Digital Infrastructure, policies and the productivity of SMEs – The emerging market’s perspective

by

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The views expressed are those of the author and do not necessarily reflect the views of UNCTAD.
Digital Infrastructure, Policies and The Productivity of SMEs

The Emerging Markets’ Perspective

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The Smart Africa Manifesto...

- To put ICT at the center of our national socio-economic development agenda;
- To improve access to ICT especially Broadband;
- To improve accountability, efficiency and openness through ICT;
- To put the Private Sector First;
- To leverage ICT to promote sustainable development

.......Kagame
The Transform Africa Summit organised in Kigali in October 2013.
SMEs play a major role in most economies, particularly in developing countries.

- Formal SMEs contribute up to 60% of total employment
- 40% of national income (GDP) in emerging economies.
- These numbers are significantly higher when informal SMEs are “included”.
- In emerging markets, most formal jobs are generated by SMEs, which also create 4 out of 5 new positions
- Promote innovation, help deliver goods and services
- A powerful force for integrating women and youth into the economic mainstream.
SMEs… Main Challenges

• They remain severely constrained in many developing countries, restricting business growth.

• Owners and entrepreneurs report access to capital to be one of their toughest challenges.

• Overall, approximately 70% of all micro, small and medium-sized enterprises (MSMEs) in emerging markets lack access to credit.

• They are less likely to be able to obtain bank loans than large firms
  • rely on internal funds
  • cash from friends and family
  • [Other means]

• Overall, approximately 70% of all micro, small and medium-sized enterprises (MSMEs) in emerging markets lack access to credit.
No thanks!

We are too busy
New opportunities for SMEs to participate in the global economy

- Providing financial empowerment and independence to the population through digital payment services
- Improve market intelligence, reach scale without mass and access global markets and knowledge networks at relatively low cost
- Supporting governments and stakeholder aims and aspirations through fit for purpose data analysis
- Ease the acquisition of skills and talent, through better job recruitment sites, outsourcing and online task hiring, as well as connection with knowledge partners
- Enhancing sector compliance, enforcement and reputation

SME AND DIGITALISATION
INTERCONNECTIVITY

REGULATIONS
- Policies
- Audit
- Enforcement
- Support

TRANSFER MONEY
- International Transfer
- Person-to-person
- Person-to-Company
- Person-to-machine

BUILD VALUE
- Convenience
- Security
- Audit trail & Transaction history

BUILD LOYALTY
- Build Loyalty points
- Build your profile: Silver, Gold & Platinum
- Receive offers

MANAGE FUNDS
- Direct deposits
- Currency exchange
- Savings

SHOP & PAY
- Merchant
- Online – e-commerce
- Government services
- Loans, taxes & Insurance services
Policies And Regulations
Show commitment to applying and implementing country regulations
Support authorities in the development, implementation and enforcement of international compliance requirements

Build systems and processes that capture regulatory requirements
Periodically review systems and tools to ensure compliance continues
Ensure that flexible systems can react to changes in requirements (risk, legal)
Ensure KYC requirements are met

Work with the sector to understand domestic requirements and support compliance
Present a common approach to regulators
Share and learn international best practice

Ensure the required level of relevant knowledge in financial compliance
Put adequate training in place to ensure staff awareness

 › Automated administration of policy requirements
 › Automated monitoring
 › Automated auditing
 › Automated interaction

 › Sanctions & Embargoes
 › Monitoring
 › Reporting
 › International and FATF standards
 › Due Diligence

 › Provide solution to support compliance
 › Ensure authorised entities meet international standards
 › Translate policy into processes
 › Train

 › Qualified personnel to ensure the compliance of solution
 › Qualified personnel to ensure the compliance of sector
 › Qualified personnel to work with regulators
 › Staff awareness of expected professional ethics
SMART DIGITAL ENVIRONMENT
No thanks!

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The Reality Of Emerging Markets’ SMEs
Infrastructure
- Power
- Water
- Roads
- Transportation
- Internet
- Phone

Support
- Personnel
- Training
- Grants

Legislation
- Policies
- Enforcement
- Guidelines

Environmental
- Safety
- Stability
- Information
**Infrastructure**
- Power
- Water
- Roads
- Transportation
- Internet, Phone

**Support**
- Personnel
- Training
- Grants

**Legislation**
- Mutually Agreed
- Self Enforcement

**Environmental**
- Safety
- Stability
- Information

**SME**
• Requires infrastructure electricity, water, gas, roads, internet

• Invests in infrastructure to ensure services for production

• Provides and maintains own infrastructure

• Pays rates and charges for government “infrastructure” in line with regulations

• Provides finished goods and services
Must Make Profit!!

• Prices reflect the cost of infrastructure rather than investment

• Passes the cost to consumer within the same environment

• Target group of consumer with adverse spending power
Solution

- Stops Production and/or Services
- Limits Products and/or Services
- Compromises Quality of Products and/or Services
Impact

Profitability
Investment
Loans
Finance

Standards
Trust
Reliability
Confidence

International
Competition
Compliance
Partnerships

Sustainability
Individual
National
Industry

- Impact
- Profitability
- Investment
- Loans
- Finance
- Standards
- Trust
- Reliability
- Confidence
- International
- Competition
- Compliance
- Partnerships
- Sustainability
- Individual
- National
- Industry
No thanks!

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Sustainable National Development

Social Empowerment

Financial Inclusion

SME Development

Infrastructure Provision, Policies, Enforcement
Policy Recommendations

The need for digital solutions and how essential the ongoing revolution is for the realisation of a sustainable, profitable and empowering SME sector is not in question, at least in most quarters.

However, for this to translate into reality for the emerging markets, the key ingredient required is “Interconnectivity”

- Interconnectivity of digital solutions
- Interconnectivity of social amenities
- Interconnectivity of laws and regulations
- Interconnectivity that defines an enabling environment

Regulations and their enforcement must first look inwards and tackle the question of the creation of enabling environments and the provision of social services and amenities for the production and manufacturing sectors.

Prevailing domestic regulations must reflect common purposes such that rather than conflict with or contradict each other they complement, hence creating an environment of certainty for sectors.

Where there is transparency, especially in the enforcement of laws, there is confidence.

Laws and relevant regulations must, whilst ensuring standards, quality and security, must also be fit for purpose and take into consideration the reality of the environment in which they supervise.

More study on how to support government in the emerging countries or to fund the creation of environments that provide, nurture and support business initiation and development i.e. social infrastructure revolution