THE DIGITAL TRANSFORMATION OF SMES

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SELA
A roadmap for the recovery of MSMEs from the region in the post-pandemic

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The Digital transformation of SMEs (Feb 2021)

Topics and chapters:

- Digital tools and practices: **SME access and uptake**
- **Digital security** in SMEs
- SMEs in the **online platform** economy
- How can **blockchain ecosystem** serve SMEs
- **Artificial Intelligence**: Changing landscape for SMEs
- **National policies for Artificial Intelligence**: what about diffusion?
Chapter 1 of the Outlook focuses on the short-term impact of the crisis, using new results from the Facebook-OECD-World Bank Future of Business Survey.

Part I, which draws on the new OECD SME&E data lake, policy issues through three thematic chapters:

- SME indebtedness;
- Global value chains;
- SME digitalisation, innovation and entrepreneurship

Part II is composed of 38 individual country profiles providing insights on national SME performance and entrepreneurial trends.
COVID-19 has hit SMEs hard

- SMEs were more likely to close operations.
- Among those that remain open, **55-70% saw sales fall**, with **2/3 over 40% fall**.

- **Sector concentration**
- **Less cash reserves** to face revenue drop.
- **Lesser digital maturity** to pivot to alternative business models.

*Note: Changes in the month prior to the survey, as compared to the same month a year before.*

*Source: OECD SME&E Outlook 2021, based on Facebook/OECD/World Bank survey (May-Dec. 2020).*
Smaller firms lagged in the digital transition

Average technology diffusion rates, OECD median, by firm size, 2015-18

SMEs are missing opportunities to reduce costs and compete on a more even footing

- **Online platforms**
  - Connecting users
  - Reduced costs (search, advertising, transportation, etc.)
  - Outsourcing business intelligence services
  - Market outreach, even abroad

- **Cloud computing**
  - IT capacity
  - “Pay-as-you-go” services
  - No investment upfront and maintenance costs
  - Support technology leapfrogs and diffusion

- **Artificial intelligence**
  - Predictive capacity & automation
  - Market segmentation/product differentiation
  - Greater anticipation of fluctuations and risks
  - Automation of services (e.g. customer services)

- **Blockchain**
  - Decentralised info & accountability
  - Lower transaction and agency costs (accessing finance, managing supply chain, or enforcing contracts etc.)
During COVID-19, SMEs have innovated, going digital…

- Btw 30%-50% SMEs increased digital uptake, in most OECD countries.
- New software, apps or cloud solutions, incl. e-commerce, click & collect, online delivery, virtual events, e-banking or payment etc.
- Smart working solutions: teleworking, videoconferencing etc.

• Higher proportion in countries with more stringent lockdown measures (2020), and for SMEs with (large) declines in sales.

• **Online platforms mitigated the impact of the crisis**

• Increased use by SMEs, **especially for selling**: the higher the share of online sales, the lower the probability to face activity declines.

• **Especially for SMEs that used platforms before**: 39% increased use during the crisis, (only 5% started during).

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The digital changes are poised to last

- **Poised to last** (60-80%): investments made and benefits seen.
- It is too early to say if this may **lead to higher productivity, growth and job creation?**

The transition is not yet complete: there are new threats emerging…

“[…] there has been an increased digitalisation of business practices and an intensification of cyber-attacks. The digital environment has become more complex. All these trends have created new vulnerabilities that hackers can exploit. (D4SME webinar, July 2020)

“Cybercriminals are developing and boosting their attacks at an alarming pace, exploiting the fear and uncertainty caused by the unstable social and economic situation created by COVID-19.”

Jürgen Stock, INTERPOL Secretary General
... and pre-COVID barriers to SME digital adoption remain

Legal uncertainty

Institutional and regulatory framework

Market conditions

Infrastructure

SME performance

Access to finance

Access to skills

Access to innovation assets

Strategic resources

SMEs and Entrepreneurship policy governance

Skills gap and digital awareness

Distortions in competition

Access to digital infrastructure

Interoperability of systems

Financing gaps vs sunk costs

Reputation risks

Tech complementarities and lock-ins

Data culture

Distortions in competition

Business environment

SME performance
COVID-19 may have exacerbated (some) digital divides

Further widening the SME digital gap across sectors

COVID-19 may have exacerbated (some) digital divides

Government support has played a role in easing the transition but could not reach all in need

- SMEs that received government support are more likely to increase their levels of digitalisation than SMEs that did not receive support (+8pp).

- Governments have been less effective in reaching younger and smaller firms and vulnerable populations of entrepreneurs (women, minorities etc.).

Building on the momentum to re-build better

- **Large policy consensus** on the need to speed the digital transformation of SMEs
- And as **large a leeway on how to do it** (complexity? Scope? Targeted vs mainstreaming?)

1 - **Scaling up SME internal capacity**
- Technology support and assistance
- Training and upskilling
- Building a data culture in SMEs
- Raising the digital security profile of SMEs

2 - **Easing SME access to strategic resources**
- Fintech and alternative sources of finance
- Business innovation and supply of new digital solutions
- SME linkages to knowledge networks
- Hubs and platforms for learning and testing

3 - **Creating the right business environment**
- Regulatory framework
- E-government and e-services for SMEs
- High-quality digital infrastructure

4 - **Promoting a whole-of-government approach**
- Long-term strategic frameworks
- Governance arrangements in emerging policy areas,
- Setting consultative instances and advisory groups
Building on the momentum to re-build better

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**Go-digital (2017-21)**
- Offers to SMEs the expertise of consultancy firms on digitalisation of business processes and digital market development.

**Germany**

**Cyber-security strategy (2019-23)**
- Create cyber security awareness actions for SMEs

**Brazil**
Building on the momentum to re-build better

2 - Easing SME access to strategic resources
- Fintech and alternative sources of finance
- Business innovation and supply of new digital solutions
- SME linkages to knowledge networks
- Hubs and platforms for learning and testing

Tax incentive to promote IT investment (2018-20)
- Tax credit or special depreciation for advanced IT investment

“Digitaliza tu Pyme” (2019-21)
- Package of digital tools and learning material for uptake of digital technologies by SMEs - Scheme reinforced during COVID-19
Building on the momentum to re-build better

3 - Creating the right business environment
• Regulatory framework
• E-government and e-services for SMEs
• High-quality digital infrastructure

Australia

Single-touch payroll
(since 2018)
- Provides an automated, streamlined processing of employer-related obligations simultaneously with the natural cycle of the payroll event.

Costa Rica

Pillar Digital Economy
(2019-21)
- Access to telecommunications services, radio spectrum availability, sustainable and orderly deployment of infrastructure, and clear market rules
Building on the momentum to re-build better

4 - Promoting a whole-of-government approach
- Long-term strategic frameworks
- Governance arrangements in emerging policy areas,
- Setting consultative instances and advisory groups

Colombia

Boosting digital transformation (2019-22)
- Increase the degree of adoption of technologies to transform the mentality and promote business digital transformation

Denmark

SME:Digital (2018-2021)
- Part of the national government’s Strategy for Denmark’s Digital Growth to support the digital transformation of Danish SMEs
“Platform policies” are part of strategies and done in cooperation with others

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OECD policies usually target business functions mostly relevant to retail

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Way forward?

- **REMOVING** regulatory barriers and market distortions.
- **EXPANDING** infrastructure coverage (speed, reach)
- **ENABLING** greater (safer!) SME uptake, e.g. through the digitalisation of public services.
- **ADAPTING** action to the specific industries SMEs operate in, as well as the business functions that are subject to transformation.
- **BUILDING** more evidence, comparable data, sectoral studies and business cases (successful or not) to inform all relevant actors. => international cooperation and knowledge sharing.
THANK YOU!

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