



## **Supporting MSMEs' Digitalization Amid COVID-19**

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### **KEY MESSAGES**

- Micro, small and medium enterprises (MSMEs) are particularly vulnerable to the economic impacts 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 adaptation by MSMEs.
- While the immediate benefits of digital interventions may vary between sectors and firms, adoption of digital solutions can help MSMEs in areas such as: 1) managing transactions at a distance; 2) delivering goods efficiently; 3) facilitating access to financial services; and 4) engaging with new and existing customers.
- Promoting the digitalization of MSMEs can help address a number of the economic challenges posed by the COVID-19 crisis; however, the process of adopting new digital approaches to selling does not come without risks.
- Despite the clear benefits, it is crucial to recognize the complex challenges that digitalization presents, including: 1) cybersecurity and data privacy concerns; 2) exposure to digital fraud; 3) online misinformation; 4) asymmetric market power and platform dominance; and 5) persistent digital divide and infrastructure-related issues.
- Supporting MSMEs' digitalization efforts amid COVID-19, therefore, requires policymakers to adopt a two-pronged set of interventions that allows MSMEs to reap the benefits of the digital world while overcoming the challenges of digitalization.

This policy brief focuses on the challenges, risks, and opportunities of MSME digitalization efforts over the immediate, near-term often characterized as the “New Normal”. While recognizing that digitalization is not a silver bullet, this brief outlines how digital solutions can be used to support MSMEs as the COVID-19 situation evolves, and describes numerous examples of existing technology solutions and partnerships that are currently underway in APEC. The brief also highlights an important consideration for MSMEs: that the COVID-19 crisis is pushing more consumers online, and accelerating the adoption of e-commerce in many parts of the region. The brief offers a set of policy recommendations that could facilitate

MSMEs’ digitalization efforts in the near-term, before concluding with an eye towards the future, noting how the right mix of policies can build long-term enterprise resilience and more innovative economies.

### **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 despite aggressive mitigation measures.<sup>1</sup> As businesses shutter and individuals stay home, the demand for goods and services has plummeted, contributing to growing unemployment and work stoppages. Even in the most optimistic

<sup>1</sup> <https://covid19.who.int/>

scenario where a partial economic recovery begins in the second half of 2020, the PSU estimates a 3.7 percent decline in growth within APEC this year, leading to an output loss of USD 2.9 trillion and some of the highest unemployment rates reported in decades.<sup>2</sup>

At the individual economy level, the US seasonally-adjusted insured unemployment rate soared past 17 percent in May 2020 – an economic contraction on a scale not seen since the Great Depression – before declining back down to 14.1 percent in the first week of June 2020.<sup>3</sup> Singapore's Ministry of Manpower documented the largest first quarter jump in unemployment since the SARS outbreak in 2003, and expects labor market conditions to continue to worsen in the second quarter of 2020.<sup>4</sup> In Malaysia, the Malaysian Institute of Economic Research predicts that the real GDP could contract by as much as 6.9 percent with 2.4 million jobs lost as a direct result of the economy's "movement control orders".<sup>5</sup> Meanwhile, China's GDP contracted by 6.8 percent in the first quarter of 2020 – the first economic contraction since quarterly GDP records began in 1992.<sup>6</sup> While COVID caseload is low in Thailand, the World Bank has revised the economy's 2020 growth projections down from 2.9 percent to a range of -3.0 to -5.0 percent, reflecting the economic contractions spreading around the world.<sup>7</sup>

Weakened global consumption and production of goods has also precipitated the disruption of global and regional supply chains, which the International Trade Centre forecasts will reduce worldwide exports of manufacturing inputs by at least USD 228 billion.<sup>8</sup> Asia excluding China is expected to export USD 71 billion less to China; the European Union; and the US combined. In the Philippines, the Department of Trade and Industry reported that, as of 29 April, over half of MSMEs had stopped or closed their operations due to the pandemic.<sup>9</sup> COVID-19's impact on the informal economy, where official data is sparse and a lack of work can often lead to catastrophic outcomes, is undercounted but likely significant.<sup>10</sup> These data points are just a small sampling of reports on the overall health of the

region's economies, and are likely to trend downward for some time.

**MSMEs Hit the Hardest.** No business sector has been more shaken than the region's MSMEs. MSMEs are more vulnerable to economic shocks because they tend to have fewer assets and more limited cash reserves than larger enterprises, as well as lower levels of productivity.<sup>11</sup> Small businesses also employ over 60 percent of all workers in APEC and make up over 98 percent of all enterprises in most APEC economies.<sup>12</sup> Some MSMEs have been forced to close their businesses and lay off employees, while many others are facing difficulty maintaining positive cash flow. One survey of Chinese SMEs conducted during the economy's lockdown identified the following pain points as significant: 1) labor shortages; 2) lack of raw materials; 3) weak consumer demand; and 4) significant stress on balance sheets and cash flow.<sup>13</sup> A COVID-19 risks outlook survey by the World Economic Forum documented a number of issues that respondents fear will impact their businesses, including a prolonged global recession; surges in bankruptcies and industry consolidations; cyberattacks and data fraud; and protracted disruption of global supply chains.<sup>14</sup>

Although many MSMEs have taken steps to reduce overhead, expenses such as rent, insurance, debt payments, and wages continue to put pressure on resources. Without support to address critical pain points, the damage to local economies could lead to insolvency for many MSMEs and subsequent, lasting spikes in unemployment and societal stress. Compounding these challenges inherent to MSMEs is the likelihood that containment measures will persist for some time or need to be reintroduced with new outbreaks. A June outbreak in Beijing, for example, has caused the Chinese government to impose new lockdown measures. Several states in the US have paused or are scaling back their reopening after a surge of cases. Thus, efforts to "open up" APEC economies will likely proceed in fits and starts with little or no synchronization across borders.<sup>15</sup>

<sup>2</sup> <https://www.apec.org/Publications/2020/07/APEC-Regional-Trends-Analysis-July-2020-Update>

<sup>3</sup> <https://www.dol.gov/ui/data.pdf>

<sup>4</sup> <https://www.mom.gov.sg/newsroom/press-releases/2020/0429-labour-market-advance-release-1q-202>

<sup>5</sup> <https://www.mier.org.my/the-economic-impacts-of-covid-19/>

<sup>6</sup> <https://www.reuters.com/article/us-china-economy-gdp/hobbled-by-coronavirus-chinas-first-quarter-gdp-shrinks-for-first-time-on-record-idUSKBN21Z08Q>

<sup>7</sup> <https://www.worldbank.org/en/region/eap/publication/east-asia-pacific-economic-update>

<sup>8</sup> <http://www.intracen.org/covid19/Blog/The-Great-Shutdown-How-COVID19-disrupts-supply-chains/>

<sup>9</sup> <https://business.inquirer.net/296227/dti-over-half-of-msmes-in-ph-fully-stopped-operations-due-to-virus-outbreak>

<sup>10</sup> [https://www.ilo.org/global/topics/employment-promotion/informal-economy/publications/WCMS\\_743623/lang--en/index.htm](https://www.ilo.org/global/topics/employment-promotion/informal-economy/publications/WCMS_743623/lang--en/index.htm)

<sup>11</sup> [https://www.ilo.org/empent/areas/covid-19/WCMS\\_741870/lang--en/index.htm](https://www.ilo.org/empent/areas/covid-19/WCMS_741870/lang--en/index.htm)

<sup>12</sup> <https://www.apec.org/Publications/2020/04/Overview-of-the-SME-Sector-in-the-APEC-Region>

<sup>13</sup> <https://www.cgdev.org/publication/impact-coronavirus-chinas-smes-findings-from-esiec>

<sup>14</sup>

[http://www3.weforum.org/docs/WEF\\_COVID\\_19\\_Risks\\_Outlook\\_Special\\_Edition\\_Pages.pdf](http://www3.weforum.org/docs/WEF_COVID_19_Risks_Outlook_Special_Edition_Pages.pdf)

<sup>15</sup> <https://www.channelnewsasia.com/news/world/covid-19-lockdown-ease-new-outbreak-coronavirus-cases-12720800>; <https://www.channelnewsasia.com/news/world/total-lockdown-chile-capital-covid-19-coronavirus-spike-12730810>

**Government Support to MSMEs During the Crisis.** Targeting MSMEs for relief during the pandemic has been a critical component of economy-level policy interventions in APEC. Many economies are providing tax relief for small businesses by delaying payment deadlines or cutting rates. Korea has deferred tax deadlines and reduced VAT for SMEs.<sup>16</sup> Indonesia has exempted small businesses from paying income taxes for six months.<sup>17</sup> Economies are also providing wage subsidies to help employers retain workers. In Malaysia, a subsidy equals to 50 percent of minimum wage is expected to benefit three million workers.<sup>18</sup> Economies are also using rate reductions, soft loans, re-financing and guarantees to improve MSME liquidity.<sup>19</sup> New Zealand is providing loans of up to NZD 100,000 to small businesses that employ 50 or less employees. China has cut rates, set up a refinancing facility, and reduced reserve thresholds for bank lending to SMEs.<sup>20</sup> Japan has allocated over JPY 1.6 trillion (USD 14.8 billion) to provide MSMEs with financial support through credit guarantees, low- and even zero-interest loans, as well as subsidies on "sustainablization" (*jizokuka*) investments intended to help sustain businesses through the crisis.<sup>21</sup>

In addition to fiscal and monetary interventions, policymakers have, in certain contexts, worked with the private sector to promote the use of digital solutions to help MSMEs remain in business. For example, the Singapore government has introduced a Food Delivery Booster Package to help food and beverage businesses make the transition from offline to online sales. Under this initiative, the government provides funding to food establishments to conduct distance transactions with customers and deliver products via five food delivery platforms.<sup>22</sup> The multinational technology company, Alibaba, has coordinated closely with the Chinese government to introduce a number of emergency support services directly targeting MSMEs.<sup>23</sup> Among the activities highlighted is its B2C e-commerce solutions, which can be rapidly deployed in just a few days.<sup>24</sup> Indonesia announced in May the launch of its "#BanggaBuatanIndonesia"

<sup>16</sup>

[https://www.pwc.com/kr/ko/publications/SamiCommentary/sami\\_pwc\\_korean-taxupdate-covid-19\\_16april2020.pdf](https://www.pwc.com/kr/ko/publications/SamiCommentary/sami_pwc_korean-taxupdate-covid-19_16april2020.pdf)

<sup>17</sup> <https://jakartaglobe.id/business/indonesia-extends-tax-breaks-to-include-all-sectors>

<sup>18</sup>

<http://documents1.worldbank.org/curated/en/958361587405455498/pdf/Social-Protection-and-Jobs-Responses-to-COVID-19-A-Real-Time-Review-of-Country-Measures-April-17-2020.pdf>

<sup>19</sup> <http://www.oecd.org/coronavirus/policy-responses/coronavirus-covid-19-sme-policy-responses-04440101/>

<sup>20</sup> <https://www.imf.org/en/Topics/imf-and-covid19/Policy-Responses-to-COVID-19>

<sup>21</sup> <https://www.jdsupra.com/legalnews/declaration-of-statement-of-emergency-65708/>

<sup>22</sup> <https://www.enterprisesg.gov.sg/industries/type/food-services/food-delivery-booster-package>

Movement, which means "Proudly Made in Indonesia".<sup>25</sup> The cross-ministerial initiative is working with digital platforms like JD.ID, Gojek and others to provide education and training for MSMEs to go digital and expand market reach not only in response to the crisis, but also to explore their digital future.

### Benefits of Digitalization Amid COVID-19

APEC has consistently acknowledged that MSME digitalization is a critical next step for the region. The 2019 APEC SME Ministerial Statement noted that "e-commerce platforms can serve as important channels for SMEs to gain greater access to diverse global markets and can mitigate risk within supply chains".<sup>26</sup> The Boracay Action Agenda to Globalize MSMEs calls for ICT and e-commerce to be utilized to promote the internationalization of MSMEs and integrate them into global value chains.<sup>27</sup>

Indeed, the COVID-19 crisis may be accelerating trends towards e-commerce. One survey of the US consumers found that online spending has increased by as much as 30 percent in the month of March, and another survey found that 42 percent of consumers were shopping more online.<sup>28</sup> As buying behaviors of consumers – as well as businesses – change, MSMEs may have little choice but to digitalize to adapt to the realities of the market and remain competitive.

Digitalization has been linked with a number of benefits for businesses. An IDC survey of more than 1,500 business leaders in the Asia Pacific region listed the following as among the top benefits their organizations reaped from their digital transformation initiatives: improved profit margins, productivity, and customer loyalty and retention, along with cost reductions, ability to offer new products and services, and increased revenue.<sup>29</sup> A Deloitte survey of Australian firms found that, compared to small businesses with only a basic level of digital engagement, those with an advanced level of digital engagement "achieved 28 percent more revenue growth in the past 12 months" and 60

<sup>23</sup>

<https://files.alicdn.com/tpsservice/4851ee417ad1a379aa93e23ab5d73048.pdf>

<sup>24</sup> <https://www.techcircle.in/2020/04/23/alibaba-cloud-offers-cloud-services-worth-30-bn-to-msmes>

<sup>25</sup> <https://jakartaglobe.id/news/new-govt-campaign-encourages-smes-to-ramp-up-digital-presence/>

<sup>26</sup> [https://www.apec.org/Meeting-Papers/Sectoral-Ministerial-Meetings/Small-and-Medium-Enterprise/2019\\_sme](https://www.apec.org/Meeting-Papers/Sectoral-Ministerial-Meetings/Small-and-Medium-Enterprise/2019_sme)

<sup>27</sup> [https://www.apec.org/Meeting-Papers/Sectoral-Ministerial-Meetings/Trade/2015\\_trade/2015\\_mrt\\_standalone.aspx](https://www.apec.org/Meeting-Papers/Sectoral-Ministerial-Meetings/Trade/2015_trade/2015_mrt_standalone.aspx)

<sup>28</sup> <https://searchengineland.com/covid-consumers-pessimistic-but-spending-more-online-331519>

<sup>29</sup> <https://3er1viu19wo30pkxh1v2nh4w-wpengine.netdna-ssl.com/wp-content/uploads/prod/sites/43/2018/11/Unlocking-the-economic-impact-of-digital-transformation.pdf>

percent more revenue earned per employee.<sup>30</sup> Another study by the Singapore Ministry of Trade and Industry found that SMEs' adoption of digital technology was associated with statistically significant increases in their value-added and productivity of 25 per cent and 16 percent, respectively.<sup>31</sup> A study by the Asia Pacific MSME Trade Coalition found that "digital tools could lower export costs of an average MSME by potentially as much as 82 percent, while time savings can amount to as much as 29 percent".<sup>32</sup>

While it should be recognized that the immediate benefits of digital interventions may vary between sectors and firms,<sup>33</sup> the adoption of digital solutions can generally help businesses tap new revenue streams, reduce costs and eliminate pain points. Specifically in the context of COVID-19, digital solutions can support MSMEs in the immediate short run by helping to: 1) manage transactions at a distance; 2) deliver goods efficiently; 3) facilitate access to financial services; and 4) engage with new and existing customers.

**Managing Transactions at a Distance.** E-commerce tools and a variety of mobile money and digital payment services are helping MSMEs lock in transactions and deliver goods and services while customers remain at home and many businesses are shuttered. Services like Ebay, Lazada, Rakuten, Tmall, Shopee, and Alibaba are facilitating B2B, B2C, and C2C transactions through easy-to-set-up online storefronts which can extend the reach of MSME sellers significantly. For example, DHgate links over 1.9 million MSMEs in China with 19 million enterprise buyers across 222 economies and regions around the world.<sup>34</sup> The company has responded to the COVID-19 crisis by launching a customer retention program to maintain strong links between foreign buyers and local sellers.<sup>35</sup>

Promoting contactless transactions can reduce transaction frictions, lower costs, and help manage COVID-19 transmission potential. For example, during Russia's week of self-isolation to combat the pandemic, Yandex.Checkout helped connect local

buyers and sellers by facilitating 58 percent more payments to local grocery stores and 78 percent more payments to local cafes and restaurants.<sup>36</sup> In the Philippines, PayMaya, a mobile money startup with close to 20 million users and 80 thousand merchant accounts, launched a service that gives MSMEs an easy way to accept payments from buyers via their smartphones.<sup>37</sup>

**Delivering Goods Efficiently.** The digitalization of business logistics is helping businesses maintain on-time product delivery and seek cost-savings during lockdown periods, as well as in places where lockdown has been eased but certain movement control policies remain in place. Digital food delivery platforms are a good example and have taken on new roles during the pandemic. Even before COVID-19, Indonesia's Gojek has evolved into what many refer to as a "super app" business model, featuring food delivery, payment processing, and shopping services.<sup>38</sup> During the COVID-19 crisis, Gojek has delivered a variety of products to millions of consumers who are unable to leave their homes due to pandemic-related social restrictions.

Smart logistics services are taking delivery logistics a step further by utilizing artificial intelligence (AI) to dynamically reroute delivery vehicles around lockdown areas and towards the lowest point of congestion, reducing delivery times at critical points during the crisis. By using AI and robotics to facilitate deliveries, JD.com supplied 220 million products (including 290,000 tons of food supplies) to its customers across China in a span of just over a month.<sup>39</sup>

**Facilitating Access to Financial Services.** One of the biggest challenges faced by MSMEs during the crisis is getting payment for shipped products and services rendered. Even when there are delays between shipment and payment, some of which can be lengthy, firms must continue to cover fixed costs, such as rent and labor expenses. Ant Duo-Chain, a supply chain finance platform launched by Ant Financial, allows MSMEs to share details of transactions and verify invoices instantly.<sup>40</sup> This

<sup>30</sup> <https://www2.deloitte.com/au/en/pages/economics/articles/benefits-small-business-digital-engagement.html>

<sup>31</sup> [https://www.mti.gov.sg/-/media/MTI/Resources/Economic-Survey-of-Singapore/2019/Economic-Survey-of-Singapore-First-Quarter-2019/FA2\\_1Q19.pdf](https://www.mti.gov.sg/-/media/MTI/Resources/Economic-Survey-of-Singapore/2019/Economic-Survey-of-Singapore-First-Quarter-2019/FA2_1Q19.pdf)

<sup>32</sup> <https://static1.squarespace.com/static/5393d501e4b0643446ab/d228/t/5a83876b71c10b85cc1bd35d/1518569362142/MSME+Report-APAC.PDF>

<sup>33</sup> For example, digital solutions may be of limited benefit to the travel and tourism sectors so long as demand remains limited due to social distancing requirements or restrictions on international mobility. On the other hand, small businesses engaged in manufacturing or food and beverage services could see immediate benefits from digitalization because many of the underlying sources of demand remain sound for these sectors, notwithstanding the current economic shock.

<sup>34</sup> <https://seller.dhgate.com/promotion/278-platform-introduction-en.html?d=platformyemian>

<sup>35</sup> <http://global.chinadaily.com.cn/a/202003/27/WS5e7d587fa310128217282661.html>

<sup>36</sup> <https://medium.com/yandex-checkout/how-the-national-week-off-in-russia-affects-online-businesses-yandex-checkout-study-372573efdf0>

<sup>37</sup> <https://www.sunstar.com.ph/article/1857371/Baguio/Business/PayMaya-launches-Negosyo-app-for-MSMEs>

<sup>38</sup> <https://fortune.com/longform/grab-gojek-super-apps/>

<sup>39</sup> <https://dcorporateblog.com/jd-supply-chain-alleviates-covid-19-impacts-facilitates-industry-resumption/>

<sup>40</sup> <https://www.ledgerinsights.com/alipay-ant-double-chain-blockchain-supply-chain/>

process allows MSMEs to sell validated invoices to banks, access payment immediately, and avoid the hassle of handling payment collection.

Fintech lending is also helping address the liquidity crisis among MSMEs, especially when lockdown requirements have made it challenging to physically visit financial institutions. In China, MyBank announced partnerships with 100 banks to launch “contactless loans” to support 15 million MSMEs, using their “310” lending model.<sup>41</sup> Risk is reduced for the lender through AI tools that allow loan applications to be completed in 3 minutes and approved in 1 second with 0 human intervention. Similarly, using transaction information and other platform data, Mercado Libre’s payment platform is now offering over USD 100 million in loans to COVID-19 impacted MSMEs in Latin America.<sup>42</sup>

For rural micro-entrepreneurs, the unbanked and communities with limited access to financial services, mobile banking has been critical during the COVID-19 crisis. In Papua New Guinea, MiBank, a microfinance bank with a strong focus on women and low-income micro-entrepreneurs, is using mobile services to reach remote areas with new banking services, including places where physical branches do not exist.<sup>43</sup> The Vietnam Bank of Social Policies, MasterCard, and The Asia Foundation have partnered to deploy mobile banking services to 5.1 million low-income rural clients, 51 percent of whom are women.<sup>44</sup> The COVID-19 crisis has created opportunities for this partnership to accelerate the introduction of an expanded digital platform in line with the Prime Minister’s Financial Inclusion Strategy.

**Engaging with Customers.** One of the core challenges for virtually all businesses during the pandemic is remaining engaged with customers and acquiring new ones. Many consumer-facing MSMEs and a number of B2B businesses now have Facebook pages with which they present their brands, products, and services, and effectively engage with customers.<sup>45</sup> In addition, usage of platforms like Instagram, where products can be featured visually, is on the rise. Facebook shared its own data recently, noting that in economies hardest hit by the virus, messages on the platform increased by 50 percent, demonstrating that customers are online more than ever.<sup>46</sup> These companies are also

making efforts to support MSMEs during the crisis. For example, Google is offering USD 340 million in Google Ads credits to small businesses.<sup>47</sup>

Zoom, a video-conferencing app developed in the United States, has quickly become an essential tool for small businesses. It boasts roughly 200 million daily active users and has quickly surpassed rival solutions produced by established players during the pandemic, growing 1,900 percent since December 2019.<sup>48</sup> As other services like Tencent Meeting and Alibaba’s DingTalk come on board, MSMEs will have even more remote customer engagement options going forward, which is expected to expand their market reach and generate new sources of revenue.

## Digitalization Challenges for MSMEs

The benefits of digitalization are clear, and the rapidity and scale with which many digital solutions can be rolled out further support their adoption. However, policymakers should remain cognizant of the complex challenges that are on the other side of the digitalization coin. Indeed, some of these challenges have been brought to the fore as the COVID-19 situation continues to evolve. These include cybersecurity and data privacy concerns; exposure to digital fraud; online misinformation; asymmetric market power and platform dominance; and persistent digital divide and infrastructure-related issues.

**Cybersecurity and Data Privacy Concerns.** Threats to cybersecurity and data privacy are both a clear and present danger and a nebulous fear stoking the anxieties of businesses and individuals alike. Even contact tracing apps intended to help economies fight the pandemic have been met with some hesitation, due to, among others, the public’s concern about the privacy and security of personal data. Prior to the pandemic, reports of hacking incidents and data leaks were already abundant in news media. With COVID-19 containment measures and the significant increase in the adoption of digital tools, such incidents are likely to increase further. For example, security flaws in some videoconferencing apps have been exploited by internet trolls and hackers to disrupt ongoing calls and programs.<sup>49</sup> Cybercriminals have also increasingly resorted to phishing scams by taking

<sup>41</sup>

<https://www.businesswire.com/news/home/20190623005055/en/MYbank-Works-Financial-Institution-Partners-Serve-15>

<sup>42</sup> <https://labs.ebanx.com/en/news/business/mercado-pago-will-extend-114-million-loan-to-small-enterprises-in-brazil/>

<sup>43</sup> <http://www.techinpacific.com/mibank-focus-digital-offerings-future-growth-papua-new-guinea/>

<sup>44</sup> <https://asiafoundation.org/2020/04/13/the-asia-foundation-mastercard-vbsp-expand-digital-finance-for-women-microenterprises-in-vietnam/>

<sup>45</sup> Mokhtar, Noor Fadhiha & Rosfilia, Zuhra & Abu Hasan, Zuhra & Masa Halim, Masa Halim & Halim, Abdul. (2017). The Social

Media and Marketing Strategies: How it Impacts the Small-and Medium-sized Enterprises’ Business Performance?

<sup>46</sup> <https://about.fb.com/news/2020/03/keeping-our-apps-stable-during-covid-19/>

<sup>47</sup> <https://www.businessinsider.com/facebook-google-offer-ad-credits-grants-for-small-businesses-2020-3?r=US&IR=T>

<sup>48</sup> <https://www.businessinsider.com/zoom-revenue-increased-market-share-usage-analyst-rbc-2020-4?r=US&IR=T>

<sup>49</sup> <https://www.nytimes.com/2020/03/20/style/zombombing-zoom-trolling.html>; <https://www.bbc.com/news/world-asia-52240251>

advantage of the general public's anxieties. For example, a spoof of World Health Organization's "Safety COVID-19 Awareness" email made its way around Australia in March this year.<sup>50</sup> The cost of cybercrime is difficult to calculate, but one commonly cited study by McAfee estimated the impact of cybercrime on the global economy at nearly USD 600 billion pre-COVID.<sup>51</sup> Among firms, MSMEs are likely to be prime targets due to their lack of the necessary resources and security policies to defend against cyberattacks, as well as lack of general knowledge about best practices. Ultimately, not only does the concern over cybersecurity and data privacy represent a challenge in and of itself for policymakers, it also acts as a potential hindrance to MSMEs' adoption of digital solutions.

**Exposure to Digital Fraud.** Online transactions have facilitated continued access to goods and services. However, digital economy tools have also been used to conduct questionable practices. This has usually been seen from the perspective of consumers (e.g., online vendors selling fake or unsafe hand sanitizers and surgical face masks, price-gouging practices by some manufacturers and retailers), and the enhancement of consumer protection has been commensurately prioritized.<sup>52</sup> Yet firms, including MSMEs, have not been spared from such practices, particularly in cases where they are buyers of goods and services themselves. As an illustration, COVID-19 has necessitated fast-tracking of new suppliers to help many businesses access critical inputs needed to bring finished goods to market. However, working with business partners without undergoing a proper due diligence and vetting process may result in failed business relationships and significant losses incurred by MSMEs. Additionally, firms may encounter challenges as sellers. For instance, firms may be more exposed to fraud involving chargebacks, in which they are required to take on the loss accrued due to disputed transactions. A study conducted by Chargeback911 found that organizations generating less than USD 10 million were most likely to report chargeback rates of over 1 percent in the Card Not Present (CNP) payments space.<sup>53</sup> Firms may also be subject to practices such as first

party fraud, in which consumers request refunds from their issuing banks by claiming that the transactions they made were fraudulent.<sup>54</sup> Exposure to these kinds of fraudulent behavior impacts MSMEs more negatively relative to larger firms because the associated costs are usually fixed and thus constitute a larger proportion of their revenues.

**Online Misinformation.** Social media platforms are a valuable source of information, especially in periods of crises, such as the COVID-19 pandemic. For example, the Director-General of the World Health Organization regularly uses LinkedIn as a channel to provide updates on the pandemic. Services like Facebook and Instagram, which are invaluable in disseminating information far and wide, also serve as platforms to reach a larger consumer market and have been used by MSMEs to kickstart their online businesses because of their low costs and minimal requirements to open an account. However, the freewheeling nature of these platforms are also fertile grounds to spread false information, with severe ramifications.<sup>55</sup> Specifically for MSMEs, false reviews and negative publicity on popular platforms could lead to loss of transactions.<sup>56</sup> Some providers have responded to the infodemic. For example, Facebook has enhanced efforts to remove harmful content, including utilization of third-party fact checkers, while WhatsApp has limited message forwarding to slow the spread of misinformation.<sup>57</sup> However, misinformation remains a complicated issue with negative implications on businesses and social cohesion as a whole.

**Asymmetric Market Power and Platform Dominance.** Although market dominance and market power do not always go hand-in-hand, a challenge that policymakers will need to consider is the danger of platform dominance morphing into market power in certain sectors of the economy. By encouraging greater adoption of digital solutions, particularly those supplied by larger platforms, economies may invite market consolidation by a small number of large and influential digital players. Some service providers have indeed been employing questionable tactics to increase their

<sup>50</sup>

<https://www.forbes.com/sites/emmawoollacott/2020/05/05/exclusive-cybersecurity-and-covid-19-the-first-100-days/#f52070d4b39d5>

<sup>51</sup> [https://www.mcafee.com/enterprise/en-us/assets/reports/restricted/rp-economic-impact-cybercrime.pdf?utm\\_source=Press&utm\\_campaign=bb9303ae70-EMAIL\\_CAMPAIGN\\_2018\\_02\\_21&utm\\_medium=email](https://www.mcafee.com/enterprise/en-us/assets/reports/restricted/rp-economic-impact-cybercrime.pdf?utm_source=Press&utm_campaign=bb9303ae70-EMAIL_CAMPAIGN_2018_02_21&utm_medium=email)

<sup>52</sup> <https://www.justice.gov/opa/pr/department-justice-announces-disruption-hundreds-online-covid-19-related-scams>

<https://safety.google/securitytips-covid19/>

<sup>53</sup> [https://ad.chargebacks911.com/hubfs/whitepaper-state-of-chargebacks-Chargebacks911.pdf?utm\\_medium=email&hs\\_mi=60313032&hsenc=p2ANqtz-C\\_ZVD-](https://ad.chargebacks911.com/hubfs/whitepaper-state-of-chargebacks-Chargebacks911.pdf?utm_medium=email&hs_mi=60313032&hsenc=p2ANqtz-C_ZVD-)

[https://pseva6aO31nS6aYYlalmiZPr2vCyadvsP7J7IAEAhB7dUq7Mg81YClRHQhNezHxo1fc0J\\_EbjhB3aVraKoDg&utm\\_content=60313032&utm\\_source=hs\\_automation](https://pseva6aO31nS6aYYlalmiZPr2vCyadvsP7J7IAEAhB7dUq7Mg81YClRHQhNezHxo1fc0J_EbjhB3aVraKoDg&utm_content=60313032&utm_source=hs_automation)

<sup>54</sup> <https://www.forbes.com/sites/louiscolumbus/2020/05/18/how-e-commerce-s-explosive-growth-is-attracting-fraud/#f4d6585bb6c4b>

<sup>55</sup> [https://www.straitstimes.com/world/united-states/why-the-coronavirus-has-morphed-into-a-social-media-nightmare?cx\\_testId=20&cx\\_testVariant=cx\\_1&cx\\_artPos=7#cx\\_recs\\_s](https://www.straitstimes.com/world/united-states/why-the-coronavirus-has-morphed-into-a-social-media-nightmare?cx_testId=20&cx_testVariant=cx_1&cx_artPos=7#cx_recs_s)

<sup>56</sup> <https://www.stuff.co.nz/business/small-business/114220251/how-fake-reviews-can-hurt-a-business>

<sup>57</sup> <https://www.straitstimes.com/world/united-states/whatsapp-limits-message-forwarding-to-slow-spread-of-coronavirus-misinformation>

market share, such as putting pressure on startups by copying their features or bundling their software to gain a competitive edge.<sup>58</sup> As these enterprise-level digital concerns gain greater influence in the marketplace, large platforms may acquire sufficient market power to affect MSMEs, intentionally or not. One way would be through pricing (e.g., charging relatively steep service commissions on food delivery) that cut into profits and drive some MSMEs out of the market.<sup>59</sup> Another way would be through the use of algorithms that may put some MSMEs at a disadvantage. As an illustration, the use of algorithms to decide with minimal human intervention what are considered essential and non-essential products led to certain products being categorized as non-essential and their delivery dates pushed back, with detrimental implications on the merchants.<sup>60</sup>

**Persistent Digital Divide and Infrastructure-Related Issues.** While APEC has one of the highest rates of connectivity in the world, the internet remains out of reach for close to 40 percent of the population.<sup>61</sup> As highlighted in the 2019 APEC Economic Policy Report, “the gap in adoption and utilization between sectors and firms on the frontier vis-à-vis the rest of the economy appears to have widened over time. The lack of access to data, as well as resource limitations and aversion to new technologies, may have contributed to the widening gap”.<sup>62</sup> This is not just a hardware issue. Broadly, many MSMEs have limited digital literacy, which prevents them from optimizing the digital tools to which they have access. As the crisis unfolds, the digital divide has the potential to undermine the economic success of businesses with limited digital access and capabilities. Separately, even among people and businesses with ready access to the internet, the significant shift to digital tools during the pandemic to facilitate engagement and meetings among others, have put a strain on bandwidth and the underlying telecommunications infrastructure. For example, there have been reports of government sites crashing due to sudden surge in users accessing services online.<sup>63</sup>

### Supporting MSMEs’ Digitalization

Supporting MSMEs’ digitalization efforts amid COVID-19 requires policymakers to adopt a two-pronged approach of allowing them to reap the benefits while overcoming the challenges of digitalization. Facilitating MSMEs’ adoption of digital tools is of utmost priority, yet the window of time

between survival and closure is narrowing for many. With that in mind, this brief has focused some of the policy recommendations on quick wins that prioritize business process bottlenecks. The idea is that policymakers could achieve impact by considering – in coordination and dialogue with the private sector – a series of immediate “sprint” interventions to support MSMEs with digital solutions that address critical pain points through digitalization.

**Focus on Overcoming Digital Divide and Onboarding.** It is important for economies to facilitate access to devices such as mobile phones, tablets and computers, which constitute the hardware component that enables user access to the internet, as well as onboarding MSMEs to the relevant platforms so that they can begin using their services to address their pain points. Access to the internet would also serve the dual purpose of allowing MSMEs to take advantage of government fiscal interventions, by connecting them to up-to-date resources for vital business information. Specifically on hardware and software, grants, subsidies, and other incentives can be provided to support first-time purchases and to upgrade legacy system. Partnerships with equipment providers could also be considered.

**Promote Lower Data Costs.** An important and possibly critical point of intervention during the COVID-19 crisis could be to temporarily address the cost of accessing internet services for MSMEs. This temporary reduction could come in the form of a subsidy or through crisis-response partnerships with telecommunications providers, and, over time, could be reduced as the crisis subsides. A key benefit of lowering data costs for MSMEs is that these enterprises may become more willing to participate in online digital literacy training, an often bandwidth-intensive process that business owners may avoid due to the cost of data.

**Promote Digital Literacy.** Given the low levels of digital literacy in many sectors in which small businesses are active, training that emphasizes building online business skills will be a critically important activity in many sectors of APEC economies. Under COVID-19 related measures, online video and internet-enabled training could help with digital literacy campaigns, and policymakers are advised to consider ways to work with the private sector to promote the development of such materials. ASEAN, Google, and The Asia Foundation, for example, have partnered to support

<sup>58</sup> <https://www.wsj.com/articles/microsoft-aims-to-dominate-technology-at-work-starting-with-those-video-calls-11591108757>

<sup>59</sup> <https://www.channelnewsasia.com/news/singapore/covid-19-delivery-takeaway-restaurants-circuit-breaker-12615976>

<sup>60</sup> <https://www.straitstimes.com/business/companies-markets/amazon-delivery-delays-on-non-essential-goods-to-extend-another->

<sup>61</sup> <https://www.apec.org/Publications/2019/12/APEC-in-Charts-2019>

<sup>62</sup> <https://www.apec.org/Publications/2019/11/2019-APEC-Economic-Policy-Report>

<sup>63</sup> <https://www.straitstimes.com/world/united-states/coronavirus-fired-americans-send-unemployment-websites-crashing>

MSME digitalization efforts using video and distance learning techniques in alignment with the ASEAN Action Agenda on Digitalization of ASEAN MSMEs.<sup>64</sup>

**Support Access to Mobile Money and Fintech.** An intervention that should take place in tandem with general onboarding and digital literacy training is the introduction of mobile money and digital payment tools to firms that have yet to experiment with this technology. Policymakers could explore partnerships with private sector mobile money and fintech providers to develop strategies that expand uptake of these services in the short run. Financial assistance from government-sponsored MSME support programs could also be channelled through mobile money and fintech platforms as a way to draw in new users. Special emphasis should be given to microfinance institutions, which can support mobile money outreach to microenterprises through their existing large networks and extensive trust relationships with micro-entrepreneurs.

**Enhance Trust in Digital Solutions.** Realizing the benefits of adopting digital solutions requires conscious efforts by various stakeholders in tackling a myriad of inter-related issues, including data protection and privacy, cybersecurity and protection from digital fraud. Failure to address any of these issues would negatively impact the trust that businesses and consumers place in digital solutions, whatever their purpose. In the context of cybersecurity, for example, strategies aimed at helping MSMEs guard against cybercrime should raise awareness of risks (e.g., the need to be prudent when entering into transactions with suppliers and customers) and targeted training to new users of digital services. Such trainings would go hand in hand with general digital or “cyber” literacy trainings for small businesses. Economies can also enhance their capacities to deal with cybercrime through enacting new legislation or revising existing legislation relating to cybersecurity and cybercrime. In the context of protection from digital fraud, policymakers should be vigilant and prepared to act decisively to maintain market integrity and trust. In the context of data protection and privacy, policymakers can continue to support MSMEs in their efforts to expand services to consumers while also understanding and honoring the diverse needs of economies vis-a-vis data privacy.<sup>65</sup>

**Address Competition Issues.** Competition is one of the key underpinning conditions of the market economy. Improved competition can reduce prices and enhance regional coverage in the telecommunications sector. Increased competition can enable MSMEs to access a wide range of online services capable of relieving their pain points, some of which have been elaborated above. Appropriate competition policies can also be employed to tackle newer issues, such as those related to the use of data (e.g., data sharing and portability) and algorithms. As technologies and business models are evolving rapidly, competition policies may have difficulty keeping up with the pace of change. Policymakers are advised to ensure that competition policies and approaches, including those used to assess market power, can facilitate new market entrants and the adoption of new business models, as well as ensure that digital technologies and tools are not exploited to the detriment of competition.

**Promote Regional Cooperation and Public-Private Partnerships.** The digital economy is complex and multifaceted in nature. Maximizing the opportunities of digitalization while overcoming its challenges require cooperation between economies. The endorsement of the APEC Internet and Digital Economy Roadmap,<sup>66</sup> the APEC Cross-Border E-Commerce Facilitation Framework,<sup>67</sup> the formation of the Digital Economy Steering Group,<sup>68</sup> as well as the development of the APEC Privacy Framework<sup>69</sup> and APEC Framework for Securing the Digital Economy<sup>70</sup> are examples of work in this regard. The rapid shift to digitalization in response to COVID-19 containment measures has brought to the fore of the need to accelerate efforts in this area. In addition, considering that the private sector could be better placed to facilitate the delivery of some interventions, economies are encouraged to explore and enhance their public-private partnerships. For example, by working with private enterprise partners in the financial and telecommunications sectors, policymakers can enhance MSMEs’ access to more advanced international payment processing tools, such as payment gateways, which can help businesses more effectively manage online transaction and cash flow needs. Partnerships with alternative lending institutions could help many entrepreneurs in the region’s informal economy rebound from the COVID-19 crisis and grow in new ways.

<sup>64</sup> <https://asiafoundation.org/2020/06/22/asean-and-the-asia-foundation-with-support-from-google-org-collaborate-to-equip-200000-micro-and-small-enterprises-with-digital-skills-and-tools-amidst-the-covid-19-crisis/>

<sup>65</sup> <https://www.apec.org/Publications/2020/03/Regulations-Policies-and-Initiatives-on-E-Commerce-and-Digital-Economy>

<sup>66</sup> [https://www.apec.org/-/media/Files/Groups/ECSG/17\\_csom\\_006.pdf](https://www.apec.org/-/media/Files/Groups/ECSG/17_csom_006.pdf)

<sup>67</sup> [https://www.apec.org/Meeting-Papers/Annual-Ministerial-Meetings/2017/2017\\_amm/Annex-A](https://www.apec.org/Meeting-Papers/Annual-Ministerial-Meetings/2017/2017_amm/Annex-A)

<sup>68</sup> [http://mddb.apec.org/Documents/2019/SOM/SOM3/19\\_som3\\_022.pdf](http://mddb.apec.org/Documents/2019/SOM/SOM3/19_som3_022.pdf)

<sup>69</sup> [https://www.apec.org/Publications/2017/08/APEC-Privacy-Framework-\(2015\)](https://www.apec.org/Publications/2017/08/APEC-Privacy-Framework-(2015))

<sup>70</sup> <https://www.apec.org/Publications/2019/11/APEC-Framework-for-Securing-the-Digital-Economy>

## Concluding Thoughts

The COVID-19 crisis has proven to be one of the most challenging moments in APEC history. While digitalization has been an ongoing process, the nature of the virus and the corresponding containment measures have necessitated that people and businesses adapt quickly. Indeed, although telecommuting was nothing more than an option available to select employees in some firms, it has become the “new normal” for a significant share of the working population. For practical reasons, this brief has been geared to provide the rationale for facilitating the adoption of digital solutions by firms and sectors that are likely to see the immediate benefits of digitalization during the crisis (e.g., food and beverage, retail, wholesale).

As the COVID-19 situation evolves, policymakers may wish to extend or expand support to other firms and sectors with longer term enhancements in mind, such as in the case of the tourism and hospitality sectors. Encouraging the expanded sophistication and reach of, for example, marketing and visibility-raising of products and services in the tourism industry could pay significant dividends as the region begins its post-COVID recovery. MSMEs that deal regularly with international customers – such as in the tourism and hospitality industries – would benefit from public private partnerships that enhance their access to cloud-based digital marketing solutions and digital literacy training. Such efforts could help restart critical tourism sectors hit hard by the pandemic.

Although this brief has focused the discussions on the immediate and near term, particularly with respect to supporting the adoption of digital tools by MSMEs, tackling some of the challenges above is an effort that must continue even after the pandemic subsides. If anything, the pandemic has accelerated the digitalization of the economy and therefore, necessitates that economies re-double their efforts to address these challenges. Relatedly, any discussion in which digitalization is a key component of building a resilient future must be seen as part of a broader discussion on the implications of Fourth Industrial Revolution (4IR) technologies on the labor market and future of work. Thus, it is critical that policymakers continue to make progress on policies pertaining to human capital development and social protection, among others, as elaborated in other PSU publications.<sup>71</sup> APEC can lay the foundation for a digital future that promotes innovation and business dynamism while ensuring inclusive growth and shared prosperity.

<sup>71</sup> <https://www.apec.org/Publications/2019/11/2019-APEC-Economic-Policy-Report>; <https://www.apec.org/Publications/2017/11/2017-APEC-Economic-Policy-Report>

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