing local human and material resources.

Services MSMEs today export expertise directly to foreign markets, using digital platforms or other means; indirectly by providing services to local affiliates of multinational firms; or they sell to local exporters. MSMEs also engage with foreign firms through franchise agreements and by using foreign platforms for conducting their business locally.

3. Startups or growing enterprises

MSMEs play an important role in the wider eco-system of businesses. Startups and young firms, which are

\textsuperscript{13} ILO (2014). Enterprise formalization: Fact or fiction? A quest for case studies.
\textsuperscript{14} Saleh and Ndubisi, 2006, SME Development in Malaysia: Domestic and Global Challenges. School of Economics, University of Wollongong, NSW, Australia, Economics Working Papers.
generally small or micro enterprises, are the primary source of net job creation in many countries, and are the driving force of innovation and sustainability in the private sector. Startups are different from traditional businesses, primarily because they are designed to grow fast. By design, this means that they have something they can sell to a very large market. For most businesses, this is not the case. In the world of business, the word “startup” goes beyond a company just getting off the ground. It is also associated with a business that is typically technology-oriented and has high growth potential. Startups have some unique struggles, especially with regard to financing, because while the promises of fast growth and high returns are appealing to investors, the risks are commensurately high.

The reduction of barriers to entry in some markets that the Internet and digital commerce has brought about has also resulted in startups that might be termed “digital native”. These businesses have very limited attachment to any physical location or market, and might consider themselves (in practice more than in legal fact) as being only partially bound by the legal system of any one location. Having the ability to sell digital products or services online, with low overheads, means these firms can access huge numbers of customers and grow extremely quickly. For this reason, digital native startups are starting to be recognized as in need of unique regulatory approaches.

4. Cottage industries, townships and other typologies

A cottage industry is a small-scale, decentralized manufacturing business often operated out of a home rather than a purpose-built facility. In a country such as Bangladesh, cottage industries typically produce artisanal products using traditional methods for local consumption. For these reasons cottage industries may be impossible to scale up substantially; if they can be, it may be difficult to do so without changing the essential character of the business. Cottage industries can, however, have beneficial effects for diversifying income sources in households, and providing opportunities to women and persons with disabilities whose other employment options might be limited. In China, a particular class of business called the Township and Village Enterprise, owned and managed mostly by rural communities, became prominent in the latter half of the 20th century (see box I.1).

**Box I.1**

**Township and village enterprises in China**

In the Chinese context, township and village enterprises (TVEs) are a heterogenous group of enterprises that have played a significant role in the industrialization of China since the 1970s. Generally, when these enterprises became a part of China's industrial growth, ownership of TVEs was dispersed across all members of a local community, with ownership shares being non-transferable. TVEs were substantially under local government control, with the benefits to the community being returned as wages or public services. With the prices or distribution of certain inputs also controlled through local government, the success of some TVEs could be partially attributed to being connected to the planning system via local government. Various reforms have tried to address concerns over the somewhat nebulously defined property rights in TVEs over the years. Given the increasing demands on local government finances throughout the 1990s, the pressures on successful TVEs to provide more resources to local governments to fund services has resulted in an increasingly difficult environment for them.

The structure of TVEs in China owes much to the particular bias towards public, rather than private, ownership of assets during the country’s development. Rather than being a strictly defined class of enterprises, TVEs encompass a wide variety of ownership structures that differ depending on the local circumstances. Nevertheless, through subsequent decades of economic reforms, more and more TVEs are being privatized, management duties are increasingly being separated from ownership, and the ownership of assets held by the TVEs are being more strictly defined.


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Chapter II

MSMEs in Asia-Pacific: A brief overview

MSMEs are the backbone of the Asia-Pacific region’s economy and, due to their often-local nature, they can contribute to local resilience and economic complexity. MSMEs kindle domestic demand, create jobs, innovate, and compete nationally and, potentially, regionally. Access to finance and expanded markets are the key to MSME growth. Traditional MSME strengths in the region are in wholesale and retail trade, agribusiness, food processing, accommodation and other service-related business. MSMEs are a driving force behind Asia’s economies, accounting for an average 97 per cent of all enterprises and 69 per cent of the national labour force. Their contribution to GDP is considerably smaller, being on average about 41 per cent of each country’s GDP. Increased FDI inflows since the 2007-2008 global financial crisis encouraged the entry of large multinational enterprises (MNEs) into Asia, which created new demands for domestic products and services from MSMEs, typically in supporting industries for parts and components. Accordingly, such linkages were expected to improve labour productivity if MSMEs actively joined global value chains. However, the COVID-19 pandemic has caused a decline in domestic and foreign demand on, and investments in, MSME products and services. MSMEs are unstable entities, easily disrupted by external shocks such as economic and financial crises, disasters and sudden changes of business environment (like reaction to a pandemic).

Across the Asia-Pacific region, there are notable differences between the various regions and the MSMEs that make up considerable parts of these economies. From the largely agrarian MSMEs of Central Asia and the Pacific, to the more industrialized manufacturing MSMEs of North-East Asia and the service-oriented MSMEs of South Asia, the makeup of small businesses in the region is diverse. Some broad observations of the different Asia-Pacific regions and the most notable factors of the MSMEs within them follow.

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17 Data for Asian countries from ADB Asia Small and Medium-Sized Enterprise Monitor, 2015 and 2020.
18 Ibid.
Central Asia

The role of MSMEs in the Central Asian economies varies considerably, with figures indicating that they employ from a low of 19 per cent of employees in Kyrgyzstan to 77 per cent in Uzbekistan. The real number is hard to estimate accurately, due to the presence of an uncounted (or undercounted) informal economy making up about one-third or more of these nation’s economies.19

MSMEs make a larger contribution to the non-resource rich agrarian economies of Central Asia. In Afghanistan, for example, in 2009, 80-90 per cent of the enterprises were classified as MSMEs (defined as enterprises with less than 300 employees). Most of these enterprises were rural businesses and contributed to more than 50 per cent of GDP and 75 per cent of employment.20 In Tajikistan, according to the latest figures available from 2015, 54.7 per cent of the firms were classified as MSMEs according to the national definition and accounted for about half of total employment in the country.21 Uzbekistan presents similar structural characteristics. Although only firms with less than 100 employees were classified as MSMEs, they accounted for 56 per cent of total GDP and 76.5 per cent of employment in 2014.22

In comparatively wealthier Azerbaijan and Kazakhstan, a majority of firms are classified as MSMEs (94 per cent and 90 per cent, respectively), but they contribute a much smaller proportion of GDP (20 per cent of GDP in 2014, in Kazakhstan). This is explained by the GDP of those countries being substantially concentrated in the oil and gas industries, which is not typically the domain of MSMEs.23, 24

North-East Asia

Since the economic reformation in China, MSMEs have become one of the driving forces in the economy. In 2019, the number of MSMEs was estimated to be more than 38 million. According to the SME Promotion Law of China, MSMEs are classified based on the number of employees, annual revenue and total assets. For example, a medium-sized agricultural enterprise is required to hire a minimum of 500 people. A small-sized construction enterprise can have a maximum business revenue of US$ 8.5 million. Compared to the MSMEs in other economies, which often employ below 100 or 500 people, MSMEs in China stand out for their large size. Currently, MSMEs represent more than 90 per cent of the enterprises in the country. They also contribute more than 60 per cent to GDP and 70 per cent to patents, and account for 80 per cent of nationwide jobs in the country.25 The primary sectors for MSMEs in China are the industrial sector, construction, transportation, wholesale and retail business, and hotels and restaurants.

In the Republic of Korea and Japan, since the industrialization of those countries, MSMEs have typically supplied parts and components to very large firms or conglomerates (Zaibatsu in Japan and Chaebol in the Republic of Korea) as subcontractors. There are 3.5 million MSMEs accounting for 99.7 per cent of the total number of companies in Japan.26 One of the six parts of an industry revitalization plan announced by the Government of Japan in 2013 was to enhance innovation of SMEs through mobilizing resources, encourage entry into strategic markets and support MSMEs to export. The Government of the Republic of Korea has been making efforts to promote MSMEs and reduce their reliance on Chaebol.

In Mongolia, MSMEs make up almost 98 per cent of businesses but contribute only about 25 per cent of the country’s GDP.27 The

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SME Law was introduced in 2007 in which MSMEs are defined differently in different sectors, but always less than 200 employees, and with limits on turnover.28

**Pacific**

Pacific Small Island Developing States (SIDS) have extremely limited domestic markets and, thus, limited growth opportunities. Their competitiveness is also hampered by high transaction costs in moving goods across borders, making it difficult for them to become competitive and expand to international markets.

In Pacific SIDS, MSMEs also face many problems regarding access to finance, particularly in the agricultural sector. Many commercial banks are typically risk-averse and may be unwilling to recognize some specialized equipment as capital that can be loaned against, given the small or remote markets in which any seized property would have to be sold. The legal and regulatory framework, including insurance and credit rating practices, is also underdeveloped, contributing to a difficult environment for MSMEs seeking credit to expand their businesses.

**South Asia**

In South Asian countries, MSMEs are prevalent across the economies, playing an important role not only in agriculture and services, but also in manufacturing. In Bangladesh, for example, some 99 per cent of all non-farm enterprises fall into the MSME category, providing employment for 20.3 million Bangladeshi workers.29 The distribution of enterprises by broad economic activities and size reveals that the majority of MSMEs operate in non-manufacturing activities (around 90 per cent); however, 50 per cent of medium-sized businesses undertake manufacturing activities.30

In Sri Lanka, MSMEs account for 45 per cent of the country’s employment, and 52 per cent of the country’s GDP.31 Similarly, in Pakistan, MSMEs account for 78 per cent of the country’s industrial employment and 40 per cent of the country’s GDP.32 In Nepal, approximately 10 per cent of MSMEs are involved in manufacturing, but this figure rises to 20 per cent for medium-sized enterprises.33 The Maldives differs somewhat from other South Asian countries due to its size. Outside of the capital, where tourism is a significant sector, the MSMEs in more remote parts of the country are heavily involved in fisheries and agriculture.

**South-East Asia**

Asian Development Bank research has found that 97 per cent of enterprises in this region are MSMEs, and employ 69 per cent of the workforce and contribute 41 per cent of the GDP. Between 61 and 89 per cent of MSMEs in this region are in services, many engaged in traditional wholesale and retail trade. The proportion of MSMEs taking part in manufacturing activities in the region varies from 5 to 17 per cent. From 2010 to 2018, MSMEs in South-East Asia contributed an average of 20 per cent to countries’ export value.34

The MSME sector in South-East Asia is quite dynamic and various efforts are being made to improve opportunities for smaller businesses. Indonesia, Malaysia, the Philippines and Thailand have, for example, created dedicated MSME stock markets to increase the financing options available to these businesses. ASEAN maintains a Coordinating Committee on Micro, Small and Medium Enterprises (ACCCMSME) as a forum for discussion of MSMEs, and regional support for MSMEs from member States trying to expand internationally.

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Chapter III

Framing MSME Development Within the Sustainable Development Goals

MSMEs have the potential to contribute to the SDGs. As businesses that operate in so many sectors – manufacturing, agriculture, tourism and services – and as agile innovators discovering new ways of doing business, there are many different ways for MSMEs to further the cause of sustainable development. This chapter provides some insight into why MSMEs are relevant to the SDGs, and how MSME policy can enhance the contributions of these smaller businesses.

Policymakers in any given area who are striving to meet a country's SDG commitments can consider how MSME development issues will align with the SDG in question. The SDGs are transformative, and to meet them businesses will need to discover ways to do business differently. Furthermore, as larger scale changes take place around them, as a result of countries' commitments to sustainable development, MSMEs will need to adapt to more sustainable ways of doing business. Even policymakers, who do not generally focus specifically on MSME issues, may need to consider the effects of their SDG-related policies on MSMEs or could benefit from knowing how MSMEs can contribute to a more sustainable world. According to the Business and Sustainable Development Commission, sustainable business models could open economic opportunities worth US$ 12 trillion and create 380 million jobs by 2030, with more than 50 per cent located in developing countries.

When coordinating a country’s MSME objectives with its policies to achieve the SDGs, countries will naturally have to consider the level of development of the MSMEs within their homeland. For countries where a majority of MSMEs are informal, focusing first on bringing those businesses into the formal economy, which may help with their growth as well as assist their workforce with social protection, and help the Government to accurately understand the dynamics of their economy; such an approach may be a significant priority. Where many firms are informal, policies that target energy efficiency (Goal 7) or responsible consumption and production (Goal 12) in MSMEs could pose implementation and

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compliance problems. For those countries with more formalized MSMEs, looking to policies concerning competition and investment might rise in importance as a means to achieve Goals 8 and 9. The strategic goals of a country regarding the SDGs should feed down to sectoral policies, including MSME policies; in turn, the nature of these sectors and the progress being made should create feedback for further refinement of high-level strategic goals. Figure III.1 illustrates the SDGs.

Figure III.1
The 17 Sustainable Development Goals

A. Goal 1: End poverty in all its forms everywhere

Among the very poor, MSMEs are typically large providers of income and employment, and may constitute an important vehicle for the savings of families. In this regard, improving MSME productivity has the potential to lead to higher wages, inclusive growth and reduction in poverty.

With most poor in developing countries not employed and not earning enough to lift themselves out of poverty, job creation in the private sector has proved to be a main driver in the fight against poverty. During the past 30 years, the private sector has contributed to a sharp decline in the share of the population in the developing world living below the poverty line, from 52 per cent to 22 per cent.36 MSMEs contribute significantly to the employment creation process of the private sector. In emerging markets, four out of five new positions in the formal sector were created by MSMEs, which is about 90 per cent of total employment.37

Informal enterprises engage poor and marginalized populations. In lower income economies, a large share of MSMEs are informal enterprises and serve as a source of livelihood for the base of the pyramid population, made up of 4 billion people that earn less

37 Lessidrenskta, 2019, SMEs and SDGs: Challenges and opportunities, OECD Development Matters Blog.
than US$ 3,000 a year.\textsuperscript{38} It is estimated that more than 70 per cent of the workforce in developing countries operates in the informal economy either through self-employment or from work in enterprises that are not legally registered businesses.\textsuperscript{39} Given the flexibility of the informal economy, it provides opportunities for the poor, including women and youth, to earn money. Given the scale of informal employment, particularly in developing economies, support in formalizing MSMEs would be a step towards achieving Goal 1.

**Policy measures to support Goal 1**

MSMEs are taking a lead in helping to meet most of the economic-related SDGs. Thus, policymakers can:

- Ensure that labour markets and regulations for small MSME employers are straightforward, and present no impediment to recruiting, training and employing workers from poor, disadvantaged or rural backgrounds;
- Through education and outreach programmes, provide the tools and training necessary to support entrepreneurship among rural, poor and underserved populations;
- While seeking to integrate businesses into the formal economy, so that they benefit from a wider variety of government support and legal protection, ensure that policies adequately recognize the contributions to poverty alleviation made by the informal economy and do not unnecessarily penalize informal MSMEs.

**B. Goal 2: End hunger, achieve food security and improved nutrition and promote sustainable agriculture**

In many developing economies, MSMEs play a large role in the agriculture sector, and hence are the key to achieving food security and enhancing sustainable agriculture. Target 2.3 of the SDGs directly references MSMEs by aiming to double the agricultural productivity of small-scale food producers. In Asia-Pacific countries, the proportion of food produced by small-scale producers varies widely (from 43 per cent in Nepal, to 85 per cent in Armenia, for example\textsuperscript{40}) as do incomes (from a few hundred United States dollars per year to more than US$ 3,000 per year in countries such as Viet Nam and Mongolia.\textsuperscript{41}).

Small-scale farming by MSMEs can foster multi-cropping and less intensive agricultural practices, ensure sourcing from local entities, and demonstrate transparency in the agricultural supply chain, particularly when sourcing.\textsuperscript{42} All these factors can contribute to more sustainable agriculture. Furthermore, the presence of local-scale agriculture in rural communities can contribute to a wide spread of knowledge of appropriate agricultural techniques and conditions, in turn enabling better food security.

MSMEs have proved receptive to new techniques for improving the food supply chain. In India, food waste-reducing technologies minimize post-harvest losses and have resulted in reducing losses by more than 60 per cent – and increased smallholder farmers’ incomes by more than 30 per cent.\textsuperscript{43} Areas for innovation and new business include manufacturing of agricultural machinery that reduces carbon emissions, management of agricultural waste and tools to improve fertilizer use. While MSMEs are already active in these areas, building MSME capacity and enabling access to technology for small and medium-sized agriculture-based enterprises can contribute significantly to the achievement of Goal 2.

**Policy measures to support Goal 2**

The measures include:

- Recognizing the contributions of small-scale agricultural producers to food security and local communities, particularly in LDCs, and encouraging small-scale farming that fills local niches;
- Assisting MSMEs to recognize the opportunities tied to more sustainable agriculture, including access to green markets, longevity of certain resources (e.g., fisheries and topsoil), and the roles they can play in strengthening local communities via food security and nutrition;


\textsuperscript{39} Ibid.

\textsuperscript{40} Food and Agricultural Organization, Performance tracking of SDG 2.

\textsuperscript{41} Ibid.


● Enhancing technology access and provision of skills to agricultural MSMEs to improve productivity and protect agricultural regions from degradation.

C. Goal 3: Ensure healthy lives and promote well-being for all at all ages

The health-care sector is not frequently mentioned in conjunction with MSMEs. Nevertheless, a survey conducted by the AXA Group and the United Nations Environment Programme (UNEP) found 9 per cent of the 1,104 MSMEs surveyed were involved in the health-care sector.44 MSMEs can provide better-quality health-care services as well as a wide range of basic laboratory and imaging services.45 Further, MSMEs are progressively taking the leading role as innovators of low-cost, high-volume delivery models, driven by increased competition for the same customer base. However, MSMEs are facing multiple challenges, such as the lack of strict regulatory standards and the lack of resources to hire professionals with skills to manage the operational inefficiencies.46

To achieve SDG 3, MSMEs can contribute to areas such as low-cost surgery, better disease management, telehealth, remote patient monitoring, records management and health-care training. MSMEs already play a key role in these areas. The World Health Organization (WHO) estimates that achieving the SDG health targets would require new investments, increasing over time from (a) an initial US$ 134 billion annually to US$ 371 billion, or US$ 58 per person, by 2030 under the “ambitious scenario”, and (b) new investments increasing from an initial US$ 104 billion per year to US$ 274 billion, or US$ 41 per person, by 2030 under the “progress scenario”.47

Policy measures to support Goal 3

The main measures to support Goal 3 include the following approach:

● Informality of a business can mean that employees or owners do not have access to certain health-care or social security benefits. Therefore, formalizing MSMEs can play a role in improving health outcomes;

● Health care can be an area where regulation of service provision is very complex. Streamlining the administrative and regulatory burden on health-care service providers could enable the participation of more MSMEs;

● To mitigate the COVID-19 pandemic, work-from-home measures have been enacted by many countries. Governments may look to guiding their MSMEs in instituting practices that enable them to effectively remain working while staff stay home or use hybrid models.

D. Goal 4: Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all

In many developing countries, public schools alone are insufficient to ensure the inclusiveness of education services needed to reach the targets included in SDG 4. In many countries, MSMEs conducting business in the education sector could provide complementary education services, expanding the access to educational services to the general public. MSMEs could contribute to achieving SDG 4 by expanding inclusive access to education services and improving skills of youth and women for obtaining decent jobs. MSMEs often play a role in the technical and vocational education and training sector through offering work-based learning programmes like apprenticeships. In some areas, MSMEs can be a key provider of education services, such as private schools or tutoring centres.48

While also acting as providers of education in underserved areas, MSMEs also stand to benefit significantly from steps towards achieving SDG 4. As a key source of employment for many poor people across the region, MSMEs draw their talent from a pool that receives patchy access to high-quality education. By further improving the reach of education at all levels, but particularly the disadvantaged, MSMEs will have access to higher skilled and more adaptable workers.

44 Blue Orchard Academy, 2017, SMEs and SDGs: Supporting Small and Medium Enterprises to Achieve the Sustainable Development Goals – Insights from a Blue Orchard Survey.
46 Ibid.
Policy measures to support Goal 4

The measures include:

- Supporting MSMEs in the creation of apprenticeships, career education, internships, work-based learning and programmes that give students earlier access to business environments;\(^49\)
- Providing employees with continuous learning opportunities to improve their skills for their current and future employment.\(^50\) This may be achieved by mobilizing international, private or government funds.

E. Goal 5: Achieve gender equality and empower all women and girls

A significant number of MSMEs are women-owned or led, and SDG 5 aims to improve women’s access to economic resources, promote gender equality and include women in decision-making at all levels of society. Based on the findings from the International Finance Corporation’s (IFC) Enterprise Finance Gap Assessment Database, East Asia and the Pacific have the highest overall number of women-owned MSMEs, while South Asia has the least.\(^51\) Formal women-owned MSMEs are more likely to have a larger presence in (a) the retail and wholesale, and (b) healthcare, beauty, and cosmetics sectors. They have close to equal footing in the tourist, transport, hotels and restaurants, and trade sectors, and a slightly lower presence in the manufacturing, agriculture, and construction sectors.\(^52\)

The IFC has found that women constitute a fifth of the total workforce in the MSME sector.\(^53\) Disaggregated data across MSMEs shows that women’s employment, like ownership, is the highest in the case of micro enterprises, followed by small and then medium enterprises. According to available data, the rate of women’s employment in registered MSMEs is 20 per cent and 13 per cent in unregistered enterprises.\(^54\) However, women are employed predominantly in low-skilled jobs and face low wages, adverse working conditions, and almost a complete lack of social security and maternity benefits, or protection against sexual harassment. Improving employment conditions for women in MSMEs will therefore help to achieve this SDG.

Policy measures to support Goal 5

The measures include:

- The Women’s Empowerment Principles, promoted by UN Women and the UN Global Compact, provide a framework for promoting gender equality in the workplace, marketplace and community. Policymakers should consider how to encourage implementation of these principles fully in MSMEs for the benefit of businesses and women.\(^55\)
- Encouraging MSMEs to adopt gender inclusive policies within their business practice and in their value chains. This includes ensuring equal pay and benefits for work of equal value, zero-tolerance of all forms of violence at work, supporting women with flexible work arrangements, providing child and dependent care support, promoting women in management positions and increasing gender balance in the teams.\(^56\)

F. Goal 6: Ensure availability and sustainable management of water and sanitation for all

MSMEs provide water and sanitation services, and technological innovations in this space inspire MSMEs, such as taking “water from air.”\(^57\) MSMEs fill the gap in many developing countries where the public sector fails to reach communities, particularly low-income families. In Asia, MSMEs, either

\(^49\) Blue Orchard Academy, 2017, SMEs and SDGs: Supporting Small and Medium Enterprises to Achieve the Sustainable Development Goals - Insights from a Blue Orchard Survey.

\(^50\) Edwards, 2018, UN Sustainable Development Goals for Small Businesses.


\(^52\) Ibid.


\(^54\) Ibid.


\(^56\) Edwards, 2018, UN Sustainable Development Goals for Small Businesses.

through their own funds or with loans and some equity, are delivering water and creating sanitation infrastructure in the rural-remote or dense-urban areas. These MSMEs provide, in various innovative ways, safe water in cans or affordable water filtration systems; similarly, they provide household latrines with onsite waste treatment or transportation and treatment/recycling of the waste. MSMEs in the water and sanitation sector, however, face difficulties in viability due to limitations in demand, lack of business and technical skills, and financial challenges such as access to credit. Capacity-building of MSMEs in the sector can contribute to the goal.

The agricultural and food supply chain also play a role in water conservation. The discussion of Goal 2 above touches on the importance of agricultural MSMEs; the agriculture sector is by far the largest user of freshwater, accounting for nearly 70 per cent of global water withdrawals. Saving just a fraction of this can alleviate water stress in other sectors, particularly in arid countries where agriculture can consume as much as 90 per cent of available water resources. MSMEs active in the agricultural value chain can contribute to water savings by increasing productivity of food crops, improving water management practices and technologies, implementing sustainable agricultural practices, and growing fewer water-intensive crops.

The World Bank identified a potential US$ 1.2 trillion market for MSMEs in the developing world in the area of “clean technology” for the decade ending in 2023. This includes numerous opportunities in waste management. MSMEs are well-placed to operate in this sector as they are already engaged in areas such as construction, installation, operations and maintenance, and the connection that MSMEs have to local markets.

Policy measures to support Goal 6

The measures include:

- Facilitating the provision of water, sanitation and hygiene (WASH) facilities at MSMEs’ workplaces, and developing advocacy and education campaigns for WASH among employees;
- Ensuring that MSMEs are included in campaigns to improve waste management and water efficiency across all industries;
- Conducting assessments in industries where water polluting chemicals are widely used, to determine where MSMEs can make an outsized contribution to water quality improvement by substituting more environment-friendly alternatives in preference to hazardous substances.

G. Goal 7: Ensure access to affordable, reliable, sustainable and modern energy for all

Goal 7 targets energy access, energy efficiency and sustainability. Individual MSMEs generally have low environmental footprints, mostly due to their lack of size. Due to the number of MSMEs in the economy, however, their combined contribution to energy demand is large. MSMEs may produce more pollution than big businesses because of their informal nature and the resulting lack of regulations and supervision. Studies have estimated that these businesses can contribute up to 60-70 per cent of pollution levels in developing economies. Encouraging MSMEs to adopt green technology and other environment-friendly strategies is therefore essential to achieving Goal 7. A study in India showed that an estimated 26 million MSME enterprises account for about 45 per cent of India’s industrial production and 40 per cent of exports; out of 400 manufacturing clusters, nearly half comprise energy-intensive sectors (metallurgy ceramics, glass, textiles etc.). According to the study, the majority of the MSME clusters use conventional and inefficient technologies. The total energy-saving potential of MSMEs in 36 clusters was identified as about 16 per cent of their total energy consumption. Uptake of energy efficiency measures remains low and is attributable to non-availability of technologies, lack of local service providers, poor technical capacities of MSMEs and limited access to credit. Box III.1 introduces an MSME providing an innovative model for rolling out renewable energy infrastructure in India.

61 Asia Pacific Economic Cooperation (APEC) Policy Support Unit, 2018, Identifying Green, Sustainable and Innovative MSMEs in APEC. Policy Brief No. 19.
62 Ibid.
63 Agence Française de Développement (AFD), Bureau of Energy Efficiency (BEE) French Environment and Energy Management Agency (ADEME), and the Energy and Resources Institute (TERI) (undated). Benchmarking and Mapping Indian MSMEs Energy Consumption.
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Policy measures to support Goal 7

The measures include:

- Establishing energy efficiency certifications and education for MSMEs to reduce energy emissions;
- Reducing the use of polluting transport by MSMEs employees, such as cars and planes, by prioritizing telecommunications and low-energy modes of transport;
- Investment in local infrastructure to ensure that MSMEs, particularly in underserved and rural areas, can access sustainable energy rather than unsustainable and inefficient traditional fuel sources;
- Supporting MSME investment in R&D related to sustainable energy services in order to accelerate the energy transition;
- Ensuring that government programmes to incentivize green initiatives and renewable energy are applicable to MSMEs that would take advantage of them, and not unduly limited to only non-commercial participants, or alternatively, only large commercial participants.

H. Goal 8: Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all

About a third of the GDP of emerging economies comes from MSMEs, and efforts to include informal businesses in these measurements can raise that total to above half of GDP. Jobs provided by MSMEs, however, usually have lower salaries, grant fewer workers rights, and may be more insecure than larger enterprises. Because of informality, it is also difficult to ensure that jobs provided by informal MSMEs are fully covered by a social protection network. The formalization and development of entrepreneurship, as envisaged in this goal, will require tackling various challenges that MSMEs face, including creating more enabling policy and regulatory frameworks, increasing access to finance and market information, building up MSMEs capabilities and improving MSME-relevant infrastructure.

Further, strengthening the ability of MSMEs to access markets and expand their businesses through value chains is also a key approach. Access to credit continues to be a constraint on the growth of both formal and informal MSMEs. With limited assets to use as collateral, MSMEs are often perceived by commercial financing institutions as high-risk borrowers, which means they pay higher interest rates and fees. Increasing access to credit for MSMEs can occur through new and innovative methods (box III.2).

Box III.1
Simpa Networks in India

Simpa Networks provides a basic, portable solar home system in an off-grid utilities model to primarily rural customers in India through a lease-to-own model. The system includes a low-cost meter connected to a cloud-based software that enables Simpa to track customer usage. Customers make an initial down payment for the installation and then select how much energy credit to purchase. A portion of this payment covers the repayment cost of the system, while the rest goes to Simpa as profit and to cover operational costs. Once fully paid (typically within two to three years), the system unlocks permanently and continues to produce electricity for the customer for free. Simpa has installed over 15,000 solar home systems in India and is rapidly growing.

Source: http://www.simpaenergy.in.

Box III.2
The ICICI Bank MSME Programme

The ICICI Bank, in India, has positioned itself to partner with MSMEs and provide non-traditional financial services that enable them to access finance on terms more suited to their special circumstances. The bank's approach counts on relationship managers, market segmentation, site visits and credit scorecards based on particular industries to determine MSME creditworthiness. With this approach, the bank has built up its client base to almost 1 million MSMEs. While this has dramatically increased the business's MSME loan portfolio and its revenues, the accompanying challenge is that since MSMEs borrow less money, a much higher number of loans need to be issued to make this strategy profitable.

Source: The Climate and Development Knowledge Network (CDKN), 2015, “Increasing MSME Access to Climate Finance.”
Policy measures to support Goal 8

The measures include the following:

- Given the role MSMEs play in providing employment, they will substantially contribute to goal 8. However, to ensure the growth they generate is inclusive, sustainable and provides decent work, measures to formalize MSMEs such as enabling regulation and providing training for MSMEs should be enacted;

- Grant facilities, preferential rates and loan guarantee programmes can be put in place to bridge the finance gap for MSMEs gap. Well-managed schemes need to provide support and capacity-building to ensure owners of small-sized businesses only take on acceptable amounts of risk and avoid bad debts;

- MSMEs should not have excessive exemptions from the labour market regulations applied to larger firms, and they must be encouraged to resist unfair hiring practices, promote decent work standards and play their part in ensuring access to social security provisions for all.

I. Goal 9: Build resilient infrastructure, promote inclusive and sustainable industrialization, and foster innovation

This goal covers three areas: (a) provision of resilient infrastructure; (b) industrialization, including development of small-scale industrial enterprises; and (c) promotion of research and innovation. Small-scale industrial enterprises, which certainly include MSMEs, are directly relevant to the goals. Manufacturing value-added of small-scale enterprises varies considerably across developing countries.

The infrastructure needs of MSMEs may differ from those of larger businesses. While high-capacity transmission lines and heavy transport infrastructure serving industrial parks will serve businesses on the larger end of the spectrum, and possibly medium enterprises, small and micro enterprises are more likely to depend on local, decentralized infrastructure. MSMEs can also play a role in the provision of such infrastructure, such as through partnering with telecommunications providers to roll out infrastructure in underserved areas. By their nature, MSMEs are also typically well-placed to create innovations that find success in particular niches of the economy, and in a large enough field of innovators some of these will be able to replicate their success in broader environments. To achieve this, MSMEs need access to coaching and training services that will enable them to target new markets and successfully transition through the different stages of business growth.

Policy measures to support Goal 9

The measures include:

- Supporting MSMEs in the uptake of new technologies through require capacity-building, knowledge and technology transfer, financial resources and an enabling policy framework;

- Facilitating access to finance for MSMEs that enable business owners to innovate, improve efficiency and expand into new markets, while being able to fail in a non-catastrophic manner should these innovations and expansion fail;

- Where possible, open up markets that have typically been monopolized by large firms (such as infrastructure provision), such that MSMEs may be able to enter into providing services enabled by new technology such as smart metering electricity or microgrids.

J. Goal 10: Reduce inequality within and among countries

This goal has a range of targeted outcomes, including: (a) increasing incomes for low income earning groups; (b) ending discrimination; (c) promoting social, economic and political inclusion; (d) promoting better wage and social protection policies; (e) facilitating safe migration; (f) reducing remittance fees; (g) monitoring regulation of global financial markets; and (h) increasing the participation of the LDCs in the international system.

MSMEs are often located in isolated geographic locations with lower levels of population and limited markets that do not have enough scale to attract larger firms. Research has shown that smaller businesses tend to spend more of the money they make from a local area within that area, demonstrating their potential to regenerate economically disadvantaged places. MSMEs tend to be labour-intensive and employ many segments of the population, including young people, women, low-skilled workers and the disabled.
Social enterprises can help bridge inequalities, and many social enterprises are MSMEs. They bring innovative solutions to the problems of poverty and fill gaps in service delivery. In many countries, social enterprises are an increasing phenomenon. Companies pursuing social impact as a part of their core business strategies are seeing increased access to financing in a diversity of forms – philanthropic grants and impact investments, partial credit guarantee, and payment for performance. An example is provided in box III.3.

**Box III.3**

MSMEs accelerating inclusivity in Singapore – Dignity Kitchen

Dignity Kitchen is a social enterprise that runs Singapore’s first and only community food court. It is operated by people with disabilities and the socially disadvantaged. The business provides educational and employment opportunities in the food services industry to vulnerable people from all walks of life, including those with physical, intellectual and mental disabilities, ex-offenders, at-risk youth, victims of domestic violence, cancer cases and stroke survivors. Dignity Kitchen offers bespoke cashier training to the hearing- and visually-impaired – the cashier machines have Braille markings and stickers attached to them and provide height-adjustable countertops to create a more enabling work environment for wheelchair-bound ‘hawkerpreneurs’.


Policy measures to support Goal 10

The measures include the following:

- Male and female employees of the same competency should receive the same remuneration. Employees should not be preferentially treated based on discriminatory grounds such as gender, race or religion;
- States should include the employees of MSMEs in their social protection systems, including access to paid leave, social security contributions and payment of life, accident and unemployment insurance.

**K. Goal 11: Make cities and human settlements inclusive, safe, resilient and sustainable**

MSMEs in cities can contribute to challenges common across all concentrated urban areas, such as affordable housing, waste management and transport. Where cities have unique problems, the small scale of MSMEs can help to find local solutions and make cities more resilient and sustainable. Where the management of a firm is intrinsically linked to the area in which it operates, which is often the case for small businesses, they can be more motivated to contribute to improvements in the local environment and be more concerned with the quality of the local municipality. Enabling local businesses to pursue opportunities to upgrade their cities will contribute to the achievement of this goal (box III.4).

**Box III.4**

Daily Dump improves organic waste management in India

Daily Dump is dedicated to empowering households, individuals and urban communities across India to convert their organic waste to high-quality compost. One hundred and thirty Indian cities generate 120,000 tons of waste per day, of which more than 50 per cent is wet/organic waste. Municipalities face huge challenges in handling this waste. Daily Dump started in 2006 with a core team of three members, two support members and potters who made prototypes. Their range of composting solutions has prevented 4,400 kg of waste from reaching land dumps. Once the organic waste production reaches a certain volume, it is transported to villages to support organic farming.


Policy measures to support Goal 11

The measures include:

- Through local MSME associations or Chambers of Commerce, encourage MSMEs to take part in discussions and analysis of the problems in their local cities;
- Provide a conducive environment for startups and other MSMEs to recognize and take up sustainable and commercial activities that contribute to resilient and sustainable cities, such as by considering whether services which may have typically been provided
by regional monopolies can be exposed to competition at smaller scales.

L. Goal 12: Ensure sustainable consumption and production patterns

This goal includes targets for substantially reducing waste generation through prevention, reduction and recycling by 2030, and promotes sustainable management of natural resources, sustainable lifestyles and consumption behaviour as well as sustainable business practices and sustainability reporting for businesses.

MSMEs make up a core portion of economic activity. Therefore, reducing their environmental impact will be necessary to reach this goal. In Asian and Pacific countries such as India, for example, there are a significant number of MSMEs that belong to categories recognized as highly-polluting industries, i.e., chemical and allied industries, leather industries, textile processing, drugs and pharmaceuticals, agro-chemicals and food processing industries. MSMEs find it hard to comply with environmental standards due to factors such as the lack of: (a) information, access to capital, adaptation of environmental regulations to the social, economic and technical reality of local businesses, and effective possibilities of control bodies; (b) difficulty in recruiting qualified personnel; and (c) less awareness about environmental issues and less environmental pressures from stakeholders. Building the capacity of MSMEs in these areas is therefore the key to the achievement of this goal.

Policy measures to support Goal 12

The measures include:

- Encouraging MSMEs to reduce manufacturing impacts by substituting raw materials in products with post-consumer materials through recycling and upcycling;
- Promoting incentives that significantly reduce waste and ensure that any unavoidable waste is utilized to the fullest possible degree (e.g., organic waste as fuel or fertilizer);
- Encouraging local government provision of audit services to MSMEs to see where money is being spent, what waste it relates to and what MSME entrepreneurs could do to prevent negative environmental impacts, as the first step towards developing an impact reduction plan;
- Encouraging the creation of start-ups and MSMEs dealing with public procurement, consumer information (such as eco-labelling and certification), sustainable tourism, lifestyle education, building renovation, construction and food systems.

M. Goal 13: Take urgent action to combat climate change and its impacts

Climate change continues to be a focus of the international community, and action needs to be taken immediately to ensure a sustainable future for all. This goal targets adaptation against impacts of climate change, strengthening planning to integrate climate risks at various levels, increasing awareness of stakeholders on climate risks and impacts, and building global cooperation to support climate action and the capacity of countries to address climate issues.

MSMEs have the potential to make vulnerable populations and households climate-resilient. Given that MSMEs create employment and entrepreneurship for a large proportion of the population in developing countries, they can enhance capacities of households through stable and diversified incomes to help withstand the impacts of climate-induced shocks and stressors such as pandemics. For MSMEs themselves, however, their lack of access to capital and the concentration of their activity to limited geographic areas can make them more vulnerable to the effects of climate change. In this regard, actions to mitigate climate impacts can have beneficial effects for the stability and wellbeing of MSMEs as well as their ongoing support of local employment and service provision.

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65 Aguilar, 2016, Promoting the Participation of Small and Medium-Size Enterprises (SMEs) in Green Public Procurement. The Sustainable Public Procurement (SPP) Programme of the 10-Year Framework of Programmes on Sustainable Consumption and Production Patterns (10YFP).

66 Edwards, 2018, UN Sustainable Development Goals for Small Businesses.

Policy measures to support Goal 13

The measures include:

- Providing knowledge products to MSMEs to help them better understand climate risk as well as build resilience into a company’s assets and supply chain;
- Enhancing the ability of MSMEs to use more sustainable forms of travel and product delivery through integrating them with modern supply chains and logistics networks, and leveraging technology to streamline dispatch;
- Promoting responsible procurement practices and the adoption of energy efficient LED lighting.

N. Goal 14: Conserve and sustainably use the oceans, seas and marine resources for sustainable development

Small-scale fishery and marine-based enterprises are directly relevant to this goal, which pursues sustainable management of marine and coastal ecosystems, and the protection of marine resources and environments. Target 14.b specifically mentions small businesses that “provide access for small-scale artisanal fishers to marine resources and markets.” The small-scale, artisanal fishery sector encompasses pre-harvest, harvest and post-harvest, and employs both men and women in almost equal measure, with a high female participation in fish processing and small-scale fish trading operations. Some 90 to 95 per cent of the catch produced by small-scale landings is used for consumption by local communities and in some developing countries, including SIDS. If small-scale fishers had the capacity to monitor fishery management systems, it could help in part to relieve environmental pressures stemming from overfishing and stem the tide of illegal, unreported and unregulated (IUU) fishing.

New business models/solutions offer opportunities to help MSMEs achieve the SDGs. The OECD projects a marked acceleration in economic activity in the ocean by 2030, based on the rapidly expanding ocean industries combined with expectations of moderate growth in already large industries such as maritime and coastal tourism, offshore oil and gas, shipbuilding, and maritime equipment. Conservatively, ocean-based industries’ gross value-added could double in size by 2030, reaching around US$ 3 trillion. Some ocean industries’ value-added is set to grow even faster than the world economy. These industries include marine aquaculture, capture fisheries, fish processing, offshore wind and port activities. Emerging trends include the use of living marine resources such as algae for pharmaceuticals and chemicals, trade of non-edible seafood products for use in cosmetics, and marine renewable energy sources including wave, tidal and ocean thermal energy conversion, and marine biotechnology.

Policy measures to support Goal 14

The measures include:

- Developing training as part of business development programmes on product lifecycles for MSMEs to understand which products could likely find their way into marine environments;
- Incentivizing MSMEs to record and disclose information on the chemical makeup and material usage of products, packaging and processing systems to facilitate closing the loop;
- Promoting understanding of climate risk and build resilience into a company’s assets and supply chain;
- Proposing an ecosystem-based management approach for MSMEs and fishery companies with specific rules to fight IUU.

O. Goal 15: Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, halt and reverse land degradation, and halt biodiversity loss

Small-scale food producers make up 90 per cent of farmers worldwide. Adoption of agro-ecological methods through capacity-building of small-scale producers can foster biodiversity, natural soil fertility, water conservation and biological control of insects as well as shift food production to a sustainable path. Today, much of what we eat is produced by an industrial agricultural system that has maximized yields, but which threatens human

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69 OECD, 2019, Rethinking Innovation for a Sustainable Ocean Economy.
70 Ibid.
health, and degrades both land and sea. Here, MSMEs can take up organic agriculture to reduce consumer reliance on food from industrial agricultural production systems. Organic agriculture, as a part of sustainable agriculture in developing countries, offers a unique combination of low external input technology, environmental conservation and input/output efficiency.

More and more enterprises are seeing the commercial potential in sectors related to ecological restoration, including those whose main value proposition is linked to forest and landscape restoration. This may be a direct link – for example, enterprises that plant trees – or an indirect one, such as companies that offer technology or consulting services for restoration. A restoration enterprise can also include companies whose revenue is not directly linked to restoration, but whose customers are drawn to them because they channel their profits toward restoration. Existing MSMEs and start-ups need to be supported with capacity-building to tap the new business opportunities stemming from contributing to the SDGs.

**Policy measures to support Goal 15**

The measures include:

- Commitment to, and implementation of responsible sourcing practices beyond compliance, applying environmental and social safeguards for all raw materials and commodities;
- Promoting technology innovation by MSMEs to maximize resource efficiency, reduce ecosystem impacts and decrease carbon emissions.

**P. Goal 16: Promote peaceful and inclusive societies for sustainable development, provide access to justice for all, and build effective, accountable and inclusive institutions at all levels**

This goal focuses on reducing all forms of violence, and ending exploitation, trafficking and violence against, and torture of children. The targets promote rule of law, calls for reducing illicit financial and arms flows, reducing corruption, promoting transparency of institutions, promoting participatory decision-making and access to information, ensuring legal identity through birth registration, promoting international cooperation, and non-discriminatory laws and policies.

Maintaining sound business ethics and integrity can help to strengthen customer relationships, improve reputation and win more business. Businesses no longer view adoption of good governance standards as compliance but also internalize these approaches as part of business risk management strategies. MSMEs can adopt strong governance principles if they are provided with the necessary support and resources. This is another strong reason to provide MSMEs with support to formalize where possible, as it brings them into the broader structures of governance, regulation and protection that can aid in the protection of workers from violence, trafficking or exploitation.

MSMEs have a part to play in conflict and violence prevention. They provide incomes to poor families, women and youth through employment and entrepreneurship opportunities. Supporting women and youth-led enterprises is therefore considered an effective strategy for violence prevention, as incomes from entrepreneurship can motivate young people not to take up arms or to participate in crime. Supporting youth and women-led businesses, particularly those who are marginalized (such as persons with disabilities) can contribute to a more inclusive society which, in turn, promotes peace. Individual MSMEs have the potential to adopt actions in their business practice to contribute to this goal.

Supply chain policies and programmes offer key opportunities for companies to scale up their sustainability practices, thus contributing to the advancement of the SDGs. Traceability is the ability to identify and trace the history, distribution, location and application of products, parts and materials, to ensure the

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71 The Sustainable Development Goals Fund, University of Pennsylvania Law School, and McDermott Will & Emery LLP, 2017, Business and SDG 16, Contributing to Peaceful, Just and Inclusive Societies.
reliability of sustainability claims in the areas of human rights, labour (including health and safety), the environment and anti-corruption. Adopting traceability schemes and initiatives can lead to an increase in market base and appeal (box III.5).

Box III.5
Promoting stronger governance in MSMEs

Global traceability organizations, such as the Forest Stewardship Council, the Marine Stewardship Council and UTZ Certified, engage with stakeholders along the entire value chain. This allows for the development of a credible and robust chain of custody standards and certification for products from the raw material to the final use phase. Dipantara, a small community wood-trading initiative in the province of Java, Indonesia, has developed a group business model aimed at helping smallholder farmers and farmers’ groups in the Asia-Pacific region to sell their wood to the international market. Maisons du Monde, a UN Global Compact participant signatory, and The Forest Trust homeware retail member have supported the Dipantara farmers’ initiative by placing orders for their stores. Dipantara, as a non-profit business entity, partners with farmers’ groups and farmers that have registered with the business. It has successfully helped these farmer groups achieve Forest Stewardship Council certification. The initiative’s efforts help buyers identify the source of wood and trace it back to the tree stump, while at the same time increasing revenues for farmers with smallholdings.


Policy measures to support Goal 16

The measures include:

- Guiding MSME networks and associations to provide ready-made codes of conduct for adopting ethical business practices and standards, in order to enable smoother integration of these standards across value chains;
- Ensuring that clear and accessible information is available for MSMEs regarding acceptable practices in accordance with international standards on violence and exploitation;
- Supporting organizations or participation of employees in training programmes on the prevention of violence; incorporating violence prevention measures in enterprise management regulations.

Q. Goal 17: Strengthen the means of implementation and revitalize the global partnership for sustainable development

This goal covers multiple topics, including financing of development aims, international partnerships and cooperation, and cooperation across science, technology, data and other fields. For an overview of global and regional organizations and platforms that are working on topics of relevance to MSMEs, see appendix A and the example in box III.6.

MSMEs are a source of partnership to implement the SDGs. Small businesses address societal needs through market solutions, as demonstrated by social enterprises (see Goal 10). MSMEs also play a role in public-private partnerships (PPPs) to provide services for addressing various developmental challenges. They can participate in dialogues with Governments and communities to find solutions to development problems as they work closely with communities. They can contribute to society through Corporate Social Responsibility (CSR) practices.

CSR has been a well-known concept, although the interpretation of this concept differs among countries, companies and stakeholders. In some cases, CSR has been abused as a marketing ploy, masking unsustainable practices of companies; in others it has simply constituted a charity event, again, often to mask the negative impacts of companies’ operations. Increasingly, companies are adopting sustainable business practices as an integral part of their corporate strategies. Some businesses also engage in social or impact investment and/or play active roles in development cooperation, including the provision of disaster relief and humanitarian assistance. In this regard, the concept

Global Compact, Global Reporting Initiative and ISO 26000, have been increasingly adopted by many companies, usually the bigger MNEs. However, two main issues can be identified that require attention by both policymakers and companies. First, many companies in the Asia-Pacific region, and in particular the millions of MSMEs, are slow to adopt RBC instruments as they are considered to undermine their competitiveness and belong to the realm of the public sector. Second, the increasing number of different RBC instruments and sustainability frameworks has led to a certain level of confusion, and imposed cumbersome and duplicative reporting burdens on companies; therefore, some form of convergence is required.

Aside from RBC instruments, individual MSMEs have the potential to adopt actions in their business practice to contribute to the goals. For example, an MSME can seek out a local community initiative that advances sustainable and inclusive development that the organization is close to, and have a conversation on how the business can support their work. They could also partake in SDG-related partnerships like the United Nation’s Make the Global Goals Local campaign, the SDG reporting initiative and locally-based sustainability initiatives.

Policy measures to support Goal 17

The measures include:

- Addressing emerging issues in the Asia-Pacific region better through further research, guidance, and capacity-building among MSMEs (especially in the areas of biodiversity, human rights and supply chains);
- Promoting and showcasing best practices in the application of global RBC instruments;
- Encouraging business networks in the Asia-Pacific region, including multi-stakeholder partnerships, to develop guidance and tools for RBC;
- Bridging the implementation gap between global RBC instruments and Asia-Pacific companies by offering companies more useful guidance for implementation of these instruments.

R. Strategic coordination to achieve the SDGs

A full discussion of policy coordination to achieve the SDGs is beyond the scope of this book; nevertheless, some observations on governance structures with regard to the SDGs and MSMEs are offered here.

While overall national guidance is important, much of the responsibility and work of implementing the SDGs lies with local institutions. As such, work is required to create effective coordination mechanisms between all the various local bodies that implement SDG policies and higher-level supervisory bodies that set and evaluate country-level strategies. The implementation of the SDGs will necessarily require making difficult trade-offs.
requiring the involvement of different ministries, departments, agencies, and centres of government to find the balance between at times competing goals. A survey conducted by the OECD for example, found that coordinating across ministries was the biggest challenge listed by centres of governments (presidents and prime minister's offices) in delivering on the SDGs.73

One possible mechanic through which SDG coordination can be achieved is by identifying a key ministry for each SDG to coordinate and steer policy and targets for that goal. An inter-ministerial committee or board can then comment on coordination matters, and further compile relevant inputs for informing policy and strategy at the highest level, such as in a Presidential or Prime Ministerial Office.

Regardless of the institutional structure, it is recommended that inter-ministerial commissions be endorsed at the highest level (by the head of state or government), and engage ministries of planning, finance and economy, health, education and social development, agriculture, environment, and gender equality, the chambers of commerce, and national statistical offices.74 Furthermore, commissions should have local government participation, as well as representation from civil society and academia. Non-governmental representatives should act as interlocutors on behalf of their broader constituency and, in this regard, it is important to ensure that the process is transparent. For more information on coordination mechanisms of SDG implementation, refer to the UNDP guidance note.

73 OECD, Survey on the role of the Centre of Government in the implementation of the SDGs (OECD 2016).
74 UNDP (2017), The Institutional and Coordination Mechanisms Guidance Note on Facilitating Integration and Coherence for SDG Implementation.
Part II

General economic policies influencing MSMEs

Part II discusses government policies that influence MSME development in various countries. As the leading creators of new working places and a vital core of the market economy, the experiences from various countries show that MSMEs are a vital link to economic well-being. Government policies affect different levels of entrepreneurial activity. The mix of policy options depends on several factors, including the prevailing attitudes of the population towards entrepreneurship, the structure of the labour force, the size and role of government, the prevalence of the current level of entrepreneurial activity, among others. Since MSMEs can directly alleviate poverty by increasing income levels and creating jobs, Governments have embraced policies promoting development and growth.

Therefore, Part II shares typical characteristics of a set of macroeconomic policies that countries adopt and tailor to meet their national, provincial and local development needs that have direct and indirect impacts on MSME development.
Chapter IV

Macroeconomic issues that matter for MSMEs

A. Macroeconomic policy levers for MSME development

Macroeconomic theory studies a country’s general economic activities and the policy factors that have an impact on them. The economic policy aims to grease the wheels of economic activity, ensuring productivity and job quality while maintaining financial stability. A Government can use policy levers to stabilize the economic cycles in optimizing its economic performance, and can apply various tools and measures to achieve these purposes. A Government has the power to tax and spend (fiscal policy). Similarly, it has authority over the central bank, which sets the interest rates that influence credit (monetary policy).

Macroeconomic policy refers to how Governments and other policymakers intervene to improve economic performance and well-being. It starts with setting policy objectives to achieve sustainable economic growth and development, stable prices and full employment. Macroeconomic policy is critical for businesses, including MSMEs, due to its influence on business performance and growth. Macroeconomic policymaking targets economic variables such as inflation, exchange rates and employment levels, and changes in policy settings at the macro level also filter down to the level of MSMEs. Therefore, macroeconomic stability is one of the primary issues of economic policymaking and among the usual objectives of a country’s central bank.

Macroeconomic policy intervention, however, is a challenging task as some of the objectives set potentially conflict with each other. For example, a central bank could set inflation targets that often run counter to reaching full employment. This is because the tools used to reduce price inflation are usually increased interest rates or restricted credit – they slow down economic activity. Further, assuming a “one-size-fits-all” macroeconomic stimulus plan aimed at businesses will not have the same effect on all industries.

Keeping the aforementioned in mind, policymakers need to choose between different policy instruments once policy objectives and targets have been established. These instruments are the levers of control of the macro-economy. They include monetary instruments, such as interest rates set by the central bank, and fiscal instruments like tax rates and government spending. For example, government infrastructure programmes or a policy of low-interest rates will induce employment growth through increased spending by government and private actors.78

MSMEs can be critical to realizing the macroeconomic objectives of a Government. If the policy environment incentivizes MSMEs, a Government will benefit in the long term by increased revenue from tax (personal and corporate tax). The economy will witness new investments, growth and development. MSMEs play a crucial role in the transition and developing countries and constitute a significant source of employment and generate significant domestic and export earnings.79 Therefore, MSME development emerges as a critical instrument in poverty reduction efforts.

Addressing MSME concerns tackles a considerable part of any country’s economic and social objectives. MSMEs are often tagged as playing a critical role in economic growth and they can create a stable economy arising from their flexibility and capacity to easily absorb labour, both skilled and unskilled. In addition, the viability of MSMEs is essential for creating competitive and efficient markets. A vibrant MSME sector is also acknowledged as being a dynamic source of growth and innovation.

B. Fiscal policy: Taxation and public expenditures for MSME development

MSMEs can form the bulk of taxpayers in most countries. However, micro and small enterprises are the major contributors to the informal economy operating outside of a country’s tax net. In many developing and transition countries, MSMEs are the most rapidly growing business segment.

Taxation is often an intricate policy area, and compliance with tax law can impose significant challenges for MSMEs that do not have access to specialized accounting and legal services. How businesses are taxed also affects the decisions of MSMEs on either formalizing or remaining informal, with the attendant benefits (or duties) that formalization brings. Their characteristics and tax compliance vary. On the one hand, many MSMEs register with the tax authority voluntarily or due to enforcement actions. On the other hand, high costs, complex formalization procedures or the expectation of gaining a comparative advantage from not complying with tax obligations drive many small businesses into operating in the informal economy.80

Incentives and disincentives created by taxation can alter the shape that a business takes. Where taxes are numerous and the frequency of tax contributions is high, compliance with tax law can become unnecessarily onerous for MSMEs, due to a lack of knowledge on taxation. Even where taxation is imperfectly designed, however, businesses can often continue to perform as long as the enforcement of the tax code is predictable and stable.81 Nevertheless, corruption and changes in regulations can contribute to uncertainty in the taxation environment, with its attendant disincentives to business activity. Furthermore, a business environment with high taxes or taxes that are challenging to comply with influences businesses’ formalization decisions. Taxes that are difficult to understand, and which rely on complicated filing procedures, make compliance of companies with their tax obligations less likely.82 Simplifying taxation procedures can reduce the costs of business formalization, and therefore create benefits for revenue collection, the collection of accurate statistics, policy implementation, and worker protection and wellbeing.

Governments take many measures to reduce these impacts, by providing tax preferences and simplification measures targeted at MSMEs. Tax preferences are also intended to assist with other challenges that MSMEs face, and to support their creation and growth. Careful targeting of special tax rules for MSMEs can help

ensure that they meet their policy objectives cost-effectively, such as simplifying formalities and reducing costs for creating new companies. The taxation of MSMEs and the provision of MSME-specific tax rules can, if appropriately designed, play a beneficial role in addressing the challenges and the disproportionately high tax compliance burdens faced by MSMEs. Here, improvement of the relationship between MSMEs and public agencies, particularly tax-related bodies, via online platforms has proved to be very effective.

Understanding the role of the tax system in the decisions of MSMEs is critical in providing policy solutions to support their success. Research shares insights into the influence of tax systems on MSMEs globally. Tax systems often offer incentives for MSMEs to incorporate and distribute income in the form of capital, particularly in the form of capital gains, which is often lower-taxed. In addition, some tax systems can disproportionately affect MSMEs to the extent that profits and losses are treated asymmetrically, with a bias towards debt over corporate equity, and impose relatively higher compliance costs. From a tax perspective, MSMEs taxable income often rises steadily with firm size, as does the proportion of businesses subject to double-level taxation. The OECD has found that many tax systems provide incentives to incorporate and distribute income in the form of capital, particularly as capital gains. In addition, certain features of the tax system may inadvertently disadvantage MSMEs relative to larger enterprises. These features included the asymmetric treatment of profits and losses, a bias towards debt over equity, and higher fixed costs associated with tax and regulatory compliance regimes.

Measuring the burden of tax compliance on firms is difficult. While total business tax compliance costs tend to be higher for large companies, compliance costs as a proportion of revenues are higher for MSMEs. The volatile environment created by significant shocks such as the COVID-19 pandemic can result in a rapidly changing policy environment. With new measures being frequently introduced or adjusted by Governments in response to the crisis, MSMEs can find fewer resources to adapt to new policies and stay informed on available assistance, and they have a more difficult time applying for assistance programmes compared to larger businesses. Furthermore, the need for companies to learn, train staff and implement solutions to deal with tax changes has resulted in additional compliance costs to MSMEs.

Instead of applying different tax rates by business sizes, Governments introduced specific business size thresholds to determine whether certain taxes needed to be paid. As well as being a subsidy for MSMEs because they pay a lower rate of tax (zero, if they are exempted from a given tax), there is the added benefit that they avoid the actual labour of calculating and paying the tax. A recent and significant example of this is the introduction of a goods and services tax (GST) in India (box IV.1).

Further, another primary issue affecting MSMEs is the disproportionately high impact that regulatory requirements and tax compliance costs have on them. Even though many tax requirements may appear relatively “neutral” for businesses of all sizes, the significant fixed costs associated with compliance represent a higher cost for MSMEs as a percentage of sales and income. Consequently, the tax requirements can cause a more significant adverse impact on MSMEs than on larger businesses.

Many Governments provide support to MSMEs through special tax rules, including tax preferences and tax simplification measures for MSMEs. These measures include:

- Simplified taxation;
- Preferential corporate tax rates;
- Additional tax deductions;
- Tax credits and tax exemptions;
- Preferences that apply directly to MSME owners.

Consequently, these measures provide relief for initial investment, ongoing

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83 ILO, 2020, Enterprises Department, SME Unit, Enabling Environment for Sustainable Enterprises and the Post- COVID-19 Rapid Response.
84 Economic Research Institute for ASEAN and East Asia, 2019, Study on MSMEs Participation in the Digital Economy in ASEAN Nurturing ASEAN MSMEs to Embrace Digital Adoption.
86 OECD, 2015, “Taxation of SMEs in OECD and G20 Countries.”
89 Ibid.
The drop in government revenue due to the reduction of the tax burden would be partially compensated by a broader tax base (i.e., by a decrease of tax exemptions) and in the voluntary compliance of taxpayers. Reduction in the tax burden may result in reduced tax evasion and increase the voluntary compliance of taxpayers. Consequently, Governments can clearly define taxable bases, improve cost accounting practices of enterprises, and extend the list of tax-deductible items for enterprises to further reduce their tax burden.\(^{94}\)

On tax administration, improving the legal protection of businesses can restrict excessive intervention by controlling authorities in the business operations of MSMEs. Also, there is room to introduce legislation on improvements to the system for tax deduction programmes to encourage angel investment MSMEs (Box IV.3).

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\(^{92}\) World Bank Group and PwC, Paying Taxes 2018, pp. 52-53.


Box IV.2

Singapore’s “New Company Start-Up Kit”

In Singapore, the first tax filing was a key pain point for newly-incorporated SMEs; thus, policymakers focused on developing a digital onboarding tool for newly-incorporated companies to help them set up correctly from the start and build confidence in them. Therefore, the IRAS developed a digital onboarding tool that provides relevant, bite-sized, tax-related information to newly-incorporated companies at the point of incorporation of their business to allow ample time to prepare and fulfil their tax requirements. The digital onboarding tool, called the “New Company Start-Up Kit”, helps newly-incorporated SMEs to generate a tailored filing timeline, displaying critical information such as tax filing due dates, based on the business’ date of incorporation and first financial year-end. Through the Start-Up Kit, SMEs will receive filing reminders at an email address of their choice as well as advice on any subsequent steps they need to take.


Box IV.3

Licensed business angel investors in Turkey

With the aim of increasing the availability of equity financing for MSMEs, Turkey introduced a tax deduction for licensed business investors in 2012 as part of a wider law regarding the regulation and promotion of business angel investments. It hopes to institutionalize business angel investments and improve business culture and ethics in the angel investment market. Further, licensing will improve data collection regarding business angel operations in Turkey.

Licensed business angel investors can deduct 75 per cent of the capital that they invest in innovative and high-growth MSMEs from their annual personal income tax base. The annual deduction is capped at TRY 1 million. However, licensed business angel investors can co-invest in venture capital firms. The amount of investment that is eligible for tax support in those co-investments is TRY 2 million. In order to be accredited as a business angel by the Treasury, certain qualifications are required, pertaining to the wealth and income of the investor as well as his or her experience as fund manager of a financial institution, manager of a business or member of a business angel network. The 75 per cent deduction rate will be increased to 100 per cent for those investors investing in MSMEs whose projects are supported by the Ministry of Science, Industry and Technology, the Scientific and Technological Research Council of Turkey (TÜBİTAK), and Small and Medium Enterprises Development Organization (KOSGEB) in the past five years. The given licences will be valid for five years and the tax deduction was to be applied until 2017 with the option to extend it for another five years.

Certain conditions have to apply in order to be eligible for this tax deduction. The MSMEs’ shares that are not traded at stock market must be held by the investors for at least two years. Moreover, it only applies investments in businesses with annual net sales of TRY 5 million or less and 50 employees or fewer. Between 15 February 2013 and 1 July 2015, 313 business angels were licensed, out of 321 applicants. In the same period, six investments benefitting from the tax incentive were made for a total TRY 2,650,882.


submitting reports and calculating tax for MSMEs, i.e., changing reporting from a monthly basis to a quarterly basis. Further, an argument can be made in favour of payment of a single tax instead of all federal and local taxes and charges (except trade, licensing and registration duties). The rate of a single tax can vary according to the industry in which the MSME operates. The shift to a simplified taxation system can see a significant reduction in the tax burden of MSMEs and provide less cumbersome tax administration procedures while reducing costs, particularly in bookkeeping and reporting.
Policy recommendations

While many MSME tax rules are designed to support the growth and profitability of MSMEs, their design and introduction can lead to undesired impacts by giving businesses an incentive to remain small or to split up into different companies to continue benefiting from the preferential tax treatment. Thus, preferences need to be targeted and designed to overcome specific economic or tax difficulties. Policymakers can consider the following measures in developing and implementing sound policies to encourage the creation, growth and innovation of MSMEs:

- Implementing special tax rules for MSMEs can reduce the tax compliance costs and potential distortions on regulatory impact. Tax holidays can promote the creation and development of startups;
- Exploring specific preferences and simplification measures toward newer MSMEs, which are often affected by finance and cash flow difficulties, face barriers to entry and growth from other businesses and compliance cost burdens. Reducing the corporate tax rate to incentivize investment and expand funding in MSMEs;
- Expanding relief from tax audits for a more comprehensive number of MSMEs to promote business and growth;
- Simplifying digitalized tax return filing, online verification of taxpayers and electronic invoicing to facilitate compliance. By doing so, GST compliance becomes easier for MSMEs. Process simplifications through technology adoption offer many advantages in lowering compliance costs by streamlining and reducing the steps required to comply. They can, therefore, be a powerful tool to enhance compliance and reduce costs;95
- Educating MSMEs and informal sectors about tax systems and administration in order to encourage business formalization and minimize tax evasion practices.

The macroeconomic environment naturally affects the performance of enterprises. The buffers that enable MSMEs to withstand difficult periods may be lower than those in more extensive and more developed businesses. For MSMEs, cash reserves and inventories are lower, and the supplier network is smaller; thus, adjusting to a bad macroeconomic environment can be more complex than for large enterprises.96 As they are more reliant on traditional bank lending, during crises MSMEs can find their sources of finance dwindling more rapidly than do larger enterprises, which have access to a wider variety of financing, including securities markets that are normally not open to MSMEs.

Subsidies are a powerful instrument of government expenditure policy. On the domestic level, subsidies affect domestic resource allocation, income distribution and expenditure productivity, and may affect structural and sectoral adjustment by reducing an economy’s flexibility. Current subsidies found in the Asia-Pacific region include funds to support entrepreneurship that incorporate training programmes and assistance for entrepreneurs; advancing online shopping platforms and promoting locally produced products; micro credit financing for women entrepreneurs; funds for encouraging investments in technology, innovative agricultural production and niche products; and building resilience in the supply chains.

Wage subsidies and tax exemptions can support MSMEs in specific sectors, such as tourism on which the current pandemic has had a severe impact throughout the Asia-Pacific region. In addition, employers who hire fresh graduates for vocational/apprenticeship programmes can receive funding for undertaking such programmes. Wage subsidies and tax exemptions can be directed towards helping marginalized groups such as people with disabilities, women, former convicts, senior citizens, the long-term unemployed and workers who have been laid off (unemployment social security payments). Tax exemptions can be used to green MSMEs, making it more profitable for them to undertake business practices that reduce plastics and water consumption, and to adopt other green concepts.

During the COVID-19 pandemic, Governments globally have been pushed to initiate policies to support macroeconomic activity, pushing back against the enormous economic downturn resulting from this pandemic. A broad range of policies has been used across the Asia-Pacific region, with differing effects on MSMEs.

96 WTO, 2020, “Information Note: Helping MSMEs navigate the COVID-19 crisis.”
These policies entail providing subsidies or grants, or reducing fees for necessary government licences or registration. Some macroeconomic support policies, particularly those widely utilized during the COVID-19 pandemic, are categorized below as financial relief, wage subsidies and strategic support.97

Governments have provided financial relief in many different forms. Liquidity support has been one of the most prominent support measures for businesses during the COVID-19 pandemic. Examples are seen throughout the Asia-Pacific region (table IV.1).

Table IV.1
Financial relief implemented by certain governments in Asia-Pacific

<table>
<thead>
<tr>
<th>Country</th>
<th>Financial relief</th>
</tr>
</thead>
<tbody>
<tr>
<td>Thailand</td>
<td>The Bank of Thailand has provided loans to businesses, created a bond stabilization fund to support the secondary securities market and implemented tax relief policies,98 some explicitly targeting MSMEs. Thailand also introduced measures to allow MSMEs to claim tax deductions on interest and salary payments.99</td>
</tr>
<tr>
<td>China</td>
<td>The State Council announced changes to VAT that would reduce the economic impact of the pandemic on MSMEs. In Hubei province, the epicentre of COVID-19, MSMEs were exempted from VAT, while in other provinces, the VAT collection rate was brought back to 1 per cent rather than the usual 3 per cent.100</td>
</tr>
<tr>
<td>Armenia</td>
<td>The Government introduced subsidized short-term loans during the COVID-19 crisis and direct employment subsidies to assist MSMEs in maintaining their employment number.101</td>
</tr>
<tr>
<td>Republic of Korea</td>
<td>The Government exempted small businesses (defined as being below a particular level of turnover) from VAT payments.102</td>
</tr>
<tr>
<td>Vanuatu</td>
<td>Financial relief to small businesses those with a turnover less than 200 million Vanuatuan vatu (US$ 1.8 million) by refunding the cost of their business licence fees.103</td>
</tr>
</tbody>
</table>

Government subsidies are also applicable in developed countries, particularly during a crisis. The United States implemented a Paycheck Protection Programme, which grants low-interest loans to small businesses for payrolls, and utility and rent costs. This programme effectively promoted the survival of microenterprises104 that found the subsidy timely and helpful in covering labour costs as it was critical for business survival as the pandemic continued.

Governments can use wage subsidies in ‘normal’ economic times to encourage the employment of specific categories of people (for example, low-income workers, people returning to work after unemployment or people with disabilities). However, as a crisis measure, wage subsidies can be extended to encompass more people and businesses as a way to (a) maintain employment levels during an economic shock, (b) help employees to retain their skills, and (c) smooth any disruptions in the labour market.105 Examples of wage subsidies offered in the Asia-Pacific region are set out in table IV.2.

Governments can offer strategic support to select industries during any crisis. This may not necessarily be directed explicitly towards MSMEs but depending on the kind of support made available by governments, it can affect them. In response to the COVID-19 pandemic, for example, governments strategically intervened in health, trade,

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Table IV.2
Wage subsidies offered by certain governments in Asia-Pacific

<table>
<thead>
<tr>
<th>Country</th>
<th>Wage subsidies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
<td>The JobKeeper programme has paid out a wage subsidy to businesses that have experienced a significant fall in revenue on the condition that they continue to employ their staff over the period in which they claim the subsidy. While this subsidy is offered both to small and large businesses, the eligibility threshold is more generous for small businesses than for large businesses: businesses with an aggregated turnover of more than A$ 1 billion (approximately US$ 775,415,000.00) must experience a revenue fall of 50 per cent to be eligible for the subsidy, while smaller businesses need only experience a drop of 30 per cent. 106</td>
</tr>
<tr>
<td>Vanuatu</td>
<td>In response to the COVID-19 crisis, the Employment Stabilization Payment reimburses employers Vatu 30,000 (US$ 274) for each employee for up to four months. 107</td>
</tr>
<tr>
<td>Japan</td>
<td>The employment Adjustment Subsidy, in which the Government subsidises the paid leave allowances of workers for businesses forced to reduce staffing due to revenue declines. While large enterprises receive a subsidy for half of the leave allowance, SMEs are favoured by receiving a subsidy for two-thirds of the leave allowance. 108</td>
</tr>
</tbody>
</table>

Table IV.3
Strategic support implemented by certain governments in Asia-Pacific

<table>
<thead>
<tr>
<th>Country</th>
<th>Strategic support</th>
</tr>
</thead>
<tbody>
<tr>
<td>Republic of Korea</td>
<td>A Won 40 trillion “Key Industry Stabilization Fund” was set up to bolster industries such as aviation, shipbuilding, shipping and automotive manufacturing, which are not sectors with a significant MSME presence.</td>
</tr>
<tr>
<td>India</td>
<td>Rupees 150 billion to be spent on health infrastructure.</td>
</tr>
<tr>
<td>Bhutan</td>
<td>The Build Bhutan Project 109 specifically targeted the construction industry by subsidizing the wages of workers.</td>
</tr>
</tbody>
</table>

travel, and pharmaceutical industries in an effort for these industries to better withstand the disruptions being caused by the new virus. Examples of strategic support implemented by Governments during the COVID-19 pandemic.

C. Government procurement from MSMEs

Public procurement refers to the whole purchasing process – from identifying what is needed to determining the best suppliers to deliver the supplies to the right place at the right time for the best price, and ensuring that all this is done fairly and openly. 110 The complexity of public procurement is also shaped by the various stakeholders involved in the processes and the system. Multiple interests in public procurement systems are held not only by public procurement officials and suppliers, but also by policymakers, oversight bodies, bidders and citizens. Governments are increasingly using public procurement as a strategic governance tool for promoting inclusive and sustainable growth, while ensuring value for money. For example, public procurement represents approximately 12 per cent of gross domestic product (GDP) and 29 per cent of total government expenditures in OECD countries; 111 as such, its potential impact on a range of policy objectives is significant.

MSMEs can play a pivotal role in helping Governments ensure that the benefits of globalization, open markets and digitalization are broadly shared across societies. Subsequently, Governments should strive to provide supportive business conditions, including public procurement, that allows MSMEs to achieve their growth potential by participating in domestic and global value chains.

The public sector, in many cases, is an important market for MSMEs. Therefore, improving public procurement practices by removing obstacles and boosting the involvement of MSMEs is a key priority. Developing a more MSME-friendly approach to public procurement means MSMEs can maximize their job creation, growth and innovation potential. If properly designed, MSMEs in public procurement schemes can result in higher competition for public contracts, leading to better value for money and efficiencies for contracting authorities. The strong involvement of MSMEs in public procurement allows unlocking this potential for the economy. It also allows contracting authorities to broaden their potential supplier base considerably, enhancing competition on public contracts and counterbalancing dominant market players.112

Also, the government bidding process means that firms incur threshold administrative or ‘fixed’ costs not associated with production costs of goods or services. This disproportionately affects MSMEs as a proportion of their total financial and staffing resources, compared to larger firms.113 In Australia, the Government has taken steps to develop implementation mechanisms to support SMEs in public procurement (box IV.4).

Box IV.4
Public procurement framework to support MSMEs in Australia

Australia supports MSMEs in public procurement through several provisions embedded in its national policy framework. These provisions – put in place by the Department of Finance – aim to facilitate access by SMEs to public contracts, ensure a level playing field for all economic operators, and access to a better range of solutions and a diversity of goods and services:

- The Commonwealth Procurement Rules (CPRs) advocate fair procurement practices, providing SMEs with opportunities to compete for jobs. The CPRs also include the Government of Australia’s commitment to sourcing at least 10 per cent of procurement by value from SMEs and allowing direct procurement from SMEs with at least 50 per cent indigenous ownership, so long as value for money is achieved;
- The Government of Australia’s payment policies provide that payment cards (e.g., credit cards) are the preferred method to pay suppliers for amounts valued below A$ 10,000, and require a maximum payment term of 30 days for contracts valued up to A$ 1 million.

The Commonwealth Contracting Suite (CCS) provides standardized procurement documentation for procurements under AUD 200,000. The CCS can also be used for low-risk contracts valued up to AUD 1 million.

Several guidance materials have been prepared by the Department of Finance to support implementation of the policies to promote SMEs in public procurement. They are actively communicated to different stakeholders, including procuring entities and suppliers through diverse means – including the Department’s website, newsletter and public blog. Furthermore, training for public procurement officials focuses on engagement with suppliers, including applying the appropriate procurement practice that does not unfairly discriminate against SMEs. In addition, the Government of Australia participates in relevant trade shows and hosts supplier events, as appropriate, to develop the capabilities of suppliers.

Furthermore, the Australian Industry Participation (AIP) National Framework, applicable to large Commonwealth tenders (A$ 20 million or more), requires successful tenderers or panelists to prepare and implement AIP Plans. An AIP Plan promotes the benefits of looking at Australian SMEs as potential suppliers rather than solely relying on established supply chains when buying goods and services for a project.


113 ADB, 2021, Strategic Importance of Public Procurement, p. 10.
To integrate MSME consideration into public procurement policies, policymakers need to recognise the certain challenges, especially regarding the potential conflict of such policies and strategies with the primary procurement objective, which is to deliver goods and services necessary to accomplish the Government’s mission in a timely, economical and efficient manner. While the need to develop the policies and strategies had been widely agreed upon, establishing the exact measures to establish and the means for implementing them have been more challenging issues. MSMEs often find the complexity of the public procurement system and its processes the primary challenge. However, MSMEs are disproportionately affected due to their internal constraints in terms of financial, technical and administrative capacities to access procurement opportunities, prepare tender documents, apply the procedures and execute the contracts. Governments have been addressing these challenges by revising legal and regulatory frameworks and adopting various measures and approaches (figure IV.1).

**Figure IV.1**
Measures and approaches used to support SMEs in public procurement

![Graph showing measures and approaches used to support SMEs in public procurement]

Source: 2017 OECD survey on strategic use of public procurement to support SMEs.
Note: Based on responses received from 20 OECD and 5 non-OECD countries.

The most widely adopted procedures involve ensuring that MSMEs are aware of tender opportunities and that competent MSMEs have a fair chance of competing for government contracts.

**D. Macroeconomic stability and foreign exchange**

Macroeconomic stability affects private businesses generally and MSMEs more specifically. The ability of MSMEs to perform well in overseas markets as well as their ability to import technology or critical inputs are affected by macroeconomic stability and the availability and cost of foreign exchange, both of which are the domain of a State’s macroeconomic policy.

MSMEs with international activities are significantly exposed to foreign exchange (FX) risk – typically around 19 per cent of revenue – of which only a part is hedged and even less is managed actively. The exchange rate is a critical macroeconomic factor that affects international trade and the real economy of each country. The development of international trade creates conditions where volatility comes with the exchange rate. Empirical findings data reveal that the exchange rate volatility

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115 Ibid.
116 ACCA and Kantox Peer FX, 2013, *SMEs and foreign exchange risk: are small and medium-sized accountancy practices up to speed?*
has a significant negative effect on real economic growth.\textsuperscript{117} Exchange rates are the primary indicator that influences the price of products and services that affect the transaction level on international trade and capital movement between countries. Countries operate under different exchange rate regimes, from hard pegs to floating. Floating rates are more market-dependent, but lead to sharper fluctuations that affect international trade and the real economy of each country.

Therefore, exchange rate stability is the primary source of economic growth, and monetary authorities must adopt an exchange rate policy that leads to stable exchange rates. The policy implication is to minimize exchange rate volatility where it has a relevant role in economic growth. In addition, policymakers should keep inflation and interest rates under control since they help to mitigate the negativity of volatility on growth, which is connected to international trade and investments.\textsuperscript{118}

Determining the appropriate policy response to exchange rates and capital flows generally relies on the careful monitoring of FX liquidity – including the speed of exchange rate change and the effects of capital flows on asset prices – to ensure orderly market functioning. Many countries in the Asia-Pacific region allow exchange rates to be flexible and market-determined during regular times, but stand ready to intervene in FX markets in response to excessive FX volatility to maintain external stability. In addition, some countries are prepared to utilize capital flow management measures when intervention is insufficient.

Some central banks in the Asia-Pacific region come close to the Tinbergen principle\textsuperscript{119} of one instrument for one objective. At the same time, in practice, some tools can affect multiple purposes. Moreover, employing a combination of devices in a complementary manner can strengthen policies’ effectiveness and help mitigate some of their unwanted side effects. There is a need for a consistent monetary policy framework that should bring about realistic exchange rates, emphasizing its role to promote MSMEs’ output and productivity directly. Policymakers should consider exchange rate policies as a long-term fix of the problem of growth in foreign goods demand.

### E. Monetary policy

The monetary policy of a state determines the cost of borrowing and the rate of credit growth. Credit availability is a factor in the expansion (or not) of MSMEs. The way interest rates change over time also affects the viability of businesses that have taken on significant amounts of debt, including the overall borrowing costs. Ensuring that inflation remains low and stable allows households and MSME businesses to plan, and keeps borrowing costs low. Monetary policy should be set so that the objective it wants to achieve is clearly and transparently developed in response to the dynamics of the domestic and global economic developments for the growth of MSMEs in a particular country.

Policy intervention should note\textsuperscript{120} that high interest rates can lead to unsustainable debt burdens for MSMEs, leading to their rapid collapse. This also discourages prospective small-scale investors from borrowing. Hence, there is the need for monetary authorities to implement policies that keep interest rates on loans granted to the MSMEs sector at a manageable level in order to encourage borrowers to undertake profitable ventures, both for startups and for business expansion.

Further, educating potential entrepreneurs on the potential costs of starting an MSME is essential. In this context, the OECD’s Financial Education for Micro, Small and Medium-sized Enterprises in Asia describes and provides guidance on policy and practice relating to the financial education of MSMEs and potential entrepreneurs in Asia.


\textsuperscript{119} This refers to a rule of thumb which states that policymakers trying to achieve multiple economic targets need to have control over at least one policy tool for each policy target. This is because the achievement of certain economic targets precludes the achievement of others.

Chapter V

Competition policy and MSMEs

The OECD\textsuperscript{121} has found that, in principle, competition policy is concerned with regulating the operation of all markets in a given jurisdiction. Every time a company makes a decision, it bases the decision on the existing market conditions and regulatory framework, including competition rules. It expects that competition rules will not substantially change and that the competition authority will apply the same rules to all parties without any preferential treatment. A lack of commitment by policymakers to competition law and policy can substantially affect all companies and, thereby, the functioning of all markets. Independence of competition authorities from political interests induces credibility, and the enforcement of competition rules in a stable and foreseeable manner contributes to the better functioning of markets. The majority of countries in the South-East Asia region, for example, have established independent competition authorities. However, Brunei Darussalam, Cambodia and Myanmar are still in the process of doing this. In the Lao PDR, the Ministry of Industry and Commerce acts as a competition authority.

While competition policy and competition law may appear to be synonymous they are, in fact, different. The former is the set of policies and laws adopted by a Government to ensure that competition in a market is not restricted.\textsuperscript{122} The latter is the specific law that prohibits certain anti-competitive behaviour and agreements. Competition policy typically encompasses a particular competition law, but also includes other measures.

The ASEAN Regional Guidelines on Competition Policy 2010 (Regional Guidelines), for example, broadly defines competition policy as:

“A government policy that promotes or maintains the level of competition in markets, and includes governmental measures that directly affect the behaviour of enterprises and the structure of industry and markets.” (ASEAN Secretariat, 2010, para 2.1.1).

The Regional Guidelines also recognise that there are two aspects to competition policy. First, there is a broad set of government policies that promote competition in local and national markets. These include enhanced trade policies, eliminating restrictive trade practices, facilitating market entry and exit, reducing unnecessary government interventions, and greater reliance on market forces. The second element is the competition law, which includes legislation, regulation and judicial decisions. Competition law commonly prohibits anti-competitive agreements, abuse of dominance, anti-competitive mergers and acquisitions and, sometimes, laws on unfair trade practices. Unfair trade practices may include prohibitions on misleading or deceptive conduct, false or misleading advertising and disclosing business secrets.

Competition agencies, with the responsibility for implementation and enforcement of competition law, often have significant input into the competition policy of a country. However, it is the Government, not the competition agency, that determines the overriding national competition policy.

Competition law usually comprises three prohibitions: (a) a prohibition against anti-competitive agreements; (b) a prohibition against abuse of dominant market position; and (c) anti-competitive mergers and acquisitions. One or more competition agencies generally enforce the specific law, although sectoral regulators are also responsible for competition law.

To ensure that a ‘level playing field’ can be achieved, it is preferable for all entities conducting business in the country to be bound by competition law. For example, state-owned enterprises and the Government can potentially distort market competition and should be subject to the same rules as other businesses operating in the marketplace. Box V.1 provides an example from Fiji.

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**Box V.1**

**Fijian Competition and Consumer Protection Policy Statement**

The Fijian Competition and Consumer Protection Policy Statement was jointly drafted by the FCCC and the (then) Ministry for Industry, Trade and Tourism, and came into effect in 2020. The role of government, business, consumers and international markets all feature in the policy framework. About the role of government, the Policy Statement sets out clear criteria for ensuring that government activities do not distort competition, including:

- State-owned enterprises undergoing reform should not take advantage of any change in their status or supervision to engage in conduct that is anti-competitive;
- Unless there are compelling reasons to the contrary, enterprises that are connected with the public sector may not enjoy unique advantages relative to private sector enterprises;
- A ‘level playing field’ should exist between government business activities and private sector enterprises;
- Government business activities that compete with private business should comply with competitive neutrality principles;
- Government business activities should not enjoy a net competitive advantage in a market simply due to government ownership;
- Price regulators of state-owned enterprises should be independent and make decisions based on transparent criteria.


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**A. Competition agencies and MSMEs**

Competition law agencies are responsible for the implementation and enforcement of the competition law in their jurisdiction. The priorities for each competition agency will be different, based on the particular economic circumstances in a country. Although as a percentage of the total number of businesses, the number of MSMEs in a country is always high, and the focus of a competition agency – mainly newly established ones – may not be on this group. Government and public pressure may result in competition agencies focusing on larger businesses, assuming that the law is not relevant to MSMEs.

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Assisting competition law agencies to recognise the importance of the MSME sector in competition law enforcement and implementation will be vital to the overall success of competition policy and the growth of MSMEs in a country. Some of the ASEAN Member States (AMS) competition agencies have taken an active role in advocating MSME groups, enforcing the competition laws against MSMEs and working with trade associations to encourage compliance and raise awareness within this large and often disparate group.

1. Advocacy

One of the critical roles of a competition agency is to advocate the benefits of competition law and policy, and highlight where further change is needed. Advocacy efforts in the early years of operation of a competition agency are vital. The ASEAN Experts Group on Competition (AEGC) has published a Toolkit for Competition Advocacy (CA) in ASEAN to recognise the importance of advocacy for competition agencies in the region. This toolkit aims to provide AMS with practical guidance, tools and templates to develop and deliver advocacy activities for CPL. It is primarily intended for CA in ASEAN, including Commission members, heads of departments, communications staff and case-handlers.

In addition, the contents of this toolkit may be shared with partners outside the CA in joint efforts to foster a broad-based competition culture in ASEAN. Determining which advocacy activity is most appropriate depends on the specific stakeholder groups that CA intends to engage. These comprise government agencies and other public authorities, businesses (including trade and business associations), media, consumers, academia, the legal community and the judiciary. This toolkit provides advice on how to best differentiate target groups and which messages need to be chosen. Articulating the right message for the right stakeholder group is the key to carrying out successful advocacy activities.

In the ASEAN region, many MSMEs are still unaware of the competition law (as many have only been introduced in the past five years) or are unsure how the law applies to them, if at all. Some competition agencies in the region have conducted surveys to assess the awareness and understanding of competition laws within their jurisdictions. The results indicate that much more advocacy work is required. For example, a study in Malaysia in 2014 revealed that only 27 per cent of MSMEs were aware of the competition law.\footnote{Ramaiah, 2017, *Competition Law and SMEs in Malaysia: To Exempt or Not?* Available at http://dx.doi.org/10.15405/epms.2017.06.6 (accessed 1 December 2020).}

In Singapore, the Competition and Consumer Commission of Singapore (CCCS) conducts regular stakeholder perception surveys. Its most recent survey in 2019 indicated that less than 30 per cent of businesses surveyed were aware of the Competition Act. Perhaps not surprisingly, there was a sharp big firm-small firm dichotomy; while 50 per cent of multinational companies were mindful of the existence of the CCCS, only 13 per cent of local enterprises were.\footnote{Competition and Consumer Commission of Singapore, 2019, CCCS Stakeholder Perception Survey 2019; available at https://www.cccs.gov.sg/resources/publications/cccs-stakeholder-perception-survey/cccs-stakeholder-perception-survey-results-2019 (accessed 25 April 2021).}

Consequently, several national competition bodies have developed an extensive advocacy history, especially in their early days of operation. For example, the Malaysia Competition Commission (MyCC) conducted 120 advocacy sessions between April 2011 (when it was established) and November 2014.\footnote{Raj and Burgess, 2016, “SMEs and Malaysia’s New Competition Law: Experiences to Date” in Schaper and Lee (eds), *Competition Law, Regulation and SMEs in the Asia-Pacific – Understanding the Small Business Perspective*, Singapore: ISEAS – Yusof Ishak Institute.}


As of April 2020, the Competition Commission of Brunei Darussalam (established in August 2017) had conducted 46 advocacy sessions for key stakeholders.\footnote{Competition Commission of Brunei Darussalam, 2019-2020, Annual Report, 1 January 2019-30 April 2020. Bandar Seri Begawan: Suruhanjaya Persaingan Brunei Darussalam.} Mature agencies such as the Indonesia Competition Commission (ICC) and the CCCS also continue to conduct advocacy activities. In 2019, the ICC advocated more than 2,000 stakeholders, focusing on the central and regional governments and
higher education. In 2018, the CCCS set up an advocacy and outreach unit to focus its advocacy efforts. Its advocacy focuses on various groups, including government, business, legal practitioners, students and consumers.

2. Enforcement

The approach to enforcement taken across the ASEAN region has differed. Some jurisdictions have phased in the operation of their laws (Singapore and Brunei Darussalam), which has allowed capacity-building within the agencies to be focused and gradual. Although the Philippine competition law itself was not phased in, the PCC has focused its early enforcement activities on the review of mergers – it reviewed 204 merger transactions from 2016 to 2019. Malaysia, which does not have a merger regime, brought about early cartel cases (many against MSMEs). In contrast, Myanmar has focused its enforcement efforts to date on utilizing its administrative powers in less severe competition cases.

Competition agencies in the ASEAN region have not shied away from enforcing their laws against MSMEs. The competition agencies in Singapore and Malaysia brought early cases against MSMEs, many of whom had acted through their trade associations. However, the approach taken to strict enforcement against MSMEs differs. The first case brought by MyCC was against the Cameron Highlands Floriculturist Association. The association members (all MSMEs) agreed to increase the price of cut flowers by 10 per cent and announced the price rise in the newspaper. MyCC had declared a ‘soft touch’ approach in its initial enforcement period, so no fine was imposed on the association or its members. However, the MyCC required the association and its members to change the behaviour and publish an apology statement in a local newspaper to ensure increased awareness. The MyCC has since enforced the competition law against other trade associations and their members. Although many cases against MSMEs involve anti-competitive agreements, it is worth noting that MSMEs can be dominant in their respective markets. In the first dominance case brought by the CCCS, Sistic (an MSME) was found to have abused its dominant position by entering into exclusive dealing arrangements. The CCCS imposed a penalty of SG$ 989,000 (around US$ 742,000), reduced to SG$ 769,000 (US$ 577,000) on appeal.

3. Overseeing partnerships with MSMEs

The ICC has an express mandate to supervise and enforce partnerships between large enterprises and MSMEs under Law No. 20 of 2008 on Micro, Small and Medium Enterprises. The 2019 Annual Report of the Indonesia Competition Commission refers to this regulation being in line with the priorities of the Government in developing MSMEs, “especially to oversee and ensure that MSMEs have the same opportunity or bargaining position with the large business actors that become their partners.”

4. Trade Associations

In addition to the risk of a breach being facilitated (knowingly or innocently) by a trade association, competition agencies can utilize trade associations as an effective means of advocating the benefits of competition law to the MSME community. The MyCC and the Federation of Malaysian Manufacturers (FMM) worked closely together to advocate the benefits of competition law to members of FMM. Activities included regular compliance training events (conducted by the MyCC for FMM members) and the publication of a joint MyCC/FMM competition law compliance checklist (Borneo Post, 2014). Other ASEAN competition agencies (Singapore, the Philippines and Myanmar) also regularly engage with trade associations to understand issues faced by MSMEs and advocate the benefit of competition.

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B. Competition law and policy: Examples from ASEAN

In the ASEAN region, the first competition laws were introduced in 1999 in Indonesia and Thailand, with Singapore and Viet Nam following in 2004. Further impetus for introducing competition law and policy was provided in the ASEAN Economic Community (AEC) Blueprint 2008-2015.137 The overall vision included creating a “competitive economic region” that incorporated a commitment by the AMS to endeavour to introduce competition laws before establishing the AEC in 2015. The AEC Blueprint 2016-2025 recognised that for ASEAN to be regarded as a competitive region, its competition laws and policies must be operational and effective (para. 26). Five strategic measures provide the direction for further developing competition law and policy in the region (para. 27).

In 2007, the AEM endorsed the establishment of the AEGC. The AEGC is a regional forum comprising representatives of the AMS competition agencies or relevant ministries that allows discussion and cooperation on competition policy and law. The work of the AEGC is supported by the Competition, Consumer Protection and IPR Division (CCPID) of the ASEAN Secretariat. The ASEAN Competition Action Plan 2015-2025 (ACAP) was adopted in 2015 to guide the work of the AEGC. Following its scheduled mid-term review, a revised ACAP and implementation plan is currently being finalised.

The competition agencies in most ASEAN jurisdictions have a clear mandate to provide policy advice to their Governments.138 However, the position is less clearly outlined in the laws of Myanmar and Viet Nam. This mandate is vital in the context of understanding how competition agencies can assist in guiding future policy direction for recovery from the COVID-19 pandemic.

It is common for competition laws to include stated policy objectives, which is also the case in the ASEAN competition laws. The Regional Guidelines identify the most commonly indicated aim of competition policy to promote and protect the competitive process. It recognises that “the pursuit of fair or effective competition can contribute to improvements in economic efficiency, economic growth and development and consumer welfare.”139 Many of these concepts have been directly incorporated into the AMS competition laws.

The Regional Guidelines also recognise that competition policy is beneficial to develop countries. In addition to contributing to trade and investment policies, competition policy can accommodate broader economic and social objectives, including promoting and protecting small businesses.

A review of the competition policy objectives of the AMS reveals consistent themes. All of the laws recognise the importance of promoting and protecting competition, with many also referring to economic efficiency, economic growth and development, and consumer welfare. Only two AMS directly reference small businesses.

1. Competition law and economic development

As noted above, many of the competition laws of the AMS include “economic growth and development” as a policy objective of the law, indicating that there is at least a theoretical belief that competition policy can assist in this goal. However, the position is far from clear, with a variety of different researchers taking contrasting positions. A study undertaken in 2002 concluded that the relationship between competition and economic development was “controversial both in economic theory and concerning empirical evidence.”140

A more recent UNCTAD note finds that competition policy needs to be part of a broader mix of trade, economic, social and environmental policies in order to achieve sustainable and inclusive growth and development.141 It recommends the development of a sound competition policy which should be achieved through inclusive engagement with stakeholders, the identification of priority sectors relevant

138 Section 41(f), Brunei Darussalam law; Article 6(1), Cambodia law; Article 35(e), Indonesia law; Articles 79(1) and 80(1), Lao People’s Democratic Republic law; Section 16(a), Competition Commission Act 2010; Section 12(c), the Philippines law; Section 6(f), Singapore law; Section 17(11), Thai law.
139 ASEAN, 2010, ASEAN Regional Guidelines on Competition Policy. Jakarta: ASEAN Secretariat.
142 The Note also addresses the design of a competition law, and competition law enforcement and advocacy.
to the economy (particularly the poor), the potential for exemptions for certain sectors such as agriculture, complementarity with other policies (e.g., environmental), and ensuring fair (as well as free) competition (e.g., avoiding unfair business practices). This latter point may be of particular importance in the context of recovery from the COVID-19 pandemic. MSMEs may be at greater risk of being exposed to unfair business practices (e.g., abuse of bargaining power) when negotiating with strong market players that survived the various lockdowns.

2. Interface between competition and consumer law in ASEAN

The AEC Blueprint 2015 identifies the need for ASEAN to be a highly competitive economic region. It recognises that both competition policy and consumer protection policy are required to achieve this goal. Actions to strengthen consumer protection laws and agencies across the ASEAN region are set out (para. 42). Building on the achievements of the 2015 AEC Blueprint, the AEC Blueprint 2025 recognises consumer protection as "an integral part of a modern, efficient, effective and fair marketplace" (para. 28), further linking competition and consumer policies together to achieve the desired "highly competitive economic region."

In 2007, the AEM established the ASEAN Committee on Consumer Protection (ACCP). Like the AEGC, the ACCP is a regional forum comprising representatives of each AMS consumer protection agency, allowing discussion and cooperation on consumer protection. The CCPID also supports the work of ACCP. The ASEAN Strategic Action Plan for Consumer Protection 2020-2025 has also been developed to guide the work of the ACCP.

To date, all 10 AMS have consumer protection laws in operation. In many cases, the consumer protection laws and policies predate the competition laws. Since the introduction of competition law, some AMS have combined the regulatory responsibility for competition and consumer law (Singapore and Viet Nam), while others consider this potential (e.g., Myanmar).

C. Examples from other States

The following paragraphs highlight critical aspects of the competition laws in the jurisdictions that have an impact on MSMEs.

1. Australia

Australia’s competition law applies to MSMEs without any provision for exemption or exclusion based only on the size of the business. Australia’s law allows an MSME (or a collection of MSMEs, perhaps through their trade association) to approach the ACCC for approval of agreements or conduct on the basis that there is minimal harm to competition or that the public benefit outweighs any harm to competition. More recently, the ACCC approved a collective bargaining class exemption which, when available, will allow MSMEs to collectively bargain (as a group) without fear of infringing competition law.

The ACCC recognises that MSMEs comprise more than 97 per cent of all businesses in Australia and treat them as a crucial stakeholder. The ACCC consults at least twice per year with the Small Business and Franchising Consultative Committee and publishes a Small Business in Focus publication (twice a year), which highlights the work of the ACCC that is relevant to MSMEs.

2. Fiji

Competition law in Fiji also applies to all businesses without any exemptions or exclusions based only on size. Like Australia, Fiji has a formal authorization process that is available to MSMEs. As MSMEs do not have access to legal advice about this formal process, MSMEs’ informal approach to collaborations has been implemented by the FCCC during the COVID-19 pandemic as a continuation of its practice in relation to MSMEs. For specific provisions of the Fiji competition law, MSMEs are treated as consumers rather than as businesses, typically to protect them from predators or harmful behaviour from larger enterprises. Although MSMEs have been found to have infringed competition law in Fiji, the FCCC has approached law enforcement from the perspective of education and awareness-raising. MSMEs who have violated competition law must attend a free training programme...
conducted by the FCCC to ensure that the business is educated on what is and is not permitted by the law. The philosophy is to ensure that micro and small businesses grow into compliant medium and larger companies.

3. Hong Kong, China

Despite solid lobbying for MSMEs to be exempt from Hong Kong’s competition law, the competition law applies to all businesses in Hong Kong, China. The Hong Kong Competition Commission (HKCC) has taken a proactive approach to engage with its MSME community, including publishing brochures explicitly aimed at this group, such as “The Competition Ordinance and SMEs” and “How to Comply with the Competition Ordinance: Practical Compliance Tools for Small and Medium-sized Enterprises”, among others.

4. India

The competition law in India does not distinguish between different types of economic entities. The Act applies to all enterprises, and this term is defined widely (see section 2(h) of the Act). MSMEs are covered under section 2(h) of the Act. The statutory mandate of the CCI requires it to consider various socioeconomic aspects mentioned in section 19(4)(k) of the Act when investigating competition breaches; generally, the CCI takes the view that MSMEs are a relevant consideration. Mergers between MSMEs will not be generally scrutinized under the Act as the thresholds will not be met. The CCI has also treated MSMEs as a significant constituency when formulating its competition advocacy initiatives. Regarding competition enforcement actions against MSMEs, section 27 of the Act gives the CCI a discretionary mandate. The CCI has taken into account the ability of MSMEs to pay a fine when determining enforcement actions.

5. Singapore

A best practice example of competition legislation is Singapore’s Competition Act, which prohibits the following three main activities:

- Agreements that have as their objective or which effect the prevention, restriction or distortion of competition in Singapore;
- Conduct that amounts to the abuse of a dominant position in any market in Singapore; and
- Mergers that have resulted in, or may be expected to result in a substantial lessening of competition within any market in Singapore for goods and services.

D. Policy recommendations

Policymakers can work on the following areas to ensure that competition laws and policies assist, or at least provide a level playing field for MSMEs:

- **Raising awareness of competition policy and law for MSMEs**
  The most critical recommendation is an ongoing need by competition authorities to raise awareness within the MSME sector about how competition law and regulations affect them. MSMEs need to understand when laws do, or do not apply to them, the benefits of competition policy, and how they can actively utilize these laws for their benefit. This is a common challenge in all countries, as knowledge levels are often low, and there is a constant stream of new business entrants into the marketplace;

- **Establishing dedicated MSME consultative bodies in each competition agency**
  An ongoing way in which competition agencies can familiarise themselves with the needs and concerns of the MSME sector is to create a standing small business consultative committee. Some national competition agencies have already created MSME-specific consultation mechanisms. These committees are drawn from the ranks of individual entrepreneurs, industry bodies/associations and research institutions specializing in MSME issues. They can provide agencies with the external MSME perspective, suggest new ideas and issues for agencies to consider, and partner with agencies to promote education and empowerment campaigns within the MSME community;

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144 These policy recommendations also appear in ESCAP, 2021, *The Role of Competition Policy in Strengthening the Business Environment for MSMEs in the ASEAN Region.*
Appointing competition commissioners with an MSME background
Most competition agencies globally are governed by a set of commissioners or a similar board. This group of individuals is ultimately responsible for the overall management of the regulator, the overall strategic direction of the agency, and major decisions regarding both education and enforcement among the business community. Yet, in many cases, these roles are drawn from large corporations, the legal community, the Government and academia; few MSME representatives are included in their ranks. It may be appropriate to mandate that at least one of the commissioners in each national agency must have experience in, and knowledge of, the MSME sector;

Standardizing collection of MSME data
The current understanding of the MSME sector in the Asia-Pacific region is constrained by the widely various calibre of business data collected by countries. Measuring the MSME sector’s actual size is difficult because there are no standard definitions across the region. It may now be time for Governments to consider working through multilateral forums to adopt a standardized set of MSME definitions and reporting frameworks. This can be helped with realigning existing standards into a standardized definition of MSMEs;

Establishing annual publications of MSME data
Standardized data collection can also be assisted by effective dissemination in easily-accessible formats that are frequently updated. Such data could provide readers with an easy-to-understand overview of the MSME sector and is invaluable in helping policymakers and regulators to understand the industry better;

Organizing joint forums between competition and MSME support agencies
There are currently no standing or regular informal forums in which national MSME agencies meet with competition regulators to discuss developments in each of their areas of portfolio responsibility, exchange ideas and evaluate the impact of competition frameworks on the MSME sector. Such a forum will help both sides to achieve a better understanding of each other. It can also encourage the development of a more excellent in-depth knowledge of the MSME sector and assist competition agencies in enhancing their engagement with small firms;

Promoting regional dialogue with industry Associations
It may also be appropriate for competition authorities and MSME agencies across the region to jointly undertake more regional dialogue with key industry associations, such as peak national business bodies. While several competition agencies engage with business chambers and organisations within their national jurisdictions, a broader regional focus may now be appropriate. For example, many businesses in the ASEAN region have trade activities across borders, particularly with the establishment of the AEC in 2015. To do this, national business associations must also be brought into dialogue with their regional counterparts, regional MSME regulators and regional MSME policy agencies;

Enforcing anti-trust policies and law
Governments have many policies and regulations that control monopoly and market power, known as anti-trust policy and law. However, some policies purposely increase or protect monopolies, for example, to create national champions. In particular, laws related to intellectual property rights protection, such as patent and copyright laws, in essence, protect monopolies. Patent laws are a case in which there is some recognition that the efficiency analysis is static, but the economy is dynamic. The economic case for antitrust policy is based on efficiency. Monopoly can lead to inefficient use of resources when compared to the competitive result. Yet antitrust recognizes that the potential for economic rewards is what incentivizes investment and risk-taking. The resulting competition for marketplace supremacy can be fierce, and weaker firms often fail along the way. Those MSMEs that survive should not be punished for their success.

Chapter VI

Trade and investment policies: International market access and integration into global and regional value chains

Creating new business (and, therefore, investment) opportunities in the regional and global markets is another crucial challenge facing MSMEs in the Asia and Pacific region. In small economies with a limited domestic market, exports stimulate economic growth and rapid socio-economic transformation. MSMEs supplying competitive products and services with more significant potential for backward and forward linkages could contribute substantially to exports and, hence, to higher national income and overall socio-economic progress. Therefore, the development of export-led MSMEs should be an essential part of any national economic development strategy. In this context, internationalization enhances competitiveness, reinforces growth, and supports MSMEs’ long-term performance and sustainability. MSMEs engaged in international markets tend to be more productive, as they need to be able to incur the fixed cost component associated with exporting. Some recent studies of African firms show that participation of MSMEs in international markets can result in higher growth and employment through economies of scale, and in enhanced productivity and innovation through learning effects.146

The ability of MSMEs to export is an indication of their competitiveness in global markets. Internationalization exposes firms to international best practices and strengthens the possibility of adding value through innovation by improving products, production processes, and business models. This leads to enhancement of productivity through the adoption of new technology and know-how, and supports increasing sales, employment and growth in revenue and market share, including through offsetting or ‘smoothing’ business cycles in different markets.147

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Critical success factors for market access, which means freedom to enter a market and sell goods or services,\textsuperscript{148} include but are not limited to market intelligence, capacity to learn and adapt, low entry barriers and a solid business network. Within this context, market access can generally be of two types – trade and investment. However, some policy prescriptions apply to both trade and investment. These include lowering barriers, communicating regulations and market conditions as well as holding trade fairs and other forms of promotional events.

A. Facilitating market access by MSMEs

The degree of market access for an MSME can be affected by the trade environment in which it operates. The primary factors include free trade and investment agreements, WTO rules, export products identification, quality standards and certificates, and the transportation system covering international commercial terms and customs procedures.

1. Free trade and investment agreements

Lower tariff and non-tariff barriers due to trade agreements can result in increased foreign competition in domestic markets. This increased competition drives MSMEs to improve productivity, as those that are slow to react may face more pressure and even shut-down. Local firms can benefit from lower costs of cheaper imported inputs, giving them a competitive advantage in both domestic and export markets. The elimination of trade barriers allows large firms to widen their range of suppliers, and to indirectly stimulate exports of local MSMEs.\textsuperscript{149} Investment agreements add security, transparency, stability and predictability to the investment framework, attracting more significant investment inflows.\textsuperscript{150} As a result, MSMEs have more opportunities to integrate into global and regional supply chains through the forward or backward linkages with FDI (such as subcontracting). These linkages also trigger positive knowledge spillover when MSMEs try to reach the quality standards of TNCs, and when trained personnel leave TNCs to start their MSMEs.\textsuperscript{151}

Trade liberalization may affect MSMEs differentially to larger firms, with larger firms benefitting more from freer trade than smaller firms. Part of this effect, however, is due to trade agreements not always reducing tariffs uniformly across all sectors. Sectors where MSMEs are likely to be more concentrated may see fewer tariff reductions (such as in agriculture), and hence, will benefit less from these agreements.\textsuperscript{152}

Free trade areas formulated by trade and investment agreements are not confined to market liberalization and market-opening measures alone. They are comprehensive and improve economic cooperation, information sharing and personnel exchange, which creates a favourable external environment for MSMEs. In addition, some trade/investment agreements may also be designed explicitly for MSMEs, with the Strategic Action Plan for ASEAN SME Development, 2016-2025 serving as an example. The plan outlines the framework for MSME development which seeks to ensure the advancement of the MSMEs within the ASEAN region and outside the region.

In enhancing MSMEs’ competitiveness in the liberalization process, Governments need to improve long-term capacity and build subcontracting linkages for MSMEs by providing technical and financial assistance, skills or vocational training, and market information.\textsuperscript{153} MSME agencies can also help MSMEs to better understand and benefit from trade policy reform by offering relevant information and services. Box VI.1 explains the proactive measures implemented by the Government of Singapore in promoting enterprise development.

\textsuperscript{148} For further details, visit the website at http://lexicon.ft.com/ Term? Term=market-access.


\textsuperscript{150} UNCTAD, 2009, The Role of International Investment Agreements in Attracting Foreign Direct Investment to Developing Countries. New York and Geneva, United Nations.

\textsuperscript{151} Dutrénit and Vera-Cruz, 2003, “Clustering SMEs with Maquilas in a local context: Benefiting from knowledge spillover”, paper presented at the Conferencia Internacional sobre Sistemas de Innovacion Estrategicas de Desarrollo para el tercer Milenio, 2-6 November 2003, Rio de Janeiro.


2. Export product identification, pricing and competition

The identification by policymakers of a potential product for the export market generally requires three steps: (a) analysing the competitiveness of the home economy; (b) selecting product sectors; and (c) verifying the supply-side capacity of the selected product sectors by conducting an export supply survey. As shown in figure VI.1, these stages are followed by a further selection of companies and markets, together with an analysis of possible problems and constraints. After identifying qualified exporters and prospective markets, products need to be defined and their export potential evaluated. Finally, once the product for export promotion has been selected, a strategy for the following processes has to be developed, which involves developing pricing and competition strategies. Figure VI.1 illustrates the overall stages of export product identification.


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Box VI.1

Enterprise Singapore

Enterprise Singapore is the government agency championing enterprise development. It works with committed companies to build capabilities, innovate and internationalize. It also supports the growth of Singapore as a hub for global trading and startups. As the national standards and accreditation body, it continues to build trust in Singapore’s products and services through quality and standards. To enable businesses to navigate today’s enterprise landscape, Enterprise Singapore adopts a company-centric approach by providing programmes and support catered to a company’s stage of growth, the industry it is in as well as the overseas markets of its interest.

Together with Enterprise Singapore’s extensive network of local and overseas partners, it supports the efforts to enhance industry and enterprise competitiveness through the 23 Industry Transformation Maps (ITMs). Enterprise Singapore will work with a company to capture a new market share through (a) upgrading and innovation (b) adoption of new technologies to improve productivity; (c) facilitating expansion into overseas markets; and (d) strengthen leadership capabilities to build talent pool. Beyond helping enterprises to grow, it will continue efforts to build trust in Singaporean products and services through quality and standards as well as establish Singapore as a leading startup and trading hub.

3. Quality standards and certificates plus quality assurance management

Another critical challenge facing MSMEs in developing countries when accessing international markets are the technical barriers that they must overcome to meet the requirements of international quality standards. While company-level standardization is often used in large enterprises, with specific requirements that differ from company to company, standardization on an industry level is carried out by professional associations and is far more critical. MSMEs should first adhere to these industry standards as a requirement for offering products or services within a country, as such adherence builds the basis for fulfilling international standards.

4. The transport system, international commercial terms and customs procedures

The transport system involves trade logistics and facilitation in international and domestic business transactions. Broadly defined, trade logistics cover transport-related physical infrastructure (e.g., roads, ports and warehousing) and associated services (customs, distribution and information management). Trade facilitation includes any related area, ranging from institutional and regulatory reform to customs and port efficiency. Therefore, MSMEs must handle these issues to gain market access successfully.

B. Market orientation and internationalization of MSMEs

Market orientation is “the organization-wide generation of market intelligence about current and future customer needs, dissemination of intelligence across departments and the organization-wide responsiveness to it.” The market orientation of MSMEs is conceptually related to the phenomenon of internationalization, which is a broad term used by different scholars to connote “exporting, trade, cross-border clustering, cross-border collaboration, alliances/subsidiaries, branches and joint ventures that extend beyond the home country environment.”

The primary focus of market orientation is to understand customer needs, both in domestic and international markets so that enterprises can develop products and services to meet these requirements. In short, market orientation means implementing a firm’s marketing concept and business philosophy to achieve a greater degree of market access. In this regard, many researchers have demonstrated a combined effect of market orientation and innovation on firms’ positive performance. The critical elements of market orientation include customer orientation, competitor orientation, inter-functional coordination, long-term focus and profitability, intelligence generation, intelligence dissemination and responsiveness.

Given the fact that many domestic markets for MSMEs in Asia-Pacific countries are limited, mainly in the least developed countries, MSMEs are encouraged to gain access to international markets to foster their growth. As such, market-orienting efforts such as providing information and incentives to promote their penetration into the global markets would prove beneficial. Therefore, the choice of entry mode is a process of cost-benefit analysis.

Internationalization is fundamentally an entrepreneurial activity that requires recognition of potential opportunities and a corresponding readiness to undertake new types of activities. These approaches require new skills and capabilities, and entail

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taking on more risk, e.g., entering new markets, and developing and marketing new products. Internationalization involves increasing direct and indirect linkages to international markets and cross-border operations. Policy attention is often focused on exporting goods and services directly to final customers in global markets. However, internationalization is much broader and can involve a variety of modes, including: (a) direct and indirect exports; (b) licensing; (c) franchising; (d) joint ventures, strategic alliances, mergers and acquisitions; (e) the establishment of wholly-owned subsidiaries in foreign markets; and (f) international subcontracting by exporting or by supplying international firms/buyers in the domestic market, but subject to a variety of international standards and requirements.

MSMEs are likely to serve international markets from a domestic production base through direct or indirect exporting, including suppliers in global value chains (GVCs) to domestic or international firms, which is a critical route to crucial industries. The type of policy attention and support that MSMEs may need relates to the method of internationalizing. GVCs refer to global production sharing, which is broken into activities and tasks carried out in different countries. In GVCs, the operations are spread across national borders (instead of being confined to the exact location). Cross-border production has been made possible by the liberalization of trade and investment, lower transport costs, advances in information and communication technology, and innovations in logistics (e.g., containerization).

1. Trade promotion tools for MSMEs

MSMEs need to leverage other trade promotion tools to stimulate foreign buyers’ interest and increase their business by exposing them to new buyers. Effective trade promotions can result in increased foreign orders for domestic exporters and suppliers. Export-oriented economies in Asia and the Pacific use these tools to garner interest from foreign buyers. Trade promotion tools have been a key driver for continued economic growth in the region. Specific objectives of export promotion tools include:

- Developing or refining products (and services) for export by communicating with potential customers;
- Gaining new customers/intermediaries in neighbouring, regional and global markets;
- Strengthening relationships with existing customers and intermediaries; and
- Increasing the volume of exports.

Three primary trade promotion tools are trade fairs, buyer-seller meetings and trade missions. Trade fairs are often collaborations between Governments and business associations, and can be domestic or international. These fairs can be significant for MSMEs which cannot afford global advertising to market their products to foreign customers. Buyer-seller meetings are a form of initial communication that provides a path for information exchange between key players in demand and supply. In general, buyer-seller meetings are face-to-face negotiations or conducted through the Internet, telephone, videos etc. Many government agencies provide website services where buyers and sellers can post their needs or offer goods and services. Some agencies act as intermediaries that collect orders from buyers and distribute them to one or several eligible sellers to provide goods and services. Trade missions are international trips that national agencies organize for government officials and business representatives to explore international business opportunities in target nations. Representatives from the private sector are introduced to crucial local business contacts and relevant government officials, and thus have important contacts for developing business relationships. In getting access to trade missions, MSMEs or MSME association representatives can assist with the internationalization of MSMEs.

2. Global value chains

There are two related dimensions to global value chains (GVCs) that constitute the supply and demand sides. On the supply side, the internationalization of MSMEs increasingly takes place through participation as suppliers at various stages in GVCs. Meanwhile, the demand side refers to opportunities for MSMEs to innovate in new ways for new types of markets and consumers. Today, about 70 per cent of international trade involves GVCs, as services, raw materials, parts and components cross borders – often numerous times. Once incorporated into final products they are shipped to consumers all over the world. Reaching international markets is challenging for MSMEs. The

fragmentation of production creates new opportunities for the supply of products (e.g., parts and components) and services, through linkages with larger firms, and foreign buyers and affiliates, in a wide range of industries and value chains, e.g., electronics, automotive, garments and agro-industry. Participation in GVCs can bring both growth opportunities and increasing stability of demand to MSMEs. It provides easier access to critical inputs, including information on markets, technology and best practices, and allows firms to increase productivity, expand markets and strengthen the capacity for innovation. However, to be a supplier in GVCs places significant demands on SMEs’ skills, managerial and financial resources, and ability to meet a diversity of international standards. In essence, MSMEs must be internationally competitive. Therefore, a fundamental challenge of internationalization through participation in GVCs is to loosen constraints on MSME competitiveness (e.g., productivity).

On the demand side, research on ASEAN and East Asia shows that MSMEs can internationalize or access markets in three general ways:

- Direct sales of final goods and services, exporting to retail customers (business-to-consumer);
- As suppliers in regional production networks within the framework of GVCs, i.e., selling parts, components, and tradeable services to other enterprises who use them as inputs in their production and business systems (business-to-business); and
- Innovating for new types of markets and retail customers whose characteristics differ significantly for developed economies, the region’s firms’ traditional markets (business to new types of consumers).

Box VI.2 shows the stages of internationalization of MSMEs.

**Box VI.2**

Stages of internationalization of MSMEs

Internationalization involves different stages that involve diverse, if overlapping, challenges and constraints, requiring different policy emphasis.

The preparation stage involves pre-internationalization issues. For example, at this stage a key requirement is to make a credible case for internationalization, including key information needs related to the benefits, challenges and ‘best practice’ of internationalization, and identification and initial understanding of potential markets and customers. Basic capacity constraints on internationalization (e.g., managerial mindset and skills), and understanding of market entry requirements and options are especially important. Constraints on working capital financing are of particular concern.

The active engagement stage involves the start of the implementation of internationalization activities. Key constraints at this stage are related to: (a) initiating contacts and ‘getting to know’ foreign markets and foreign buyers, e.g., through overseas trade offices, trade fairs and missions; (b) constraints on understanding and using cross-border logistics; (c) knowing the rules and regulations for operating in foreign markets; and (d) trade and supply chain finance.

The growth and expansion stage involves strengthening and enlarging product market position. Key constraints at this stage are related to improving competitiveness, expanding production capacity, expanding knowledge of relevant range of standards and certifications, and diversifying distribution and marketing channels. There is a relationship between levels of development and stages of internationalization, in that a country at a lower level of development, such as Myanmar, compared with a more developed economy such as Thailand, will have firms mostly at the initial preparation stage, facing related constraints.


165 Ibid.
The benefits of MSMEs integrating into GVCs include strengthening the technical and managerial capabilities of firms, increasing capacity utilization and production efficiency, strengthening the reputation and credibility of the firm, and providing a manageable way for MSMEs to reach and compete in global markets. Participation in GVCs also places great demands on small firms to deliver the right product (product standards), in the correct quantity (production capacity), with the right quality (quality standards), at the right time (efficient logistics) and produced in the right way (process standards). These are significant challenges for MSMEs.

International trade and FDI are the main defining features and key drivers of GVCs. The opportunities for MSMEs to participate in GVCs are vast. Participation in value chains exposes them to a large customer/buyer base and opportunities to learn from prominent firms, and from engaging and surviving in the hotly contested sectors of the global marketplace. This process can enhance MSME competitiveness, create more jobs and promote inclusive growth in the Asia-Pacific. The penetration of GVCs, however, also presents often formidable challenges for MSMEs. They may fail to gain a foothold and have to do without large market development expenditures as a result.

GVCs have brought to light and created the greater focus on the interdependencies between trade and FDI. Research shows how companies organize their production regionally and globally by blending trade with investment and a range of non-equity, contract-based partnerships.\textsuperscript{166} The analysis shows that GVCs attract MNEs which establish linkages with local MSMEs, attract foreign investors that are SMEs following the big MNEs in competition with local MSMEs, or develop local MSMEs as suppliers to foreign buyers.\textsuperscript{167} MNE activities are thus a combination of trade, FDI and strategic partnerships. All businesses rely on a mix of these different types of corporate relationships. In addition, the configuration of trade, investment and strategic partnerships varies across sectors, businesses and markets. Thus, the advent of GVCs has been beneficial to the expansion of MSMEs in developing countries, because they allow MSMEs to initially specialize in specific tasks rather than producing a complete product, thereby simplifying their entry into manufactures trade.

General investment climate factors are essential if countries want to attract FDI. One key factor is macroeconomic stability and balance of payments management, such as low inflation and a stable currency conducive to business. Microeconomic factors include access to labour relative to capital or natural resources. These factors thus determine if a country can attract FDI or even stimulate domestic investment. In addition, business support functions emerge as crucial building blocks in GVCs, which suggests that policy reforms in sectors that support GVCs should warrant special attention. Therefore, it is essential to share some of the challenges that MSMEs face in joining GVCs (table VI.1).

\begin{table}[ht]
\centering
\caption{Major challenges for MSME participation in regional and global value chains}
\begin{tabular}{|l|l|}
\hline
\textbf{Challenges} & \textbf{Capabilities and limitations} \\
\hline
Intensified competition & \begin{itemize}
\item The small size of operation that results in a relatively high cost of production.
\item Lack of consumer preferences and inability to access lead firms.
\item Lack of market intelligence (e.g., business opportunities, prospective customers, competition status, channels and distribution, local regulations and practices, and taxation).
\item Inability to network.
\item Inability to meet extraordinary demands due to uncompetitive price, quality and delivery.
\item Inadequate institutional support and assistance.
\item Lack of necessary workforce and financial resources.
\end{itemize} \\
\hline
\end{tabular}
\end{table}


\textsuperscript{167} ESCAP, 2019, Integrating SMEs into global and regional value chains. Available at \url{https://www.unescap.org/sites/default/files/UNESCAP-Kyrgyzstan-GVCs-October%202019-.pdf}. 
One strategy for improving the chances of MSMEs being able to participate in GVCs, and to receive incoming FDI for the purpose of contributing GVCs, is to enable MSMEs to meet international standards.\(^{168}\) A sustained push across industry to meet international standards, whether initiated or coordinated by the Government or from the private sector itself, may help to increase the comprehensibility of local businesses to TNCs, and enable them to more seamlessly integrate into GVCs. Achieving this kind of standardization, however, requires industry-specific approaches and R&D.

### C. Policies for the participation of MSMEs in regional and global value chains

GVCs are associated with growing productivity, exporting more sophisticated products and a less concentrated export basket.\(^{169}\) MSMEs are more apt to export intermediate goods through GVCs, either directly or indirectly through sales to larger domestic or multinational firms producing and exporting the final product. Policies seeking to integrate MSMEs into GVCs could address importing constraints through continued unilateral or regional liberalization or sustained trade facilitation and connectivity support. At the same time, programmes aimed at promoting domestic and international production linkages should allow MSMEs to identify new opportunities better and exploit their comparative advantage in the production of intermediate goods and services and integrate, directly or indirectly, into regional and GVCs.

Countries need to leverage policies to ensure that they can enter and remain competitive in the value chain. Trade and investment openness and a comprehensive package of policies that include a greater focus on behind-the-border and at-the-border issues (such as trade facilitation, infrastructure and institutional quality) are necessary.\(^{170}\) Thus, policies aimed at reducing the costs of accessing foreign inputs and technologies correlate with MSME internationalization and reductions in tariffs. This further liberalizes and promotes FDI by streamlining trade facilitation, which helps MSMEs to benefit from broader exporting activities.\(^{171}\) MSMEs can also leverage foreign inputs and technologies to increase their productivity and, therefore, their domestic sales. Evidence suggests that firms need to have access to competitively priced and high-quality intermediates to stay competitive.\(^{172}\) Importing is increasingly a necessary condition for maintaining and enhancing competitiveness, even in the domestic economy. Programmes that help overcome informational asymmetries and facilitate connections between MSMEs and businesses abroad could help identify emerging opportunities for

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\(^{168}\) Dash and Chanda 2021, “Anatomizing India’s Presence in Automotive Global Value Chains,” *Foreign Trade Review.*


\(^{170}\) Ibid.

\(^{171}\) Ibid.

MSMEs to exploit their revealed comparative advantage in producing intermediate goods and services.

Since MSMEs might struggle to produce finished products, greater specialization in supplying intermediates through GVCs may provide new opportunities for developing the economic activity of MSMEs. For policymakers, this suggests that MSME policies might also consider focusing on supporting MSMEs in forming partnerships with firms abroad, in addition to overcoming the traditional costs associated with exporting.

MSME policies should consider advancing ways to sell intermediate goods and services as a stepping stone to greater participation in value chains. This can reduce the costs of both exporting and importing. In ASEAN, for example, in particular sectors MSMEs rely on larger firms to tap into export markets indirectly. With high fixed costs associated with exporting, MSMEs may seek to attenuate the burden of these costs by selling intermediate goods and services to larger exporting firms in the domestic economy. Domestic policies, including those aimed at reducing regulatory barriers faced by MSMEs, and better infrastructure, soft and hard, should help nurture domestic connections. Their promotion should benefit both large and small firms. While research has identified that MSMEs rely on domestic linkages for their internationalization, the determinants of these linkages require further study, including the role of FDI.

D. Investment policy

Foreign direct investment is defined as cross-border investment by a resident entity in one economy to obtain a lasting interest in an enterprise resident in another economy. The lasting interest implies the existence of a long-term relationship between the direct investor and the enterprise as well as a significant degree of influence by the direct investor on the management of the enterprise. Ownership of at least 10 per cent of the voting power, representing the influence by the investor, is the primary criterion used. Broadly, FDI includes “mergers and acquisitions, building new facilities, reinvesting profits earned from overseas operations, and intracompany loans.” In a narrow sense, greenfield FDI refers just to building new products or services facilities.

In fact, FDI brings new capital, technology and know-how directly to a host country. The valuable role of FDI as an external source of financing for development is well-established. The Addis Ababa Action Agenda has been recognized as a central means of implementing the 2030 Agenda for Sustainable Development. The main idea underlying FDI liberalization policies of many developing countries and the FDI promotion efforts of international donors, such as the World Bank and IMF, is that FDI inflows foster economic growth. As FDI is a composite bundle of capital stocks, know-how and technology, its impact on economic growth is expected to be manifold.

FDI can be an essential channel for the development of MSMEs in the right policy environment. Increased FDI inflows to a country can create several positive economic effects. FDI can affect labour and capital markets, trade patterns and economic growth. It is well-known from the theory of host country effects of FDI that for FDI to occur, MNE must have some firm-specific advantages compared to the enterprises in the host economy. These firm-specific advantages may result in technology transfer from the parent firm to its affiliate in the host country of investment and related spillover effects in the host economy by the business.

Within ASEAN, for example, there is a strong emphasis on MSME development in Malaysia and Thailand. Government efforts to link foreign firms with local suppliers have been increased. The growing number of SEZs along national borders, the Belt and Road Initiative and the Regional Economic and Comprehensive Partnership (RECP) Agreement are expected to stimulate intraregional FDI flows further.

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175 UNCTAD, World 2020 Investment Report: Production Beyond the Pandemic.
177 Jain, 2013, Foreign Direct Investment in Multibrand Retail: The Case Scenario in India and Globalization Spectrum.
1. Leveraging FDI for market access

Foreign Direct Investment can serve as an additional funding source and an important channel for developing MSMEs. Although the benefits of FDI are well-known, the magnitude of the potential effects is determined by a given country’s economic characteristics and a host of other factors. FDI can have a direct impact on economic growth, income generation and job creation. Higher levels of FDI can also trigger increased levels of total trade of goods and services, and various other linkages with the domestic economy, such as technology transfer, human capital formation, creation of new industries and greater integration into the world economy.

FDI can affect labour and capital markets, trade patterns and economic growth. It is well-known that for FDI to occur, MNEs should have some competitive advantages compared to the enterprises in the host economy. These specific advantages can result in technology and skills transfer from the parent firm to its affiliates, subsidiaries or suppliers (typically an MSME) in the host country of investment and other related spillover effects in the host economy. Therefore, the inclusion of MSMEs in the supply chains of MNEs and their ensuing (indirect) involvement in exporting activity can lead to substantial diffusion of technology and further effective business models, thereby raising the international competitiveness of MSMEs.

The policy environment is crucial for attracting FDI, building local capacity and anchoring investors by establishing deep linkages with the local economy. Regional and national policies also play an essential role in promoting and facilitating the outward internationalization of firms through investment. One such pathway for countries is via the development of Special Economic Zones (SEZs).

Regulatory restrictions on FDI limit both market access and the potential for linkages between foreign investors and local MSMEs. As such, they are reforming FDI restrictions that can serve to promote MNE-MSME ties. Increased FDI inflows to a country can create several positive economic effects. FDI can affect capital and labour markets, trade patterns and economic growth. These firm-specific advantages may result in technology transfer from the parent firm to its affiliates or subsidiaries in the host country, and related spillover effects on domestic companies in the host economy.

2. Policy recommendations

- Increasing foreign investor access to the services sector.
  Advancing FDI liberalization of services sectors can raise the productivity of manufacturing firms and create new opportunities for MSMEs to plug into GVCs.

- Liberalizing capital controls to transform domestic firms into multinational.

Governments should consider transitioning towards policies that allow firms, including MSMEs, to undertake outward investments without influencing the types of investments or the destination. In particular, technical and financial support to overcome informational barriers can significantly alleviate constraints faced by potential outward investors.

E. Special Economic Zones

The proliferation of GVCs has revolutionized the world economy by opening new industrial development paths for developing countries. Instead of building up industrial capacities from scratch, these countries can join existing supply chains and upgrade along with them. This opportunity has unleashed intense competition among developing countries to attract GVC-linked investment, using various policy tools. One policy tool that is potent in this drive is are SEZs.

SEZs are physically delineated areas where host countries relax rules and regulations, build efficient infrastructure, and offer substantial fiscal and non-fiscal incentives in the hope of attracting GVC activities, which are highly responsive to business environments and costs. There is a general presumption that by facilitating the host country’s insertion into GVCs, SEZs can drive

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trade, FDI inflows and technology transfers, which generate spillover effects and catalyse economic transformation on the broader economy.\textsuperscript{181} However, the evidence indicates that very few countries have managed to leverage SEZs to achieve far-reaching economic transformation.\textsuperscript{182} In several countries, SEZs have succeeded in driving FDI, exports, production and employment, but they have had limited or little impact on the development process of the broader economy.\textsuperscript{183} In many other countries, SEZs are utterly unsuccessful even in attracting investment and economic activity.\textsuperscript{184} Economically transformative or not, SEZs have been increasing in recent years. To have the desired spillovers for MSMEs, SEZs should be established and supported by policies that support skills and cluster development (box VI.3).

**Box VI.3**

**Thailand's BUILD programme**

In June 1992, the BOI Unit for Industrial Linkage Development (BUILD) was established under the Thailand Board of Investment (BOI) to support industrial linkage and use of industrial parts manufactured in Thailand. BUILD services offer channels to connect competitive Thai SMEs and large manufacturers with parts and component suppliers. With the success of its activities, BUILD has been upgraded into a division under the BOI, the Industrial Linkage Development Division (ILDD) The ILDD will continue to encourage growth in supporting industries in Thailand through providing information on subcontracting opportunities by linking parts suppliers with the right manufacturers. ILDD also assists Thai MSMEs to achieve industrial standards required for entering into productive subcontracting arrangements. With its extensive database on subcontractors in Thailand, ILDD provides sourcing and business matching services. With these services, firms can be assured that their procurement process is well-facilitated, while saving production costs and time spent in finding domestic parts manufacturers. ILDD will further strengthen its activities by organizing seminars, workshops and networking forums in targeted industries of Thailand to provide in-depth information as well as help support Thai SMEs to be part of the global supply chain of the growing next-generation industries.


SEZs can be useful for MSME development through supply-side capacity-building and greater market access; they increase industrial output and attract FDI. They also allow host Governments to develop and diversify exports, while maintaining protective barriers, creating employment and incorporating new policies. According to the Foreign Investment Advisory Service,\textsuperscript{185} the principles embodied in the basic concept of the special economic zone include: (a) a geographically delimited area (usually physically secured); (b) a single administration; (c) eligibility for benefits based upon physical location within the zone and a separate customs area (duty-free benefits); and (d) streamlined procedures. The phenomenon of SEZs has been successfully utilized to modernize economies in recent years due to the ability to customize SEZs to fit specific needs.

SEZs can start as a pilot project for more comprehensive economic reform, and almost always involve the attraction of FDI.\textsuperscript{186} In many cases, SEZs are also open to domestic companies (suppliers).\textsuperscript{187} SEZs have played an essential role in the expansion of GVCs. While rules differ between individual countries, zones typically operate outside the country’s boundaries for customs purposes, even though they are geographically located inside the country. As a result, the supply chain of products may be scattered among zones worldwide without the impact of tariffs, quotas and detailed customs procedures, until they finally exit the zone system in the country where the


\textsuperscript{183} Frick, Rodríguez-Pose and Wong, 2018, “Towards economically dynamic Special Economic Zones in emerging countries”, *Journal of Economic Geography*, vol. 95, No. 1, pp. 30-64.


\textsuperscript{186} Ibid.

final product is produced. However, the spread of backward linkages has varied dramatically across countries. Countries can adapt their SEZ strategy as a comprehensive strategy for cluster development. Box VI.4 details the Savan-Seno SEZ in the Lao People's Democratic Republic.

**Box VI.4**

**Savan-Seno SEZ in the Lao People's Democratic Republic**

The Savan-Seno Special Economic zone is situated along the East-West Economic Corridor (EWEC). This SEZ made little progress until the second Lao-Thai Friendship Bridge opened in 2007. As of 2019, around 70 enterprises, including from China, Thailand, Japan, Canada, the Netherlands and France, had registered in the Savan-Seno SEZ.

The impact of the second Friendship Bridge and the SEZ on the tourism industry is notable. Tourist arrivals increased substantially after the bridge's opening; the number of tourists in Savannakhet increased from just below half a million in 2008 to more than one million in 2015.\(^{188}\) The supporting tourism industries expanded markedly in Savannakhet, where the number of accommodation establishments (hotels, resorts and guest houses) increased from 115 in 2009 to 196 in 2015. The number of rooms rose from 2,302 in 2009 to 4,351 in 2015.\(^{189}\) The hotel/casino in the SEZ was exceptionally high profile in attracting tourists from Thailand, where casinos are not permitted. In a 2012 ADB report,\(^{190}\) concern was expressed that the casino was the principal outcome of the SEZ and had substantial negative externalities. However, the flow of people and the easing of border trade following the bridge's opening helped to establish a cross-border transport infrastructure that would encourage manufacturing activity within the SEZ.

The primary drivers of this SEZ\(^{191}\) relate to its strategic geographic location, low labour costs, low electricity costs, good access to water as well as its preferential trade schemes that allow easy access to the European Union, Japanese and the United States markets and the investment incentives offered by the Government of the Lao People's Democratic Republic. Political stability was also a determining factor for its success. However, the development of the SEZ has been affected by several challenges. The lack of policy coordination between the SEZ and the provincial and central governments of the Lao People's Democratic Republic creates numerous difficulties for the SEZ. Connectivity is an issue, as the only airport, Savannakhet, is very small, serves only a few flights per week, and cannot serve large planes due to its short runway. The other challenges are related to waste and wastewater treatment systems that exist only in one of four sub-zones, and the shortage of skilled labour and engineers.

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\(^{189}\) Ibid.


Part III

Specific MSME targeted policies: Competitiveness

The drivers of MSME competitiveness can be found at the macro-economic and national policy environment, in MSME’s immediate business environment and at the company level.

MSMEs limited ability to comply with standards and regulations that play an integral and vital role in enhancing international value chains have had an impact on their competitiveness. In addition, the standards and regulations also play a crucial role in ensuring the social and environmental sustainability of global value chains. However, most MSMEs find it challenging to comply with standards and regulations due to cost issues. Thus, this part builds on the previous features by reviewing and analysing policies targeting MSMEs competitiveness.

Part III of this Guidebook defines and distinguishes between national and enterprise competitiveness, linking their determinants and entrepreneurship to MSMEs. It illustrates the differences and similarities between entrepreneurship and MSMEs, noting that both contribute to a country’s economic development. Consequently, part III also deliberates on policies that can support MSME growth through competitiveness. It further explores ways to formalize MSMEs, intensify public interventions on MSME financing and share insights on monitoring and evaluation.
Chapter VII

MSME competitiveness and the role of the business enabling environment

A. Defining MSME competitiveness

Michael Porter,192 a renowned and influential business strategist, defines the competitiveness of a location as the productivity that companies located there can achieve.193 The definition of competitiveness is thus used to understand the drivers of sustainable economic prosperity at a given site, with productivity as the cornerstone of Porter’s definition of competitiveness.194

Competitiveness can be examined at the national and enterprise levels. The national competitiveness level appraises the ability of a national economy to grow. It is measured by a set of factors, policies and institutions that determine a country’s level of productivity. In general, national competitiveness is realized through maintaining an environment for its companies and other institutions to create, utilize and sell goods and services that meet the requirements of global competition and changing social norms. Enterprise competitiveness reflects on the capability of a business to meet customer requirements with a profit. This capability is realized through the offering of goods and services that customers value higher than those offered by competitors. Enterprise competitiveness is applied at the microeconomic level, describing the competitive situation to which an enterprise is exposed. Both national competitiveness and enterprise competitiveness definitions have a structural similarity; they are both defined as capabilities with a double focus on sociological (customer requirements and social welfare) and technical (profit and productivity factors), and involve strategic governance and the idea of sustainability.

192 Michael Porter is an economist, researcher, author, advisor, speaker and teacher. Throughout his career at Harvard Business School, he has brought economic theory and strategy concepts to bear on many of the most challenging problems facing corporations, economies and societies, including market competition and company strategy, economic development, political competition, the environment and health care. His approach is based on understanding the overall economics and structure of complex systems, in contrast to particular elements or parts. His extensive research is widely recognized by Governments, corporations, NGOs and academic circles around the world.


In the Diamond Model, Porter explained the essence of industries within a particular nation in garnering competitiveness internationally. He emphasized the significance of an interrelated set of location advantages that specific sectors in different countries possess in gaining a competitive advantage. These advantages include the firm’s strategy, structure and rivalry, factor conditions, demand conditions, and related and supporting industries. If these conditions are favourable, it forces domestic companies to innovate and upgrade continuously. This competitiveness can allow an MSME to enter the international arena and better compete with global competitors. Porters’ concept of competitiveness also focuses on prosperity created from economic activity. Here, productivity is the critical determinant of the level of wealth a business can sustain over time. Figure VII.1 illustrates the components of Porter’s Diamond model of national competitive advantage.

Figure VII.1
Porter’s Diamond Model of National Competitive Advantage

MSMEs play a critical role in establishing national competitiveness. The ability to compete in international markets depends on macroeconomic policies and conditions (trade policies and exchange rates etc.) and a nation’s comparative advantage – its factor endowment (land, labour and capital). From a government perspective, national competitiveness relates to the country’s competitiveness as a whole, not individual enterprises, which involves developing the whole sectors and supply chains of which MSMEs are part. However, there are a few exceptions to this. For example, Singapore became the most competitive country globally by adopting far-sighted policies that invested in institutions and human resources, and attracted FDI to make up for its lack of natural resources and capital. In addition, technology development also plays a vital role in economic competitiveness. Consequently, MSME competitiveness has improved over the past few years. MSME in Singapore registered steady growth averaging 2.28 per cent by number of MSME establishments, and 2.9 per cent by nominal value added to the national GDP between 2015 and 2019 (ADB Asia SME Monitor, 2020).

Competitiveness is also dependent on the ability to achieve high productivity by deploying and using human resources and capital, and physical assets in the most effective manner. However, getting the macroeconomic fundamentals right will not necessarily lead to competitiveness, mainly if the enterprise sector is weak with little or no productive (supply) capacity. In this instance, new patterns of competition are necessary, requiring active micro policies and measures to shape new industrial locations. In turn, enterprises have to restructure activities and facilities, and acquire skilled labour. Separately, Governments focus their policies and programmes on creating and enhancing competitive advantages among MSMEs.

Building on Porter’s Diamond Model, the Nine-Factor Model is more comprehensive and dynamic than Porter’s original Diamond Model. This framework explains a nation’s competitiveness and the interaction between human and physical factors driving a nation’s development. This model embodies Porter’s notion that “national prosperity is created, not inherited.” In the Nine-Factor Model, human factors comprising workers,

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politicians and bureaucrats, entrepreneurs and professionals, are the major stimulus behind national competitiveness by positioning and productively integrating the physical characteristics. Government officials are endogenous factors in this model, thus directly influencing national competitiveness. The chance event, an external factor, forms the basis of this new paradigm. Figure VII.2 shows the framework of the Nine-Factor Model.

The effect of government policies on a country’s competitiveness can be positive (stimulating competitiveness) or negative (obstructing competitiveness). Governments should take on the role of a catalyst and challenger, and encourage or even push companies to aspire to higher levels of competitive performance, even though this process may be complex.\textsuperscript{196} Government policies that succeed are those that create an environment in which companies can gain a competitive advantage. Therefore, Governments should embrace the following principles to promote national competitiveness:

- **Emphasize competitiveness infrastructure**
  Governments have critical responsibilities for developing and improving competitiveness infrastructures, such as education, science, research, transportation and information technology;

- **Enforce strict product, safety, and environmental standards**
  Stringent standards for product performance, product safety, and environmental control pressure companies to improve quality, upgrade technology, and provide features that respond to consumer and social demands;

- **Deregulate competition**
  Reformation of regulations governing state monopoly, controlling entry to the industry, or fixing prices that hamper rivalry and innovation encourages competition among enterprises. This will lift overall MSME productivity and contribution to the economy in the long term;

- **Adopt strong domestic antitrust policies**
  When applied to horizontal mergers, alliances and collusive behaviour, these policies are fundamental to

innovation. Government policy should generally favour new entry over acquisition. These policies provide MSMEs with a profound avenue to grow competitively. However, the expansion must not distort market equilibrium, hence the relevance of competition law;

- *Intensify goal setting that leads to sustained investment*
  Governments can indirectly affect the goals of investors, managers and employees through various policies. MSMEs need practical guidance in this area.

Further, Governments and not the market must ensure social equality or justice in sustainable development. Such is done by addressing market imperfections via restricting tendencies that lead to faults (law, regulation of competition, anti-trust acts etc.). These tasks, however general, are essential for national competitiveness as well. Consequently, specific new duties and responsibilities have emerged:

- Development of R&D capacities;
- Reduction of social inequalities;
- Prevention or correction of the disintegrating effects of globalization and regionalization in the economy and society;
- Management of interest conciliating and coordinating mechanism with employers' and employees' representatives;
- Development of environment-conscious culture in society;
- Promotion of social cohesion, cooperation and solidarity; prevention of alienation, segregation and marginalization; xenophobia and racism; ethnical, religious and other conflicts.

Accordingly, three interlinked spheres of the role of government in the process of development to improve competitiveness can be distinguished:199

- Initiating and promoting structural changes in the economy and institutional reforms, and taking care of public health, education, cultural life, social security as well as political freedom;
- Directly and indirectly creating “competitive advantages”, thereby improving the export competitiveness of its products and services, attracting FDIs and providing a “home base” for TNCs of foreign and local origin;
- Regulating, through market-conform methods and legal acts, the economic activities within the country; encouraging savings and investments; influencing by various incentives and legally prescribed rules the investment orientation under a national development strategy; promoting the generation of input-output linkages within the national economy; and correcting socially undesired effects following from the operation of the market.

To aid in advancing policy on national competitiveness, the World Economic Forum produces the Global Competitiveness Report and the Global Competitiveness Index (GCI). The report aims to broaden the views of policymakers, businesses and the public on looking beyond growth in their pursuit of enhancing economic productivity and broader resilience. It serves as useful benchmarking that provides a new guide for the future direction of economic growth. Consequently, GCI is an annual yardstick for policymakers to look beyond short-term and reactionary measures, and instead, assess their progress against the complete set of factors that determine productivity and allows economies to monitor progress over time.

C. Role of MSMEs in enterprise competitiveness

Enterprise competitiveness is the ability of a business to compete successfully in the market and obtain economic benefits relative to competitors. An economy’s product competitiveness stems from companies within a nation.

There are several features of competitiveness at the enterprise level. A company’s products and services must have characteristics that make them attractive to potential customers and convince them in their buying decision. This attractiveness can be due to low prices and differentiation. Differentiation can be achieved in many ways, e.g., through design, quality, additional services and innovative features. Moreover, a company must produce and

197 “New” in the sense that for States to advance national competitiveness they need to address the three pillars of sustainable development. Images of rioting in the street and extreme poverty next to extreme wealth, for example, may not attract FDI and thus push a country further down the competitiveness ladder.

198 Upgrading national development resources, including the establishment of “science parks” in a country.

deliver profitably, which means that after subtracting costs from incomes, the profit margin has to be sufficiently high to ensure consistent business. Apart from product competitiveness, a company can also try to become and remain competitive with regard to processes in supply chain management (such as speeding up the distribution of goods to retailers or improving the quality of inventory control) or the production process.

MSMEs must consider their competitiveness strategy from an enterprise perspective. The process can include improving operations and production at all levels, its organization, facilitating and expanding access to financial resources, developing, and expanding skills, pursuing internationalization through exports or overseas investment, and increasing innovation, research, and development. MSMEs can mobilize the following strategies to improve their competitiveness:

- **Innovation that is induced through knowledge and information technology can lead to a decrease in production costs;**
- **Niche strategy in which MSMEs benefit from focusing on the small market segments they serve;**
- **Networking and clustering in which these small businesses strengthen their competitiveness by establishing links together or with other large enterprises;**
- **Foreign direct investment and a supply chain that permits MSMEs’ access to technology and new sources of knowledge through their linkages with large international businesses.**

**D. Determinants of MSME competitiveness**

The determinants of MSME competitiveness are based on the capacity of firms to compete, grow, and be profitable. Those benefits are derived from, among other things, superior products (in terms of design, quality, etc.), production efficiency, financial position, marketing strategy, organizational effectiveness, and a company’s ability to stimulate and respond to demand. A competitive business should have the ability to gain market share and thus maintain an advantage over rival competitors. Research has found that in a period of significant economic turbulence, the following two factors played an essential role in shaping the competitive market position of an enterprise – company image (product brand) and lower product price. The market position of small businesses is also shaped by focusing on a specific group of customers. Small-sized enterprises benefit from their high level of flexibility, which makes them able to adapt quickly to shifting market demand.

**E. Increasing MSME competitiveness through cluster development**

The United Nations Industrial Development Organization (UNIDO) defines clusters as sectoral and geographical concentrations of enterprises that produce and sell a range of related or complementary products and, thus, face common challenges and opportunities. UNIDO notes that clusters can promote the development of specialized suppliers of raw materials and components or the growth of a pool of sector-specific skills, and foster the development of specialized services in technical, managerial, and financial matters. Strong evidence suggests that a cluster policy brings an additional positive effect to existing MSME policy in industrialized economies. When the number and scale of businesses, including MSMEs, in a particular sector grows, related services, suppliers, and consumers can also realize economies of scale. Countries need to make strategic decisions to try to identify and further encourage clusters in order to take advantage of these agglomeration effects. Thus, adopting a cluster approach is essential for policymakers to expand MSME competitiveness in Asia-Pacific countries.

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Through cluster development, MSMEs can intensify cooperation to improve the collective MSME competitive position in a particular sector. By coordinating their activities, MSMEs can collectively achieve economies of scale beyond the reach of individual small-scale firms, obtain bulk-purchase inputs, and achieve optimal ranking using machinery and pool production capacities to meet large-scale orders.\(^\text{206}\) The competitive advantage of clustered business derives from two primary sources: the extent to which the knowledge base of these businesses deepens and broadens to include design, quality control and information related to markets and marketing; and the establishment of linkages to a broader set of technology inputs and actors.\(^\text{207}\) Cooperation among MSMEs enables them to focus on their core businesses, allowing for an external division of labour and thus improving their collective efficiency in production. Partnership via proximity can also encourage MSMEs to share good practices on enhancing product quality, and move toward more profitable market segments. The success of the cluster model is based on consolidated systems of specialized small firms that can generate the settings that amplify efficiency and productivity on a long-term basis and, therefore, become attractive to FDI.\(^\text{208}\) Box VII.1 details the clusters development initiatives driven by the Government of Thailand.

**Box VII.1**

*Translating policy into implementation: Thailand’s superclusters*

In the context of the economic model known as Thailand 4.0, the Government selected a set of priority sectors in November 2015 comprising “First S-Curve” and “New S-Curve” industries. The “S-Curve” concept posits that an industry’s growth is relatively slow during the infancy stage due to limited market size, but output rises rapidly once economies of scale take hold and the market expands, and that growth eventually levels off due to demand saturation. “First S-Curve” industries include five sectors that can be upgraded in the short or medium term by adding value through advanced technologies: next-generation automotive (e.g., electronic vehicles), smart electronics (e.g., high value-added ICT products), high-income tourism and medical tourism, efficient agriculture and biotechnology, and food innovation. “New S-Curve” industries include five sectors identified as promising drivers of growth in the long term: robotics, aerospace, biofuels and biochemicals, digital industry and medical hub.

To support the development of these priority sectors, the Government launched investment promotion measures in designated SEZs in different locations and with specific purposes. SEZs are based on the concept of clusters to improve industrial value chains by strengthening linkages among firms, research and academic institutions, and public organizations, within a geographical area. The Government provides both financial incentives (e.g., tax reduction and subsidies for innovation and human resource development) and non-financial incentives (e.g., simplifying visa procedures for skilled foreign labour, and easing regulation of foreign equity and land ownership). In July 2016, three provinces in the east coast area were designated as the Eastern Economic Corridor, which is to be the flagship SEZ and leverages off the existing manufacturing and energy industrial base there. The Government set an ambitious target of Thai baht 1.5 trillion, some 10 per cent of 2016 nominal GDP, for public and private investments in the corridor from 2017-2021. This initiative is a good example of how a Government can translate a policy into an implementation model.


\(^{206}\) Ibid.


\(^{208}\) Ibid.
F. Leveraging a business-enabling environment

1. Defining the business enabling environment

MSMEs can leverage the business enabling environment (BEE) to elevate their competitiveness. The BEE is a set of policy, institutional, regulatory, infrastructure and cultural conditions that govern formal and informal business activities. It also covers government-influenced, macro-level factors that affect enterprises throughout the value chain. It includes the administration and enforcement of government policy, and national and local institutional arrangements that affect the behaviour of relevant actors who comprise many of the critical players in the BEE. Ultimately, BEE is an essential factor in the competitiveness and development of a value chain. Thus, at the macro level, improving the overarching institutional frameworks for private investment and innovation with elements of both liberalization and new regulation related to competition policy frameworks, opening sectors to foreign investment, and supportive regulation are all aspects of a functioning BEE. Here, budding MSMEs could be encouraged to enter specific sectors with inclusive growth potential, such as renewable energy or organic agriculture, via deregulation of government-controlled systems or removal of other overly rigid regulations stifling market entry. Improving the BEE can, therefore, benefit many organizations within it.

2. Improving BEE for MSMEs

The International Labour Organization (ILO) notes that getting the BEE right is critical for MSMEs to access new services, leading to performance improvement and business sustainability. The Donor Committee for Enterprise Development (DCED) notes that the BEE aims to reduce the costs and risks of business activity by improving poor government policies, laws and regulations, and stimulating competition by promoting new market entrants. It is essential to distinguish two fundamentally different sets of measures to structure reform options. The first set relates to the functional areas of business environment reform aimed at reducing costs and risks for all businesses caused by poor or changing policies, laws and regulations. The second set is firm-specific government measures such as subsidies, tax waivers, mandatory inclusion or preferential public procurement. Indeed, all Governments that have achieved growth in economic opportunities for the poor at scale have complemented business environment reform with targeted interventions, such as industrial policies. However, poorly reformed interventions have created a significant barrier to inclusive growth.

Business enabling environment reform denotes regulatory, legal, policy and institutional reforms intended to improve the business environment. It aims to reduce the costs and risks of business activity by improving poor government policies, laws and regulations, and by stimulating competition through new market entrants. BEE reforms have evolved from large-scale, top-down programmes targeting national-level laws and regulations to second-generation programmes. Hence, they are increasingly combining bottom-up with top-down approaches, linking BEE reforms with specific sectors, subsectors and value chains, and integrating cross-cutting issues. Originally structured around doing business, today BEE reforms increase companies’ investment and innovation and create more and better jobs. BEE reform does this in the following ways:

- Reducing business costs, resulting in increased profits (possibly leading to increased investment) or increasing market share (and thereby output and employment);
- Reducing risks and improving predictability. Poor or frequently changing government policies, laws and regulations pose a risk for businesses, thus reducing the value of capital and the number of attractive investments in that market;
- Promoting new business entry and increasing competition. Laws and regulations to support capacities and means of entrepreneurs (training and financial), enabling access to production factors and infrastructure (such as human capital, energy or transport);

● Promoting positive social and environmental externalities, thus contributing to long-term sustainable growth and Sustainable Development Goals (SDGs).

In achieving effective reforms, champions are needed within government and among businesses within the value chain for reforms and policies to be enforced and monitored over time. The role of donors is not to advocate but rather to support the advocacy process, ensuring transparency and the flow of information. A critical part of government ownership is ensuring that the government receives public recognition and credit for its role in successful reforms. Box VII.2 illustrates how Viet Nam has successfully advanced BEE via provincial competition.

**Box VII.2**

**Viet Nam’s provinces strive to become more attractive with BEE**

Ecofarm has been a profitable venture in Viet Nam’s Dong Thap province, as a result of the company’s sound investments and strong business enabling environment. It sells substantial volumes of farm produce from 85 hectares of land harvested on a three-month planting cycle using high-tech practices. Until recently, business registration in this area was a time-consuming affair, making the opening of new businesses a chore. Ecofarm’s decision to open a branch in Dong Thap was encouraged by its ease of operating and investing in business. The province scored the second highest in the Provincial Competitiveness Index (PCI), produced through a partnership with the Viet Nam Chamber of Commerce and Industry and USAID. In general, Vietnamese businesses face many challenges due to the lack of local government support. The primary difficulties include significant delays in business registration, accessing land matters and paying taxes.

In an effort to promote Dong Thap as a destination for agricultural investment, local government leaders made many trips to Phu Quoc, where Ecofarm is headquartered. When Ecofarm first opened its business operations in 2015, local government continued to offer support and actively learn about obstacles to new businesses. Despite being located remotely with few geographic advantages, and relatively poor infrastructure compared to other provinces, Dong Thap witnessed a response to its efforts with much new business development, increasing in 2016 by 28 per cent from 2015, higher than the national average of 16 per cent. Dong Thap’s leaders set a policy goal to create a strong enabling Government that serves people and businesses.


The example in box VII.2 establishes the fact that local or regional implementation of the existing legal framework can be more critical than the reform of national policies. In Viet Nam, the various steps, requirements, days and visits needed to register a business vary enormously among different provinces, despite a national legal framework. This example highlights two critical issues: (a) implementation of the law matters; and (b) what happens at the municipal level is more relevant to how businesses operate than decisions and actions taken at the national level. An exclusive focus on the national Government misses an enormous opportunity to address BEE constraints directly. Local governments determine transaction costs and the incentives for businesses to formalize. Their support for, or hostility to business affects business relationships, and upgrading decisions are critical factors in the competitiveness of a value chain. USAID and the IFC offer the following observations:

- **Changing incentives can have a powerful effect on business behaviour**

  Reforming laws is often insufficient to improve the BEE since it does not change the incentives for poor government behaviour. Businesses often encounter corruption at the registration stage, and resistance to reform can seem to be prohibitive. Therefore, the registration process needs to be transparent and to stipulate that if the business registry completes the process within the target number of days, the registry employees will receive 50 per cent of the registration fee. Such would provide employees with an incentive to keep the process moving and identify new transparent systems to clear any process bottlenecks. In instances such as this, changing the incentives within an institution can be more effective than changing the law;
A successful reform strategy between the private sector and local government

Effective engagement between the Government and the private sector (including small and informal enterprises) requires training and support for both sides. Private sector advocacy capacity can be built through studies on specific BEE issues, funding for advocacy initiatives, and the establishment of links between value chain businesses and institutions that can support reform. Similarly, local government skills can be strengthened through training and dialogue between local government agencies and private-sector associations or representatives. With this, consultation on a particular issue can provide a forum for the organic development of the public-private exchange;

BEE-support structures are crucial to achieving success

For the reform process to be sustainable, support structures must be developed. Value chain stakeholders should link up with specialist service providers such as think tanks and universities. The media should be encouraged to report on BEE issues and assist in understanding policy constraints and the positive impact of reform;

Quick successes generate opportunities for further success

The critical lesson in implementing a BEE strategy is to start with reforms that can be rapidly implemented and quickly demonstrate impact. Successful reform in one area generally opens up opportunities for interventions in other parts of the enabling environment. Conversely, stagnation and lack of success will restrict possibilities.
Chapter VIII

Enhancing entrepreneurship and entrepreneur development

A. Defining entrepreneurship and entrepreneurs

The OECD defines entrepreneurship as the dynamic process of identifying economic opportunities and acting upon them by developing, producing and selling goods and services. Entrepreneurship is the willingness to take risks with new or innovative ideas to generate new products or services. MSMEs, especially those in the informal sector, are also driven by necessity and poverty in the Asia-Pacific region. Therefore, Governments in their capacity to promote economic growth turn to mechanisms “to enhance entrepreneurial activity in their regions, whether those mechanisms are tax policies, financing subsidies or other tools.”

Entrepreneurs can contribute to economic development by facilitating the reallocation of resources from more minor to more productive uses. In simple terms, individuals who start an entrepreneurial venture are known as entrepreneurs, and the common terminology used for small businesses is entrepreneurial businesses. Although MSME’s primary focus may not be on innovation, it ensures the company is self-sustaining to profit. Entrepreneurs can be singled out based on two primary roles: (a) the entrepreneur is the founder of a new business; and (b) the entrepreneur plays a more general innovative role in economic life.

As a development strategy in today's changing economic environment, entrepreneurship has become prominent. Entrepreneurship is considered an essential mechanism for economic development through employment, innovation and welfare. It is necessary to a growing economy because its innovations create demand for new products and services that were not previously available. Entrepreneurship also resembles

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a process that leads to the growth or creation of start-ups, small and medium-sized enterprises and business projects. It also focuses on generating new values – social, emotional, aesthetic and financial. Entrepreneurship encourages growth for three reasons: (a) it stimulates competition through the establishment of new enterprises; (b) it facilitates knowledge spillovers to spur innovation and leverage new opportunities; and (c) it generates diversity and variety among enterprises in any location. Table VIII.1 summarizes the different characteristics of entrepreneurship and MSMEs.

### B. Creating entrepreneurship awareness

Governments and their agencies can promote awareness about the importance and role of entrepreneurship through various programmes. Utilizing educational networks, mass media and confidence-building programmes that include specific and non-punitive exit-route legislation and financial assistance schemes for rehabilitation or closing failed ventures are all excellent tactics. These measures would promote an entrepreneurial culture in an economy.

A wide range of factors has contributed to this growing interest in entrepreneurship education and training. There is increasing recognition of the critical role education can play in developing entrepreneurial mindsets, attitudes and societies. In higher education institutions, entrepreneurship learning based on successful entrepreneurial role models may serve as a driver for more sustainable development. Theoretical perspectives, such as human capital theory and self-determination theory, note that entrepreneurship education is positively associated with entrepreneurial intents of students. They provide adequate know-how and skills and motivate them to develop their entrepreneurial careers.

#### 1. Incubators and accelerators

Governments drive specific mechanisms to support the development of entrepreneurship. For example, incubators/accelerators are structured support programmes for entrepreneurs, typically aimed at helping them to develop their business model, prepare for growth, and secure investment. Business incubators and related enterprise support systems have emerged as popular mechanisms to promote economic development in developing and developed countries. Both incubators and accelerators link MSMEs to investors and key influencers. Startup incubators begin with companies (or even single entrepreneurs) earlier in the process and do not operate on a set schedule. If an accelerator is a greenhouse for young plants to get the optimal conditions to grow, an incubator matches quality seeds with the best soil for sprouting and growth. Table VIII.2 illustrates the differences between business incubators and accelerators.

### Table VIII.1

**Characteristics of entrepreneurship and MSMEs**

<table>
<thead>
<tr>
<th>Characteristics</th>
<th>Entrepreneurship</th>
<th>MSMEs</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Definition</strong></td>
<td>Stresses innovation</td>
<td>Stresses self-sustaining to a profit focus</td>
</tr>
<tr>
<td><strong>Size</strong></td>
<td>Large to medium and small</td>
<td>Micro, small and medium</td>
</tr>
<tr>
<td><strong>Purpose</strong></td>
<td>Discover, innovate and establish</td>
<td>Produce, buy and sell</td>
</tr>
<tr>
<td><strong>Sector</strong></td>
<td>Private, government and not-for-profit</td>
<td>Informal and formal private sector</td>
</tr>
<tr>
<td><strong>Key attributes</strong></td>
<td>High need for achievement; internal locus of control; creativity and innovation; growth</td>
<td>Organizational skills to manage efficiently, little innovation, moderate growth, moderate need for achievement</td>
</tr>
</tbody>
</table>


Policymakers should consider facilitating and encouraging the growth of entrepreneurship because it is a force for value creation in one domain or another. Here, value covers both monetary and non-monetary returns, and these values are objectives set by policymakers. While some countries focus on the contribution of entrepreneurship to economic growth, others view it as solving environmental problems and social inclusion.

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219 Scott, 2010, *The Benefits of Tangible Non-Monetary Incentives*, University of Chicago Graduate School of Business.

Table VIII.2

Differences between incubators and accelerators

<table>
<thead>
<tr>
<th></th>
<th>Business incubators</th>
<th>Business accelerators</th>
</tr>
</thead>
<tbody>
<tr>
<td>Objective</td>
<td>Support business creation and development.</td>
<td>Accelerate business growth.</td>
</tr>
<tr>
<td>Space provision</td>
<td>Usually.</td>
<td>Occasionally, but there is a greater emphasis on business support services.</td>
</tr>
<tr>
<td>Service portfolio</td>
<td>Training: Entrepreneurship skills.</td>
<td>Seminars: Management skills.</td>
</tr>
<tr>
<td></td>
<td>Mentoring: Focus on business model and initial business plan.</td>
<td>Mentoring: Intense, with focus on growth strategy.</td>
</tr>
<tr>
<td></td>
<td>Access to finance: Grants or seed capital.</td>
<td>Access to finance: Debt or equity.</td>
</tr>
<tr>
<td></td>
<td>Other: Managerial support (e.g. accounting), access to specialized equipment.</td>
<td></td>
</tr>
<tr>
<td>Service provision</td>
<td>On-demand.</td>
<td>Mandatory and provided in a structured programme.</td>
</tr>
<tr>
<td>Length of support</td>
<td>Often up to 3 or 4 years, or more.</td>
<td>Usually 3 to 6 months.</td>
</tr>
<tr>
<td>Selection and exit</td>
<td>Admissions are typically on-going and selection is made according to the focus</td>
<td>Admissions are typically done in cohorts, through a competitive selection process.</td>
</tr>
<tr>
<td>criteria</td>
<td>and criteria set by the incubator.</td>
<td></td>
</tr>
<tr>
<td>Tenants</td>
<td>Often enter at pre start-up stage; few, if any, employees; little experience.</td>
<td>Often enter start-up stage; Often 1 or 2 employees; typically experienced.</td>
</tr>
<tr>
<td>Business model</td>
<td>Mostly non-profit, with operating costs being largely covered by the rental rental fees collected.</td>
<td>Mostly for-profit, associated with private venture capitalist funds (in the US) or a mix of private and public investors (in Europe).</td>
</tr>
</tbody>
</table>


While there are several definitions of business incubators, they are generally facilities designed to create a conducive environment for new and small ventures, to help them cope with the difficulties encountered in the initial stages, survive, grow and become successful mature businesses. They can offer essential services ranging from physical space at subsidized rates, shared necessary business services and equipment at little or no cost, business assistance, including legal and technical advice and financial support.221 A business incubator is a firm that helps new MSMEs progress by making available such services. Business incubator programmes are, therefore, an essential element of support infrastructure for MSMEs and entrepreneurship. The objectives of incubator programmes are to help new MSMEs avoid the risks of failure and to generate economic growth.222 They can receive subsidies from Governments, and government funding is often earmarked in developing and developed countries. While many incubators still aim to fuel job creation, additional objectives include enhancing regional economic competitiveness, fostering innovation and creating a more entrepreneurial environment in the community.223 It is important to note that incubators support startups entering the early stages of building their business.

Unlike incubators, business accelerators push the growth of MSMEs with a business model in place. One of the significant differences between accelerators and incubators is in how the individual programmes are structured. Accelerator programmes usually have a set timeframe in which

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respective companies spend anywhere from a few weeks to a few months working with a group of mentors to build up their business and avoid problems along the way.

2. Business development services

MSME productivity can be constrained by many aspects of firms’ limited internal capabilities in human resources availability and utilization, access to finance for investment, and innovation practices. Central to this is the lack of adequate managerial ability within an MSME. Business advice can help MSMEs to identify the most significant obstacles to their productivity growth and their actions to overcome them. Business development services (BDS) enhance the performance of individual businesses, allowing them to compete more effectively, operate more efficiently and become more profitable. BDS is a broad term covering services and physical facilities for entrepreneurs to develop their business capabilities. Figure VIII.1 illustrates the concept, clustered in three different service types: (1) general information; (2) consulting; and (3) training. These have six other topic areas: (1) sales and marketing; (2) production, operations and information communication technology (ICT); (3) human resources (HR) management; (4) financial management; (5) strategic management; and (6) legal issues and regulations. BDS also includes physical infrastructure (for example, business incubators), providing a mix of “hard” infrastructure, such as premises and “soft” services. BDS includes training in general business management, entrepreneurship and particular business skills such as marketing, accounting, finance, counselling and advice.

Figure VIII.1
Business development services matrix


In supporting the development and sustainability of MSMEs, BDS help to increase employment, generate higher incomes and provide economic security. Such interventions at the micro-level contribute to poverty alleviation and empower vulnerable groups through economic development and growth.\textsuperscript{225}

3. Guiding principles of best practices in BDS

The guiding principles are compiled from international best practices in the delivery of quality business services to MSMEs. The recommended guiding principles of best practices in BDS that policymakers can adopt for the benefits of MSMEs are:

- **BDS services provided to the right clientele**
  MSMEs exhibit good entrepreneurial characteristics and can use the services to grow and become more competitive and profitable;

- **BDS are demand-driven**
  Services (especially information services and training) are mostly supply-driven and do not reflect the clients’ real needs. Ensuring that services are demand-driven can create a more significant and more positive impact on the business, and it can encourage clients to start paying for the services they value;

- **Strong sense of ownership**
  International experience shows that the best business providers are people working in an environment, which induces commitment and a strong sense of ownership;

- **Maximum outreach**
  Through maximum outreach, MSMEs can obtain good quality services that have a positive impact on their business. This is often best achieved by strengthening private sector service providers, creating better networks between service providers and promoting informal learning systems;

- **Integration of BDS and financial services**
  While there are differences in opinion about whether the same organization should provide both BDS and financial support services, integrating these supports is essential. One approach to achieving this is accommodating both services in the same organization, while ensuring that the unit in charge of financial services operates independently from the one providing BDS;

- **Cost-effectiveness**
  Achieving maximum cost-effectiveness yields many positive effects. More clients can be served with the same available resources, and services can be reduced. The reduction of costs may be achieved in several ways. For example, improvements in working procedures or the introduction of office automation, enhancement of staff productivity through performance-based bonuses, and sub-contracting some services;

  - **BDS services achieve the most significant impact**
    BDS providers must regularly assess the impact of their services. This can be done in various ways and can be complemented by developing performance indicators to measure the desired effects;

  - **Financial sustainability**
    This term refers to the long-term impact of the services on the enterprise. Governments may provide funding for BDS and “public goods” such as information, education and training, and other services, such as infrastructure provision.

C. Enhancing entrepreneur contributions

Considering entrepreneurs’ significant roles and contributions, it is essential to understand the primary and common elements that determine their success. The critical success factors can be categorized into the following three broad components (figure VIII.2):

- **Entrepreneurship**
  Successful entrepreneurs must fundamentally possess adequate education, relevant experience, deep market knowledge and professional networks, and a marketable idea. To manage the whole business process, they must also have a solid command of management skills covering marketing, cost control, cash flow management and specific legal requirements (e.g., business registration). Entrepreneurial knowledge – i.e., a superior

\textsuperscript{225} UNDP, 2004, Unleashing entrepreneurship: Making business work for the poor, commission on private sector and development.
understanding of specific business issues – and creativity are essential in driving continuous improvement in a business;

- **Resources**
  Resources are another crucial factor influencing the success of new business ventures, with the most important being financial, technological and human. Entrepreneurs need to guarantee adequate start-up funds from their capital, family support or external financial supporters, such as “angel investors.” Among other factors, human resources are the foundation of a successful and well-functioning enterprise, and technological expertise is essential to realising ideas;

- **Business plan**
  A unique and well-developed business plan is essential in competitive markets as it is an assessment of all factors, and coordinates entrepreneurs’ strengths and available resources. Successful business plans consist of clearly-defined corporate missions, strengths and weaknesses, and competitive products and services. During the implementation of business plans, successful entrepreneurs should always pay close attention to: (a) the trends of the market and customer needs; (b) policy changes, including public spending and procurement; (c) advancement of technologies; and (d) economic volatilities (boom or decline).

**Figure VIII.2**
**Key success factors for entrepreneurs**


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226 An “angel investor” is an affluent individual who funds business start-ups in exchange for ownership equity or future repayment of loans.
While entrepreneurs can influence the factors mentioned above for success, the external environment in which entrepreneurial activities occur is beyond their control. The external environment includes factors such as the overall macroeconomic stability, the existence and efficiency of institutions and infrastructure, and appropriate levels of health and education. A favourable external environment will play a key role in determining the likelihood of entrepreneurial success. In addition, entrepreneurs also benefit from being highly aware of the specific social, cultural and political context in which they are operating. An adequate understanding of these dimensions helps them obtain market insights and develop context-specific products or services. Figure VIII.2 illustrates the overall framework of critical factors for successful entrepreneurs.

Whereas MSMEs are more vulnerable to changes in market structure, increase in competition, and changes in customer preferences, it will be difficult for them to survive if they lack an entrepreneurial spirit and orientation.227

D. MSME growth: Policy recommendations

MSMEs have always faced a high mortality rate. Substantial failure factors include poor management, high debt in an adverse macro economy and an adverse microeconomic environment.228 Research has also found that significant factors causing the mortality of small businesses fall within two general classifications.229 The first specifies the internal and external factors, and the second relates to the owner-manager, the company itself and the environment.230 Studies on entrepreneurship indicate an existing relationship between mortality factors and the MSME life cycle. The significance of mortality factors changes as the business move along the life cycle, including closure.231 While researchers find the life cycle model a useful analytical tool, policymakers can embrace the research findings to support dynamic MSMEs for business success. MSMEs require proper guidance to experience progress throughout the business life cycle. Policymakers can assist them by executing the recommended policies, enabling MSMEs to accelerate their business growth in the long term:

- **Entry regulation: Procedures to register a business**
  
  Making it easier to register a company may allow informal entrepreneurs to formalize, giving them access to markets and services, and leading to firm growth.232 Simple entry procedures may also spur new business creation. Business registration reform is practical also, since it lowers the costs of registration for all MSMEs;

- **Ongoing regulation: Tax reforms**
  
  MSME performance can be significantly affected by recurring tax payments and is often prominent compared to one-time registration costs.233 Tax reform can be challenging since Governments need to balance lower tax rates for firms with tax collection. Many Governments implement special tax regimes for MSMEs, with simplified procedures and (sometimes) lower tax rates; however, these can create incentive for firms to stay small;

- **Access to finance**
  
  Improved access to finance can help MSMEs stay in operation, and increase employment and income. Effects are higher for low-income individuals and those located in areas with lower pre-existing bank penetration. Direct government interventions, such as government banks and credit guarantees, are challenging to implement since design matters very much and may be subject to political capture. Market-oriented policies, such as collateral registries or credit bureaux tend to be more successful. Separately, a credit bureau helps facilitate the credit assessment process and brings would-be lenders and borrowers closer. It helps to detect and prevent credit


risks and fraud and, in the long term, helps guard against problem loans in a national economy. Further, matching grants are one of the most commonly used policy tools for MSME growth;

- **Consulting services improve MSME performance**
  Policymakers can develop and provide consulting services that will take a look at an MSME’s overall objective and vision for the business, analyse practices and then recommend a plan of action, to ensure business processes meet goals and add value to boost business performance;

- **Benchmarking MSME performance**
  Considering the significance of MSMEs, benchmarking enables countries to also assess the health of their MSMEs by identifying their strengths and weaknesses. This allows policymakers, private sector associations and investors to make better informed, evidence-based decisions. International value chains provide an opportunity for MSMEs to internationalize and scale up their operations. Through its SME Benchmarking tool, the International Trade Centre (ITC) supports Governments in designing sustainable trade strategies and enabling change in firms’ capacities to compete and participate in international value chains.
Chapter IX

Formalizing informal MSMEs

A. Defining informality

Informality is defined as “the collection of firms, workers and activities that operate outside the legal and regulatory framework.” At the firm level, informality includes enterprises and entrepreneurs who produce legal goods and services, but are not compliant with the country’s labour, fiscal and other administrative laws and regulations. The majority of small businesses operate in undocumented and unofficial formats. This leaves them devoid of essential services provided by both government and private sector institutions, including the financial sector and outside the formal reach of the law. The recent OECD report on Tackling Vulnerability in the Informal Economy suggests that most workers are employed informally. They contribute to economic and social development through the market and non-market activities that are not protected, regulated, well-recognised or valued. These informal job opportunities might be supporting them in the short term to make a living. However, the lack of social protection pushes them further into vulnerability and poverty in the long term.

Enterprises are in the informal sector due to excessive formal registration and taxation requirements, and a lack of compliance with official standards. Most informal MSMEs are driven by poverty and survival considerations, rather than profit and growth based on an entrepreneurial spirit. Further, labour informality consists of non-compliance with labour regulations, the non-payment or partial payment of social security and pension contributions, and the exclusion from labour rights. This is a symptom and a cause of inequality and social injustice, as it disproportionately affects weaker workers.

Therefore, Governments should take adequate measures to break the vicious circle of exploitation and informality. Governments can achieve this feat by providing strong incentives to these micro-enterprises to register formally, and then gradually extend the

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security systems of social protection and labour laws to encompass all workers. Evidence points to the high cost of doing business in the formal sector, pushing MSMEs into the informal sector. However, as informal enterprises are not part of standard statistics, it is difficult for Governments to formulate essential policies for MSMEs as a whole.

B. Describing MSMEs in the informal sector

There are different degrees of informality among enterprises, ranging from those who are not registered and escape detection by the public administration (total informality), to those who are registered and are acknowledged by the public administration but are not fully compliant (partial informality).

Informal MSMEs are mostly those economic establishments owned by one person or a family, or which fall under a formal definition of micro-enterprises. They are not registered (or are loosely registered), not in a formal legal institution, without a well-defined legal status. Thus, they are considered informal (or quasi-formal). They often employ less than 10 employees and rely primarily on family members as workers. For most developing countries, a high level of informality translates as a narrow tax base and yawning gaps for a Government that tries to stretch itself bare to provide a minimum health and social security system from the low level of taxes generated from informality.

The informal economy is also marked by acute decent work deficits and a disproportionate share of the working poor. Often, informal labour in the agriculture sector is characterized by low productivity. Thus, agriculture should not be simply discounted as a traditional barrier to formalization. This indicates that countries need to carefully evaluate their agricultural sector before applying policies that could move people out of agriculture, but not necessarily out of poverty, particularly if limited opportunities for non-farm jobs deter labour movement. A healthy and dynamic agricultural sector is essential for rural transformation, generating strong linkages to other economic sectors. Close economic integration of rural areas with neighbouring urban areas and creating rural off-farm employment can narrow rural-urban disparities, expand opportunities, and encourage the retention of skilled people, particularly youth.

Most countries have a sizeable informal economy. Informal employment is estimated to account for around 75 per cent of the labour force across the subregion, although with sizeable differences between countries. Thus, many businesses may be unable to access policy support measures, and many workers who cannot access social security benefits are particularly vulnerable to declines in income. The informal economy is also excluded from safety and health, maternity and other labour protection legislation.

1. Why informality matters

The COVID-19 pandemic increases the vulnerability of MSMEs. Lower resilience and flexibility related to their small size makes it more challenging to cover costs for prevention, under-utilized labour and capital, adjust work processes, and access necessary technologies and supplies. Furthermore, a drastic decrease in demand and revenue caused by consumers’ loss of income, fear of contagion and heightened uncertainty leads to severe liquidity shortages. MSMEs in sectors such as tourism, hospitality and transportation, have been significantly affected by the pandemic. In light of the COVID-19 outbreak, the formalization of businesses is becoming increasingly important. MSMEs that stay informal are deprived of crucial assistance during the pandemic, like governmental business support schemes, access to finance, legal protection and social safety nets for the enterprise and its employees. Informality also creates several asymmetries and undesirable outcomes in the economy, such as:

- **Lack of a level playing field**
  Formalized enterprises are likely facing a higher cost of doing business than informal ones, creating an unfair environment for compliant enterprises;

- **A lower level of productivity and competitiveness**
  Research has found that overall productivity in informal businesses tends to be lower than that in the formal sector. However, in some cases, digitalization might help to improve productivity among selected micro-enterprises;

Lack of access to government support schemes
Government support schemes are typically only offered to formalized businesses;

Difficulty in accessing finance
It is more difficult for an informal business to access finance, and rates may be much higher;

Difficulty in accessing local and international markets
Their lack of technical knowledge of the markets, and their low compliance with national and international standards, hinder these informal enterprises from participating in global value chains;

Lack of legal protection for the enterprise, its employees, its customers and suppliers
Informal enterprises seldom enter into any formal contract obligations; hence, they tend to lose out on the legal ground in the event of a dispute;

Lower government gains
The Government will not tax unregistered enterprises, which may be needed to develop infrastructure, pay for education and ensure essential services.

These are the main reasons why policymakers should lower the level of informality in their countries. Doing so would make their economy more competitive and fairer in the medium and long term.

C. Role of the digital economy in formalizing MSMEs

Digitalization enables enterprises of all sizes as well as individuals to participate more cost-effectively in the global economy with speed and scale. Consequently, manufacturing, the provision of services, and capital will evolve. Furthermore, digitalization will also transform the way factories operate, the supply chains that enterprises participate in, and the creation and delivery of products and services. This will drive industries towards greater productivity and higher value-add. Yet, MSMEs are still lagging in terms of digitalization compared to other key economic players such as large firms and companies based in urban areas.

Information and communications technology (ICT) which is the core of digitalization, play a critical role in the achievement of the SDGs, particularly SDG8 (decent work and economic growth), SDG9 (industry, innovation and infrastructure) and SDG17 (partnerships for the goals), among others. As a sustainable development enabler, broadband-enabled technologies support critical public goods that can improve populations' economic and social well-being in rural and urban areas. With broadband in place, MSMEs can, for example, offer more innovative mobile and online services, and accelerate the path towards achieving the SDGs. ICT also plays a critical role in advancing the digital economy, including modernizing logistics and marketing to develop digital banking solutions for financial inclusion. The main components of the digital economy are:

- E-commerce: The buying and selling of goods and services on the Internet or other computer networks. Thus, for an MSME, such can be undertaken from home;
- E-business: Broader than e-commerce, including transaction-based e-commerce businesses and traditional businesses, but which cater to online activities. An e-business can run any portion of its internal processes online, including inventory management, risk management, finance and human resources, among others. Such can reduce costs for fledgling MSMEs;
- E-business infrastructure: The share of total economic infrastructure used to support e-business processes and conduct e-commerce transactions. It includes hardware, software, telecommunication networks, support services and human capital employed in e-business and e-commerce.

This technological transition offers opportunities for inclusive engagement in economic activities. For example, financial technology provides new solutions for financial inclusion. In contrast, e-commerce provides opportunities for broader engagement of MSMEs, and blockchain technology reduces costs and increases the efficiency of trading across borders. However, this wave of optimism about

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the transformative potential of digital technologies is tempered by the growing acknowledgement that the digital divide is widening.

However, developing countries, including small island developing states (SIDS), face numerous obstacles to developing the digital economy in the Asia-Pacific region. Inadequate access to the latest technology, sophisticated telecommunications infrastructure, low computer literacy, and countless cultural and socioeconomic factors are just some of the challenges that developing countries face. In various studies, ESCAP has highlighted the widening digital divide between and within the countries in the region. Out of 26 Asia-Pacific countries with special needs for which data are available, 14 have a fixed-broadband penetration rate of less than 2 per cent of the total population. For example, on infrastructure, undersea telecommunications cables do not connect all the inhabited small islands scattered throughout the Pacific. Many of these island communities rely on more expensive services provided by telecommunication satellites. Even with undersea cables laid, such infrastructure can be damaged and time-consuming to repair. Affordability is a crucial driver for expanding broadband access to the unconnected population in the region. Mobile broadband, which has become more accessible at lower prices, is still above the affordability threshold in low- and lower-middle income countries.

Internet connectivity only reached 50 per cent of the global population in 2018.241 This gap between and within countries with complex digital infrastructures, connectivity and access, and those without, is conceptualized as the “digital divide.”242 Further research into conceptualizing the digital divide is necessary due to the social ramifications of the gap between high-income and low-income countries. The detrimental impacts of the digital divide can perpetuate the effects of poverty, gender inequality and marginalization. Conversely, even the primary forms of digitalization, such as access and connectivity, provide significant opportunities for social development and the generation of knowledge economies. The widening digital divide undermines the development of inclusive digital economies. There is evidence that growth in Internet users is slowing, with billions of people remaining offline. Furthermore, reaching the unconnected and developing emerging technologies and business models is more costly and complex. In addition, there are huge uncertainties about what this means for the future of work.

In the face of emerging challenges and the need to strengthen global outreach, it has become imperative for the MSME sector to demonstrate greater competitiveness and position themselves strategically along the value chain. Highlighting the imperatives of becoming a part of the global value chain, and the opportunities to align operations and processes of MSMEs with the value chain is not about individual enterprises that compete against each other, but global value chains that primarily compete worldwide. This makes it imperative for MSMEs to evolve more innovative offerings and offer more excellent value to their partners in order to achieve the most competitive and mutually beneficial outcomes. For example, to achieve the objective of becoming a preferred supplier in the global value chain, MSMEs would have to enhance adherence to international standards and norms. Here, ICT solutions can aid MSMEs to become more effective and efficient, and help to take them to the next level. Box IX.1 illustrates how the Government of Malaysia assisted smallholder farmers in accelerating digital technology adoption for farming.

MSMEs that introduced ICT as part of their core business demonstrated an innovation capability as measured by establishing a new division, acquiring new machinery, improving existing machinery, acquiring production knowledge and introducing new products. They have also demonstrated a positive attitude towards risk and willingness to adopt a new business strategy.243 Those MSMEs that had moved up into higher value-added production tiers had the following statistically significant characteristics: higher labour productivity, significant foreign ownership share and ICT as a core part of their business activities.

D. Facilitating and digitalizing business registration

The most common challenge faced by informal MSMEs is the lack of access to financial resources. In many cases, official business registration is a prerequisite for opening bank accounts and applications for loans. In addition, informal MSMEs – especially startups and micro-enterprises – often cannot maintain precise bookkeeping and financial records, thus undermining their credibility with financial institutions. With these challenges, informal MSMEs frequently seek alternative financing sources, including personal savings, family borrowings, remittances and microfinancing.

Another challenge is the lack of market access. Without official registration, MSMEs may not gain access to international markets. For example, according to a survey conducted by the Federation of Associations for Small and Medium Enterprises of Cambodia (FASME) in 2018, MSMEs had a low level of registration and contributed to less than 10 per cent of exports by the country. However, they accounted for more than 90 per cent of all business entities. MSME informality has hampered government departments in clearly understanding the demands of MSME, and in delivering policies supporting exports from MSMEs in a demand-driven approach.

In addition, limited access to BDS poses another issue for informal MSMEs. As noted earlier in this guidebook, informal MSMEs lack information about registering their business and the benefits of registration, without the help of BDS. For example, Cambodia’s Entrepreneurship Development Fund (EDF) and the Skills Development Fund (SDF) are open mainly for registered MSMEs, making it difficult for government departments to fully understand the demands of informal MSMEs and deliver tailor-made programmes.

To improve coherent MSME registration, Governments need to establish policies that provide a one-stop service for MSME entrepreneurs to register their businesses, and to promote efficiency and transparency of the business environment. Here, policies need to embrace digitizing the business registration process. On the government department side, this avoids having to enter paper forms into a computer system. The online process skips such a requirement and creates a paperless registration.

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245 Ibid.
E. MSME formalization: Policy recommendations

Given the benefits of business formalization, policymakers must develop policies that encourage MSMEs to formalize their businesses. The recommended policy options are elaborated below:

- **Enabling effective enforcement of regulations**
  
  Enforcement is critical to ensure compliance with rules and regulations, enabling the attainment of any set objectives. The formalization of business is expected to improve through proper enforcement mechanisms to track and monitor its progress;

- **Matching the obligations of formalization with benefits and punishment of informality**
  
  Overall, an enforcement mechanism in place is essential, but it should be accompanied by other reforms such as the facilitation of formalization. It should not discourage starting a business and entrepreneurship and ideally integrate a warning mechanism to entrepreneurs with sufficient time before applying the enforcement;

- **Promoting registration through better business environment reform**
  
  Registration is only a first step towards formalization. Throughout the business life cycle, compliance with other regulations is needed to follow up the process of formalization. An unfavourable, overly complicated and costly business environment might make many micro-enterprises reconsider their registration. For example, in the Philippines, it takes 13 procedures and 33 days, costing 23.3 per cent of per capita income.\textsuperscript{246} Business registration procedures must be simplified. There are several relevant instruments that policymakers can apply to promote the registration of companies that go from facilitation through digitalization to decreasing registration costs;

- **Improving business environment to elevate formalization**
  
  A general improvement of the business environment would provide a strong incentive for businesses to be a part of the formal sector. In general, overregulated, complex and costly business regulations reduce the efficiency of the business environment and provide strong incentives to businesses to remain informal;

- **Reducing the costs of business entry and streamlining business registration**
  
  Businesses still consider the process of formalization as costly, and a reduction in these costs would be perceived as beneficial. However, while considering this, policymakers should also consider that these costs are necessary to ensure an excellent and stable registration infrastructure, and enable the financial sustainability of institutions working on business registration;

- **Incentivizing formalization through effective mechanisms**
  
  Policymakers can provide a wide range of incentive mechanisms, such as offering better access to finance and public procurement or business development services, for formal businesses. Some Governments also offer tax breaks for newly registered entities. By offering incentives for formalizing businesses, governments can further push MSMEs towards official structures that bring them within the benefits of the formal economy, including better access to finance;

- **Offering access to business development services (BDS) and government support services**
  
  The ability of firms to increase their productivity, while upgrading their technology and innovation capacity is regarded as an essential determinant of competitiveness. Unfortunately, MSMEs generally have deficient levels of productivity and have very few ways to improve it. Without being formally registered, businesses are typically not in a position to take advantage of services that might be on offer from the Government, including business development support, standards compliance assistance and marketing help. Given the quality and traceability requirements, they can neither provide goods and services to the Government for procurement nor access regional or international markets. Thus, Governments should promote the advantages of formalization to businesses. MSMEs often have limited knowledge of the availability, effectiveness and potential benefits of BDS;

Accessing public procurements upon formalization

The objective of supporting MSMEs and facilitating their access is embedded in most countries’ public procurement policies and strategies. This strategic dimension principally promotes using the public sector’s purchasing power to stimulate MSME participation and competition, thus increasing value for money in public procurement;

Facilitating the formalization of MSMEs through digitalization

Digitalization has important implications for policies and efforts to formalize businesses and improve the formality of the entire economy as a whole. Policymakers could encourage more companies to go digital in order to become more competitive and enter new market segments. Digitalization can also help companies become more formal. For example, Under the Better for Business initiative of the Ministry of Business, New Zealand uses digital technology to make significant improvements to the business experience. The technology helps to make information and regulation more accessible, improves the transparency of government processes, and helps businesses navigate the regulatory and administrative maze. New Zealand also introduced a specialized digital platform, called Business Connect, to design and deliver consistent and coordinated services across the Government.
Chapter X

Public interventions in MSME financing

One of the main constraints to MSME growth has been accessing finance. It has been found that MSMEs face numerous obstacles in borrowing funds because they are small, less diversified and have weaker financial structures.\(^{247}\) This is implied by evidence of payment delays on receivables, declining liquidity, and an increase in MSME insolvencies and bankruptcies. In addition, MSMEs find it difficult to provide high-quality collateral at all times. They also experience difficulties in ensuring transparency concerning their creditworthiness. Some studies show that MSMEs are more likely to face more credit constraints than larger firms. They also rely more heavily on trade credit and informal sources of credit.

Many Governments use direct and indirect public interventions to promote MSME financing. Direct interventions made by Governments are typically in the form of grants, subsidies and tax breaks, and are often delivered through dedicated governmental agencies. Some Governments also provide financing assistance via commercial or state-owned banks and non-financial institutions, including cooperatives and governmental agencies. This assistance can be in the form of soft loans, interest subsidies and ceilings, credit guarantees and credit insurance, seed capital, venture capital, loan quotas, loan waivers and the promotion of promissory notes.\(^{248}\) In Thailand, for example, subsidized finance is provided extensively through government or government-supported banking, and this permeates the MSME lending environment. The Bank of Agriculture and Agricultural Cooperatives, as one example, was established to provide affordable loans to Thai farmers and entrepreneurs in rural areas.\(^{249}\)

The rationale for government intervention is to address deficiencies and market failures in the MSME financing space.


Well-designed government interventions can improve financial regulatory frameworks and financial infrastructure. It is also necessary when there is a lack of financial resources for particular groups (e.g., start-ups with little collateral and credit history, and women entrepreneurs) that the markets cannot quickly solve. As discussed above, interventions are also warranted during periods of instability and crisis, where private agents have an actual or potential collapse of financial intermediation.250

A. Financial institutions for MSMEs

In the Asia-Pacific region, the financial sector contains various financial institutions, depending on the country’s economic status. Some of the leading institutional providers of MSME financing are: 251

- **Development financial institutions (DFIs)**
  DFIs are specialized development banks or subsidiaries set up to support private sector development in developing countries, mainly for long-term loans. Coordination between DFIs and the local banks is vital; this is not only for support but also to ensure that lending practices remain relatively consistent across markets and do not lead to further distortions that could lead to new problems in the long term. Under the current pandemic, DFIs are also offering free coaching or webinars to clients on cash management in crisis or protecting their workers;

- **Specialized financial institutions**
  Usually licensed for limited operations, activities or service to differentiate them from full-service commercial banks, such as export and import banks that provide trade finance and export credit as well as rural banks, microfinance banks and non-bank finance companies;

- **Government programmes or agencies**
  For rural finance, microfinance or MSME finance (MSME banks);

- **Membership-based cooperative financial institutions (CFIs)**
  These are member-based deposit-taking financial institutions owned and controlled by their members who have a common bond and choose to call themselves a Financial Co-operative, Credit Union, Savings and Credit Co-operative (SACCO) or Financial Services Co-operative (FSC). These terms are often used interchangeably in the CFI sector;

- **Postal savings banks (PSBs) or institutions**
  Created in many countries to encourage, collect and safeguard low-income people’s resources and ensure financial deepening. They provide access to essential financial services and promote savings among less affluent groups. Many still lack access to bank accounts in Asia-Pacific, and domestic savings are often invested abroad, not domestically. Countries in Asia urgently need to explore new strategies to improve financial access. One important option is postal financial inclusion;

- **Public credit guarantee institutions**
  Such institutions have been a critical force behind the propagation of credit guarantee schemes. Governments started to increase the use of guarantees to channel credit toward specific sectors, geographical regions and MSMEs that tend to be financially constrained. Box X.1 illustrates different types of public credit guarantee schemes implemented in various countries.

In enhancing the support to the MSME sector, some Asia-Pacific countries have opted to set up apex banks, generally known as SME banks, exclusively cater to the needs of MSMEs. SME banks are essential, particularly as the government often runs them, so they are part of the policy. Government policy on creating SME banks is to create a conducive ecosystem for MSMEs, thus igniting growth. An early example of an approach to SME Banking is illustrated in box X.2.

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252 DFIs include multilateral development banks, national development banks, bilateral development banks, microfinance institutions, community development financial institution and revolving loan funds.
Apart from financial institutions, non-banking/non-profit financial institutions and microfinance institutions have also been established to serve select sectors and categories of small borrowers. Some DFIs have also become more active in providing short-term loans and micro-lending in recent years.

Working in the veins of developing country economies, DFIs support a country's sustainable transformation path. The significant global liquidity crash brought about by COVID-19 means DFIs must engage to an unparalleled degree to incentivize sustainable private investment. DFIs need to consolidate their portfolios and assist new clients, especially MSMEs, in the rebuilding and resilience of local, sustainable economies, helping to address rising inequalities and the gender gap. Moving forward, as the situation gradually improves, DFIs will need to prioritize the development of a robust pipeline for post-crisis investments.

Separately, international financial institutions, such as the World Bank and ADB, also devote resources to specialized financial institutions' lending to MSMEs. International financial institutions have become particularly active in the region. While financial institutions supporting the development of MSMEs in the Asia-Pacific region have become increasingly involved in the past few years, the banking sector remains the most important source of external financing for MSMEs. Banks offer diversified loans with different terms and various supplementary financing instruments such as export credit and discounts. Commercial banks in some countries also provide special loans targeted at priority sectors and critical segments of the population identified by the Government, including MSMEs.

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Box X.1
Types of public credit guarantee schemes

Countries across the Asia-Pacific region and globally have adopted different models of public credit guarantees. In many countries, a single state agency provides the guarantees (examples include Indonesia, the Republic of Korea, Thailand and the United States). In other cases, public schemes can operate in a more decentralized manner. For example, in Japan, there are 51 state-run credit guarantee corporations under the umbrella of the Japan Federation of Credit Guarantee Corporations (JFG).

In some countries, the State is not directly involved in granting guarantees. In the United Kingdom, the British Business Bank (BBB), a state-owned development bank, sets the eligibility criteria for firms applying for a guarantee and provides the funding. However, the BBB does not decide on guarantees applications, which is done directly by financial institutions. Other countries have opted for public-private guarantee schemes with different degrees of government participation. For example, in France, credit guarantees are offered through an organization owned 90 per cent by the state and 10 per cent by banking groups.


Box X.2
ICICI Bank of India

ICICI Bank was initially founded as a development financial institution in India in 1955, and today it is the largest private sector bank in the country. ICICI is implementing its SME banking model in India despite a weaker environment and relatively poor financial infrastructure. ICICI’s model is based on: (a) an effective segmentation of the SME market by industry and business linkages; (b) a proprietary 360-degree credit risk evaluation covering financial and non-financial parameters to compensate for SMEs' lack of financial information; and (c) a “beyond lending approach” that relies primarily on deposit products and other banking services for SMEs (95 per cent of SME clients) rather than on lending products (5 per cent of SME clients). Client servicing is done through multiple channels – relationship managers, doorstep banking, branches, the Internet, and automatic teller machines (ATMs), relying primarily on cost-efficient, technology-based channels.

Financing instruments alternative to straight debt alter this traditional risk-sharing mechanism. Table X.1 provides a list of external financing techniques alternative to straight debt, categorized into four groups, characterized by differing degrees of risk and return, whose main features (modalities/operational characteristics, enabling factors and trends) support policies.

### Table X.1

*Alternative external financing techniques for MSMEs and entrepreneurs*

<table>
<thead>
<tr>
<th>Low Risk / Return</th>
<th>Medium Risk / Return</th>
<th>High Risk / Return</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Asset-Based Finance</strong></td>
<td><strong>Alternative Debt</strong></td>
<td><strong>“Hybrid” Instruments</strong></td>
</tr>
<tr>
<td>Asset-based lending</td>
<td>Corporate Bonds</td>
<td>Subordinated Loans/Bonds</td>
</tr>
<tr>
<td>Factoring</td>
<td>Securitised Debt</td>
<td>Silent Participations</td>
</tr>
<tr>
<td>Purchase Order Finance</td>
<td>Covered Bonds</td>
<td>Participating Loans</td>
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<tr>
<td>Warehouse Receipts</td>
<td>Private Placement</td>
<td>Profit Participation Rights</td>
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<tr>
<td>Leasing</td>
<td>Crowdfunding (debt)</td>
<td>Convertible Bonds</td>
</tr>
</tbody>
</table>


### B. MSME financing: Policy recommendations

The role of government intervention is vital in expanding MSME finance spaces. This is especially relevant in developing countries as they usually have less efficient financial markets than their more developed counterparts. However, it is equally important to minimize the potential distortions brought along by improper actions. Governments should keep in mind that government intervention aims to achieve an efficient market rather than address market imperfections and failures.254 Identifying the market failure and setting intervention boundaries is the critical prerequisite to designing an appropriate strategy. In all cases, government intervention should be appropriately designed to avoid any disincentive for private sector providers of financial services to serve the MSME segment. Following are the policy recommendations to enhance MSME financing:

- Developing country-specific diagnostics and strategies creating a supportive legal and regulatory framework, strengthening the economic infrastructure, designing effective government support mechanisms, building consistent and reliable data sources on MSME finance, and building the capacity of the financial institutions;
- Leveraging state-owned financial institutions, including state-owned banks, DFIs, and specific MSME banks, to serve MSMEs. The state-owned financial institutions have more incentives and willingness to suit particular market segments. Compared to their private counterparts, some state-owned financial institutions have less-developed MSME lending technologies, lower levels of profitability and higher costs.255 In addition, the failure of many state banks can also be explained by political interference, excessive risk exposure due to irrational development goals and internal operational inefficiencies.256 Therefore, it is essential to impose independent corporate governance, efficient operation and proper MSME lending and risk management technologies to improve access to MSME financing;

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Narrowing the gap in MSME financing. In developing countries, the financial gap has been growing between commercial debt financing and microfinance. MSMEs, including startups, have been in a disadvantaged position to access institutional debt financing. Small and micro-enterprises are increasing between those target groups of commercial banks and microfinance institutions. They have difficulty in raising funds from commercial banks because they have inadequate collateral and financial record. Yet, they are not satisfied with microfinance loans due to their small loan size and high-interest rate. To narrow the gap, policymakers can consider several options: (a) expand microfinance by providing large loans with discounted interest rates to MSMEs; and (b) encourage commercial banks extend their financial services to MSMEs, perhaps in cooperation with public credit guarantee agencies, where public support is required;

Implementing direct lending and programmes in collaboration with other financial institutions in the form of soft loans, lines of credit, co-financing and equity funds. Such programmes should also be carefully designed to minimize the subsidy component, political interference and crowding-out effects on the private sector. A good financing programme requires precisely defined performance targets, an independent governance structure, clear selection criteria for beneficiaries and collaborating institutions, and a very high-quality management team. The operation of the programme needs to be market-oriented, and a commercial interest rate should be applied – excessively subsidizing government loans (directly or indirectly) can result in crowding out of commercial banking solutions. The mission and products of the programme should be flexible and adapted according to market maturity. Policymakers can also encourage MSMEs to use those financial programmes to maximize their working capital by (a) cultivating entrepreneurship culture; (b) developing a pro-business regulatory framework and tax system; (c) protecting property rights; and (d) improving the managerial skills of entrepreneurs and MSME owners;

Creating an overall enabling environment that offers incentives for financial providers to fill the MSME finance space. This requires a proper regulatory and supervisory framework that balances the risk and benefits of providing innovative MSME financial products, while narrowing the existing financial gaps;

Building reliable and comprehensive financial infrastructure, such as accounting and auditing standards and credit information systems, reduces the information asymmetries and legal uncertainties in MSME financing. In addition, Governments and MSME agencies may facilitate MSME capacity and creditworthiness by providing localized training and consultation services in collaboration with local financial service providers in order to meet the specific needs of both the supply and the demand sides. Policymakers may wish to collaborate in providing services and training through an existing web of business associations, such as local chambers of commerce and industry;

Increasing government procurement from MSMEs is another effective measure for enhancing MSME creditworthiness and viability by avoiding receivable payments and improving cash flow. Box X.3 illustrates how sound policy can assist MSMEs in accessing finance in India;

Developing and balancing debt and equity markets. Although the roles of debt and equity markets are theoretically clear, in practice, these two financial systems differ widely across countries in Asia and the Pacific. In general, countries with bank-centred debt financing systems tend to be less conducive than stock market-centred systems to entrepreneurial activity. However, a bank-centred system may be a preferable option for countries with poor information infrastructure. On the other hand, stock markets take

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263 Ibid.
Box X.3
Policy to assist MSME for financing: MUDRA Bank, India

To address the need for funding for micro, small and medium-sized enterprises, the Micro Units Development and Refinance Agency (MUDRA) Bank, a public sector financial institution, was launched with funding of Rs 200 billion for on-lending and Rs 30 billion for provision of credit guarantees. MUDRA Bank is a subsidiary of the Small Industries Development Bank of India (SIDBI), the apex bank for the development of small industries in the country. MUDRA Bank provides refinance to last-mile providers of finance for micro and small enterprise loans. Commercial banks, regional rural banks, cooperative banks, non-banking financial companies, and microfinance institutions are eligible to obtain refinance for loans under three categories: up to Rs 50,000, Rs 50,000 to Rs 0.5 million, and Rs 0.5 million to Rs 1 million. The three categories cater to micro-enterprises at different stages of development, although 60 per cent of MUDRA Bank’s funding is earmarked to cater to the first category. The loans are meant to be for non-farm income-generating activities. Availability of funding through MUDRA Bank will bring down the average cost of funds for the lending institution; consequently, the interest rate charged to borrowers.

Source: https://www.mudra.org.in.

more time to develop, but tend to encourage more entrepreneurial, high-growth ventures (based on the experience of developed countries). Policymakers need to primarily focus on MSME access to debt through their banking sector, and establish regulations essential to a functional stock market (e.g., financial reporting requirements and statutes protecting minority shareholders). Box X.4 illustrates how MSMEs are incorporated into the equity markets in New Zealand;

- Reducing information asymmetry. Inadequate or insufficient information is one of the main obstacles hampering financing for MSMEs. With information asymmetry, banks cannot be sure of the creditworthiness of MSMEs, and potential equity investors may forego the equity offerings of MSMEs unless policymakers implement expensive safeguards. MSMEs usually lack the financial administrative skills needed to collect the necessary information or even lack the basic knowledge about the type of information to be prepared. Policy intervention can be essential in addressing this issue. Policymakers not only need to educate MSMEs about related regulations, standards and practices, they must also strive to streamline them. Training and information programmes based on different information requirements of various financial institutions and investors can also be implemented to assist MSMEs in dealing with financing issues. Credit rating schemes designed with MSME needs particularly in mind can also help to bridge the information gap between MSMEs and commercial lenders.\footnote{Subhanij, 2016, “Commercial bank innovations in small and medium-sized enterprise finance: Global models and implications for Thailand.”.}

Box X.4
Incorporating MSMEs in equity markets in New Zealand

Smaller New Zealand companies, but with high-growth potential, can face considerable difficulties and costs in listing on the main local stock exchange, the NZX. To ease their burden, policymakers initiated a new stock market, the NXT, to better address the equity-financing needs of SMEs by providing a structured, cost-effective, and fast initial public offering mechanism. In addition, the Seed Co-Investment Fund (NZ Growth Capital Partners – formerly NZVIF) was also established to support SMEs with strong potential for high growth. Overseen by the New Zealand Venture Investment, the Seed Co-Investment Fund aims to accelerate the seed capital market for start-up companies to the point of self-sustainability, and to foster investment inflows into innovative start-up firms. Some of the key provisions include: (a) co-investment with accredited investment partners, in a 50:50 matching scheme; (b) Investment into the seed- and start-up stages of businesses; and (c) Investments must be made into New Zealand businesses.

Source: https://www.enterpriseangels.co.nz/project/nzvif/.
Facilitating equity funding. Many Governments have programmes for the direct injection of equity (or start-up capital) into MSME ventures; however, the operational results of such programmes are not encouraging. Direct government programmes generally lack the appropriate incentive structures and the expertise to administer the programme professionally.\(^{265}\) A better alternative is for policymakers to work alongside private equity sources, such as the Business Angel Network South-East Asia (BANSEA), to meet MSME needs while building the institutional capacity of equity markets with pro-business securities regulation. Transparency and shareholder protection allow higher-end types of financing, such as venture capital, to flourish while being comprehensible enough to invite MSME participation, albeit often with professional legal counsel;

Combining financial services and business development services as a risk management technique, banks tend to charge MSMEs higher interest rates and demand collateral relative to the asset base.\(^{266}\) As mentioned above, this is a response to the lack of transparency regarding the creditworthiness of MSMEs. Beyond credit rating schemes, policymakers should encourage MSMEs to seek business development services (BDS) providers, including various business associations such as chambers of commerce and federations of industries, and to work with banks to resolve financial and operational issues. Over time, BDS providers can add value to bank lending and MSME development due to their proximity to their clients and their direct knowledge of the enterprises' financial status and past performance. BDS providers are often better placed than financial institutions for identifying potential clients, ascertaining their creditworthiness, imparting professional financial and accounting techniques, and other services pertinent to lending and repayment of debt. This complementary nature between BDS providers and financial services helps minimize the risk and transaction costs to creditors and investors and makes access to credit and equity less costly and cumbersome for MSMEs;

Strengthening the bank-MSME relationship. Despite efforts of policymakers to enable MSMEs to access bank loans, there is still much room for improvement. Communication and education are essential, both for MSMEs and for banks. What is crucial is the consistency of these efforts. There needs to be an ongoing programme of communication and education that policymakers implement. Such a programme must be convenient and relevant both to MSMEs and banks to be credible. For example, the SME Centre of Singapore provides consultations on the various government grant assistance programmes to assist business owners in tapping relevant schemes to support their business growth and transformation. The Centre's financial management workshops are designed to equip MSMEs with the basic knowledge to manage their cash flow better as well as learn how to draw up a winning business plan for funding and business expansion purposes. Topics cover planning and budgeting, cash flow management, financial analysis and different funding options for MSMEs. The Centre offers Capability Workshops and Group-Based Diagnosis. SME Centre@SCCCI and SME Centre@Central organize Capability and Group-based Diagnostic Workshops to help SMEs and heartland enterprises strengthen their business foundations for growth. The four capability areas are productivity, marketing, human resources (HR) and financial management.

Public interventions in MSME financing may cause negative market distortions and long-term losses to the financial sector. First, it is often challenging to ensure that financial support reaches the target group. This is especially problematic when the target group cannot be well-defined, which is often the case with the MSME sector in the developing countries of Asia and the Pacific. Thus, the fiscal costs of the support could be high – often much higher than predicted before implementation.\(^{267}\) Second, public interventions may lead to weaker financial discipline in the MSME debt market because, with grants and subsidies, both lenders and borrowers suffer less direct losses when defaulting. As a result, a “non-repayment culture” may be created among beneficiary enterprises. “Moral hazard” issues may also be made, preventing financial institutions from


implementing and improving risk management techniques.

Third, such measures may reduce market competition in the financial market and result in a “crowding out” effect. They discourage firms from using non-subsidized financial institutions and non-subsidized forms of financing. This crowding out effect can lead to the opposite of what is desired, in the long term, of a robust and commercially viable banking and finance sector that is willing and able to serve the MSME sector. Thus, while the role of government intervention can be crucial in expanding MSME finance spaces, and especially in less developed and developing countries, it is equally important to guard against undesirable market distortions brought about by improper actions. Identifying the market (or regulatory) failure and setting intervention boundaries is critical to designing an appropriate strategy. In all cases, government intervention should be carefully designed to avoid any disincentive for private sector providers of financial services to serve the MSME segment. They also need to be monitored and evaluated carefully to measure impact and ensure that the desired effects are occurring.

C. Fintech: Unleashing the potential of the digital economy

MSMEs face obstacles to accessing financial services due to a lack of collateral or credit history or even being informal. Moreover, during the COVID-19 pandemic, the need for contactless payment methods has highlighted the importance of e-payments, even for traditional MSMEs. Fintech offers several advantages in this regard. Digital innovation could help MSMEs gain access to finance, which is imperative for productivity enhancement and sustainable growth in the long term.

Financial technology (fintech) describes new tech that seeks to improve and automate the delivery and use of financial services. At its core, fintech is utilized to help companies, business owners, and consumers manage their financial operations, processes and lives better by using specialized software and algorithms on computers and, increasingly, smartphones. Fintech now includes different sectors and industries such as education, retail banking, fundraising and non-profit, and investment management. Fintech refers to integrating technology into offerings by financial services companies to improve their use and delivery to consumers. It primarily works by unbundling offerings by such firms and creating new markets for them. Startups disrupt incumbents in the finance industry by expanding financial inclusion and using technology to cut operational costs. Consequently, fintech can significantly change the dynamics of the relationship between an MSME and its bank. Advances in the fintech space could reduce the transaction costs of providing credit to small-scale businesses, and provide alternative scoring mechanisms that banks can employ to have a higher degree of confidence about the risks entailed. Furthermore, other advances in the fintech space hold the promise of linking the finance provision more closely to the various core aspects of the company’s business. Such integration allows the finance to be better integrated with the multiple functions of the firm, and the MSME has fewer concerns in managing its cash flows. For the finance provider(s), the financing is more closely tied or bundled with the specific activities for which it is being used to fund, and lessens the risk that the company will misallocate those funds to support alternative activities.

In comparison with traditional banking, fintech uses new technological solutions to complement, automate or replace conventional banking services. By using data and analytics, fintech firms can perform more efficiently than traditional banks. For fintech firms, each customer transaction is valuable as it generates data, which can be used in models to measure the creditworthiness of an individual, thereby helping to avoid the need for collateral or credit histories. For example, when a person buys a product or service online, they transfer money and data for joint development of fintech services. At the same time, this data can be combined with other data, such as social media data. This leads to faster credit scoring and other innovations. The innovative uses of data generate the efficiencies of fintech companies, but raise concerns regarding the use of such data and its adequate protection, for example, against data breaches. The innovative and data-driven nature of fintech has attracted new players such as telecom companies, mobile network operators and cash agents in the financial markets. The common

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fintech-based financial products and services include (but are not limited to):

- Peer-to-peer (P2P) lending – lending flexible amounts of money to borrowers without physical bank branches and with no collateral requirements;
- E-commerce finance – platforms such as Alibaba, Amazon and eBay are offering working capital loans for MSMEs through their platforms for selling goods;
- Online supply chain finance – this avoids many inevitable risks, such as information asymmetry, bogus transactions and operational risk caused by insufficient information flows between enterprises and financial service providers along the supply chain. With all the data online, those participating in the supply chain can enhance and monitor capital flows timely, securely and transparently, while increasing liquidity;
- Equity crowd-funding – raising funds from a large number of people (the crowd). This is a type of crowd-funding where issuers raise funds via an online platform in return for equities/shares. It is a method of raising capital typically used by start-ups and early-stage companies. Each investor is entitled to a stake in the company proportional to their investment.

In addition to developing new and alternative financial products and services for individuals and MSMEs, fintech has also changed the processes of some financial transactions. For example, during a loan application process, fintech tools can help financial institutions capture, validate and analyse the creditability of their MSME customers remotely. AI and ML algorithms can also enhance the approval process for MSME loans, compensating for the lack of financial data. In Singapore, more than 100 fintech start-ups are either in the B2C or B2B market. Fintech firms can operate alone, in direct competition with banks, or in cooperation with banks and other financial entities. They can offer products ranging from mobile wallets and mobile money to complex financing. In payments, fintech enables various digital payments methods, including mobile payments via scanning QR codes, peer-to-peer money transfers and point of sale payments (POS). These methods are highly relevant due to the COVID-19 pandemic and will continue benefiting MSMEs and consumers post-pandemic.

Across countries in Asia and the Pacific, there are different players in the digital payments space, including e wallets from Grab, Alipay, GoPay and WeChat, among several others. Some fintech firms have special programmes to help with small business digitalization, including integrating these into their payment systems. GrabMerchant is a B2B platform that allows companies to build their online stores, set a cashless payment option and create ads. This platform uses the GrabPay remote payment link solution, which gives merchants a URL sent to customers to execute the payment. The merchant receives GrabPay credits immediately. This provides an advantage over MSMEs only using social networks that do not integrate payment solutions. In some cases, fintech companies have partnered with traditional financial entities to expand their offering. The MasterCard Network powers the GrabPay card.

Beyond the easing of payments, digital payments can also benefit MSMEs in other ways. The Ministry of Micro, Small and Medium Enterprises of India incentivizes digital payments to improve the credit scores of MSMEs, which can help them later to access finance. It is worth noting India's broader plans to move towards a cashless economy.

Fintech also holds promise in the area of supply chain finance. In January 2019, Ant Group announced the launch of its new subsidiary, Ant Shuanglian Technology, or Ant Duo-Chain, involved in blockchain supply chain finance. This initiative targets SMEs working with large corporate customers. By using blockchain, each transaction is recorded and can be transmitted in real-time. This allows transactions between a large corporate customer, an MSME and banks to be verified immediately. The execution of the pilot example illustrates this point. A car manufacturer raises an order, and the SME delivers the goods and sends the invoice. As soon as the buyer approves the invoice, the SME can sell this invoice to a bank which, knowing

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270 See https://www.mas.gov.sg/development/fintech.
272 See https://www.grab.com/sg/pay/card/grabpay/.
the ability to pay the car manufacturer, buys the invoice and executes the payment. Meanwhile, the car supplier can pay, when the invoice is due, directly to the bank. All this can happen through blockchain, enabling each stakeholder to verify transactions immediately, avoiding any risk of duplication or fraud.274 Project Ubin, a blockchain solution implemented by Temasek and the Monetary Authority of Singapore, also seeks to facilitate blockchain supply chain financing.275

Another area where fintech can be used is resource mobilization. Kitabs,276 a crowdfunding platform based in Indonesia, allows individuals to organize fundraisers, donate and distribute resources. During the COVID-19 pandemic, Kitabisa has allowed companies to raise money by connecting with individual donors.277 Crowdfunding can also play a role in overcoming the lack of domestic venture capital investment. UNCTAD (2017 and 2010) notes that facilitating crowdfunding can increase international investments in the local digital industry, particularly equity investments. Platforms for equity crowdfunding investments exist in Asia and the Pacific countries. Crowdo278 is a regional fintech platform operating in Singapore, Malaysia and Indonesia. Crowdo connects businesses with investors and, so far, has helped to finance 3,500 projects. Yet, equity crowdfunding is subject to domestic financial and foreign investment regulations. In India, equity crowdfunding is illegal,279 while in other countries such as the Republic of Korea, financial regulations have been eased to allow equity crowdfunding for small companies.280

To sum up, a rapidly expanding digital economy offers opportunities for MSMEs to improve their business processes, access international markets and get access to finance. By establishing their digital presence or by using e-commerce platforms, MSMEs can access new markets without investing in their infrastructure.281 Simple steps, such as having a website, can enable firms in developing countries to start their engagement in global value chains (GVCs) as importers or exporters.282 One of the critical attributions that businesses pay attention to when they want to enter into a business relationship with MSMEs is the level of ICTs usage.283 Similarly, there is a reduction of trading costs, thanks to digital platforms and access to digitally-enabled services (such as back office, data processing etc.).284 Importantly, MSMEs can also access finance thanks to fintech solutions.

D. Fintech for MSMEs: Policy recommendations

Although fintech is relatively new compared with conventional banks, it offers a broad opportunity to expand the reach to unserved and under-served MSMEs and individuals, allowing the narrowing of the financial inclusion gap. Policymakers must assist MSMEs to leverage fintech for survival and foster their integration in the digital economy. The recommended policies include:285

- **Providing MSMEs with access to finance promptly**
  Fintech provides an alternative to traditional financing, facilitating MSMEs’ access to loans that otherwise require credit histories and collateral. Fintech also enables new payments such as e-wallets and QR scanning, widely used among consumers and particularly the younger population. Governments, aware of the risks of using data in fintech products and other risks, such as cybersecurity, have been implementing regulatory sandboxes to try out new products.

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275 Temasek and Monetary Authority of Singapore, 2020, “Project Ubin Phase 5: Enabling Broad Ecosystem Opportunities.” Available at https://www.mas.gov.sg/-/media/MAS/ProjectUbin/Project-Ubin-Phase-5-Enabling-Broad-Ecosystem-Opportunities.pdf?la=en&hash=91091CAD9265C03F7A4253E70FEE60D1177714.
276 Kitabisa.com.
277 See https://id.undp.org/content/indonesia/en/home/presscenter/articles/2020/5-tips-on-how-to-help.html.
278 See https://crowdo.com/.
279 https://www.investindia.gov.in/team-india-blogs/crowdfunding-india-0.
283 Ibid.
in controlled environments and with a specific number of users. This approach is a balanced one, promoting innovation in the financial industry and benefiting MSMEs;

- **Integrating MSMEs in digital platforms**
  By joining a platform, MSMEs may be less intimidated about going online. This will benefit least-equipped MSME groups – for example, those in very traditional industries with little or no digitalization experience. If these MSMEs forgo digitalization, they can face an existential risk in the digital economy. Advances in fintech could pose a more holistic solution, as digital platforms are developed that reduce the transaction costs of undertaking trade finance agreements and the risks to financiers of underwriting cross-border trade deals, as a consequence of the greater visibility provided by digitalization;

- **Developing national payment system**
  To develop a healthy digital finance industry, each country must first develop a national payment system as the basis of a digital finance infrastructure. Governments should encourage the use of regulatory sandboxes to trial new financial products, services and their providers within a ‘live’, but controlled, market context, from which all stakeholders can learn valuable lessons;

- **Balancing growth and security**
  The challenge for regulators, and the frameworks they enforce, will be to strike the right balance between ensuring that the financial system is adequately protected, while simultaneously allowing new products and services to be piloted and scaled up when successful. Regulators will also need to start getting more comfortable with ostensibly non-finance companies moving into the business of finance provision, as part of a broader portfolio of MSME-friendly support services. They may also need to adjust their regulatory mandates to ensure that these activities are adequately governed and enforced;

- **Modernizing government services**
  This will allow MSMEs to have a better avenue to adopt digitalization. The availability of one-stop-shop government platforms can facilitate the business environment for MSMEs, both while doing business at home and when the time to export comes;

- **Ensuring that data flows are not inhibited unnecessarily**
  The exchange of data between companies (for example, data sharing or data portability) should be encouraged to unlock the value of this data, and promote competition and innovation. Digitalization is about using data to optimize the business processes and create value to innovate. As such, it is crucial to adopt data utilization frameworks and revisit data privacy laws. Governments should ensure that the main objectives and rationale of data privacy law are conducive to a thriving digital business environment, while safeguarding the rights of data subjects. Cross-border data flows should also be encouraged. There are also regulatory linkages between data, competition and consumer protection that need to be reassessed;

- **Closing the ICT infrastructure gap, particularly affecting rural areas**
  In many countries, broadband is part of universal service frameworks. In others, access to the Internet is considered a fundamental right. According to ITU, increasing access to networks cannot be delayed. This will require public spending and clever regulation, particularly considering the fact that developing countries may lack the financial capacity to make significant investments;

- **Training human capital for the digital economy**
  While immediate training in relevant skills for digital literacy can be offered in the short term, countries also need to think about reskilling the workforce to thrive in the digital economy, particularly as digitalization will rapidly alter the nature of jobs. New technological needs will require a new set of skills. Policy responses range from ensuring that school curricula are updated with technology demands and a rapidly changing market, to providing life-long learning opportunities for workers who need to reskill or change professions.

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While MSMEs play a significant role in ensuring their competitiveness, the outcomes can be below their expectations. The nature of MSMEs are generally small with scarce resources, limiting their business growth. In this extend, government contribution by ways of elevating national competitiveness, through a business-enabling environment and enhancing entrepreneurship and entrepreneur development, is inevitable. Besides MSME determination to raise operational efficiency, policymakers are critical in developing and implementing sound policies, some of which are recommended above. The primary policies facilitate and promote MSME growth, business formalization and fintech adoption among MSMEs.
Part IV

Specific MSME targeted policies: Sustainability

While individual small businesses have rather low environmental footprints, their combined impact can exceed that of large businesses. MSMEs may produce more pollution than big businesses because of their informal nature and the resulting lack of regulations and supervision. The extent to which MSMEs contribute to pollution is not broadly studied, but in some regions is estimated to be around 60 per cent. Encouraging MSMEs to adopt green technology and other environment-friendly strategies is therefore essential in tackling climate change.

Developing economies would particularly benefit from adopting a greener approach, as they tend to be more vulnerable to environmental changes and more reliant on natural resources for their development. Developing economies are bound to eventually emit more if they continue to adopt conventional growth patterns. Adopting a greener growth strategy could be beneficial to the economies themselves and to the wider global environment. MSMEs need to be part of that strategy.

In addition to greener growth, part IV also looks at social issues, particularly gender. The MSME sector is especially important for women as it offers significant job and income earning opportunities. Enterprises that are owned or managed by women are still few in number. Therefore, many public policies and programmes have not explicitly promoted that target support for them. Second, MSMEs that are owned or managed by women are likely to encounter multiple barriers such as: unequal laws; inability to meet collateral requirements due to their lack of property ownership; harassment at public offices; and insufficient business knowledge, capacity, and financial literacy. Further, social innovations such as social entrepreneurship are opening new doors for many from marginalized populations with the help of the Internet and other technologies. Part IV ties in all the other parts of this guidebook by taking a step further into global and regional challenges that all MSMEs face, and it shares policy options and best practices from the ESCAP region.

Greater attention needs to be paid to building resilience of MSMEs to cope with external shocks such as the COVID-19 pandemic, regional and national shocks brought on by erratic weather and slow onset of disasters such as drought and macro-economic turbulence. This is important not only because MSMEs provide a livelihood for a majority of the poor, especially for women-owned businesses, but also because they are storehouses of economic dynamism and critical links in supply chains.

287 OECD, 2018, “Environmental Policy Toolkit for SME Greening in EU Eastern Partnership Countries.”
Chapter XI

Preparing for climate change: Greening the business

The majority of the population in developing countries rely on MSMEs for their livelihoods. Therefore, it is imperative that this portion of the economy becomes more resilient to future climate impacts. MSMEs in developing countries are often found in climate-dependent sectors such as agriculture, fisheries and tourism. In a world of rising temperatures and sea levels, unpredictable rainfall and extreme weather events growing in frequency and intensity, the current and future challenges faced by MSMEs are daunting. In order to effectively adapt to climate change, MSMEs will have to overcome some key barriers that stand in their way. For example, it has been estimated that MSMEs produce 70 per cent of environmental pollution. Further, environmental pollution is now becoming a dominant issue in countries such as Malaysia due to increased activities of MSMEs.290

At the same time, these businesses are well-positioned to develop and sell products and services that strengthen the resilience of vulnerable communities. The ability of firms to respond to climate risks depends in no small measure on factors such as a business environment that can be shaped through policy intervention. Despite the apparent impact of climate change, many MSMEs do not consider climate change to be an immediate concern. Therefore, they do not have any form of low-carbon strategy at present, unless they are an energy-intensive business or wish to present a clean and green image. Yet climate change offers many opportunities for MSMEs and startup enterprises to increase their competitiveness, both in the domestic market and overseas.

While business may view compliance with new “green” regulations as an additional cost, Governments may also provide financial incentives for MSMEs to reduce their carbon footprint and implement best practice models (e.g., in the form of industry grants to purchase energy-efficient process equipment and make the necessary adaptations to building facilities). Timely attention to these matters in strategic management would help MSMEs to ensure long-term competitiveness and turn them into business leaders.291

A. Unsustainable and sustainable adaptation

In attempting to adapt to changing business environments brought about through climate shocks, MSMEs can try make sustainable or unsustainable adaptations. MSMEs apply sustainable adaptations if their conditions provide opportunities for business preservation in disaster situations; if not, MSMEs adapt non-sustainable strategies. Increased frequency and severity of natural disasters linked to climate change, for example, reduces the potential for sustainable adaptation.292

The challenges to MSME sustainability include: (a) the ability to deal with economic and social change; (b) engage in responsible and ethical business practices; (c) efficient use of natural resources and protecting the environment; (d) provide high-quality products and services; and (e) developing metrics to determine if the company is meeting stakeholder needs. An MSME’s business model should be developed with economic, social and environmental principles collectively in mind to mitigate possible negative conflicts in business viability among the three. Sustainable development as termed by the United Nations highlights calls on firms to develop long-term economic, social and environmental principles simultaneously. Therefore, for firms to pursue sustainable development, they should incorporate economic prosperity, societal well-being, and environmental protection in their products, policies and practices.

Any business today has to deal with complex, competitive, challenging and unpredictable conditions. According to Charles Darwin’s *Origin of Species*, “it is not the most intellectual of the species that survives; it is not the strongest that survives; but the species that survives is the one that is able best to adapt and adjust to the changing environment in which it finds itself.” It is essential to make strategies to cope with such challenges by applying this theoretical perspective to the business environment. The inherent flexibility and adaptability of the small business will put it at the forefront of economic transformation and make it a central focus of economic policy.

Financial barriers are a key reason why firms resort to unsustainable adaptation. The willingness and capability of MSMEs to adopt sustainable practices, and seize upon green business opportunities, generally hinge on size-related resource constraints, skill deficit and knowledge limitations. Human beings are able to thrive in a wide range of climate conditions, but it has been found that climatic factors and climate extremes can have a strong bearing on economic performance.293 In the face of such conditions, the primary motive of business may be to keep costs down, minimize disruptions or increase sales. The way the relevant decisions are taken is influenced by a range of additional factors. In Malaysia, for example, 17 per cent of the total environmental protection expenditure is incurred by MSMEs. Inadequate waste disposal by MSMEs contributes to increased pollution by hazardous materials and greenhouse gases.294 The importance that MSMEs assign to climate resilience is influenced by business strategies, management priorities, risk perceptions and policy that promotes greening of business. In sectors such as agriculture, water, insurance and consulting there is evidence that larger firms are beginning to recognize effective climate risk management as a source of competitive strength.295

Reducing the environmental impact of MSMEs, both in manufacturing and services, is critical in greening the economy. Improving the environmental performance is also a significant business opportunity for MSMEs themselves, as important suppliers of goods and services. MSMEs are often unaware of many financially attractive opportunities for environmental improvement. Even when they are aware of the potential of better environmental performance to improve a firm’s competitiveness, a lack of appropriate skills and expertise commonly prevents firms from acting upon win-win opportunities.296 At the same time, the lack of resources often leads to MSMEs being risk-averse and less willing to invest in new technologies, partly because of the uncertainty about the payback period.

296 OECD, 2021, “Facilitating the green transition for ASEAN SMEs: A toolkit for policymakers.”
As noted in Part I of this Guidebook, SDG 13 stipulates an array of targets that focus on improvements in climate-related resilience and adaptive capacity. In this context, scientific evidence supports the fact that climate change impacts are pivotal challenges for sustainable development. At the same time, these businesses are well-positioned to develop and sell products and services that strengthen the resilience of vulnerable communities. MSMEs play a vital role in community livelihoods and resilience, but they tend to have fewer resources to adapt to climate change than do larger enterprises. They have limited capacity to assess risks and take advantage of opportunities associated with climate change. Given these challenges, there is considerable scope to increase the contribution that MSMEs can make to adaptation. With public sector assistance, MSMEs could be incentivized to catalyse investment in risk management and resilience, and thereby become the most direct means of supporting vulnerable communities as they adapt to climate impacts.

Assistance for MSMEs adapting to climate change is available from international entities such as the UNDP. The UNDP’s website for MSMEs seeking to adapt to climate change may be useful in this regard. From a policy perspective, the International Institute for Sustainable Development shares methods for engaging small businesses in climate change adaptation. The International Trade Centre hosts a short course aimed at strengthening MSME resilience to climate change, and the ILO also targets MSMEs with a course that outlines strategies and practices for achieving green growth.

B. Making MSMEs green

Greening smaller enterprises poses challenges. Most MSMEs focus their efforts on survival – i.e., short-term profitability, ensuring their day-to-day operations, maintaining revenue and paying salaries. This is especially true of small and micro-enterprises, which tend to operate on relatively short-term horizons. Improving environmental performance may seem like an additional cost of doing business for MSMEs. They rarely have (or can afford) dedicated staff to work on environmental performance, including understanding sometimes complex environmental requirements. However, experience from around the world demonstrates that adopting greener practices can have real benefits for MSMEs, including increasing profitability and lowering the operating costs, increasing competitiveness and resilience, and opening access to new markets and sources of finance.

Beyond the economic and environmental benefits of greener practices for conventional MSMEs, the green economy presents entirely new opportunities for MSMEs to become leaders in fields such as renewable energy installation, green service provision and green consulting. Although MSMEs have fewer resources to adopt green measures, they often have greater flexibility than larger firms, and can sometimes adopt new technologies more quickly. What motivates MSMEs and their owners is likely to be very different from what motivates large corporations. Despite their heterogeneity, MSMEs have many common characteristics that influence their approach to environmental issues and the implementation of green practices. Understanding these characteristics can help to shape policy approaches to MSME greening.297

- MSMEs often lack information about the costs and benefits of relevant green practices and may have limited capacity to understand environmental requirements as well as a low awareness of the need to address their environmental impacts;
- MSMEs may have limited capacity to implement the changes required to improve environmental performance and uncertainty about both the most appropriate technologies and the ways they can incorporate green practices into core business planning;
- MSMEs often operate on shorter time-scales. Generally, environmental technologies encompass higher costs in the short term with the benefits realised in the longer term.

The environmental performance of MSMEs will thus be critical to putting Asia-Pacific economies onto a more sustainable development path. Supporting measures to increase resource efficiency and reduce the environmental impact of MSMEs can improve MSME competitiveness by lowering their operating costs and giving them access to new markets, while also increasing resilience. With many countries aiming to enhance economic growth while ensuring the sustainability of their power systems and ecosystem services, now is the

297 OECD 2021, “Facilitating the green transition for ASEAN SMEs: A toolkit for policymakers.”
time to adopt measures to support MSME greening. This is timely as the impact of the COVID-19 virus requires strong government support for industry. For example, ASEAN has developed the ASEAN Comprehensive Recovery Framework (ACRF) which serves as the consolidated exit strategy from the COVID-19 crisis. The approaches in this toolkit can support measures to promote transition towards a green and circular economy, which is an initiative of the ACRF implementation plan under the broad strategy on advancing towards a more sustainable and resilient future.

C. Environmental policies targeting MSMEs

MSMEs generally do not have sufficient human resources to allow for specialists in green policies or regulation. As such, MSMEs may fall behind their larger business counterparts when complying with green regulation and green practices. Therefore, supporting MSMEs to green their businesses, often means that there should be policies made with MSME capabilities in mind. This more directed policy approach may be possible for the more sophisticated Governments of the Asia-Pacific region, but those with lower capabilities might need assistance in this area.

Across the Asia-Pacific region, most countries have environmental policies that could potentially have an impact on MSMEs, but only a minority have policies that specifically support or target MSMEs. Instead, environmental plans are often included in other planning documents or in environmental laws that regulate industry or specific sectors of the economy. Some countries, notably Malaysia, have national plans on green growth and the adoption of green technology. Malaysia, for example, has a comprehensive online platform, called MyHIJAU Mark (box XI.1), for businesses to promote their green products and services to new markets.

Other countries in the Asia-Pacific region have environmental legislation, but are still developing a strategic approach to supporting green growth. The Lao People’s Democratic Republic, for example, is being supported by the World Bank in developing new green growth development policies (box XI.2).

Through a variety of policy tools, Governments can support MSMEs’ adoption of greener practices in ways that ensure the green transition is seen as a business opportunity rather than just a compliance cost. Governments have a vital role in creating the conditions to support the uptake of green practices by

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Box XI.1

Going green in Malaysia benefits enterprises

The MyHIJAU Mark is Malaysia’s official green recognition of environmentally sound products and services initiated and endorsed by the Government of Malaysia. The Mark brings together certified green products and services that meet local and international environmental standards under one single mark. The criteria for the Mark have been designed taking into consideration not just health and environmental sustainability but also economic feasibility. The criteria are specifically tailored to conditions in Malaysia to ensure that local products and services can actually comply. Companies that fulfill the requirements, and register their products and services, benefit in turn from diverse government incentives, such as Government Green Procurement (GGP) tenders. GreenTech Malaysia, as a not-for-profit organization under the purview of the Ministry of Energy, Science, Technology, Environment and Climate Change (MESTECC), is responsible for the promotion, business advice, verification and monitoring of certified green products and services under the label.

Electric mopeds whirring around the streets of Malaysia are just one example of a certified product. While the vehicles are not yet widely purchased by private companies and private consumers, they are being used in fleets of fast-food chains and public authorities, such as the police. Indeed, the State is currently the eco-label’s biggest advocate. Malaysia initiated a Government Green Procurement Programme in 2013, as the public sector accounts for about 15 per cent of Malaysia’s GDP. Through a lead-by-example from Malaysian authorities, GreenTech Malaysia hopes that the programme will have a trickle-down effect to influence the private sector, creating both supply and demand in the local market.

Source: [https://www.myhijau.my/myhijau/](https://www.myhijau.my/myhijau/).

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298 OECD 2021, “Facilitating the green transition for ASEAN SMEs: A toolkit for policymakers.”
MSMEs. For example, the ASEAN SME Policy Index 2018 found significant variance across countries in support for green MSMEs, and AMS were classified according to early stage, middle stage and advanced stage based on their progress. Early-Stage AMS included Brunei Darussalam, Cambodia, the Lao People’s Democratic Republic and Myanmar. Mid-Stage included Indonesia, the Philippines, Thailand and Viet Nam. Advanced-Stage included Malaysia and Singapore. The recommendations based on the differences in implementation levels are summarized in table XI.1.

Table XI.1
OECD recommendations for greening MSMEs by level of policy development

<table>
<thead>
<tr>
<th>Policy stage</th>
<th>Challenges</th>
<th>Recommendations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Early stage</td>
<td>Policy coordination between agencies promoting green practices and those specifically supporting MSMEs; lack of awareness of green options.</td>
<td>Develop specific plans for greening MSMEs alongside holistic plans.</td>
</tr>
<tr>
<td>Middle stage</td>
<td>Less awareness of the advantages of green development; monitoring efforts in place but evaluation still weak.</td>
<td>Develop improved outreach for MSMEs; strengthen monitoring and evaluation for improving effectiveness of policies.</td>
</tr>
<tr>
<td>Advanced stage</td>
<td>MSMEs may not have same access to incentive schemes as larger businesses.</td>
<td>Integrate practices to reach MSMEs within all relevant programmes.</td>
</tr>
</tbody>
</table>


Green MSMEs can be divided into two categories: “green innovators”, which are developing new products, technologies and approaches that can have transformational impacts; and “green performers”, which are conventional MSMEs that take steps to make their operations more resource efficient and environmentally-friendly in order to enhance their

Box XI.2
First Programmatic Green Growth Development Policy Operation Project for the Lao People’s Democratic Republic

The development objective of the First Programmatic Green Growth Development Policy Operation Project for the Lao People’s Democratic Republic is to support the Government in achieving fiscal stability and consolidating its pathway towards green growth. This programme document describes a development policy credit in the amount of special drawing rights (SDR) 28.5 million to the Government of the Lao People’s Democratic Republic, the first in a series of three single-tranche programmatic development policy financing operations. The Lao People’s Democratic Republic has achieved rapid economic growth in recent years and poverty has declined, but inequality has increased and natural resources are being depleted. Economic growth in the Lao People’s Democratic Republic has relied on the exploitation of its natural resources and is not sustainable because of the depletion of the resources and increasing adverse environmental effects.

The reforms programme will incorporate green growth principles across the national development strategy and selected sectors. Pillar one will support economic management actions aimed at addressing key macroeconomic risks. Pillar two will provide the cross-sectoral foundation for improved direction, planning and accountability to make the sectors of growth cleaner, more resource-efficient and resilient. Pillar three will initiate implementation of targeted actions to reduce the environmental impacts of hydropower, logging and agriculture, and ensure that growth generated from these sectors is sustainable in the long term. Pillar three will also initiate implementation of targeted actions to control air, water, and soil pollution, and improve environmental quality.

Green innovators play an important role in the broader transition to greener economies. MSMEs that focus on green manufacturing and environmental services sectors, such as design and construction firms, agricultural companies and energy solution providers, contribute to eco-innovation across a broad range of industries. New and young enterprises are particularly important for radical green innovations, as they often exploit technological or commercial opportunities which have been neglected by more established companies or even challenge the business models of existing firms. Among green performers, companies evolve their production practices as new technology innovations come online. One example is Dalmia Cement in India, that has progressively produced cement with greener alternatives (box XI.3).

Box XI.3
India’s Dalmia Cement

Dalmia Cement’s overarching focus lies in consuming less to manufacture more, while minimizing environmental impact. It is the company’s conviction that the most successful, profitable and sustainable businesses are ones that hold themselves to the most stringent environmental standards. Dalmia Cement has been progressively producing cement with “greener” alternatives. It has invested in low-carbon technologies that translate into enhanced resources and energy efficiency. It has also increased the proportion of environment-friendly blended cement in its product mix to 80 per cent, reducing its carbon footprint while addressing waste disposal issues of other industries.

Dalmia Cement’s commitment towards environmental protection is reflected in its achievements – It was ranked No. 1 in the global cement manufacturing sector by the Carbon Disclosure Project (CDP) for its achievement in transitioning into a low carbon footprint business. It has increased the proportion of alternative materials used, replacing conventional kiln fuels with alternative fuels and bio-fuels. As a company, it has moderated its emissions in line with the International Energy Agency’s (IEA) 2 degree scenario mandated for 2030. The company became the first organization globally to commit to both RE100 and EP100 campaigns. This commitment was reinforced through various ground-level initiatives across its plants and functions. Dalmia Cement has created a cumulative water recharge potential of approximately five times of its annual water consumption. Its consolidated freshwater withdrawal has been reduced by 38 per cent with water recycling increasing by four times. For the company, water-positive cement production is the solution to water-related physical risks of climate change.

Source: https://www.dalmiacement.com/sustainability/.

The OECD, working with ASEAN, has developed a toolkit that provides practical guidance on the wide variety of policy tools that Governments can employ to make the business case for MSMEs to adopt green practices. The aim of the toolkit is to better equip Governments with information on the benefits of greening for MSMEs as well as the knowledge and tools to support MSME greening. The expected outcomes are to have more Governments include green enterprise targets in regional and national action plans, and take action to encourage MSMEs to improve environmental performance. Ultimately, going green makes good business as well as environmental and ethical sense.

D. Aiming for a circular economy

The “circular economy” is gaining momentum as a concept, both in academic and policy circles, and circular business models have been linked to significant economic benefits. The circular economy has been described as an industrial economy that relies on the restorative capacity of natural resources and aims to minimize – if not eliminate – waste, utilize renewable sources of energy, and to phase out the use of harmful substances. The circular economy involves a distinct and careful management of
two different types of materials within a closed-loop economy: (a) materials of biological origin that can return to the biosphere as feedstock (called biological nutrients, e.g., forest products); and (b) technical materials which cannot do so. Such an economy goes beyond the “end of pipe” approaches of the linear economy, and seeks transformational changes across the breadth of the value chain in order to retain both types of materials in the “circular economy loop” and preserve their value for as long as possible.

The concept of the circular economy reflects the recognition that systems of production and consumption by MSMEs need to be transformed fundamentally to achieve the 2030 agenda and Paris Agreement goals. This is because Asia-Pacific economic growth depends on an uninterrupted flow of natural resources and materials, including water, timber, metals, minerals and energy carriers of MSMEs, with imports providing a substantial proportion of these materials in many countries. Increasing, this dependency could be a source of vulnerability. Uncertain and unstable prices can also disrupt the operations and profit margins of MSMEs, forcing companies to lay off employees, defer investment or stop providing goods and services.

Creating a circular economy for MSMEs can help to address many economic, environmental and social challenges. Unlike the traditional linear take-make-consume-dispose approach, a circular economy of an MSME – either on the value chain or at the cluster level – seeks to respect planetary boundaries through increasing the share of recyclable resources, while reducing the consumption of raw materials and energy and at the same time cutting emissions and material loss. Approaches such as eco-design and sharing, reusing, repairing, refurbishing and recycling existing products and materials will play a significant role in maintaining the utility of products, components and materials, and retaining their local value.

E. Other greening modalities: Environmental Management Systems and MSMEs

An Environmental Management System (EMS) is defined as a set of processes and practices that enable an organization to reduce its environmental impacts and increase its operating efficiency. An EMS can help MSMEs to comply with environmental regulations and achieve environmental goals, such as energy conservation, in an economical way. It is a voluntary instrument that can affect a business’s environmental behaviour.

An EMS can take different forms. The International Organization for Standardization (ISO) provides standards specifically for EMS. For example, an EMS based on ISO 14001 helps organizations to effectively manage the risks and capitalize on the opportunities in changing conditions such as the current COVID-19 pandemic. Implementing an EMS provides a number of benefits, such as more efficient use of natural resources and energy, enhanced compliance with legal requirements and better relations with customers. Improving environmental performance is made easier with formal systems in place. However, MSMEs often find EMS implementation difficult due to inadequate staff and resources.

There is further guidance available from ISO for MSMEs. Specifically, ISO 14005, Environmental management systems – guidelines for a flexible approach to phased implementation, provides MSMEs with a means to meet the requirements of an EMS in a phased, flexible way that is adapted to their specific needs. It allows them to start benefitting from the very beginning, while ultimately meeting the requirements of ISO 14001. Taking a phased approach, businesses could start with specific projects that are most relevant or urgent, such as improving energy efficiency or resource productivity.

Despite the significance of management practices, MSMEs face a lack of resources, knowledge and technical capacity, high upfront costs and low public visibility in adopting the necessary measures. The challenge is to tailor EMS, both in terms of their content and delivery, to the particularities of MSMEs. With regard to MSMEs, it is important to focus on simple, accessible improvements in management practices. They can refer to ISO 14005 on environmental

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303 Rizos and others, 2015, “The circular economy: Barriers and opportunities for SMEs (small and medium-sized enterprises).”
304 Gunawan and others, 2020, “Environmental management system implementation in MSMEs: A literature review”, Jurnal Serambi Engineering.
management systems (EMS) which was developed by the technical committee ISO/TC 207, Environmental management, subcommittee SC1. EMS with changing degrees of intricacy and low on paperwork as well as sectoral green label programmes are more prone to be attractive to small businesses than formal ISO 14001 certification, which is relatively difficult to navigate and expensive.305

F. Greening the supply chain and policy recommendations

Greening has become a prominent feature in the design of supply chain networks leading to the concepts of low carbon supply chains and green supply chain management.306 For example, understanding the sources and levels of emissions within the supply chain is the first step needed to fully design a low carbon supply chain. According to the World Economic Forum, sustainable supply-chain practices can result in cost reductions of between 9 per cent and 16 per cent.307 In addition, thanks to the connectivity that the Internet of Things (IoT) offers, shippers can use data to quantify the benefits of a sustainable approach to supply-chain management. The green or environmental dimension of sustainable development should contain environmentally-friendly production processes and actions for reducing the quantity of waste. Applying renewable sources in production and re-using materials, whether processing defective or consumed products, are equally essential. Crucial elements of the environmental dimension of sustainable development include organizational activities such as the selection of partners in the supply chain, based on ecological guidelines, and the commitment of employees to environmental protection programmes.

Policymakers must consider the key driver of economic and environmental issues in the business environment and they need to identify what regulation can be the right regulation that could be utilized to further help implement green supply chain guidelines among MSMEs. Environmental regulatory tools should be approached from a perspective of helping MSMEs to adopt greener practices rather than punishing non-compliant activities, given the fragile environment in which MSMEs operate, noting the current pandemic. To do this, regulatory actions need to be reformulated to address the specific characteristics of MSMEs, and to provide incentives for enterprises to go beyond compliance. Keeping up-to-date with environmental requirements can be difficult for MSMEs, particularly when it comes to understanding which requirements apply to them. Finding guidance about what they have to do to comply with given regulations is challenging. MSMEs can feel that they are not supported enough and are unreasonably expected to cope with the same levels of paperwork and obligations as larger companies.308

The steps outlined in this section are meant to encourage Governments to see regulatory policy not simply as a means to protect the environment, but also as a tool to help MSMEs become greener. Part of that process is ensuring that environmental regulation is effective, while being proportionate to the cost of compliance.

Policy recommendations

- **Ensure collaboration between environmental and non-environmental regulatory entities and MSME agencies.**
  
  Environmental and non-environmental regulators, such as environmental agencies, local government and business registration agencies can work together to identify opportunities to reduce duplication in paperwork and conduct joint or delegated inspections in selected sectors. With the cooperation of MSME agencies, relevant regulations can be catalogued and evaluated for their compliance cost and any possible duplication;

- **Improving regulation of MSMEs with low environmental risk**
  
  Simplify environmental regulatory requirements for MSMEs that are characterized by a low level of environmental risk. This simplification generally involves replacing environmental permitting with general binding rules – standardized requirements for specific activities with low environmental risk that are practiced by a large number of operators using similar technologies. Smaller businesses, often with limited

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306 OECD, 2014, “SME Policy Index. Eastern Partner Countries: Assessing the implementation of small business act for Europe.”


in-house regulatory capacity, benefit from a standardized, rules-based approach to setting environmental requirements;

- **Taking a sectoral approach to environmental regulation**
  Environmental regulations tend to refer to activities which may or may not correspond to a specific economic sector. However, efforts to promote compliance with them should generally be sector-based because businesses, particularly MSMEs, respond primarily to messages adapted to their sector. The sectoral approach to outreach is part of a larger customer service perspective that environmental regulators should adopt in their relationship with small businesses. Environmental enforcement authorities should work to strengthen their own staff’s capacity to regulate and advise small businesses in specific sectors;

- **Using regulatory incentives to encourage MSMEs to adopt environmental management systems**
  Environmental regulatory structures can build in incentives to encourage MSMEs to adopt certified environmental management systems (EMS). While market demand from customers and clients is also a driver, as is the desire to improve environmental performance, regulatory systems can incentivize EMS uptake through support with EMS implementation and compliance upgrading, and benefits such as reduced inspection frequency of facilities;

- **Ensure that information about regulatory requirements for MSMEs is clear**
  Most small businesses seek clear and consistent information on the minimum requirements for compliance. The most efficient way of providing advice and guidance to businesses is to take into account the full suite of regulations that apply to them, not just environmental regulations. Regulatory requirements that are communicated to small businesses should be well-coordinated across government. Misleading advice could lead to over-compliance and an unnecessary increase in the regulatory burden. To avoid this, compliance and good practice guidance should be clearly distinguished. Box XI.4 illustrates the initiatives implemented under the Philippines Environment Partnership Programme to promote self-regulation and reporting.

The UN Global Compact provides advice about developing sustainable supply chains. The Sustainable Supply Chains website at https://www.unglobalcompact.org/what-is-gc/our-work/supply-chains is a one-stop-shop for businesses seeking information about supply chain sustainability. The website organizes information by issue area, sector, region and practice.

**Box XI.4**

**Philippine Environment Partnership Programme**

The Philippine Environment Partnership Programme (PEPP) was created in 2003 by the Environmental Management Bureau of the Department of Environment and Natural Resources (DENR-EMB) to support industry self-regulation and reporting while improving environmental performance. It includes incentives and assistance for MSMEs to achieve cleaner production standards. The PEPP has two programmes:

- **Track 1** gives recognition and incentives to enterprises that go beyond compliance in their environmental performance. To qualify for Track 1, enterprises need to show they have been consistently environmentally-compliant for three years prior to the date of application, and that they have gone beyond compliance through actions such as implementing an EMS, undertaking pollution prevention or waste minimization initiatives, or engaging in community or social responsibility programmes;

- **Track 2** is an assistance programme aimed at industry associations and individual companies, particularly MSMEs, which are not yet compliant with environmental regulations but are committed to improving their performance. Successful applicants to the programme sign an Environment Consent Agreement, a legally binding agreement between the company/industry association and the DENR-EMB that commits the company to:
  - Implement Environmental Management Plans (EMP) within the framework of Environmental Management System (EMS);
  - Attain waste reduction targets within an agreed timeframe and agree to means of verification;
  - Adopt pollution prevention and/or cleaner production;
  - Provide progress environmental performance report to EMB.

Chapter XII

Coping with disasters and other external shocks

Around the Asia-Pacific region, ESCAP finds that hazards are deviating from their usual tracks and becoming more intense, creating greater complexity and deep uncertainty that are harder to predict.\(^{309}\) The region is not sufficiently prepared for climate reality. It experienced unprecedented flooding in the Islamic Republic of Iran in March 2019, and in Kerala State, India, in August 2018. There was unusual cyclone activity as cyclone Ockhi developed near the equator in December 2017, and the lasting impacts of cyclone Gita affected eight Pacific island countries. Furthermore, a quick succession of flooding and heatwaves was experienced in Japan in July 2018, and collisions of sand and dust storms, with thunderstorms, raged across the Persian Gulf, the Arabian Sea and the Bay of Bengal in May 2017. The Sulawesi and Sunda Strait tsunamis in Indonesia in 2018 highlighted the complexity of near-field tsunami risks.

In addition, ESCAP has identified four distinct hotspots where fragile environments are converging with critical socio-economic vulnerabilities. The first is located within the transboundary river basins of South and South-East Asia, where poverty, hunger and under-nourishment are coupled with exposure to intensifying floods that alternate with prolonged droughts. The second hotspot surrounds the Pacific Ring of Fire, where transport and ICT infrastructure and poor populations are exposed to typhoons and tectonic hazards. The third hotspot covers the SIDS, where vulnerable populations and critical infrastructures of the islands are exposed to climate-related hazards of increasing intensities. People in the SIDS are three to five times more at risk than those in other parts of the region.\(^{310}\) An increase both in deaths and economic losses is higher than the increased occurrence of natural disaster events. Further, the rate of increased financial loss is almost twice as much as the occurrence of a disaster. This fact demonstrates the role of social and economic conditions aggravating the disasters.\(^{311}\)

As revealed above, the vulnerabilities that the Asia-Pacific region faces place additional strains on those looking to make a living via micro enterprises and maintaining small business. Further,


\(^{310}\) Ibid.

\(^{311}\) ESCAP, Asia-Pacific Disaster Report 2019.
small businesses have been largely forgotten when it comes to preparation for, response to, or recovery from disasters. While there are resilience improvement initiatives for major cities and MNEs, small businesses are often left behind even though they are the major source of employment and the creation of new jobs, and often serve as critical supply links both to the local community as well as to other companies.312

A. The impact of disasters on MSMEs

Natural disasters are often unanticipated, costly events for MSMEs. MSMEs are affected differently by disasters. These differences are determined by the type of hazard, risk exposure or context-specific vulnerabilities (exogenous variables), as well as from the characteristics of MSMEs, which increase or decrease vulnerability to natural hazards (endogenous variables). Where data are available on the topic, the number reveal that in Japan, for example, when an earthquake hit in March 2011, 656 MSMEs employing a total of more than 10,000 workers, went bankrupt within a year.313 In the Bangkok flooding of 2011, at least 550,000 MSMEs were disrupted, and more than two million jobs affected. The flood also reduced Thailand’s national GDP by 37 per cent.314 Similarly, in Malaysia, the great flood in Kelantan in December 2014 affected 13,337 MSMEs; this figure represented 37.7 per cent of all MSMEs in the State.315 Most of the affected MSMEs, especially in developing economies, were unable to recover after their businesses were hit by natural hazards because of low disaster resilience. In rural areas, MSMEs that are environment-dependent can be considered one of the worst-off sectors, given the severe disruption that disasters cause to the availability of natural resources and the time it takes for ecosystems to recover.316

To repair or reinstall what disasters destroy, surviving businesses are often saddled with debt. Because it is difficult for many local firms to either cover the total cost by themselves or prepare for such rare unpredictable events in advance to reduce the cost, the government often intervenes after disasters. The direct and indirect impacts of natural disasters and other calamities such as pandemics are devastating to business activities and their continuity. These catastrophic events have a significant impact on MSMEs.

Infrastructure damage has been identified as an important source of financial stress for businesses after disasters. It can cause temporary business closure, while structural repairs needed to restore operations usually require large amounts of resources. If businesses are uninsured or lack resources for these repairs, their survival is put at risk. Even if operations resume, physical damage has been found to make a difference in business performance of surviving firms, as severe damage implies longer closure periods and more resources allotted for repairs, particularly in the case of uninsured firms.317 In addition, disruptions after disasters regarding the provision of public services, such as electricity, water supply and sewage, fuel, transportation and telecommunications, can be responsible for businesses closing down and can cause population dislocation. Many businesses do not reach the post-disaster stage. Further, in 2015, the Philippine Institute for Development Studies placed disaster impacts on enterprises into four categories – capital, labour, logistics and market (box XII.1).

MSMEs, however, have an inherent flexibility due to the lower levels of capital needed to operate (especially in the case of informal MSMEs), which could be exploited after disasters to support a faster and more equitable recovery of the local community.318 The role of MSMEs in disaster recovery thus depends both on their own ability to withstand disasters and having the right incentives in place for them to participate in livelihood recovery. Pathways towards more resilient MSMEs should consider tackling the socioeconomic drivers of risk in the pre-disaster stage and should be further built by the provision of

314 APEC, 2019, APEC Disaster Risk Management Strategies to Support MSMEs Business Sustainability.
315 Ibid.
Box XII.1

Philippine Institute for Development Studies disaster impact categories

Capital
Damages to the land, equipment and revenue have been identified as an important source of financial stress for businesses after disasters. Revenues are expected to fall due to less, or no sales during and after the disaster. Stock damage or loss can create issues in the continuity of business. It can cause temporary business closure, while structural repairs needed to restore operations usually require large amounts of financial and other resources. Damage to manufacturing equipment and machinery may be severe and result in disrupted production. If businesses are not insured or if they lack of resources for these repairs, survival is questionable.

Logistics
Disruptions after disasters regarding the provision of public and utility services, such as electricity, water supply and sewage, fuel, transportation and telecommunications, can be responsible for businesses closing down, and can cause population dislocation. Dysfunction in facilities and public infrastructure is an expected effect of disasters, requiring businesses to look at alternative or emergency logistic support to enable them to function. Public infrastructure damage can lead to business closure for extended periods until repairs completed.

Labour
Human resources are the prime asset for any organization, including MSMEs which generally have a limited staff. Employees of such companies might be the immediate victims of the disaster, including deaths and casualties. In addition, the labour force might face physical and psychological health effects, including injuries and stress. Employees can be vulnerable to the numerous health hazards that prevail in the weeks, even months after flooding. Water-borne diseases such as diarrhoea and cholera are the most common epidemics that can erupt after flooding. Employees who may be affected severely will also experience financial distress. Therefore, availability of manpower is crucial and businesses have to consider manpower reinforcement and provision of support for affected workers by enabling them to resume their duties at the earliest time, which will also enable firms to meet targets, respond to spikes in demand and resume operations in the shortest time.

Market
A shift in market demand can also be expected in the short term with a sharp increase in the demand for only basic commodities and a drop in the requirement for many non-essentials. In general, difficulties in distribution, receiving and shipping of products are very common issues after a flood situation. As the demand side for many products weakens, sales turn-over drops drastically, resulting in MSMEs finding it difficult to deal with accounts payable and, ultimately, to manage their financial balance. This drop in demand for their products affect MSMEs more seriously as the majority of them are totally dependent on neighbouring markets where the villagers are direct victims of flooding.


Swift and adequate support to MSMEs shortly after disasters. MSMEs support the creation of social capital in communities, which is a crucial element in restoring the social fabric ruptured by disasters. With local businesses reopening and providing space for social bonding, MSMEs can contribute to motivating a relocated population to return home as well as helping to attract new investment in recovering areas. A strong MSME sector also promotes a country’s resilience to shocks by broadening and diversifying the domestic economy. By reducing the dependency on a few large firms or specific sectors, MSMEs protect a broad base of the labour force from sector-specific shocks and fluctuations.
in international markets. Through better understanding of the impact of disasters on MSMEs, vulnerability to natural hazards can be reversed by promoting enabling pre- and post-disaster environments for MSMEs to use entrepreneurship as a driver of local economic and social recovery. MSME resilience requires partnerships and cooperation among the Government, firms and other private organizations.

B. Government policy to improve resilience and agility

Most small businesses, whether formal or informal, operating in developed or developing countries, tend to rely on personal savings and networks to cope with disasters. In the case of developed countries where special recovery funds and insurance are widely available and accessed, MSMEs lean towards prioritizing or complementing formal coping mechanisms with individual informal ones. In developing countries, informal coping strategies are often not chosen but are imposed by the absence and/or insufficiency of formal mechanisms that guarantee business owners’ own survival as well as that of their business.

In view of the above facts, policymakers in the Asia-Pacific region – where nearly 70 per cent of disruptive natural disasters take place – need to identify policies for the different stages of disaster management, from prevention of and during disasters, recovery and re-construction for MSMEs to mitigate, respond and recover from natural disasters. For disaster prevention, while most countries in the Asia-Pacific region have programmes in the form of training, workshops and consultancy services to provide guidance for MSMEs, only a few economies cover

regulation and laws for disaster management. Further on prevention, almost all ESCAP countries have corresponding funding or subsidizing policies across stages from disaster prevention to disaster recovery, while other policies in the category of infrastructure, facilities and human resources are left blank.

Looking into funding policies, the most common approaches are low interest loans and credit guarantees on different scales; grants are provided to repair or purchase machinery/equipment, but not for loss compensation. Few countries have provided income subsidies for effected enterprises to pay salaries, with New Zealand and Thailand having offered tax assistance for effected businesses. In addition, public-private collaboration is clearly stated by Australia, although many other countries in the region may cooperate with private organizations. Japan provides Business Continuity Planning (BCP) for MSMEs, post-disaster.

It must be noted that BCP is critical to ensuring that MSMEs contribute to economic recovery by providing continuity in income generation and employment. Disaster recovery is a subset of BCP. Disaster recovery plans involve restoring vital support systems. Those systems are mostly communications, hardware, and ICT assets. Disaster recovery aims to minimize business downtime and focuses on getting technical operations back to normal in the shortest period possible. BCP is a component of building business resilience in normal times and is especially critical in cases of major disasters. For businesses to survive, especially MSMEs, they must be able to adapt their operations to the new environment. UNDRR’s Regional Office for Asia and the Pacific has developed a toolkit on the subject to support MSMEs.

Enterprise recovery programmes that act in response to various needs of different industries, through cash in-kind and technical support, can help reverse the “inherent” vulnerability of MSMEs to disasters by maximizing the flexibility that fewer assets and employees give to MSMEs compared with larger firms. For example, the Government of Japan provided a capital subsidy known as the Group Subsidy to help MSMEs recover from the damage caused by the Tohoku Earthquake in 2011. Sri Lanka established relief assistance for MSMEs that felt the immediate and longer-term damaging impacts from the 2004 tsunami. In tourism-reliant communities such as Tohoku, Japan, policymakers made a concerted effort to push for long-term recovery of the region by promoting both domestic and international tourism to revitalize the economy. The tourism strategy also brought about benefits for battered MSMEs, allowing the local economy to both recover and gain long-term stability. Box XII.2 details Tohoku’s strategy.

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319 Dalberg (2011). Report on Support to SMEs in Developing Countries through Financial Intermediaries.
C. Pre-disaster resilience building

The resilience of MSMEs must be developed in anticipation of disasters, and not solely helped along after a shock event has occurred. Suitable investment should be encouraged in advance, and there are interventions which can help to build an appropriate investment climate for this goal. Ensuring an adequate investment climate requires policymakers to be aware of the importance and role that MSMEs play in local economic dynamics, which can facilitate the design of relocation and recovery programmes that support livelihood recovery. Legal and regulatory frameworks that effectively address issues such as insecurity of tenure, informality, land-use planning and building codes can, in turn, encourage MSMEs to invest in disaster risk management (DRM) and market diversification. Direct interventions for building resilience of MSMEs before disasters can draw on the support of business associations and community groups to (a) design and communicate DRM strategies and (b) help MSMEs be less dependent on local markets by diversifying their supply and customer base.324 Having social protection systems in place can help to decrease the possibility of individual shocks, while having in place systems that can give rapid assistance after disasters. Box XII.3 shows how the Philippines provides financial assistance to MSMEs following a disaster.

Box XII.2

Tohoku’s tourism development strategy following the 2011 earthquake and tsunami

The 2011 Tohoku earthquake and tsunami in Japan had a profound impact on tourism in Tohoku prefecture, affecting both domestic and international travellers. Although the number of customers at accommodation facilities in Tohoku gradually increased after the disaster, many of them were related to recovery initiatives and were not tourists. Foreign travellers decreased by 50 per cent-70 per cent immediately after the disaster, leaving hotels and inns bankrupt in the affected area.

Within three weeks of the disaster, local divisions of the Ministry of Land, Infrastructure, Transport and Tourism as well as local public and private stakeholders had established a working group to share information and discuss recovery strategies for the tourism industry. Initiatives included branding Tohoku as a resilient community (their logo is “Together, let’s try hard, Tohoku!”, which has become the symbol of Tohoku’s recovery and attracted further support), and national and international advertising campaigns using traditional symbols of Tohoku’s tourism (such as female owners of inns known as “Okami-san”) as well as efforts to highlight the safety of the destination.

These local efforts converged in the “Destination TOHOKU Campaign”, actively supported by the central Government. The main goal was to create a strengthened tourism industry around a new model of interactive tourism where tourists could communicate more with local people and experience the daily lives of the region – as opposed to the distant model where tourists go from one touristic spot to the next – thus preserving the local culture and maximizing the benefits for the local community. In the first seven months from the start of the Destination TOHOKU Campaign, the number of travellers into the Tohoku region reached about 31 million, of whom 27 million stayed at accommodation facilities. With the strong focus on revitalizing local communities, the Campaign benefitted a wide range of local MSMEs, from traditional inns and hotels to retail shops, restaurants, transportation companies and other relevant businesses. In 2021, the campaign continued to mark 10 years of recovery since the 2011 disaster.


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D. Online resources for disaster policy responses

There are several different toolkits available online for learning about building resilience for MSMEs, which have been developed by governmental or private bodies, such as:

- The development by the Philippines of an MSME Guide to Disaster Resilience. This Guide is designed to serve as a reference for MSMEs in understanding business continuity practices and the basic concepts of disaster risk reduction and management. The link is https://dtiwebfiles.s3-ap-southeast-1.amazonaws.com/e-library/Growing+a+Business/MSME+Guidebook_First+Edition+April+2020.pdf.

- KPMG, a global professional services organization, has developed a publication in its India practice titled “Preparing MSMEs for effective disaster management.” The link is https://assets.kpmg/content/dam/kpmg/pdf/2016/05/Disaster-Management-Preparedness-SME.pdf.


- CPA Australia, a membership organization for professional accountants, has also developed a disaster recovery toolkit. The link is https://www.cpaaustralia.com.au/professional-resources/business-management/business-recovery/disaster-recovery-toolkit.

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Box XII.3

Philippine Disaster Risk Reduction and Management Act

As a result of casualties and damages caused by Typhoon Ketsana, locally known as Tropical Storm Ondoy, in 2009, the Republic Act (R.A.) No. 10121 was created. Known as the Philippine Disaster Risk Reduction and Management Act of 2010, this serves as the legal and institutional basis for the country’s framework in dealing with natural and human-induced hazards as well as providing a more efficient structure and response mechanism for communities and organizations. R.A. 10121 provides a multi-sectoral, inter-agency approach to disaster risk management. It encourages participation by the private sector, local government units (LGUs), non-governmental organizations (NGOs), civil society organizations (CSOs), community members and volunteers in disaster management. It aims to strengthen the community’s ability to maintain basic functions and recover from disasters by shifting its focus from disaster response to disaster risk reduction.

Through the DRRM Act, MSMEs and communities gain financial assistance through the creation of a calamity fund dedicated to disaster risk reduction or mitigation, prevention and preparedness activities for the potential occurrence of disasters, not only for response, relief and rehabilitation efforts. This provision allows LGUs to utilize 70 per cent of the total calamity fund on risk-reduction activities and 30 per cent on quick response measures. In return, MSMEs reduce their vulnerabilities, strengthen their resilience to ensure the health and safety of the employees, build client confidence and minimize economic losses. MSMEs are uniquely positioned to promote economic recovery as a result of their existing relationships with the communities in which they operate, and their vested interest in contributing to rapid and lasting recoveries.

E. The COVID-19 pandemic

The COVID-19 pandemic is an unprecedented global crisis, affecting human health and economic welfare across the globe. MSMEs are disproportionately affected by COVID-19 because of their prevalence in the economic sectors most affected by demand shocks caused by the pandemic. These sectors include accommodation and food services, cultural and creative sectors, and wholesale and retail services. Data for OECD and some non-OECD economies show that MSMEs export more than large firms in these sectors.\footnote{OECD, 2020, Coronavirus (COVID-19): SME Policy Responses.} Partial or full quarantine measures as well as disruptions to international means of transport clearly lead to a dramatic loss in demand and revenue in these areas for both domestic and trade activities. In addition to these quarantine measures, an increasing number of Governments are introducing export or import restrictions, notably on agricultural products, which provide an important source of income for many MSMEs.\footnote{WTO, 2020, Information Note – Export Prohibitions and Restrictions, 23 April 2020.}

Although the pandemic has affected every corner of the world, the economic earthquake unleashed by COVID-19 does not affect everyone in the same way. With fewer resources to ride out the storm, MSMEs have been particularly vulnerable to the repercussions of the crisis. These firms in developing countries are disproportionately affected, especially in LDCs and SIDS. Small businesses active in trade tend to be more competitive and resilient. Yet many of them have been shaken by serious disruptions in international supply chains.

The unprecedented socioeconomic crisis resulting from the COVID-19 pandemic calls for unparalleled multi-sectoral responses. ESCAP has developed a framework to support the socioeconomic response of Asia and the Pacific to the COVID-19 pandemic. The framework’s overarching principle supports building back better through integrated policies aligned with the SDGs. ESCAP’s offer to member States builds on its mandates and involves three main streams of work: protecting people and enhancing resilience; supporting economic recovery; and restoring supply chains and supporting MSMEs. To ensure a concerted regional approach for sustainable recovery from the crisis, ESCAP calls for regional cooperation among member States and across stakeholders.

The Asia-Pacific region has had diverse experiences of the COVID-19 pandemic. The responses of States, too, have varied, with many of them in the region completely closing off their borders to travellers, and implementing varying degrees of stay-at-home orders, lockdowns and restrictions on internal movements.

1. The experience of SIDS

The collapse of tourism resulting from the COVID-19 pandemic will have a profound impact on the Asia-Pacific SIDS because of their high reliance on tourism rents. The pandemic will disproportionately influence the lives and well-being of the poorest and the most vulnerable, including workers in the informal sector. Addressing this challenge requires broad mitigation measures to counteract the consequences of the outbreak as well as specific policies to support local tourism-related businesses and affected communities. For Governments that do not have the fiscal space, adequate concessional assistance from the international community will be critical. At the same time, however, long-term efforts for the sustainable development of the tourism sector should not be undermined, particularly by taking full advantage of their blue economy potential – a concept depicting sustainable use of vast oceanic resources – to foster their development.

As is often the case with severe economic downturns and natural disasters, by affecting the tourism sector the COVID-19 pandemic will disproportionately influence the lives and well-being of the poorest and the most vulnerable, including workers in the informal sector. MSMEs, which make up about 80 per cent of the tourism sector globally, are expected to be particularly affected. In Fiji and Vanuatu, many MSMEs depend on the cruise industry as they provide various services, including selling handicrafts and souvenirs, to cruise ship passengers. In Maldives, migrant workers from neighbouring countries, who make up 15-25 per cent of the country’s population, are especially vulnerable to COVID-19 as they live in congested
areas and work under conditions in which practicing strict social distancing is difficult.

To address the impact of the COVID-19 pandemic on the tourism sector of the Asia-Pacific SIDS, broad mitigation measures to address the consequences of the outbreak and specific policies to support tourism-related activities will be essential. Most of the policy responses by the Asia-Pacific SIDS so far have fallen within the former set of measures, which tends to slow the pace of the transmission of the virus. However, specific actions, such as targeted fiscal and monetary measures to support affected local businesses – especially tourism-related MSMEs, and local populations employed by them – are also critical in addressing the consequences of the collapse of inflows of inbound visitors.

These events have had an economic impact on the tourism and the broader services sector. Looking forward, targeted fiscal and monetary measures will be necessary in the short term to support affected local businesses such as those providing tourism-related services, particularly MSMEs which employ the local population. Tourism-dependent Asia-Pacific SIDS are likely to need a fiscal stimulus of significantly more than 10 per cent of GDP. While typical stimulus programmes include direct cash transfers, wage subsidy to businesses and cheap financing to MSMEs, a compensation package for employees in large informal sectors, such as farmers and fishermen who provide supplies to the tourism sector, should also be considered. With a stimulus to spend, Governments can ensure the well-being of local populations and the survival of local MSMEs as well as prevent the former from falling into poverty and the latter into disarray.

2. Specific policy experience for COVID-19

Many organizations, including ESCAP as well as the World Bank, IMF, OECD and others have catalogued the policy responses of States to COVID-19, and it is unnecessary to reproduce an exhaustive list here. ESCAP's “Asia-Pacific countries COVID-19 policy responses” provides a breakdown of country policy responses, that includes those of MSMEs. A limited sample of specific policy experiences is included in this section, but more examples can be found online.

3. Immediate measures to ease the shock to jobs and guarantee minimum living standards

Fiscal measures to support jobs and living standards are needed on two fronts: (a) fiscal support for employers to retain jobs; and (b) direct support for the employees and households to guarantee minimum living standards. The former includes targeted tax exemptions and fiscal subsidies to MSMEs, the informal sector and the most affected businesses for business and employment continuity. The latter includes emergency measures to extend medical and employment insurance to those not sufficiently covered, or to provide direct cash transfers for consumption smoothening. There are various examples of such policies already being implemented in the region, including:

- China, which has focused on supporting MSMEs by waiving or delaying their social security contributions and deferring land-use rents and property tax;
- Japan, which is supporting MSMEs by providing wage support and consultative services;
- Hong Kong, China and Singapore, which have rolled out specific funds to subsidize sectors, including retail, food, transport and tourism, and support low-income households.

4. Targeted monetary easing to support financial health

Monetary policy should be directed at supporting the health and stability of the financial sector. This can be done by supplying sufficient liquidity to the banking system. Implementing this measure would require reduction in interest rates by central banks. Targeted financial support through subsidized loans can also be directed to MSMEs in affected sectors, which are the most vulnerable to financial stress. Other financial measures can

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328 Ibid.
include targeted credit support for companies that directly participate in pandemic control, and emergency loans and credit guarantees to address supply chain disruptions.

There are various examples of such policies in the region:

- China has implemented targeted cuts in the reserve requirement ratio and the re-lending programme to guide funds into small companies, the private sector and manufacturing;
- China’s central bank provides targeted credit support for companies that directly participate in pandemic control, such as those in the health-care sector;
- Japan has introduced emergency loans and credit guarantees for MSMEs in order to address supply chain disruptions, particularly those in the tourism sector.
Chapter XIII

Gender and MSME development

Gender inequality is often a substantial contributor to every major problem the world faces. As a result, gender should inform every solution, from creating sustainable business practices to expanding opportunities for youth and addressing the ever-changing health challenges globally.330 For growth to be inclusive and equitable, it is critical to understand how to enhance the role of women in the economy, particularly in the MSME sector.331 Therefore, it is important to identify challenges and opportunities for the inclusion of women in greater numbers and at higher levels of growth in the MSME sector. This section will help to cover policy on more inclusive growth of the MSME sector, especially towards strengthening gender equality and economic empowerment of women in the sector.

To date, much of the focus of women’s MSME programmes has been on the poor and marginalized, with support targeted to assist women develop an income stream from a trading activity. Without strategic support to help them compete, many women may continue to struggle on the margins. In addition, whatever barriers women face in starting and managing a small business is compounded by external shocks.

For many women, small-scale enterprise is not empowering. It can be marginal and can increase tensions in the family and create contradictions between the need to generate an income, repay loans and fulfil wider family and community responsibilities.332 Improvements in women’s productivity, mobility, access to markets, literacy, social status and control of household decisions takes time and requires considerable commitment by development workers. It also needs long-term investment in local-level processes of social change and a willingness to cope with the sometimes violent and disruptive consequences of challenging class and gender privilege.333

A. Gender and entrepreneurship

Even if women represent about half of the working age population and the education gap is closing, they tend to be underrepresented in the workforce, especially in leadership roles. This opportunity cost will cap global GDP growth to US$ 108 trillion in the next six years. Achieving the full-potential scenario, where women have an equal role compared to men in all labour markets, would push global GDP to about $136 trillion by 2025. However, the full potential of women entrepreneurship has yet to be reached. A 2015 study by the Global Entrepreneurship Development Institute found that more than 61 per cent of the countries reviewed scored less than fifty points on the latest Female Entrepreneurship Index (FEI) worldwide. Only Australia was in the top 10 countries for female entrepreneurship for Asia-Pacific and there are only 3 Asia-Pacific countries listed in the top 30 of the index (in ranking order: Australia; Singapore; and Taiwan, China).

The Global Entrepreneurship Monitor (GEM) publishes a comprehensive report on the state of women entrepreneurship worldwide, based on a larger longitudinal data collection involving more than 100 countries annually. The 2018/2019 Women's Entrepreneurship report, featuring 74 economies from six regions including Asia and the Pacific, highlights that more than 163 million women started new businesses, and an additional 111 million are running established businesses. These numbers highlight the financial impact of women-owned businesses, but they also move a step further by differentiating the types of entrepreneurial activities that women are involved in, and the stage of growth of their venture.

Necessity-driven entrepreneurship signals involvement in the start-up cycle because of a lack of alternatives. For a woman, the loss of a husband or being a single mother who needs to provide for the family is a poignantly driver of necessity entrepreneurship. Necessity-driven entrepreneurship can limit the growth potential and sustainability of women entrepreneurship, eventually leading to discontinuance. Women-owned businesses close at a higher rate than male-owned businesses. The reasons for such business mortality vary from unprofitability, lack of access to financial resources to other personal factors. However, in innovation economies, women exit opportunity-driven ventures at a much lower rate than men, specifically at only two-thirds of the rate of their male counterpart. This differential rate underlines the importance of policy-level interventions to support innovation-driven entrepreneurship levels beyond their current marginal levels.

Other factors that can explain the slower growth of women entrepreneurship centre on cultural differences, such as segregated gender roles. Gender stereotypes are an important source of these differences between women’s and men’s entrepreneurship. Gender stereotypes refer to beliefs generally shared by society about typical traits of women and men, and have an effect on the professional evaluation of people. The typical characteristics of women (feminine) are often connected with their traditional role as homemakers, while those of men (masculine) are related to their traditional roles as providers. Entrepreneurs’ activities have also been traditionally associated with masculine traits.

Box XIII.1 describes an initiative led by ESCAP to boost women’s entrepreneurship in the region.

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335 Ibid.
343 Lagula and others, 2018, “Think entrepreneur-think male: A task and relationship scale to measure gender stereotypes in entrepreneurship”, _International Entrepreneurship and Management Journal_.

**Box XIII.1**

**ESCAP’s Women and ICT Frontier Initiative**

ESCAP’s Asian and Pacific Training Centre for Information and Communications Technology for Development has launched a new resource for women entrepreneurs in ASEAN. The Women and ICT Frontier Initiative (WIFI) aims to create socially and economically-empowered women through ICT-enabled entrepreneurship, and to enhance the knowledge and skills of women entrepreneurs in business management and their use of ICT. The programme also aims to help government leaders and policymakers develop gender-responsive policies, programmes and services. WIFI employs a two-track approach: (a) knowledge enhancement, which includes learning the concepts and principles of women’s empowerment; the role and potential of ICT; the links with the SDGs; and planning and managing a business, and (b) ICT skills enhancement. This entails use of ICT and applications in various business functions.

In addition, the WIFI Info Bank knowledge platform shows where entrepreneurs can find programmes on ICT literacy as well as business-related tools and applications. WIFI was launched in June 2016 in Incheon, the Republic of Korea. Partners from government and civil society showed how the programme could benefit current and aspiring women entrepreneurs in Cambodia, Pakistan, the Philippines, Sri Lanka and Tajikistan. Technology companies including Google, Microsoft and Intel also backed the WIFI project. Subsequently, WIFI was launched at the national level in Sri Lanka in partnership with the Information and Communication Technology agency and the Ministry of Women and Child Affairs. The launch was followed by training of trainers and community workshops in two districts that were severely affected by the civil war.

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**B. Policy recommendations for a gender responsive ecosystem for enterprise development**

In light of the above discussion, the following five broad key areas are those which require urgent attention in order to effectively foster women’s entrepreneurship in most ESCAP countries:

1. Incorporating the specific priorities and needs of women entrepreneurs within relevant national legislation, policies and programmes, with a view to fostering gender-responsive enterprise development and promotion;

2. Enhancing greater access to, and use of innovative technologies for women entrepreneurs in line with existing E-Business Frameworks as well as SDG 17, which calls for increased cooperation on, and access to science, technology and innovation;

3. Removing the barriers facing women entrepreneurs in accessing finance and credit, through strengthening national financing policies, legal frameworks, infrastructure and institutional arrangements as well as exploring alternative financing approaches, such as crowdfunding, impact and gender lens investing, and capital markets;

4. Strengthening capacity at the national and subregional levels to collect and analyse sex-disaggregated, MSME-related data in order to enable policymakers and other relevant stakeholders evaluate whether the needs of women entrepreneurs are being met, and make more informed policy decisions;

5. Forging stronger partnerships between Governments, the business sector and civil society across the region towards creating an enabling environment for advancing women’s economic empowerment through entrepreneurship.

Strategic intervention in these areas will entail specific actions such as:

- Addressing time poverty faced by women across the region through policies and measures to reduce the unequal burdens of women in unpaid care;

- Enhanced social protection schemes that address the particular needs of women entrepreneurs, including equitable pension provision and access to health coverage. This can be aided by formalization of informal MSMEs;
● Ensuring the provision of accessible and affordable quality childcare services;
● Promoting gender equality in accessing education and technical and vocational training at all levels, including ensuring relevance and quality of the school curricula.

For women-led MSMEs, improvement of the broader environment will mean focusing policies and financing beyond supporting retail and artisanal entrepreneurial activities in order to build capacity for growth and innovation, and to drive women-owned businesses to a higher level of revenue potential. This also requires identifying training and development programmes for women-owned businesses beyond the traditional sector of retail/social services/consumer services, and providing technology and advanced training to launch tech ventures. Inclusive finance will help to bridge the gender gap. Eighty per cent of women-owned businesses with credit needs are either unserved or underserved – there is a US$ 1.7 trillion financing gap. Women entrepreneurs, particularly those from rural poor communities, are often disadvantaged in expanding their businesses as they lack land deeds and/or collateral needed to access formal sources of credit. Evidence shows that women are stronger savers than men, more responsible borrowers and calculated risk-takers.

Formal associations and professional societies are also agents of change that can act to improve the business environment for women as well as aid Governments in formulating better policies. Women entrepreneurs, however, are generally under-represented in business associations and other fora. To appropriately leverage the abilities of these civil society and private sector players, Governments should seek to:

● Institutionalize engagement between women entrepreneurs and Governments in developing relevant policies and regulations;
● Support the development of women-based entrepreneur associations and include these in all relevant policy, programme and budgetary consultation processes;
● Support stronger representation of women entrepreneurs in broad-based business associations and networks;
● Increase the participation of women entrepreneurs in promotional and marketing opportunities such as trade fairs and international trade missions;
● Facilitate access by women to networking and mentoring opportunities as well as participation in business cluster and incubator initiatives.

As with many areas of policymaking, data gaps can mean that forming an adequate picture of the state of women’s entrepreneurship is challenging. Addressing gaps in the availability of up-to-date and reliable statistics on women’s entrepreneurship is part of a wider need to develop reliable gender statistics. Critical to progress in this regard is the relationship between National Statistics Offices, women’s civil society organizations (including women entrepreneurs’ associations), and academic and other research institutions. Increased availability of statistics on women’s entrepreneurship, including through national population censuses (which capture informal entrepreneurship better) and time-use studies will help to inform relevant policymaking. One particular area for attention is the number, growth and failure rates of women-owned start-ups and small businesses.

There are many valuable resources online that provide further perspective and actionable strategies on improving women’s participation and success in MSME ventures, such as:

● ‘Women Entrepreneurs: An Action Plan to Build Back Better’, developed by ITC, is a plan that supports policymakers, business and women’s economic empowerment networks to identify key trends and potential scenarios for women in trade. It presents nine actions that Governments, corporations and the global community can take to unlock women’s entrepreneurship. They include strategies to boost women’s participation in corporate and government procurement markets, devise financing and business support options that
match the needs of women-led firms, and provide targeted training to promote resilience and competitiveness;

- The ILO’s Women’s Entrepreneurship Development programme (ILO-WED) works to empower budding and existing women entrepreneurs who want to start, run and expand their businesses and to create conducive conditions for inclusive, resilient and sustainable economies. It does so by addressing gender imbalances in enterprise development in order to scale women entrepreneurs’ contributions to growth and sustainable development, and to enable their meaningful participation in entrepreneurship ecosystems;

- The International Center for Research on Women (ICRW) conducts pioneering research to improve conditions for women throughout a major corporate supply chain, from garment factory to retail floor. For example, the ICRW has produced a study on field-based assessment of gender-related issues in select MSME clusters, to identify challenges and opportunities for inclusion of women in higher numbers and at higher levels of growth in the MSME sector;

- ESCAP’s Catalyzing Women’s Entrepreneurship programme aims to advance women entrepreneurship and market participation in the Asia-Pacific region, resulting in poverty reduction, improved livelihoods and economic growth.
Chapter XIV

Social enterprises

The fundamental idea behind social enterprise is that it starts because of the existence of a social problem that the traditional market system cannot solve. The social enterprise may or may not be profitable, but it has to be financially sustainable. A social enterprise’s main purpose is to promote, encourage and bring about social change. Social enterprises can provide income generation opportunities that meet the basic needs of people who live in poverty. Social enterprise is increasingly acknowledged for its contribution to the creation of economic and social well-being, and most especially for its capacity to address, in an innovative way, global and local social challenges. Inclusive entrepreneurship policies aim to address any market failures that prevent an individual from setting up and operating a business based on an aspect of their identity.

This may particularly be the case in more remote areas where the central Government has reduced its reach. This chapter reviews the definitions and concepts of social enterprises, outlines the landscape across selected countries in Asia, and discusses challenges to scaling as faced by social enterprises.

A. Defining social enterprise

A social enterprise is a business that exists specifically to make money and a positive social impact at the same time, and can be for-profit or not-for-profit. An inclusive business is a specific type of social enterprise – a for-profit business that uses its value chain to raise people out of poverty. While it has all the characteristics of a social enterprise, it also brings a focus on low-income communities and is often centred around agriculture. The ASEAN definition of inclusive business is described in box XIV.1.

According to the ADB, social enterprises can be segmented, based on the three criteria – social impact, financial viability, and bankability – and aimed at the bottom of the pyramid (BOP), referring to the poorest two-thirds of the economic human pyramid.349 These three criteria can be described as follows:

- **Social impact.** This can be defined as the net effect of an activity on a community and the well-being of individuals and community members.
families. Social impact created by social enterprises is a convergence of job creation, increased access to goods and services, improvement of household income, and overall improvement in the quality of life for the marginalized sectors and low-income population. This impact can be measured at the individual enterprise level, the national and/or society level, and an intermediary level;

- **Financial viability.** This measures the current (or future) ability of the organization to fund its operations through the revenue it generates. It determines if the organization is (will) perpetually (be) reliant on grants;
- **Bankability.** This assesses the ability of the organization to achieve financial returns to the investor. It is important to assess bankability from the perspective of development banks, which often require generating income from their investments.

Further, social enterprises can be primarily classified into four categories. Based on the above parameters, social enterprises can be segmented into the following four categories:\(^\text{350}\)

- **Partly commercial non-government organization (NGO).** These social enterprise organizations are very similar to NGOs, which exist primarily to serve the needs of a particular community. Their solutions are usually limited to the local community in scale. Such organizations do have some activities that generate revenues. However, these may or may not be the same as the ones that create impact. For example, an organization that provides free health checkups for the low-income population, but generates revenues from selling merchandise and accessing government aid, is a partly commercial NGO;
- **Small social enterprise.** Operations of such organizations are able to generate sufficient revenues to cover their cost of operation. The revenue generation model may or may not be central to the impact model. Since such organizations do not have sufficient operational margins, they are not bankable. For example, an organization that conducts health checkups for the low-income population by charging them a nominal amount just enough to cover its cost of operations is a small social enterprise;
- **Established social enterprise.** Such an enterprise is one that usually creates an innovative solution to the problems of the vulnerable sectors (including the low-income population) in

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a manner that is financially viable. This type of organization has reached scale. It generates only modest profits, most of which are ploughed back into the operations, and therefore are not bankable. An example is an organization that conducts health checkups for the low-income population in a manner that is financially viable and is able to scale-up using partnerships with already existing government dispensaries;

- **Leading social enterprise (potential inclusive business).** Such an enterprise has a business model that integrates the BOP into it. The model is scaleable and generates profits. The profits are split between reinvestment and shareholders. These organizations are bankable, although they often require considerable technical assistance and hand-holding to improve their business models. For example, an organization that leverages technology, conducts tele-health checkups (to reduce cost) for the low-income population by charging them a nominal amount, and is able to scale using already existing government dispensaries.

### B. Social enterprise in the Asia-Pacific region: Some examples

Social enterprise can be promoted by a Government as a means of achieving better social outcomes without heavy-handed government intervention. Social entrepreneurs are often highly motivated by not only the prospect of profitability, but also by achieving social outcomes that build pride in local communities. Many social entrepreneurs are young, and have stepped up to develop financially self-sustaining solutions to address social and environmental challenges in their communities. These leaders operate across the public, private and third sectors, and balance the imperative of creating social impact with the need for financial sustainability. Although the idea that business can and should play a positive role in the community has deep roots in many ESCAP member States, the contemporary social enterprise business model is less well-established.

In Malaysia, for example, high levels of economic development and a large, well-educated, socially conscious middle class have fuelled a well-developed social enterprise sector. Enterprises receive strong support, and a number of organizations exist throughout the country that are dedicated to supporting social entrepreneurs and their businesses, many of which receive government support and funding. However, similar to other countries in the region, there are no specific legal provisions for social enterprise in Malaysia, and those wishing to set up such a business must make sure they are well-informed about the legal structures available to them under the law. Malaysia recently produced a Social Enterprise Blueprint 2015-2018 to develop a social enterprise ecosystem that outlines a variety of policy measures, including building human capital by including social entrepreneurship in national education systems. Box XIV.2 provides an example of Malaysian social enterprise.

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**Generating Opportunities for Learning Disabled in Malaysia**

Generating Opportunities for Learning Disabled (GOLD) is a social enterprise set up by the Association of Learning Disabilities, District Petaling, Selangor. GOLD's aim is to enable people with learning disabilities to maximize their potential as contributing members of society by providing training in producing a wide range of merchandise (from cookies to door gifts). GOLD has been very successful, but is limited by the restriction against societies receiving loans from banks in Malaysia. In addition, there is a risk of loss to the business if the board of trustees of members decides to remove the current promoters, as those promoters have no ownership in the business.


In the Philippines, social enterprise is a well-established economic sector, and is dynamic, vibrant and innovative. University degrees in social enterprise are available from some of the leading Philippine universities, and well-established formal support networks prop up the sector and those seeking to enter it. There is also a drive to provide significant support for social enterprises through formal legislation, with a bill currently being considered by the Senate which, if passed, would create a statutory Social Enterprises Development Council to promote, expand and develop the social enterprise sector. Social enterprises therefore already benefit from a supportive and beneficial environment, and appear to have an increasingly bright future.

In Thailand also has experienced some success with social enterprise, with
Governments proving to be very supportive of this sector since around 2011. Companies that meet the legal criteria are entitled to a raft of favourable benefits including, as of 2016, substantial tax exemptions. In addition, the National Reform Council is pursuing a number of other initiatives related to social enterprise, including education, research and funding programmes. While qualifying as a social enterprise is not necessarily easy, for those businesses that meet the criteria the benefits can enable them to grow and fulfil their mission of doing social good while doing business. The example of the Doi Tung Development Project in Thailand is provided in box XIV.3.

**Box XIV.3**

**Doi Tung Development Project**

The Doi Tung Development Project has transformed a community from its dependence on opium cultivation and trafficking, into a community that possesses pride and dignity, changed illicit livelihoods into honest and stable incomes, and converted denuded mountains into green forests. Doi Tung is located in the centre of the Golden Triangle, which in the past was a leading centre for the production and trafficking of illicit drugs for the world. The region was made up of denuded mountains, with forests having been destroyed by slash and burn cultivation. Most villagers in the area were stateless, living in dire poverty without any basic public amenities, and were uneducated.

Furthermore, the presence of armed militia in the area reduced the safe economic possibilities available to local populations, with resulting deforestation, opium poppy cultivation, and drugs and sex trafficking proliferating.

The Doi Tung Development Project therefore took a people-centric development approach and instituted comprehensive measures that covered health, livelihoods, and education. It also encouraged “a mutual and sustainable coexistence between man and forest.”

The Doi Tung Development Project has helped to improve the well-being of the people, provide life skills training and create a stable income for every member of the community through five business units – food processing, handicrafts, cafés, tourism and agriculture. It has provided an opportunity for the people of Doi Tung to create products and services for the world with a sense of pride, becoming a true model for sustainable development.


In 2015, the concept of social enterprise was introduced into Vietnamese law and is applicable to businesses that invest at least 51 per cent of their profits in accomplishing a registered social or environmental objective. They typically operate as either single-member limited liability companies, multiple-member limited liability companies or shareholding companies, and are entitled to be “considered for special treatment” in a number of administrative and regulatory processes. In addition, being classified as a social enterprise in Viet Nam can entitle companies to benefit from a number of funding options that would otherwise be unavailable.

In North-East Asia, the Republic of Korea announced its Social Enterprise Promotion Act in 2007. The Act provides social entrepreneurs with management consultation and access to professional services and technical assistance, and even provides subsidized rentals and reduced taxes. The metropolitan government of Seoul also opened a Social Economy Support Centre that acts as an incubator for social enterprises. This initiative, in tandem with other strategies, resulted in a 353 per cent growth in the number of social enterprises in Seoul between 2012 and 2015.\(^\text{351}\)

In South-Asia, the Governments of India, Pakistan and Bangladesh have taken steps to create an innovation ecosystem to support social enterprises. India’s entrepreneurship policy framework recognizes the emergence of social enterprise as a model for addressing social and environmental challenges through economic business models, and has a focus on social entrepreneurship education through courses delivered by

\(^{351}\) See https://avpn.asia/2016/06/16/building-a-social-economy-in-asia/.
universities and academic institutions.\textsuperscript{352} A key objective of the Government of Pakistan’s Vision 2025 Plan\textsuperscript{353} is to promote innovation and enterprise. To support this objective, the Government is establishing a Centre for Social Entrepreneurship to function as an incubator for social enterprises.\textsuperscript{354}

The policy mixes highlighted above include: subsidies and tax incentives to encourage more social forms of enterprise; the provision of business support services and physical infrastructure to development high potential social enterprises; and a focus on social enterprise education to develop the next generation of more socially-minded entrepreneurs. Alongside the objective of developing more social forms of enterprise, the ambition of these policies is that they will provide a pipeline of investible opportunities for impact investors.

\textsuperscript{353} Government of Pakistan, Ministry of Planning, Development and Reform, 2014, Pakistan Vision 2025.
\textsuperscript{354} See http://www.pid.gov.pk/?p=15088.
Conclusion

The MSME policy space is complex. It comprises framework conditions, broad policies that impact MSMEs and specific targeted policies. These areas often cut across the boundaries of ministries and government agencies as well as across levels of government. Since MSMEs are often embedded in local eco-systems, which represent their primary source of knowledge, skills, finance, business opportunities and networks, it is also important to consider factors affecting framework conditions at the local level, how policies developed at the national level are tailored to local conditions as well as how they coordinate with policies that are shaped at the regional or national level. The institutional and regulatory framework for MSME policymaking should call on Governments to take into account the costs and benefits of new legislation for MSMEs in the initial phase of policy development. Therefore, rules and regulations that have an impact on the private sector need to be revised with consideration for the needs of MSMEs.

The establishment of MSME support agencies and programmes need to go in parallel with efforts to improve the policy, legal and regulatory environment in which MSMEs operate. This implies simplifying regulations and administrative procedures for business start-ups, and the development and enacting of new legislation to deal with gaps or inconsistencies in business laws. Evidence from UNCTAD shows that improving such an environment may be more beneficial for MSME development than specific support programmes.\(^{355}\)

A comprehensive and coherent MSME policy framework has various direct benefits for MSMEs – more secure business operations, less unfair competition, enhanced productivity, and more investment in research and development and in human resources.\(^{356}\) Indirect benefits for MSMEs and the economy as a whole include: (a) the realization of MSMEs’ economic potential; (b) a better business environment that benefits the entire business population regardless of size; (c) improved skills for the working population; and (d) better policies and practices at the national, regional and local levels.\(^{357}\) An adequate regulatory framework thus helps MSMEs to realize their innovative and competitive potential. Furthermore, policy strategies should take into account the changes in regulations, markets and technologies that occur across borders and which may affect MSMEs’ opportunities and performance. As the SDGs are country obligations, policymakers must also consider how to both support and leverage MSMEs in contributing to the achievement of the SDGs.

A particular strength of MSMEs is their ability to innovate, and this may come about not necessarily through any given MSME or type of MSME, but rather by the fact that new MSMEs are constantly being created, trying new markets and models, and either succeeding or failing and exiting the market. MSMEs are the key place for fostering entrepreneurship and where there is great scope for experimentation and innovation, as opposed to larger businesses with established modes of operation. This openness and flexibility towards new knowledge has been a crucial driver of economic development around the world, including the Asia-Pacific region. One message emphasized in this Guidebook is that the Asia-Pacific countries can and should do more to develop innovations in the MSME sector. MSMEs’ help in the development of entrepreneurship, the creation of employment opportunities and social empowerment – particularly for women – as well as the expansion of trade and, above all, income generation. All of these factors raise the standards of living for a nation as a whole. Adaptability, resilience and the ability to manufacture and render services with a high degree of flexibility and cost-effectiveness make MSMEs a vital force in today’s global economy.

Within this context, it is imperative that government officials recognize the following critical factors:

- The need for reduction of entry barriers and costs facing new business;
- The importance of cash flow to MSMEs – the major reason most new and small businesses fail is not a lack of profits but a lack of cash;


\(^{357}\) Ibid.
● The strengthening of entrepreneurship through training and education;
● The strengthening of networking and information dissemination – a lack of networks and information hinders effective deployment of technology and business development services as well as collaboration with other firms.

A. Constraints on MSME development, and policy guidance

This section recapitulates some of the major ideas and suggestions for expanding and sustaining MSMEs.

The comprehensive review in this publication of the MSME policies and programmes in Asia and the Pacific demonstrates the fact that the nations of the Asia-Pacific region appreciate the importance of MSME development. In many of the countries in the region, the MSME sector faces numerous threats and challenges that necessitate a proactive approach by policymakers. National Governments and various stakeholders in charge of policy planning would do well to recognize not only the threats and challenges, but also the changing needs of MSMEs.

MSMEs in the Asia-Pacific region typically face the following constraints:

(a) The absence of a user-friendly enabling environment;
(b) A lack of an adequate and modern infrastructure;
(c) “Shy” entrepreneurship, i.e., a lack of confidence and a high level of risk aversion in exploiting opportunities;
(d) Inequality for women entrepreneurs;
(e) Inadequate and/or expensive access to financing;
(f) Obsolete technology;
(g) A lack of R&D and innovation facilities, and commercialization thereof;
(h) The absence of marketing support and information;
(i) Inadequate input of BDS; and
(j) Poor institutional networking, which bars access to GSCs and integration of MSMEs into international markets.

To address these constraints, a general implementation of MSME policies in the Asia-Pacific countries should include the following considerations:

● The macroeconomic environment affecting MSMEs must be considered in policymaking, as larger firms usually have more influence on decision-makers. Monetary and fiscal policies, trade conditions and other broad economic parameters, therefore, must also be effectively managed with MSMEs in mind;
● A comprehensive MSME development policy package addressing the problems, needs and prospects of MSME development for the domestic, regional and global markets must have feedback mechanisms that reflect the dynamic environment in which MSMEs operate, so that policymakers can be proactive in anticipating and tackling MSME issues;
● Major topics for a comprehensive policy include: (a) general entrepreneurship development; (b) development of female entrepreneurship; (c) rural enterprises; (d) enhancing competitiveness; (e) providing sound infrastructure and a business enabling environment; (f) financing MSMEs; (g) delivering access to technology; (h) R&D and innovations; (i) creating business development services; and (j) developing opportunities for global integration;
● Without addressing the informality of MSMEs, many of the policies considered throughout this Guidebook will be less successful or harder to implement. Supporting MSMEs to formalize will enable the establishment of more effective government programmes addressing MSME issues, better outcomes for social inclusion, taxation as well as enable better data-gathering that can feed back into better policies;
● Access to finance for MSMEs is always an ongoing and important issue. There are new technologies (fintech) that are rapidly changing this space, and will require new approaches from policymakers in order to take full advantage of this emerging financial infrastructure;

● Building a strong base of entrepreneurship, and providing support to make the MSME sector competitive in the regional and global markets, should be the central theme of the SME development agenda. The private sector should be involved as partners in policymaking and the implementation of programmes;

● While green economy was an important consideration even at publication of the first edition of this Guidebook in 2012, it has grown in importance, and consumers continue to demand more from businesses regarding sustainability and commitment to environmental causes. Governments must tread carefully in supporting the greening of MSMEs without burdening them with unmanageable regulation.

B. Final thoughts

This publication has attempted to develop policy guidelines that will assist policymakers, practitioners, support institutions, chambers of commerce and associations in their efforts towards MSME development. These guidelines are based on regional (and global) best practices and the vast field of experience among the researchers, contributors and authors involved in their preparation. In addition, the United Nations Economic and Social Commission for Asia and the Pacific has played an essential role in guiding and supporting this effort.

This Guidebook is not a substitute for local knowledge; rather, it is aimed at complementing such knowledge. Each sovereign country has developed its own policy frameworks, institutions and linkages with MSMEs and entrepreneurs. A single policy guideline cannot fit all. Thus, individual countries and their institutions must assess the status of their MSMEs, level of enterprise, culture, ethos and needs before addressing the emerging issues. Based on this assessment, each nation can develop a plan of action most suited to its particular situation that will enable it to address the requirements of its MSMEs and entrepreneurs. Naturally, consultations with experts, MSME leaders and other stakeholders are a prerequisite before finalizing any plan that might involve policy changes, reorientation of officials, capacity-building of delivery organizations and encouragement of public-private partnerships. The long-term objectives of all the countries in the Asia-Pacific region are clear – to build the capacity of MSMEs, enhance their competitiveness, attain global integration and be partners for progress in economic development, employment generation and the well-being of the population of their countries.
### Global, regional and subregional cooperation platforms and organizations working on MSME issues

#### A. Global agencies and platforms working on MSMEs

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<tr>
<th>Organization</th>
<th>Description/areas of involvement with MSMEs</th>
<th>Examples of current MSME-related activities</th>
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</table>
| International Chamber of Commerce (ICC)| ICC is taking action to ensure that MSMEs worldwide have good tools and access to capital.                                                                                                                                                                                                             | ICC TRADE NOW connects SMEs with providers of financing services.  
The CCI Entrepreneurship Center gives learners the skills they need to become entrepreneurs.  
ICC launched a Save Our SMEs (SOS) website that calls on Governments, private sector leaders and international institutions to ensure the continued viability of MSMEs. |
| International Labour Organization (ILO)| ILO provide principally advisory services on MSME policies.                                                                                                                                                                                                                                           | The ILO’s Small and Medium Enterprises Unit seeks to unlock the potential of creating more and better jobs in small businesses. The unit’s work focuses on four key areas – entrepreneurship and management skills, access to markets, enabling environment for sustainable enterprises, and productivity and working conditions. |
| International Finance Corporation (IFC)| IFC, through its programmes, promotes reforms that support and allow private sector development to flourish. It provides investment and advisory services to MSMEs in about 80 countries and focuses on every phase of MSME development – investment-climate reform, building management skills, access to finance and access to markets. | IFC’s MSME investment and advisory portfolio extends across six regions globally, with a focus on assisting MSME development in low-income and frontier countries.  
IFC provides policy recommendations and financing, including through the SME Finance Fund, to increase access to finance by MSMEs in a sustainable and scaleable manner and in supporting efforts to promote the spread of new modes of financial service delivery. |
| International Monetary Fund (IMF)      | Through its publications, the IMF contributes to identifying the constraints and policies most likely to influence MSMEs’ access to finance and the main priorities for closing the financial inclusion gap for MSMEs.                                               | IMF analysis shows that economic fundamentals and financial sector characteristics, such as macroeconomic stability, limited public sector size (to avoid crowding out MSME access to credit), financial sector soundness, a competitive banking system and, more broadly, a competitive and open economy are important factors to boost MSME access to finance. |

358 For more information, visit the ILO website at https://www.ilo.org/global/topics/employment-promotion/small-enterprises/lang—en/index.htm.
359 For more information, visit the IFC website at https://www.ifc.org/wps/wcm/connect/corp_ext_content/ifc_external_corporate_site/home.
360 For more information, visit the IMF website at https://www.imf.org/en/Home.
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<tr>
<td>International Trade Center (ITC)</td>
<td>ITC focuses on trade promotion, which encompasses MSMEs. It has also developed new competencies in specific specialized aspects of trade policy and regulation in areas related to business advocacy and business participation in the trading system.</td>
<td>The Joint Integrated Technical Assistance Programme (JITAP) through which UNCTAD, WTO and ITC provide Trade-Related Technical Assistance (TRTA) to selected LDCs and African countries, mainly focusing on building their capacity to participate in the multilateral trading system.</td>
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<tr>
<td>Organization for Economic Co-operation and Development (OECD)</td>
<td>The OECD provides data and analysis to develop policies that foster MSMEs and entrepreneurship, and facilitate sustainable growth, competitiveness and the creation of skilled jobs. It covers six main areas of work – MSME productivity, financing MSMEs, MSME digitalization, entrepreneurship, G20 and SMEs.</td>
<td>The OECD hosts forums to discuss MSME issues, such as the 2018 SME Ministerial Meeting. The OECD also has an active research series on SMEs and Entrepreneurship, the OECD Studies on SMEs and Entrepreneurship. This series covers not only OECD States, it also investigates policy in developing economies, such as recent studies on Viet Nam (2021) and Indonesia (2018).</td>
</tr>
<tr>
<td>The United Nations Conference on Trade and Development (UNCTAD)</td>
<td>While UNCTAD works mainly with Governments, to effectively deal with the magnitude and complexity of meeting the Sustainable Development Goals, it believes that partnerships and closer cooperation with the private sector and civil society are essential.</td>
<td>UNCTAD’s EMPRETEC is a flagship capacity-building programme for the promotion of entrepreneurship and MSMEs to facilitate sustainable development and inclusive growth. UNCTAD’s ISAR Corporate Transparency Accounting is the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting that assists developing countries and economies in transition in the implementation of best practices for accounting and corporate governance. The UNCTAD Insurance Programme assists developing countries and countries with economies in transition to set up insurance capacity, competitive and well-regulated insurance markets and human resources development. Under UNCTAD’s Business Facilitation Programme, the agency provides a number of online tools and suggested policies to improve the business, investment and trade climate.</td>
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<tr>
<td>United Nations Industrial Development Organization (UNIDO)</td>
<td>The mission of UNIDO is to promote and accelerate inclusive and sustainable industrial development (ISID) in Member States.</td>
<td>UNIDO’s Business, Investment and Technology Services Branch (BIT) supports capacity-building initiatives, partnerships, and the sharing of knowledge and best practices to promote private sector development in manufacturing industries. Particular emphasis is placed on improving the competitiveness of enterprises, mobilizing investments, and facilitating access to appropriate technologies.</td>
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361 For more information, visit the ITC website available at https://www.intracen.org/itc/about/.
364 For more information, visit the UNCTAD website at https://unctad.org.
365 For more information, visit the BIT website at https://www.unido.org/resources/publications/publications-type/working-papers/bit-technical-working-papers.
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</table>
| World Bank                   | A key area of the World Bank Group’s work is to improve MSMEs’ access to finance and find innovative solutions to unlock funds.                                                                                                                                                                                                                                           | The World Bank finance sector assessments to determine areas of improvement in regulatory and policy aspects, enabling increased responsible MSME access to finance (MSME Lines of Credit, Partial Credit Guarantee Schemes, Early-Stage Innovation Finance (see box III.6 above).  
It Improves credit infrastructure, which can lead to greater MSME access to finance. It Introduces innovation in MSME finance such as e-lending platforms, use of alternative data for credit decisioning, e-invoicing, e-factoring and supply chain financing. It provides policies, analytical work and other Advisory Services in support of MSME finance activities. Finally, it supports Women-Owned SMEs. |
| World Trade Organization (WTO) | The WTO is the only international organization dealing with the global rules of trade. Its main function is to ensure that trade flows as smoothly, predictably and freely as possible.                                                                                                                                                                                                                                           | WTO initiatives include an Informal Working Group on MSMEs launched at the Eleventh Ministerial Conference in December 2017, which aims to identify and address obstacles to MSME participation in international trade. It currently consists of 91 WTO members and is open to all members. A Global Trade Helpdesk online platform simplifies market research for companies, especially MSMEs, by integrating trade and business information into a single online portal. A Working Group on Trade, Debt and Finance looks into how trade-related measures can contribute to solving the problems of debt faced by developing countries and how to improve the availability of trade finance, notably for MSMEs. On Intellectual property, WTO members exchange information about their policies aimed at supporting MSME creativity, inventiveness and investments in research and technology.366 |

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366 For more information, visit the WTO website at https://www.wto.org/english/tratop_e/msmesandtra_e/msmesandtra_e.htm.
### B. Regional and subregional organizations and platforms working on MSMEs

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<tr>
<td><strong>Asian Development Bank (ADB)</strong></td>
<td>The ADB produces a number of publications, projects and reports dealing with MSMEs issues, such as infrastructure support, access to finance, technologies development and MSMEs policy frameworks. It also organizes events with government authorities, financial authorities and business associations to discuss about MSMEs development and access to finance.</td>
<td>ADB created the Asia Small and Medium-Sized Enterprise Monitor as key resource for policy makers working on MSMEs development in Asia and the Pacific. Volume 1 of the Monitor provides data and analysis on MSMEs issues and opportunities, volume 2 deals with the impact of COVID-19 on MSMEs in Asia, volume 3 concerns the financial technology loans and volume 4 focuses on MSMEs development and access to finance. The 2020 Launch Seminar for this product exposed the lessons learned from the ASM in accelerating MSMEs dynamics for revitalizing national economies.(^{367})</td>
</tr>
<tr>
<td><strong>Asian Infrastructure Investment Bank (AIIB)</strong></td>
<td>The Asian Infrastructure Investment Bank (AIIB) is a multilateral development bank with a mission to improve social and economic outcomes in Asia.</td>
<td>The AIIB has provided Kyrgyzstan loan support to help address the urgent liquidity pressures faced by its MSMEs as a result of the COVID-19 pandemic.(^{368})</td>
</tr>
<tr>
<td><strong>Association of South-East Asian Nations (ASEAN)</strong></td>
<td>ASEAN is dedicated to preparing ASEAN MSMEs to build immunities from disruptive technologies and embrace the opportunities to advance towards a Digital ASEAN through collaborative interventions.</td>
<td>In April 2020, ASEAN Leaders convened the Special ASEAN Summit on Coronavirus Disease 2019 (COVID-19). In June 2020, ASEAN kicked off the “Go Digital ASEAN” initiative.(^{368})</td>
</tr>
<tr>
<td><strong>Asia-Pacific Economic Community (APEC)</strong></td>
<td>APEC calls for economies to intensify cooperation, further promote market access, embrace the digital economy and address challenges for small businesses to go digital.</td>
<td>APEC’s Small and Medium Enterprises Working Group (SMEWG) works to encourage the development of MSMEs and to build their capacity to engage in international trade.(^{369}) SMEWG strategic plan address critical issues on the growth of MSMEs in the APEC region.</td>
</tr>
<tr>
<td><strong>The Eurasian Economic Union (EEU)</strong></td>
<td>The Commission of the Eurasian Economic Union ensures free movement of goods, services, labour and capital between States by providing policies.</td>
<td>A project office has been set up to support agricultural projects that are promising and beneficial to the business of the Union States, including MSMEs, in order to attract investments from international financial institutions in the projects.</td>
</tr>
<tr>
<td><strong>The United Nations Capital Development Fund (UNCDF)</strong></td>
<td>The United Nations Capital Development Fund (UNCDF) makes public and private finance work for the poor in the world’s 47 LDCs. UNCDF offers “last mile” finance models that unlock public and private resources, especially at the domestic level, to reduce poverty and support local economic development.</td>
<td>In the area of MSME financing, UNCDF in collaboration with ESCAP launched an Innovation Fund on digital solutions for MSMEs in Asia-Pacific. Current UNCDF work also addresses the COVID-19 pandemic that has had an unprecedented impact on LDCs.(^{370})</td>
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\(^{368}\) For more information, visit the ASEAN website at [https://asean.org/empowering-micro-small-medium-enterprise-towards-digital-asean/](https://asean.org/empowering-micro-small-medium-enterprise-towards-digital-asean/).

\(^{369}\) For more information, visit the APEC website at [https://www.apec.org/Press/News-Releases/2020/1023_SME](https://www.apec.org/Press/News-Releases/2020/1023_SME).

\(^{370}\) For more information, visit the UNCDF website at [https://www.uncdf.org/sme-survey/country-snapshot-bangladesh](https://www.uncdf.org/sme-survey/country-snapshot-bangladesh).
### C. Bilateral technical assistance schemes and programmes on MSME development

<table>
<thead>
<tr>
<th>Organization</th>
<th>Description/areas of involvement with MSMEs</th>
<th>Examples of current MSME-related activities</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ)</td>
<td>It provides services in the field of international development cooperation. It strengthens MSMEs, promotes business relations, including those with medium-sized and large international companies, and assists firms in the developing countries in complying with social and environmental standards.</td>
<td>GIZ has a number of MSME projects in the Asia-Pacific, particularly in Sri Lanka, ASEAN, Southern Lao PDR and Bangladesh.</td>
</tr>
<tr>
<td>The United States Agency for International Development (USAID)</td>
<td>The United States Agency for International Development through its Economic Growth and Trade initiative works to address poverty globally.</td>
<td>USAID has helped to mobilize up to $2.3 billion in private financing for more than 100,000 entrepreneurs around the world over the past 12 years, through USAID’s Development Credit Authority, which uses partial credit guarantees to mobilize local financing and encourage private lenders to extend financing to new sectors and regions. The USAID Linkages for SMEs (LinkSME) project aims to strengthen the supplier-buyer relationships between Vietnamese SMEs and foreign firms.</td>
</tr>
<tr>
<td>Japan External Trade Organization (JETRO)</td>
<td>JETRO is a government-related organization promoting trade and investment between Japan and other countries. In the 21st century, the organization focuses on facilitating foreign direct investment in Japan and helping Japanese SMEs to maximize their export potential.</td>
<td>JETRO supports the development of sales channels for Japanese MSMEs in overseas markets. It facilitates trade negotiations, the use of cross-border e-commerce, the development of border markets as well as the use of intellectual property, and provides MSMEs individual support through the framework of Japan’s “Consortium for New Export Nation.”</td>
</tr>
<tr>
<td>Japan International Cooperation Agency (JICA)</td>
<td>JICA promotes international cooperation and Japan’s socio-economic development by fostering economic growth and stability in developing countries. It provides effective support for the development of MSMEs by recommending policies, promoting trade and investment, enhancing the competitiveness of local enterprises and assisting local economies and industries.</td>
<td>In 2020, JICA signed an investment commitment agreement for the “COVID-19 Emerging and Frontier Markets MSME Support Fund” to provide loans to microfinance institutions (MFIs) in developing countries. In the same year, the agency established a technical cooperation project for the establishment of a credit risk database (CRD) with the National Bank of the Philippines to help local MSMEs accessing finance.</td>
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</tbody>
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371 For more information, visit the GIZ website at https://www.giz.de/expertise/html/59974.html.
373 For more information, visit the USAID website at https://www.usaid.gov/vietnam/improving-business-environment.
374 For more information, visit the JETRO website at https://www.jetro.go.jp/en/.
375 For more information, visit the JICA website at https://www.jica.go.jp/english/index.html.