Supporting MSMEs’ Digitalization Amid COVID-19

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KEY MECHANISMS

- More, small and medium-sized enterprises (MSMEs) are particularly vulnerable to the economic impact of the COVID-19 pandemic. Targeting economic relief for small businesses has been a critical component of policy interventions in APEC economies. These interventions have included a range of fiscal and monetary policies, as well as initiatives promoting digital adoption.

- The COVID-19 crisis is pushing more consumers online and accelerating the adoption of e-commerce. This will require further digital adoption by businesses.

- While the immediate benefits of digital innovation vary across sectors and firms, adoption of digital solutions can help MSMEs in areas such as: improving transactional processes and data, enhancing operational efficiency, facilitating access to new markets, and connecting with new and existing customers.

- Promoting the digitalization of MSMEs can help address a number of the economic challenges they face. By modernizing technology, MSMEs can become more competitive and can scale up their operations.

- Despite the clear benefits, it is crucial for policymakers to recognize the complex challenges that digitalization presents. Strategies may include: increasing access to digital infrastructure, promoting digital literacy, and fostering innovation in the digital economy.

- Supporting businesses through e-commerce platforms and other initiatives requires cooperation among governments to create a conducive environment for businesses.

This policy brief focuses on the challenges, risks, and opportunities of MSME digitalization efforts over the immediate, medium-term timeframe. It highlights the need for medium-term support mechanisms to help MSMEs mitigate the effects of the COVID-19 pandemic. The brief also identifies important considerations for policymakers and business leaders to promote the digitalization of MSMEs and accelerate their transition to e-commerce. The brief offers a set of policy recommendations that could facilitate MSMEs’ digitalization efforts in the medium-term, before transitioning to a long-term vision for the future, noting how the right mix of policies can build on existing capabilities and create a more competitive and innovative economy.

COVID-19: A Grave Threat to APEC’s MSMEs

As of early July 2020, COVID-19 has infected more than 11 million and resulted in more than 500,000 deaths worldwide. Against this backdrop, it is important to consider the potential impact of the pandemic on MSMEs and the broader economic landscape. The brief offers a set of policy recommendations that will facilitate MSMEs’ digitalization efforts in the medium-term, before transitioning to a long-term vision for the future, noting how the right mix of policies can build on existing capabilities and create a more competitive and innovative economy.

Advancing Free Trade for Asia-Pacific Prosperity

APEC members are committed to extending their economic partnerships through trade and investment. The APEC agenda on digital trade is an important component of this broader agenda. As digital technology continues to evolve, so too must policies to support its adoption and utilization by MSMEs. The brief highlights the importance of creating an enabling environment for digital trade, including through the implementation of relevant APEC initiatives.

Globalization, Inclusion, and E-Commerce: APEC Agenda for SMEs

This policy brief examines the opportunities and challenges for MSMEs in the digital economy. The brief highlights the importance of fostering an inclusive and sustainable digital economy, with a focus on supporting MSMEs in leveraging e-commerce opportunities. The brief offers a set of policy recommendations that will facilitate MSMEs’ digitalization efforts in the medium-term, before transitioning to a long-term vision for the future, noting how the right mix of policies can build on existing capabilities and create a more competitive and innovative economy.

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COVID-19: A Grave Threat to Health and Economy

GDP growth (year-on-year, %)

Source: IMF World Economic Outlook (July 2021 update) and economy sources
MSMEs Hit the Hardest

- MSMEs are generally more vulnerable to economic shocks than their larger counterparts.

- MSMEs’ significant contribution across various metrics added to the challenges (e.g., employ over 60 percent of all workers in the region).

- Critical pain points include: 1) labor shortages; 2) lack of raw materials; 3) weak consumer demand; and 4) significant stress on balance sheets and cash flow.

- Lack of support could lead to insolvency and subsequent, lasting spikes in unemployment and societal stress.

- Persistent containment measures and non-synchronous lifting compound the challenges.
Supporting MSMEs to Weather the Pandemic

• Targeting MSMEs for relief is a critical component of policy interventions by APEC economies.

• Range of fiscal and monetary policies.

• Many also supported adoption of digital solutions by MSMEs:
  
  o China: B2C e-commerce solutions.
  o Malaysia: Support business operations digitalization via the government’s Digital Economy Corporation.
  o Singapore: SMEs Go Digital programme.
Digitalization Amid COVID-19

Managing transactions at a distance

• Help to lock in transactions.
• Facilitate payments while minimizing transmission potential.

Delivering goods efficiently

• Help to maintain on-time delivery.
• Reduce delivery times at critical points.

APEC Asia-Pacific Economic Cooperation
Digitalization Amid COVID-19

Maintaining cash flow

• Leverage blockchain to verify invoices instantly.
• Overcome liquidity crisis via ‘contactless loans’.
• Access range of banking services in absence of physical branches.

Engaging with new and existing customers

• Present products and services.
• Meet clients and business partners remotely.
Digitalization Challenges

Cyberattacks and data privacy concerns

• Threats increase significantly.
• Illegal access to data and its implications.

Exposure to digital fraud

• Increase in a variety of online fraud.
• Pros and cons of fast-tracking.

Online misinformation

• Fertile ground to spread false information.
Digitalization Challenges

Market power and dominance

• Exercise of market power to the detriment of different stakeholders.

Persistent digital divide and infrastructure-related issues

• Access remains out of reach for significant share of population.
• Lack of digital skills

Cross-border issues

• Variation in laws and regulations between economies.
• Variation in technology adoption to enhance trade facilitation.
• Issues may not be restricted to digital ones.
Policy Recommendations

1. Focus on overcoming digital divide and onboarding.

2. Promote lower data costs.

3. Promote digital literacy.

4. Support access to mobile money and fintech.

5. Enhance trust in digital solutions.

6. Address competition issues.

7. Promote regional cooperation and public-private partnerships.
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