MSMEs' Competitiveness and Innovation in the Digital Age

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MSMEs: Key Contributors to Jobs and Growth

- SMEs account for approximately 97 percent of all enterprises and employ over half of the workforce across APEC economies.
- Most formal jobs in emerging markets are with SMEs, which also create 4 out of 5 new positions.
- SMEs contribute significantly to economic growth, with their share of GDP ranging from 20 to 50 percent in the majority of APEC economies.
- Among APEC economies, SMEs account for 35 percent of direct exports.

MSMEs are a critical economic force in the APEC region.

Sources: APEC SME Working Group, The World Bank, APEC Policy Support Unit
MSMEs in the Digital Age

• **More Jobs, Higher Productivity**: A survey of nearly 2,500 SMEs found that those using the Internet lowered their cost of goods, experienced higher productivity, and achieved net job creation.

• **Faster Growth**: SMEs employing Internet technologies grew twice as fast as those without the same access.

• **Higher Revenue**: SMEs that spent more than 30 percent of their budget on Internet technologies raised revenue nine times as fast as SMEs spending less than 10 percent.

*Internet platforms gives MSMEs a better opportunity to access and leverage global markets, while removing traditional barriers to entry.*

Sources: McKinsey Global Institute, McKinsey & Company
Challenges: Digital

• **Internet Access, Speed, and Costs**: Limited access to the Internet and high equipment costs hurt MSMEs’ ability to leverage and capitalize on web technologies.

  • Poor access equals slow growth: “In a survey of more than 4,800 SMEs in 12 countries[...], those utilizing web technologies grew more than **twice as fast** as those with a minimal web presence” – McKinsey Global Institute (2011)

• **Regulatory Coherence and Transparency**: Limited accessibility, poor clarity, and unnecessarily complex e-commerce regulations impede MSMEs’ ability to engage in the digital economy.

  Sources: USC Marshall School of Business, McKinsey Global Institute

Challenges: Digital (cont.)

• **Data Flows**: Restrictions on cross-border data flows and data storage limit MSMEs’ ability to engage with global customers, identify business opportunities, and fully utilize digital commerce and payment technologies.

  • Restricting data flows means restricting growth: Data flows were “worth some **$2.8 trillion in 2014**” and have a “larger impact on global GDP than the flow of goods.” – McKinsey & Company (2016)

• **Knowledge and Skills Gap**: MSMEs may lack the skills and know-how to leverage digital technologies in their day-to-day activities.

  Sources: USC Marshall School of Business; McKinsey Global Institute
Challenges: Finance

- **Lack of Access to Financing**: MSMEs face a lack of access to formal financing instruments designed for their particular needs, and are often seen as “risky” by financial institutions.

- **Lack of Access to Credit**: MSMEs need credit—upwards of $2.5 trillion. Almost 70 percent of all MSMEs in emerging markets lack access to credit.


Challenges: Finance (cont.)

- **Underdeveloped Venture Capital Industry**: The venture capital industry in some APEC economies is small and undersized, leaving MSMEs without a critical investment vehicle.

- **Limited Awareness**: For those resources that are available (i.e. microfinancing, etc.), MSMEs often have limited awareness of such resources and how to access them.

Sources: Association of Development Financing Institutions in Asia and the Pacific; The World Bank, International Finance Corporation, SME Finance Forum
**Solutions: Digital**

- **Improve Digital Economy Infrastructure:** Build and expand physical infrastructure to promote access and reduce costs. Expand education and capacity building programs to expand MSMEs’ awareness of available resources.

- **Improve E-Commerce Regulations:** Companies of all sizes need harmonized and coherent e-commerce regulations that enable them to engage and leverage the digital economy.

*Sources: UPS, USC Marshall School of Business, PwC, APEC Business Ethics Initiative*
Solutions: Digital (cont.)

- **Facilitate Cross-Border Data Flows and Avoid Localization**: Eliminate barriers to cross-border data flows and localization rules that unnecessarily inhibit trade by MSMEs—and companies of all sizes.

- **Strengthen Customs Capacity**: As more MSMEs engage in global trade, economies should employ electronic systems to assess risk and verify data at the border, simplify customs procedures, and establish “single window” customs processing.

Sources: UPS, USC Marshall School of Business, PwC, APEC Business Ethics Initiative

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Solutions: Finance

- **Promote New Financing Mechanisms by Reviewing Regulatory Framework**: APEC economies should conduct regulatory reviews to remove barriers and promote access to Internet-based financing platforms. These platforms use Internet, mobile, and cloud computing technologies to provide transparent financing options to MSMEs.

- **Promote Public-Private Financing**: Joint initiatives can provide equity and debt resources to MSMEs.

- **Build Venture Capital Industry**: Develop and promote government programs and initiatives (i.e. tax credits, matching funds, etc.) to encourage equity-based financing options.

Source: OECD, World Bank Group, SME Finance Forum, Asian Bankers Association
Solutions: Finance (cont.)

- **Enable Comprehensive Credit Reporting**: Enable cross-border, full-file reporting to facilitate better assessment of MSME loan applicants.

- **Improve Access to E-Payments by Promoting Regulatory Alignment**: Aligning e-payment regulations domestically will accelerate e-payment adoption and use by MSMEs, thereby driving cross border transactions.

*Sources: OECD, World Bank Group, SME Finance Forum, Asian Bankers Association*

APEC IS WORKING TO FIND SOLUTIONS

- APEC Business Advisory Council
- Asia-Pacific Financial Forum
- APEC Telecommunications and Information Working Group
- Ad Hoc Steering Group on the Internet Economy
- Committee on Trade and Investment

*While individual work streams are important, cross-fora collaboration is critical.*
Thank You

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