



Policy Brief

# TOWARDS DIGITAL EMPOWERMENT OF MSMEs

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*Task Force 2*

**Meaningful Digital Connectivity, Cyber  
Security, Empowerment**



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# Abstract

Promoting development and growth entails, among others, addressing barriers that are usually added to the difficulties inherent to the context in which the MSMEs are immersed. MSMEs are in more need of policies to aim for a global recovery from COVID-19, as it has been recently considered by the UNDP, the OECD, the EU and the IMF, among others. Digital economy could boost MSMEs development and promote entrepreneurship, helping community projects create value, and reach consumer groups to achieve true local development. This policy brief proposes that the G20 provide tools to address digital financial literacy, access to data, and competition issues in the digital economy platforms.

# Challenges

The digital economy can allow microenterprises and small and medium-sized enterprises to increase their access to markets and productivity. However, many microenterprises and small and medium-sized enterprises, especially in rural and remote areas, are ill prepared to engage in and benefit from e-commerce and the digital economy, including data collection and analysis. They face barriers such as limited access to affordable digital and data infrastructure, payment solutions, trade logistics, skills, consumer and data protection, and financing of digital entrepreneurship. Another aspect of the digital divide is that most data centres are located in developed countries. At the same time, there is evidence of a “gender digital divide” that excludes women entrepreneurs from the opportunities and benefits of a data-driven economy, due to a lack of literacy, skills, access, and resources among other factors. The gender gap is more pronounced in developing countries, particularly in the least developed countries. In 2017, the proportion of women using the Internet worldwide was 12 per cent lower than that of men, while in the least developed countries, only one in seven women was using the Internet compared with one in five men (UNCTAD, 2019).

If these impediments are not addressed, MSMEs risk being left behind and their businesses may suffer as a result. It is also critical to assist MSMEs in digitalizing, particularly those who are unfamiliar with digital technologies. The main challenge MSMEs are facing is lack of access to available data and international trade. Nearly half of the firms questioned in an International Trade Center surveys of 28,000 businesses in 56 countries (2010-2017) cited “lack of access to information” and “information transparency difficulties” as major roadblocks. The investigation also revealed that the smaller the company, the more difficult it is to access and use key trade and market

information. Hence, they have structural barriers to digitize themselves (ITC, 2018).

Another finding is fifty-six percent of MSMEs in ASEAN are at the Basic level, with just rudimentary digital technology use, mostly to support communication. Thirty-four percent (the Intermediate level) use digital tools to help with sales and marketing in a more meaningful way. Only 10% of the MSMEs surveyed fit into the advanced category, which includes advanced digitalization in different parts of their operations. Essentially, even among the digitally-enabled MSMEs, the majority do not take advantage of digital technologies to their full potential (ERIA, 2018).

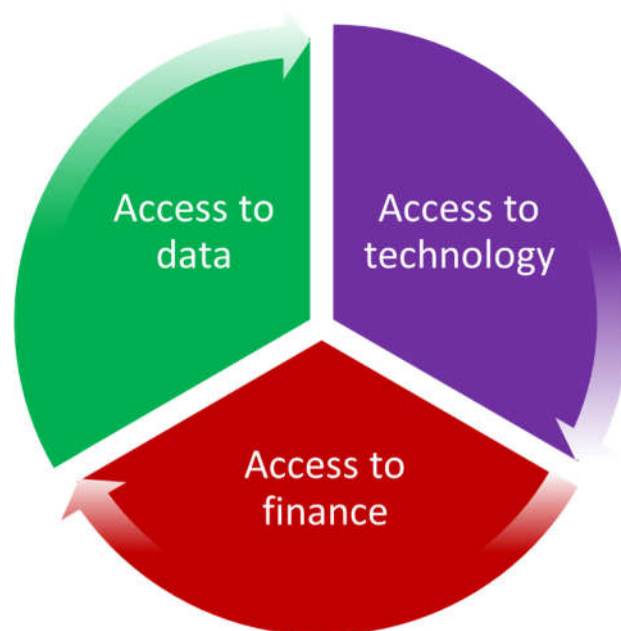
Data utilization is critical in assisting MSMEs to their full potential. Furthermore, data sovereignty and cybersecurity to enhance capabilities and protect them from exploitation by irresponsible parties are important variables to emphasize. Grassroots communities can help to accelerate development of MSMEs' internal capacities. Once data access and internal capacities have been enhanced, next policy priorities should focus on digital platforms to ensure MSMEs to access a quota of preferential space in the digital realm. The same measures could be taken regarding fair-trade initiatives and promoting specialized digital platforms as local and regional community projects, in order to facilitate consumers in surrounding areas access to MSME products.

# Proposals for G20

As the predominant form of business and employment, micro, small, and medium-sized enterprises (MSMEs) are key actors for building more inclusive and sustainable growth, increasing economic resilience and improving social cohesion. In fact, across the OECD, MSMEs account for about 60% of employment and between 50% and 60% of value added and are the main drivers of productivity in many regions and cities (OECD, 2019).

In the case of Indonesia, the MSMEs segment is factually the backbone of the economy, accounting for 60% of the GDP. This portrait is believed to be commonly shared by most other developing countries, hence it is both logical and imperative for the G20 governments to nurture and protect MSMEs in order to grow the economy and to improve the welfare of the people.

To address those challenges, this policy brief proposes recommendations across three building blocks to be developed by the G20 forum:



## 1.Data Inclusion Policy (Access to Data)

This policy addresses the increasing role of data in electronic commerce and the digital economy, in the context of digital and data divides within and between countries. A data-driven economy gives rise to new opportunities for wealth creation and for addressing development challenges, but it also raises various potential concerns related to, for example, data privacy and security, cross-border data flows, market concentration, and taxation. Transforming these opportunities and challenges into inclusive trade and development requires adequate policy responses at the national and international levels (UNCTAD, 2019).

The following are the proposed skeleton of policy development for data inclusion policy:

### A. Data Management

Data is a fuel for the digital economy and MSMEs are the backbone, and it is logical for the G20 governments to treat MSME data in their countries as a national asset, under the asset management paradigm. MSMEs must be provided access to store their data in a trusted digital platform where a government agency is the appointed custodian. As custodian, the agency is accountable for a national MSME data onboarding to the digital platform, maintenance, update, and protection. Meanwhile, under the asset management paradigm, the Key Performance of the agency should be measured against the number of on-boarded MSMEs, asset class defined by economic value (e.g., Defined by Gross Transaction Value) per MSME, and the valuation growth trajectory of each asset. This can be achieved through collaboration between the government and existing digital service providers by enforcing MSMEs onboarding on the national MSME data platform as the mandatory requirement before service activation by each provider. The platform must be organized in a principle where ownership of each data remains with the MSMEs, and as

such they must be provided access to append, change or update their data.

## **B. MSMEs Education for Capacity Building**

As a national asset, MSMEs' capacity correlates with the economic transaction value they can generate. Therefore, an adequate policy must be defined to encourage stakeholders to provide access to knowledge and skills improvement programs for MSMEs. This can be delivered through an open digital education platform to be enforced and promoted as Public Service Obligation policy to big enterprises. The appointed government agency will moderate this platform with the objective key result set against the participation and certification rate of the MSMEs, and ultimate key performance of average Gross Domestic Product growth per MSME.

The platform will naturally trigger educators, education content creators, and certification bodies to participate and become a self-sustained community by providing content, training, as well as certifications that can promote the capacity building continuously.

## **C. MSMEs Advocacy**

The policy must be developed so that MSMEs are provided easy access to seek assistance in case of dispute, objectification, or unfair trade practice by any other parties. The scope of assistance can range from simple inquiry, seeking advisory, to legal assistance, depending on the weight of the case. This open platform can pull relevant communities of different skill sets to participate and create a sustainable interaction amongst the community while being moderated by the appointed government agency. This will ultimately transform the community into a self-regulating one, where the MSMEs are empowered and protected.



## 2. Access to Technology

In order to promote the development of MSMEs, the barrier of distances and borders should be addressed. For that purpose, digital economy platforms are ideal, especially in a world so affected by the pandemic. In fact, MSMEs are usually in a disadvantaged position, as they do not have the same access to marketing tools as big companies do.

*“SMEs also often face a deficit of knowledge and awareness of the chances and new business opportunities offered by digitised business and work, which then leads to a poor ability to change and competitive disadvantages.” (OECD, 2017).*

The G20 should provide tools that address, at the same time, competition issues in the digital economy platforms, and promote a digital-led global recovery from COVID-19.

Digital economy could boost MSMEs development and promote entrepreneurship, helping community projects create value, and reach consumer groups to achieve true local development, and not just their economy's subsistence. At the same time, these platforms could be used as a tool for competition in a (digital) market that shows the same market failures as they exist in regular (physical) markets.

Policy makers have been active in providing MSMEs with targeted financial support and technical assistance in conducting technology and problem-solving diagnosis, or implementing new e-business solutions, often in the form of small-scale and place-based initiatives (OECD, 2021a), but there is still much to be done. This is especially so in rural areas and many developing countries, where even basic infrastructure remains a challenge, from hardware, network, content, ICT ecosystem, to skills on both consumer and business sides (van Welsum, 2016).

More support is needed to achieve digital transformation of MSMEs led by entrepreneurs who may belong to particularly vulnerable groups, such as women (Rigoni et. al., 2021).

Digitalization can also help MSMEs integrate global markets and global value chains, as it has created effective mechanisms to reduce size disadvantages in international trade (OECD, 2019).

Finally, they can help MSMEs access to a broader market. *“Enhancing access to networks and enabling SMEs to engage in e-commerce can be an effective way for small firms to go global and even grow across borders where they can become competitors in niche markets” (OECD, 2017).*

For that purpose, policies may include:

- Subsidized costs of digital technology itself and their associated costs, including the cost of related services and training. This should embrace not only reduced prices appointed specifically to MSMEs (so considered in national registries), but differentiated pricing for rural and unfavorable regions, or vulnerable groups.
- Digital space quota: we all agree that digital economy should not be ring-fenced (OECD/G20, 2019). In any case, the control of a platform or ecommerce channel gives retailers or digital market providers a huge power to control the stream space (digital version of the slotting allowances), as shoppers typically purchase products that appear on the first page online, and even discard products that fall beyond the fifth page. Consequently, just as many countries have laws in force to secure shelf space for SMEs in supermarkets—despite slotting allowances or slotting fees—digital platforms should ensure SMEs to access a quota of preferential space in the digital realm.
- Fair-trade initiatives in the digital realm: these initiatives usually refer to a certification that aims to ensure a set of standards are met in the production and supply of a product, including workers’ rights, safer working conditions, minimum prices,

and adequate compensation guaranteed. We propose to extend them to the relation between digital platforms and MSMEs, and to their qualification on those platforms.

- Specialized digital marketplaces: promoting specialized digital platforms as local and regional community projects in order to facilitate access to MSMEs' products for consumers in the surrounding areas. Proposed marketplaces could comprise those under control of the state's public sector, or also regional/local ones. An example of the first case is Argentina's public postal services marketplace, which was launched to cover nationwide territory with guaranteed logistical distribution by its own postal offices, and with reduced transportation costs. On a more restricted level, there are the so called digital local "fairs", which cluster vertically integrated products whose sellers are located nearby each other, reducing transportation and logistics costs. In both cases we think there is no need to limit these marketplaces for MSMEs if all sellers are treated equally, but in case they are not (for instance, if some sellers are featured) there should be an MSMEs featured section whose members can be identified by their consideration in national registries.

### **3. Access to finance**

Digital technology has enabled banks and financial technology to promote financial access further than before. As physical, technological, and national barriers are removed by digital technology, financial access—once a severe challenge in underdeveloped countries—is increasingly becoming a reality. Mobile phone technology, urbanization, the rise of microfinance, and the frequency of remittances have all made it possible for even the poorest rural populations to readily access a bank account via a mobile phone or Internet connection. (Runde and Nealer, 2015).

Financial literacy is becoming more of an issue as emerging countries gain access to more financial services. Lessons from Indonesia, the country where the population gains internet access and higher percentage of financial inclusion, shows that the sharp increase in financial access has not been followed by increased financial literacy, which has created a new financial problem (Lubis, 2021). Illicit financial products harmed rural and underbanked population because of an increasing financial access and various financial products in recent years. Although regulators have made a massive effort to educate financially excluded people, structural challenges remain, such as geographical, infrastructure and cultural barriers. Low level digital financial literacy can create digital divide and antagonize digital financial products. Moreover, USD\$8 million has been lost due to irresponsible investment and illegal digital financing. What Indonesia is experiencing is also happening in other low level income country like Africa or South Asia, where fintech is seen to be a solution to financial access.

The necessity for financial education is expanding in line with the digitalization of society. Community based solutions have the ability to reach a wider audience, and through endorsement of G20 member countries, it may allow for a worldwide action plan that is all-inclusive. The G20 must work to develop digitalized and innovative tools in the financial industry and community that respond to technology advancements.

Throughout the past G20 events, members have expressed their commitment to promoting financial inclusion (GPFI, 2016; FIAP, 2017; GPFI, 2018, GPFI, 2019; GPFI, 2020). The governments have recognized the need for financial education in promoting more inclusive growth and improving the responsible use of financial goods and have planned programs to



address these challenges by bringing together relevant stakeholders from various organizations.

Financial inclusion and financial literacy are critical in achieving gender equality, social security, and economic prosperity (OECD, 2021). Digital financial products are inevitable in the future, and financial literacy needs to be complemented by digital literacy. Financial inclusion and the roles of financial education and financial consumer protection in addressing demand-side barriers are the focus in these circumstances, while financial education programs incorporate financial inclusion measures in others. It is necessary to find trusted intermediaries while implementing financial education strategies (Atkinsons and Messy, 2013).

We propose the following policy measures:

- Promoting digital and financial literacy through local communities' involvement

Curriculum and local context should be developed to accelerate digital financial literacy programs, by involving grassroots and vulnerable communities.

- Tailor-made curriculum, setting up the language, and the tools that fit to educate

Combining communities and formal education will be a key to address cultural barriers in promoting digital financial literacy to rural and vulnerable populations. Best practices can be a benchmark to create the same framework of inclusive digital and financial literacy education.

Evidence from Indonesia has shown that the two communities eligible for this role are Muhammadiyah and Nahdlatul Ulama. The religious based organizations have access to millions of grassroots members, have education institutions, and charismatic local leaders. In the past, strategies to combine community and formal education have been

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successful in promoting the country's birth control program, where it initially faced strong opposition from the populations due to cultural or religious issues. These successful attempts show that the strategy is worth implementing to increase financial inclusion and literacy.

## CONCLUSION

In conclusion, the G20 needs to address a triad of challenges: access to data, access to technology, and access to finance.

This policy brief proposes recommendations for each challenge area:

- Access to data: Data management, advocacy and education;
- Access to technology: Subsidized digital technology and their associated costs, enforcement of a digital space quota to ensure SMEs to access some preferential space in the digital realm, MSMEs fair-trade initiatives, and SMEs specialized digital marketplaces;
- Access to finance: Promoting digital and financial literacy through local community involvement, and outreach to rural and vulnerable populations by combining communities and formal education in taylor-made curriculum.

MSMEs are the economic backbone of society, and the G20 must take them seriously in order to build a sustainable economic development. The strong foundation of policies to identify, authenticate, empower, and advocate these segments are critical to regulate the participations of all stakeholders which in turn will stimulate a healthy and inclusive economic development.

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