

15 August 2022

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Chair, APEC SME Ministerial Meeting

Deputy Prime Minister and Vice Chairman, Board of SME Promotion

Thailand

Excellency:

Micro, small and medium-sized enterprises (MSMEs) have always been acknowledged as a driver for economic growth and development within the APEC region. They account for over 97 per cent of businesses and are responsible for employing over half of the workforce across APEC economies. Historically, MSMEs have also greatly contributed towards bolstering economic growth, with their share of gross domestic product (GDP) often ranging between 40 per cent and 60 per cent in most economies.

The onset of the COVID-19 pandemic, and the many disruptions that it has brought upon the broader business landscape over the past two years have greatly highlighted the vulnerability of MSMEs to severe economic shocks. As economies begin to enter the endemic phase, it is vital that policymakers look to leverage on this transitional period as an opportunity to reset buttons and revitalize the MSME economy. In this regard, the APEC Business Advisory Council (ABAC) recommends that APEC SME Ministers focus efforts towards four key areas, namely: 1) promoting digital transformation; 2) enhancing sustainable practices; 3) building the digital market infrastructure for supply chain finance; and 4) fostering greater economic inclusion.

To support policymakers in achieving this, ABAC has collaborated with the USC Marshall School of Business to produce a comprehensive report titled, **“The New MSME Economy: Post-Pandemic Drivers for Growth”**, which contains key recommendations that are in line with the aforementioned priority areas. The findings from the report, which were derived from in-depth thought leader interviews, MSME practitioners, surveys, and literature review, will provide substantive support to APEC Leaders and policymakers. The report will produce two key deliverables. The first being the APEC MSME Scorecard, which will accurately assess the progress and readiness of each MSME economy in navigating through a post-pandemic business environment. In turn, the second deliverable revolves around the provision of focused MSME initiatives – a few powerful and pivotal recommendations – that will have cascading effects across individual economies.

- 1. Promoting digital transformation.** The pandemic has created a business environment that highly encourages entrepreneurs to adopt digital solutions and technological innovations to remain relevant in an increasingly digital world. MSMEs which were able to make the digital shift were more resilient throughout the pandemic and remain more resilient to future shocks. Barriers to digitalization such as low digital literacy, lack of access to quality internet infrastructures, lack of digital skills, and increasingly complex digital operating environment, and divergent and restrictive regulatory settings and trade rules persists throughout the APEC region and continue to stunt the growth prospects of many MSMEs.

To address such issues, ABAC recommends APEC SME Ministers to:

- Foster MSME uptake of digital technologies by leveraging public-private partnerships to accelerate digital skills development. This includes monitoring and propagating cutting-edge best practices across APEC.
- Ensure coherence and transparency in the development of digital trade rules that prioritize simplicity and interoperability, and based on international standards, where applicable, to reduce the compliance burden on MSMEs and to enable them to take full advantage of the digital opportunity to internationalize and participate in global value chains.
- Promote the adoption of logistics, fulfilment, and e-commerce platforms that MSMEs can leverage for scalable international growth.
- Ensure that the 11 pillars of the APEC Internet and Digital Economy Roadmap (AIDER) are implemented to narrow the digital divide. This could be enabled by a standing MSME panel to act as a sounding board for APEC officials implementing AIDER.
- Build on existing APEC work on good regulatory practices to promote greater transparency, stakeholder consultation, and due process in developing and adopting digital policies across APEC economies.

- 2. Enhancing sustainable practices.** As we get a clearer picture on the aftermath of the pandemic and its negative impacts on communities throughout the APEC region, it becomes more evident that we should step up our efforts to empower MSMEs to enhance their social and environmental sustainability practices. MSMEs are important to global economic growth, and it is imperative to develop measures to support their success. Economies have sought to address the many challenges faced by these enterprises through measures including access to financing, continuous training, integration into value chains, and support in the internationalization process. The current crisis provides the opportunity to generate new value and greater competitiveness in these enterprises through enhanced digitization and the development or adoption of sustainable practices. Such transformation would be consistent with a growing trend in business to integrate practices to minimize environmental impact and generate greater inclusion, which can also help to generate a price advantage and attract greater investment for MSMEs. Above all, economies will need to take Just Transitions approaches that incorporate the needs of MSMEs.

ABAC recommends that APEC SME Ministers:

- Identify and promote measures to level the working and development conditions, in order to generate greater access to education and training resources. In addition, there should be a constant and transparent communication on sustainability issues in order to foster the creation of environmentally-responsible operational and logistical processes. These efforts can be coordinated with the private sector to promote awareness and integration of existing sustainable corporate practices within large companies.
 - Establish greater opportunities for integration into global value chains and sustainability activities for underrepresented MSMEs established in remote or rural areas, through synergies between public and private sector organizations to generate spaces for communication and development of strategies that enable the adoption of sustainability and inclusion practices.
 - Facilitate the integration of MSMEs into regional supply chains, minimizing existing barriers to the proper integration and implementation of sustainable practices. Identify the scale of production and operations of these enterprises, in order to manage measures appropriate to their development processes and environments.
 - Provide a platform for bringing together various public and private financial sector stakeholders to collaborate in designing an ecosystem approach to financing sustainable transition of MSMEs, share successful experiences and identify strategies to scale them
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up. The undertaking could leverage expertise in international organizations and existing policy initiatives under the Finance Ministers' Process (FMP).

- 3. Building the digital market infrastructure for supply chain finance.** The COVID-19 pandemic shone a light on the powerful impact that digitalization can bring to business processes. Digitalization of trade and supply chain finance services is facilitating access to finance for MSMEs, such as second and third-tier suppliers, for which traditional credit underwriting have proven to be very difficult at the early stages of the order-to-payment cycle. Automation is making it feasible to process credit transactions at lower cost, enabling smaller loan sizes to be economically viable for lenders, and low-value letters of credit to be viable for bankers.

E-invoicing, digital ID, and e-KYC are key foundations for digital supply chain finance, along with acceptance of other digital versions of contracts and removing unnecessary requirements for paper documentation. Distributed ledger technology enables economies to retain their own systems governing trade, while providing a transparent and trusted system enabling cross-border supplier and distributor financing. Governments should look to creating open ecosystems that encourage collaboration in responsible data sharing and move away from supporting data silos that might offer short-term solutions, which in the longer run could constrain competition and innovation.

We therefore recommend that APEC:

- Introduce interoperable e-invoices throughout the region's economies and establish the supporting infrastructure for its use in collaboration with market participants and other stakeholders providing finance and technology solutions.
 - Assist member economies in accelerating the development of key pillars of the foundational digital infrastructure, including a trusted digital ID system, enabling financial services data ecosystems, and interoperable payment systems for digitalized transactions and operations.
 - Facilitate regional cooperation to promote interoperability of member economies' digital supply chain platforms, particularly through joint undertakings to develop interoperable standards for digital invoices and legal frameworks around the use of digital documents and linkages among domestic digital market infrastructure such as business clearing houses.
- 4. Fostering greater economic inclusion.** Driving economic and social recovery of MSMEs led by members of underrepresented and underserved groups is vital to ensuring the continued economic growth of APEC economies. In this regard, ABAC has identified best practices for adoption by MSMEs adopt to enhance their digitization capabilities, women's economic empowerment and gender equality efforts, youth mobilization, the economic development of Indigenous peoples, as well as governance and sustainability standards. The best practices also aim to help MSMEs overcome constraints related to lack of productive capacities and economic diversification for long-term resilient, inclusive, and balanced growth.

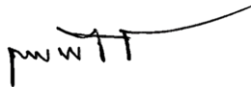
Based on the preliminary findings, ABAC recommends APEC SME Ministers to:

- Facilitate the engagement of MSMEs in international trade, especially those that are led by members of underserved communities, by tackling existing trade and other technical barriers, streamlining and digitalizing customs procedures and other business and trade facilitating measures such as e-signature and e-invoicing, promoting simplified regimes for smaller scale operations, incentivizing the creation of export clusters, and providing technical and marketing support.
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- Leverage resources provided by the private sector to better integrate the underserved and underrepresented MSMEs, including those led by women, Indigenous peoples, and youth, into regional and global value chains.
- Support women's contributions and innovation in meeting post-pandemic challenges, particularly in technology, medicine, and health related fields, through greater participation in science, technology, engineering, and mathematics (STEM) fields of employment, research, and education, noting that increasing women's participation in STEM is one of the 2016-2030 APEC Education Strategy goals.
- In partnership with the private sector, develop and support comprehensive tailored capacity building and digital skilling programs such as in e-commerce, digital marketing, payment platforms, logistics, online safety, and cybersecurity to equip MSMEs with the necessary skills to navigate in a post-pandemic business environment and set them up for success.
- Focus on developing tailored entrepreneurial innovation ecosystems to facilitate the uptake by MSMEs of digital technologies, as part of integrating MSME digitalization and services innovation.

ABAC believes that the aforementioned four priority areas will play an instrumental role towards bolstering MSME resiliency and ensuring their continued business viability in a post-pandemic world. As such, we strongly support and call for enhanced collaboration between public and private sectors, especially during these turbulent times, to secure the recovery of our economies.

Yours sincerely,



Kriengkrai Thiennukul
ABAC Chair 2022