



Study on MSMEs Participation in the Digital Economy in ASEAN

Nurturing ASEAN MSMEs to Embrace Digital Adoption

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Chapter 1

Background and Objectives

As the Association of Southeast Asian Nations (ASEAN) advances to become the world's fourth largest economy by 2030,¹ it is undergoing a transition marked by a demographic shift to a younger population, a rising middle class, and rapid adoption of technology. With many 'mobile-first' markets in the region, ASEAN is expected to see rapid increase in the use of technology which would contribute to the growth of its digital economy by 6.4 times, from \$31 billion in 2015 to \$197 billion by 2025.² The digital economy, therefore, is a key factor driving the growth of the region's economy.

Digitalisation³ in ASEAN is facilitated by improvements in the digital infrastructure, especially a rapid rise in mobile broadband coverage. The mobile broadband penetration rate (per 100 people) in Singapore was close to 150% in 2016 and those of Malaysia and Thailand were close to 100%. In Cambodia, Indonesia, the Philippines, Viet Nam, and Myanmar this figure is almost 50%. Although the mobile broadband penetration rate in Brunei Darussalam and Lao PDR is still low, overall digital connectivity in ASEAN is improving quickly.⁴ Mobile coverage also affords cheaper access to broadband networks. In general, the cost of mobile broadband access is about one fourth of the cost of access to fixed networks.

The improvements in digital connectivity are attracting multiple digital platforms⁵ to ASEAN. They regard ASEAN as a promising market and have plans to expand their presence in the region.

When promoting the development of the digital economy, ASEAN needs to ensure that micro, small, and medium-sized enterprises (MSMEs) are also able to function in the digital economy, for inclusive growth. MSMEs are undoubtedly the backbone of ASEAN's diverse and dynamic economy, accounting for 95%–99% of all business establishments and more than half of the total employment in all ASEAN Member States (AMS).

¹ Speech by PM Lee Hsien Loong. <https://www.pmo.gov.sg/newsroom/pm-lee-hsien-loong-27th-world-economic-forum-asean-hanoi-vietnam>

² 'Southeast Asia: An Emerging Market With Booming Digital Growth'. <http://www.visualcapitalist.com/southeast-asia-digital-growth-potential/>

³ 'Digitalisation' is the use of digital technologies to change a business model and provide new revenue and value-producing opportunities; it is the process of moving to a digital business.

⁴ Broadband Connectivity In South East Asia (UNSCAP, 2018), World Telecommunication/ICT Indicators database: <http://www.itu.int/en/ITU-D/Statistics/Pages/publications/wtid.aspx>

⁵ A 'digital platform' is a digital product that widely serves and/or enables other products or services. It provides a collection of business and/or technology capabilities that other products or services consume to deliver their own business capabilities. A 'digital platformer' is an entity that develops and operates a digital platform. Amazon and Alibaba are typical digital platformers.

Despite the ubiquity of MSMEs and their significant contribution to employment, MSMEs only account for 30%–53% of gross domestic product (GDP) and 10%–30% of exports in AMS.⁶ The gap is indicative of the huge potential and opportunities to be gained. This gap could be narrowed in a cost-effective manner through digitalisation given that the Internet and advancements in technology are rapidly driving down adoption costs. According to a recent study by Bain & Co, 75% of MSMEs in ASEAN see the opportunities from digital integration, but only 16% use digital technologies to their full potential.⁷ Enabling more MSMEs to jump on the bandwagon and helping them use digital tools more effectively could contribute significantly to the economic development of ASEAN.

MSMEs are still lagging behind in terms of digitalisation as compared to other key economic players such as large firms and companies based in urban areas. This suggests that there remain barriers to digitalisation for MSMEs. If these barriers are not properly addressed, MSMEs will be left behind and may see their businesses negatively impacted. This could in turn hinder the healthy growth of the ASEAN economy. Supporting the digitalisation of MSMEs, especially those unfamiliar with digital technologies, is thus important.

This study seeks to gain a fundamental understanding of the status of the adoption of digital technology by MSMEs, the common digital tools used, and how deeply embedded digitalisation is in their business operations. Subsequently, the study explains the key challenges faced by MSMEs in their digitalisation process. It also examines current approaches adopted by existing digital platformers and AMS governments to support the adoption of digital technologies by MSMEs and assesses the overall effectiveness of such efforts. Finally, the study suggests possible policy programmes to effectively support MSMEs to overcome such challenges. It is important to understand the different challenges faced by MSMEs depending on how far advanced they are with digital adoption, and how these challenges differ across AMS.

⁶ 'SME Developments in ASEAN'. <http://asean.org/asean-economic-community/sectoral-bodies-under-the-purview-of-aem/micro-small-and-medium-enterprises/overview/>

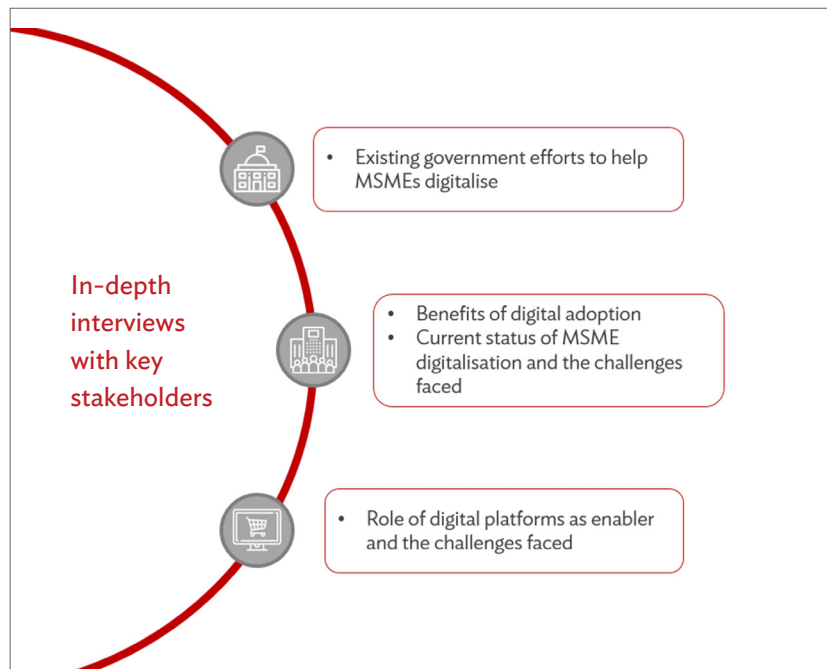
⁷ Bain & Company (2018), 'Advancing Towards ASEAN Digital Integration'.

Chapter 2

Methodology

In-depth face-to-face interviews were conducted with selected MSMEs from a variety of sectors and at different levels of digital adoption across all 10 AMS. Apart from MSMEs, the study also engaged other key stakeholders, including government agencies related to MSMEs and regional digital platforms, to gain an in-depth understanding of the entire ecosystem.

Exhibit 1: Interviews Conducted Across AMS



- Ten interviews were conducted with government agencies dealing with SME matters, as recommended by ASEAN Connectivity Coordinating Committee (ACCC) and ASEAN Coordinating Committee on Micro, Small and Medium Enterprises (ACCMSME).
- The team interviewed 40 MSMEs recommended by the 10 government agencies dealing with MSME matters and local experts that applied digitalisation in some form in businesses.
- The team also interviewed five prominent digital platforms in key sectors of the digital economy in the region that closely collaborate with MSMEs, including in e-commerce, ride hailing, and food delivery.

Following the in-depth interviews, the team sought to identify gaps and key challenges, based on which policy recommendations were formulated.




Chapter 3

Current State of MSME Digitalisation

According to a recent study conducted by Bain and Co., only 16% of MSMEs in ASEAN are truly digitalised.⁸ Our interviews reveal similar trends. All digitalised MSMEs can be categorised into three levels: Basic, Intermediate, and Advanced.

Fifty-six percent of the MSMEs are at Basic level with minimal digital adoption, mostly to facilitate communication and operations. Thirty-four percent use digital tools more meaningfully to aid sales and marketing. Only 10% of the MSMEs are in the Advanced category, with sophisticated digitalisation applied in various aspects of their business. Essentially, even amongst the minority of MSMEs that are digitalised, most do not utilise digital tools to their fullest.

Exhibit 2: State of MSME Digitalisation

	Level of Digitalisation	Digital Tools/Processes	% of Digitalised MSMEs
 Basic	Use of basic digital tools	Microsoft Office, email, WhatsApp, personal computers, mobile phones	56%
 Intermediate	Online presence	Website, social media, e-commerce sites, tablets, printers	34%
 Advanced	Use of advanced digital tools, or digitalisation is part of the core business model	ERP, CRM, analytics, big data, automation, pure online business, scanners, bank card readers, central servers, imaging devices	10%

ERP = enterprise resource planning; CRM = customer relationship management.

While a minimum level of use of digital technology was evident amongst 90% of MSMEs surveyed, very few can be considered truly digitalised. All MSMEs interviewed across the 10 AMS reported the use of personal computers and mobile phones for their business. However, the use of customised digital devices was rare or non-existent.

⁸ Bain & Company (2018), 'Advancing Towards ASEAN Digital Integration'.

Similarly, the use of appropriate software for business was at a nascent stage. While all MSMEs used basic tools such as Microsoft Office and email, advanced software for accounting or operations management was hardly used.

Digitalisation sometimes requires firms to make significant changes to their business processes. As management decisions within MSMEs are made largely by one or a few senior managers, improving their understanding of digital technologies and the opportunities these technologies open up is key to the digitalisation of MSMEs.

On the other hand, many MSMEs are familiar with social media and some have their own website. According to research by Hootsuit, Southeast Asia has 305.9 million active social media users, which amounted to a penetration rate as high as 47% in 2017. Familiarity with Facebook for private purposes has led to high utilisation of Facebook Pages by MSMEs to establish an online presence. Social media platforms are a useful way to communicate with audiences, and a useful tool for providing customer services.

Case Study

Ma Te Sai, Lao PDR

Ma Te Sai is a social enterprise working with rural communities in Lao PDR to sell its handmade products through both its offline and online stores.

Apart from displaying organisation and product information on its independent website, Ma Te Sai also operates an official Facebook page for marketing purposes. The owner of the business shared that locals love Facebook and use it as an e-commerce platform.

Ma Te Sai's Facebook page has more than 1,700 followers who regularly receive marketing feeds on new products and special campaigns.



According to data published by Statista,⁹ WhatsApp had a penetration rate of 68% in Malaysia and 40% in Indonesia as of the third quarter of 2017. Similar to social media, messaging services have also transcended from personal use into business use for MSMEs – 74% of respondents surveyed use mobile-based messaging applications such as WhatsApp, Viber, and LINE. Messaging applications are used mostly as a tool to communicate internally amongst employees and in some cases with partners and customers. Respondents suggested that social networking services (SNS) could be effectively used by governments to communicate with MSMEs.

Sixty-seven percent of respondents mentioned that the adoption of e-commerce was one of the biggest steps towards digitalisation their organisation had taken. With the rise of online shopping and online consumers across ASEAN, many MSMEs have adopted e-commerce as a channel for finding new customers and suppliers, by developing their own websites and listing their offerings on e-commerce marketplaces such as Shopee, Lazada, Alibaba, and Amazon. Most of the MSMEs engaged in e-commerce still operate offline stores and digital sales remain a minor part of their business. Nonetheless, they recognise e-commerce as a potential engine of growth for their organisations. While most MSME still cater to a small and localised customer base (63% of the MSME respondents), the potential to reach a larger national and regional audience was acknowledged by the respondents. It suggests that e-commerce platforms have good access to various MSMEs and could potentially provide additional support for MSME digitalisation. Within e-commerce, the business-to-business (B2B) segment holds great growth opportunities due to its very limited adoption to date and its high expected market potential, since in most countries the B2B market is bigger than business to consumer (B2C).¹⁰

⁹'Share of Population in Selected Countries Who are Active WhatsApp Users as of 3rd quarter 2017.' <https://www.statista.com/statistics/291540/mobile-internet-user-whatsapp/>

¹⁰'\$22 Trillion E-commerce Opportunity for Developing Countries'. http://unctad.org/es/paginas/newsdetails.aspx?OriginalVersionID=1281&Sitemap_x0020_Taxonomy=Information

Chapter 4

MSMEs' Perspective: Benefits of Digitalisation

It is important to note that most MSMEs operate in a highly centralised manner with limited (and mostly localised) business vendors and customers. The outcome of the interviews indicates that an entrepreneur or only a few senior managers make almost all decisions, and there are typically no or few middle managers. As senior management is usually preoccupied with multiple major business decisions, undertaking trials perceived as risky or time-consuming in the short-term (such as digitalisation) are often less of a priority than managing day-to-day operations.

Exhibit 3: Benefits of Digitalisation as Perceived by MSMEs Interviewed

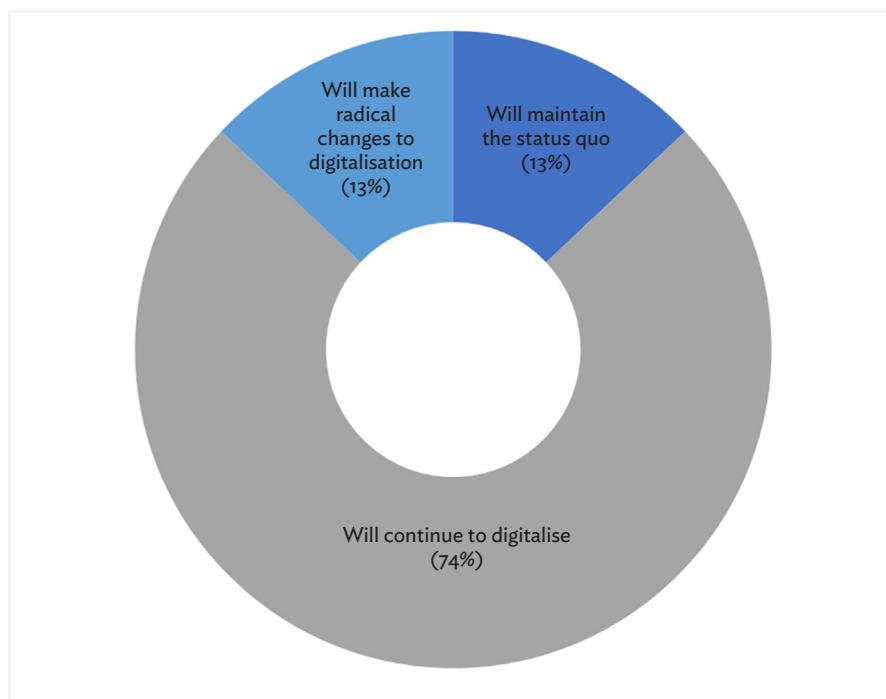


On the whole, digitalisation has two types of benefits for MSMEs. One, it facilitates expansion of their businesses as it enables them to reach out to more customers and/or vendors. Two, it improves or optimises operations, which translates to reduced costs. The interview indicates that 72% of the MSME respondents in ASEAN are strongly interested in expanding their businesses while cost reductions due to improvement of productivity and operations are less of a priority. This accounts for the widespread adoption of social media by MSMEs, which serves as an effective platform for customer acquisition and communication. Therefore, policy programmes that support MSMEs' efforts to expand their customer base, such as on e-commerce would receive more attention from MSMEs in ASEAN. Their comparative lack of interest in improving productivity and operations could be a result of generally inexpensive and widely available labour in ASEAN. In fact, MSMEs interviewed from Singapore were more interested in controlling cost than MSMEs in other AMS.

The study also found that 87% of the MSME respondents tended not to search widely for information on the web, which typically requires formal exchanges of emails in English. Rather, they rely on information from their business partners and friends in their local community.

Another key finding is that those MSMEs that have adopted some degree of digital technology will try to enhance digitalisation of their business. In fact, 74% of respondents indicated that they would continue their digitalisation efforts. This could potentially create a widening gap between MSMEs utilising technology, and those that are not. But it also suggests that if an opportunity to adopt digitalisation is provided through a relevant channel, MSMEs might readily take to digital technologies, as we observe in China with the adoption of fintech (Alipay and Wechat Pay) by MSMEs.

Exhibit 4: Future Digitalisation Plans of MSMEs Interviewed



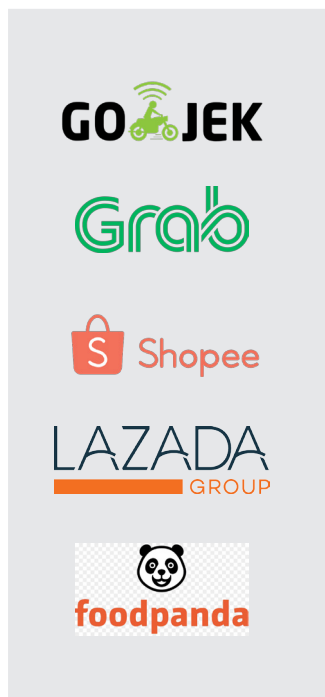
Chapter 5

Role of Digital Platforms in Supporting MSME Digitalisation

Recent years have seen the rapid emergence of digital platforms in the region in industries such as transport, retail, travel, and services. These digital platforms lower the barriers to digitalisation for MSMEs by providing relatively mature and easy-to-manoeuvre digital ecosystems at a reasonable cost thanks to economies of scale. Most digital platforms do not require MSMEs to pay a large initial investment, but rather adopt profit-sharing models, which are more financially appealing to MSMEs.

MSMEs are usually an indispensable part of the business of digital platforms as they are at the core of the business philosophy of digital platforms: they make up the aggregated marketplaces that bring value to customers and partner MSMEs alike. Hence, digital platforms actively seek out potential opportunities to partner with MSMEs, have a strong motivation to promote MSME digitalisation, and play an important enabling role. In fact, the MSMEs interviewed currently working with digital platforms held favourable views on the partnerships.

Some of the key benefits of digital platforms are:



i. **Wider customer reach**

Digital platforms considerably improve the visibility of partner companies due to their access to a vast customer pool.

ii. **Cost reduction**

Partnering with digital platforms helps to reduce operation costs due to economies of scale and separation of functions digital platforms help to achieve. For instance, restaurants can deliver food through GoJek instead of hiring their own delivery team. E-commerce platforms relieve partners of the fuss of logistics and payments by providing these services at reasonable costs.

iii. **Opportunities for optimisation**

Digital platforms such as Foodpanda provide built-in analytics that helps partners understand sales patterns and potentially optimise their product offerings. Alibaba is planning to bring in cloud computing for its MSME partners to ensure that they can work with the latest systems and optimise their operations.

Despite their different goals, digital platforms and governments share an interest in improving the rate of digitalisation of MSMEs. The two parties should work closely together, therefore, to understand the challenges faced by MSMEs by sharing data and providing support to address the challenges.

There might be concerns that digital platformers might set terms and conditions considered challenging and which MSMEs may perceive as predatory and discriminatory. It should be noted that one of the key features of digital technology is its relatively low 'switching costs'. This is not the case for traditional supply chains, especially in manufacturing industries, where MSMEs sometimes have just one or a few clients. Under such circumstances, their production system and services are 'locked in' with existing clients. If their clients are large firms with multiple transaction partners, the negotiating power of large firms becomes much stronger than that of MSMEs. However, low switching costs makes this problem less imperative for transactions between MSMEs and digital platformers.

To ensure that MSMEs can benefit from low switching costs, it is crucial to create an environment of healthy competition amongst digital platformers for their business transactions with MSMEs, so that MSMEs are able to select the option with the most preferential terms and conditions. Therefore, if a government finds that a digital platformer holds a dominant position in the market, it should consider strategies to create competition. Putting in place a regulatory framework that encourages healthy competition and discourages the abuse of dominance is one measure that could be considered. It should be noted that a policy of localisation of servers could work against MSMEs as it may create a less competitive environment for digital platformers. However, due consideration should be given to consumer rights.

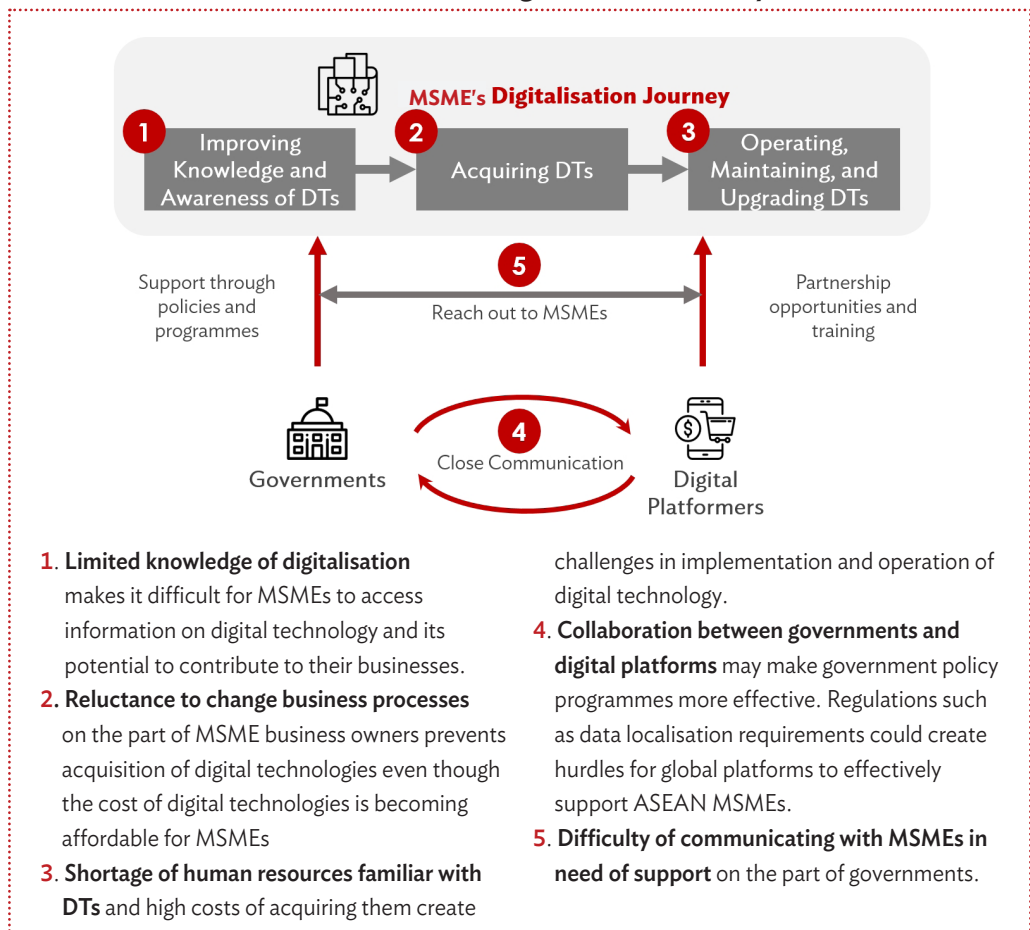
Chapter 6

Challenges to MSMEs in Embracing Digitalisation

Despite its benefits, digitalisation remains low and unequally distributed amongst MSMEs. This raises the question of what prevents MSMEs from going digital.

The study analysed the responses gathered from MSMEs and digital platforms interviewed. MSMEs at different stages of digitalisation offered their perspectives on the obstacles they encountered and the general challenges faced by the community. Through the framework of an ‘MSME’s Digitalisation Journey’, the study grouped the challenges into five categories – (1) Improving Knowledge and Awareness of Digital Technologies, (2) Acquiring Digital Technologies, (3) Operating, Maintaining, and Upgrading Digital Technologies, (4) Government–Digital Platforms Cooperation, and (5) Communication with MSMEs, as depicted in Exhibit 4 below.

Exhibit 5: MSME’s Digitalisation Journey



DTs = digital technologies.

6.1. Limited Knowledge of Digitalisation

Amongst the five categories of challenges highlighted by MSMEs, lack of knowledge and awareness of MSMEs about digital technology emerged as a stumbling block in taking the first step on their journey to digitalisation. As illustrated in the previous chapter, to many owners and senior managers of MSMEs, digitalisation is a buzzword and it seems too complex, expensive, and distant from their businesses.¹¹ MSMEs are typically not very well aware about where to obtain useful information on digitalisation, as the sources are usually scattered and not easily accessible.

This problem of accessibility is partially due to language barriers, or the so-called ‘*Cross-Language Information Access*’ issue.¹² Most of the MSMEs surveyed, therefore, tended to rely on word-of-mouth for knowledge related to digitalisation, and there was no online source consistently referred to.

Low English proficiency¹³ may also be a hurdle as more than 50% of all websites are in English¹⁴ and localised content is limited, especially on digital tools for businesses. Most of the self-learning materials for digital tools are also only available in English.

Improving access to proper information on digital technologies for owners and senior managers of MSMEs by making it available in local languages could make a big difference. There should also be room to refine existing training and education programmes. Programmes that encourage peer learning and mentoring might be more effective, given MSMEs’ high reliance on word-of-mouth for digitalisation-related information acquisition. Apart from listing support programmes and resources on government portals, channels such as SNS and industry organisations can be considered as avenues for the dissemination of information. Governments should also consider working with digital platforms that are in direct contact with MSMEs to impart knowledge on digitalisation.

¹¹ Embracing the E-Commerce Revolution in Asia and the Pacific. Asian Development Bank/UNESCAP.

¹² Jones, G., et al. (2001), ‘A Framework for Cross-Language Information Access: Application to English and Japanese’, *Computers and the Humanities*, 35(4), pp. 371–388.

¹³ EF Education First. *EF English Proficiency Index: Asia*. [cited 2018] Available from: <https://www.ef.edu/epi/regions/asia/>.

¹⁴ W3Techs (2018), Usage of content languages for websites. [cited 13 Sept. 2018]; Available from: https://w3techs.com/technologies/overview/content_language/all.

6.2. Reluctance to Change Business Processes

As discussed in Chapter 3, many MSME owners lack knowledge of the practical steps that need to be taken to adapt their business operations to digital technologies, despite a general awareness of the benefits digitalisation can bring. They tend to be resistant to adopting new technologies due to the perceived risks and the financial burden associated with it. In fact, the costs of digital adoption (electronic products and information technology [IT] services) have declined dramatically over the last 2 decades.¹⁵ The costs of broadband connection also show a downward trend, thanks in part to government efforts in providing affordable Internet.¹⁶ It should also be pointed out that recently digital platforms have tended not to charge significant upfront payments, but instead adopt profit-sharing models or charge reasonable fees periodically. Thanks to the booming of cloud technologies, software as a service provides MSMEs that seek affordable and scalable digital solutions with another avenue to digitalisation. Nowadays, initial investment is no longer a major roadblock on the way to achieving digitalisation.

Many of the MSMEs interviewed mentioned that the first initiative to digitalise a part of the business is the most challenging, but once this has been accomplished, incremental improvements come more naturally and easily. Hence, there is an urgent need for propagation of advice on how digitalisation can benefit their business, which tools suit their needs and budget, and where they should seek support to kick-start the digitalisation process.

6.3. Shortage of Expertise on Digital Technologies

Other areas of concern will require mid- to long-term efforts to address, such as lack of expertise with digital technologies, not just in programming and digital solution provision, but a good understanding of the business context and information and communications technology (ICT) environment in AMS.^{17,18} Without skilled human resource expertise, implementation of digitalisation becomes a great challenge especially when MSMEs wish to move beyond basic adoption towards greater digital sophistication.

¹⁵ Rosoff, M. (2015), 'Every type of tech product has gotten cheaper over the last two decades – except for one', *Business Insider*. 14 October. Available from: <http://uk.businessinsider.com/historical-price-trends-for-tech-products-2015-10>.

¹⁶ Prado-Wagner, C. (2014), *Trends on Telecommunication/ICT Services Regulation and Costs and Tariff Policies*, in *ITU/BDT Regional Economic and Financial Forum of Telecommunications/ICT for Africa*. Brazzaville, Republic of Congo.

¹⁷ Tan, K.S. and J.T.H. Tang (2016), *Managing Skills Challenges in ASEAN-5*.

¹⁸ World Bank (2018), *Preparing ICT Skills for Digital Economy: Indonesia within the ASEAN Context*.

Similar arguments appear in several reports.¹⁹ This makes it imperative that governments cultivate the next generation of ICT talents.

At present, hiring part-time or full-time IT professionals is not an option for most MSMEs looking to build their digital capabilities due to their relatively high labour costs especially outside city areas. To enable MSMEs to hire such IT professionals, abundant supplies of human resources at reasonable costs are needed. Coordinated efforts from governments, digital platformers, MSMEs, employees and training institutions are required to develop and raise the overall quality of the workforce in an ever-changing business environment.

6.4. Collaboration between Governments and Digital Platforms

As explained in the previous section, digital platforms play a central role in promoting MSME digitalisation. Collaborating with them would make government policy programmes more effective and efficient. On the other hand, the governments regulate and set out directions for the development of digital-related sectors. Here, the possible costs of regulation of digital industries need to be recognised. For example, in some countries, businesses are not allowed to store public data outside the country and hence are required to establish local data centres. Some of the biggest digital platforms in the region that were interviewed shared that such regulations increase costs, which would eventually be passed on to customers or users, and to some extent hinder business operations.²⁰

An unsafe online environment presents another key challenge for MSME digitalisation, as fraud, hacking, and intellectual property infringement are still rampant in some AMS.²¹ The risks of conducting online business are considerable, and customers and MSMEs alike still prefer offline transactions to protect their interests. Digital platforms and many MSMEs interviewed cited digital safety as a critical issue holding back MSMEs from starting or expanding digital businesses.

It is also important for governments to create an environment of healthy competition amongst digital platformers to prevent them from making unfair profits at the expense of MSMEs. Even if relatively low switching costs and low hurdles to business entrance in

¹⁹ UNAPCICT and UNESCAP (2010), ICT Human Capacity Building for Development. UNAPCICT; TOT Academy (2015), ASEAN ICT Skills Upgrading and Development; and World Bank (2018), Preparing ICT Skills for Digital Economy: Indonesia within the ASEAN Context.

²⁰ Oxford Economics, Local Business Global Ambition, <https://www.oxfordeconomics.com/my-oxford/projects/367780>

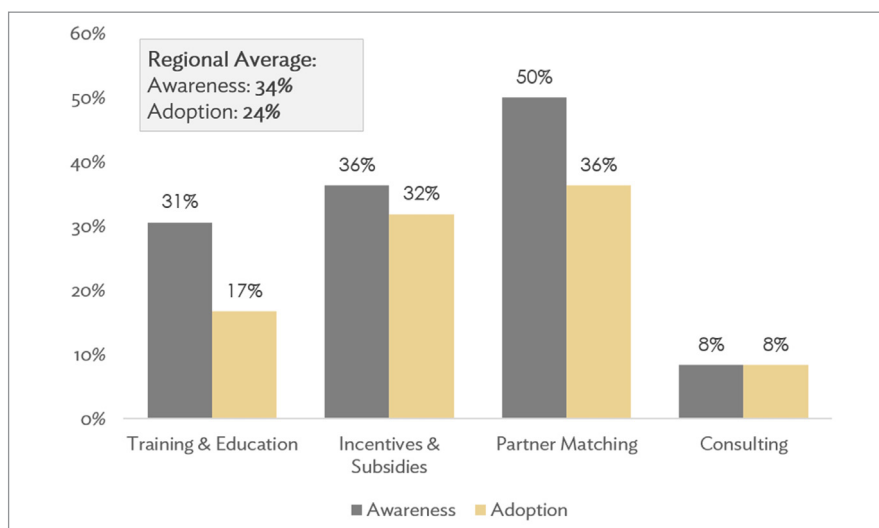
²¹ A.T. Kearney (2018), Cybersecurity in ASEAN: An Urgent Call to Action; ASEAN (2015), ASEAN ICT Masterplan 2015 Completion Report.

digital industries make the risk lower than for other types of transactions, governments need to pay attention to the terms of transactions between digital platformers and MSMEs.

6.5. The Difficulties in Engaging MSMEs

The study also found that although government agencies and associations interviewed recognised digitalisation as a priority and provided various support programmes for MSMEs, awareness amongst MSMEs about such programmes remains low.

Exhibit 6: Level of Awareness and Adoption amongst ASEAN MSMEs



To gauge the effectiveness of government programmes in terms of reaching MSMEs, the study asked MSMEs about their awareness and adoption of government support policies in countries where such programmes are available. The results show that on average only 34% of the MSMEs interviewed are aware of local government initiatives to encourage MSME digital adoption. The average adoption rate stands at the lower level of 24%. Given that the MSMEs interviewed were proposed by the respective governments, overall awareness about government support programmes amongst the general MSME population can be expected to be even lower.

This means that despite the existence of supporting measures, most MSMEs (66% of the respondents) are not aware of such programmes and their usefulness for digitalisation. Of the MSMEs interviewed that did not make use of government support to adopt digital technologies, low awareness was most frequently cited as the reason.

Exhibit 7: Reasons for Not Making Use of Government Support in Digitalisation

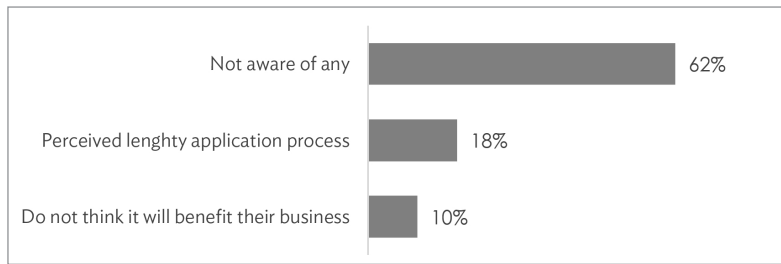
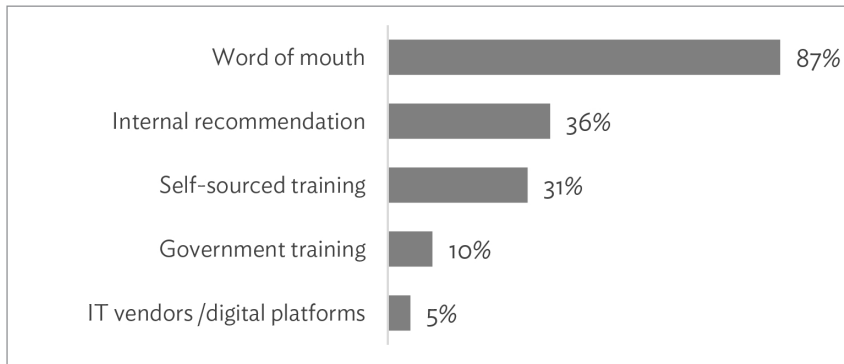


Exhibit 8: Sources of Information on Digitalisation and the Associated Tools/Services



Only 10% of MSMEs surveyed indicated that their knowledge and information about digitalisation was due to government efforts.

All AMSs have certain policies in place to support MSME digitalisation, with training and education at the top of the list. There is no doubt about the importance of training and education programmes. However, given that low awareness of policy programmes is one of the main reasons for the low rate of adoption of digital technologies by MSMEs, there should be additional efforts to improve awareness of these programmes amongst MSMEs.

Chapter 7

Moving Forward: Policy Options to Propel MSME Adoption of Digitalisation

In the previous section, we divided the challenges faced by MSMEs in digitalisation into four categories. To support MSMEs' digitalisation journey, we examine possible policy options that would effectively address the challenges in the respective categories.

Exhibit 9: Key Challenges and Policy Options

Key Challenges	Policy Options
1 Limited knowledge of MSMEs about digital technologies	Increase content in local language and refine menu of support programmes
2 Reluctance to change business processes	Encourage MSMEs' digitalisation by providing initial support
3 Shortage of expertise on digital technologies	Upskill and reskill MSME workforce
4 Collaboration between governments and digital platformers	Develop collaborative framework with digital platformers
5 Difficulties in engaging MSMEs	Enhance both analogue and digital policy communication channels

7.1. Increase Content in Local Languages and Refine Menu of Support Programmes

The first step to support MSMEs' digitalisation is to deliver proper information on digital technologies and benefits to MSMEs. To provide up-to-date and varied content, the governments' best approach would be to partner with digital platformers. They are in direct contact with many MSMEs and they are knowledgeable about types of MSMEs that have successfully utilised their services to digitalise businesses operations.

A possible challenge is that most content is in English, which makes it difficult for local MSMEs to digest the information. Although it cannot be an immediate solution, improving

the English proficiency of MSMEs' owners and senior managers would be an important step in promoting the digitalisation of MSMEs.

At the same time, development of local content, be it original or translated from English, is beneficial both for MSMEs and their local customers.²²

Another option is to support translation by automation. Although the technology is improving rapidly thanks to the development of artificial Intelligence, ASEAN could still encourage the efforts of digital giants in this field and possibly solicit donors to support the process, especially for less widely spoken languages such as Khmer, Lao, and Burmese. It is also important to develop policy programmes that can attract the attention of those MSMEs interested in expanding their customer base and wishing to improve their operations.

As MSMEs in ASEAN are most interested in increasing sales through digitalisation, attracting the attention of MSMEs through e-commerce related programmes and then providing information on a variety of services to relatively advanced MSMEs may be an effective approach.

7.2. Encourage MSMEs' Digitalisation by Providing Initial Support

Financial considerations are increasingly becoming a less crucial factor for MSMEs' acquisition of digital technology. On the other hand, respective AMS, especially the less developed AMS, still need to improve their digital infrastructures, as digital connectivity is rapidly improving and starting to become accessible to a majority of MSMEs in ASEAN. Under such circumstances, overcoming the conservative mindset of owners and senior managers of MSMEs is increasingly more important.

However, providing financial support to MSMEs that are considering embracing digital technologies can be an effective way to encourage them to move forward if it is properly designed. Even if the subscription fee for digital services is becoming less financially burdensome, providing financial support at the initial phase of adoption could be an effective tool to encourage MSMEs to adopt new technologies. The governments can effectively leverage their financial support by partnering with digital platformers, which may agree to provide additional support for the government's programme.

²² Malisuwan, S., D. Milindavanij, and J. Sivaraks (2016), 'Analysis of ICT Development in ASEAN Countries', *International Journal of Advanced Research in Management*, 7(2), pp. 1-10.

7.3. Upskill and Reskill MSME Workforce

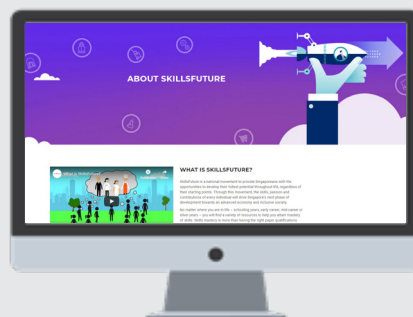
Shortage of expertise on digital technology is amongst the key challenges identified in the study. Unfortunately, there is no easy way to meet this challenge. AMS need to strengthen their vocational training systems to produce more qualified people familiar with digital technology.

Therefore, it is important for ASEAN to keep sharing best practices and learn from each other to properly address this challenge. The ‘SkillsFuture Series’, an initiative run by the Government of Singapore, is a good example.

Case Study

Singapore – SkillsFuture

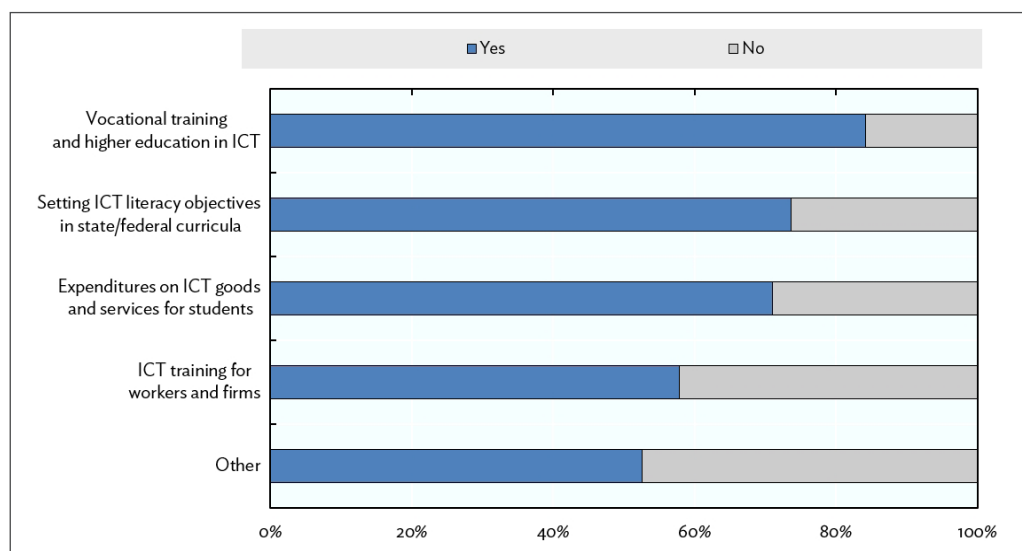
‘SkillsFuture’ is a national movement launched by the Government of Singapore to provide its citizens with the opportunities to develop themselves to their fullest potential throughout their lives, regardless of their starting points. Through this movement, the skills, passion, and contributions of every individual will drive Singapore’s next phase of development towards an advanced economy and inclusive society. As part of the national ‘SkillsFuture’ movement, the Government has rolled out the ‘SkillsFuture Series’ in collaboration with the Institutes of Higher Learning (IHLs). The ‘SkillsFuture Series’ comprises a list of modular, industry-relevant courses that seek to equip working adults with specific skillsets to meet changing job demands in emerging areas, enabling them to stay relevant and competitive in the future. As a start, the initiative focused on eight areas: (i) data analytics, (ii) finance, (iii) tech-enabled services, (iv) digital media, (v) cyber security, (vi) entrepreneurship, (vii) advanced manufacturing, and (viii) urban solutions. Over time, the IHLs will



continue to develop more courses, and sharpen their focus to meet industry needs. Besides the SkillsFuture Series, the Government of Singapore has also rolled out the ‘SkillsFuture for Digital Workplace’. This programme helps all Singaporean adults, including those planning to return to the workforce, to understand emerging technologies and how they impact work, interpret and use data, and adopt a positive mindset for change, innovation, and resilience. For example, participants of this programme will learn how to apply frequently used mobile apps in their daily life and perform basic cyber security actions such as setting up passwords to protect data and information.

Another example is an inter-ministerial collaboration in Indonesia, where Ministry of Education and Culture (MoEC), Ministry of Research, Technology and Higher Education (MoRTHE), Ministry of Manpower (MoM), and Ministry of Communication and Informatics (Kominfo) are jointly building an ICT skills development framework.²³ The Indonesian framework is also based on a TVET–NQS system, and recurrent education is a one of the strategies adopted. In fact, harmonisation of TVET is an ongoing endeavour in ASEAN.^{24,25}

Exhibit 10: Policies to Improve ICT Skills



Source: OECD (2017), *OECD Digital Economy Outlook 2017*. Organisation for Economic Co-operation and Development.

For reference, nearly 60% of Organisation for Economic Co-operation and Development members and partner countries support ICT training for workers (Exhibit 9).

Keeping the workforce up to date in terms of digital skills is the foundation for MSME digitalisation. Comparing the training programmes and IT education of respective AMS may create an opportunity for ASEAN as a whole to improve its human resource expertise on ICT.

²³ World Bank (2018), *Preparing ICT Skills for Digital Economy: Indonesia within the ASEAN Context*.

²⁴ ASEAN Secretariat (2016), *Master Plan on ASEAN Connectivity 2025*. ASEAN.

‘Initiative 14: Establish New Vocational Training Programmes and Common Qualifications across ASEAN Member States, in accordance with National Circumstances of each ASEAN Member State.’

²⁵ Cedefop (2017), *Global Inventory of Regional and National Qualifications Frameworks*. Volume II: National and Regional Cases. European Centre for the Development of Vocational Training.

7.4. Develop Collaborative Framework with Digital Platformers

To collaborate with digital platformers effectively and efficiently, it could be useful to create a framework under which ASEAN and AMS can communicate with major digital platformers in the region.

As explained above, digital platformers are becoming primary digital service providers for MSMEs. They have expertise and are keen to improve the digital capability of MSMEs, which would in turn be instrumental in expanding their business base. At the same time, platformers have not always been successful when they reach out to local MSMEs especially in non-native English speaking countries. Governments and digital platformers can complement each other to promote MSMEs' digitalisation effectively.

The framework can be used by governments not only to propose various ideas to digital platformers, but also to understand and address their concerns. For example, data localisation policy has been introduced in some AMS. Given the active role of global and regional digital platforms in MSME digitalisation in ASEAN, policymakers in ASEAN may need to further communicate to them how the regulation can be modified to allow them to support local MSMEs while addressing social concerns. It is emphasised that digital platformers should continue to uphold their commitments on data protection and privacy for consumers. Working closely with digital platforms, ASEAN and the governments of AMS should further strengthen current efforts.

7.5. Enhance Both Analogue and Digital Policy Communication Channels

Governments should consider both digital and analogue outreach measures. The outcome of the interviews indicates that using SNS is an effective way to communicate with MSMEs that are familiar with digitalisation. But to reach out to the majority of ASEAN MSMEs, which still mainly obtain business information from their existing business partners and local business circles (87% of respondents), governments would need to use traditional means of communication effectively. Partnering with local governments and local business associations, which are closer to MSMEs than central governments, could be an effective approach. Some digital giants are already trying to establish local channels to communicate with MSMEs. For example, Bukalapak, one of the leading e-commerce companies in Indonesia, is deploying hundreds of agents to cover important cities and suburban areas to physically communicate and collaborate with local MSMEs. ASEAN governments can support such moves by digital vendors. Local IT vendors would be another possible channel. A 2018 Japanese white paper on small and medium-sized enterprises revealed that even in Japan, the majority of MSMEs rely on local IT vendors when trying to obtain

information on digital technologies, rather than looking for information on the Internet including that provided by digital platformers or major IT vendors. Creating networks of local IT vendors to let them convey information on various policy programmes for MSME digitalisation could be an effective policy measure.

Case Study

IT Adoption Promotion Grant Program, Japan

The 'IT Adoption Promotion Grant Program' run by the Ministry of Economy, Trade and Industry, Japan (METI) serves as a good illustration of government support in helping MSMEs kick-start digitalisation.

A business owner (Client) can search for registered and qualified ICT vendors, consultants, or providers (Supporter) which have been approved by the authority on the programme website. Apart from that, companies can also browse for suitable ICT tools that fit their businesses. If the Client managed to match with vendors successfully, the authority will disburse the grant directly to the Client.



Chapter 8

Conclusion

There is no doubt that promoting digitalisation of MSMEs is necessary to drive inclusive growth in ASEAN. Digital connections are becoming faster, wider, and less expensive in ASEAN. Various digital platformers see ASEAN as a promising market and have expressed interest in expanding their businesses in the region. These improvements have enabled the gradual formation of the digital ecosystem for MSMEs in ASEAN.

However, not all MSMEs are able to adopt digital technologies without support from governments and digital platformers. The senior management of MSMEs are mostly occupied with hectic daily operations. They are not likely to adopt new business measures to improve their operations if they are uncertain about the benefits of adopting digital technologies and if they are unable to identify the most appropriate digital technologies for their businesses. The presence of such barriers might explain the low level of MSME digitalisation in ASEAN, which currently stands at 16%. Once the initial barrier has been overcome, however, further digitalisation becomes much easier for MSMEs. Therefore, it is important for the governments to establish programmes that can attract the attention of MSMEs that are not familiar with digital technologies and encourage them to take the first step forward. For governments, local and traditional business networks are important channels to communicate with un-digitalised MSMEs that rely on traditional sources for information.

Digital platformers are actively engaging with MSMEs in support of their digitalisation, as MSMEs are their key partners and play an important role in driving business expansion. Partnering with digital platformers to develop digitalisation support programmes for MSMEs could create a triple-win situation for MSMEs, governments, and digital platformers. However, governments need to continue to promote healthy competition amongst digital platformers and foster a conducive ecosystem for MSMEs to thrive in.

The next step for ASEAN to promote digitalisation of MSMEs could be setting up a dialogue with major digital platformers in the region. To collaborate with digital platformers, governments need to understand not only their services but also the bottlenecks that prevent them from reaching out to local MSMEs. It is also important to consider a regulatory framework that promotes healthy competition amongst digital platformers. To deliver information on digital technologies and government support programmes to local MSMEs, governments need to utilise traditional, local business networks and local governments. Combining these efforts with existing programmes on ICT human resource development could effectively improve the rate of digitalisation of MSMEs in the region.