

POLICY GUIDELINE ON DIGITALISATION OF ASEAN MICRO ENTERPRISES

Harnessing Digital Transformation to Promote the Formalisation of Micro Enterprises

Introduction

The Policy Guideline on Digitalisation of ASEAN Micro Enterprises were developed through an inclusive, multi-stakeholder process with support from the ASEAN Secretariat, ASEAN Coordinating Committee on MSMEs (ACCMSME), representatives of the relevant ASEAN Member States (AMS), Organisation for Economic Development and Cooperation (OECD)¹ as well as representatives of the private sector in ASEAN. This work aims to support policy dialogue; strategic planning, priority setting and implementation planning. The guidelines are based on feedback received during the Workshop on Global Digitalisation Model for Micro Enterprises and Policy Dialogue on Formalisation of Micro Enterprises, which took place during May and June 2019 in Bangkok. This document is also a follow-up to the 3rd Meeting of ASEAN Task Force on Starting a Business in 2018, which had requested for further discussion on enterprise digitalisation and business registration. This request was translated into the report “*Informal Sector in ASEAN and Good International Practices*” and this current set of guidelines.

For the purpose of this document, we define micro and small businesses as those enterprises that are owned by one person or a family or that fall under a formal definition of micro enterprises that is applied in individual AMS. A significant share of those enterprises, particularly in low and middle-low income AMS are either not registered or licensed or do not fully comply with standard registration and licensing requirements and other laws and regulations. Those enterprises often do not have a defined legal status and are classified either as totally informal (not registered and unknown to public authorities) or partially informal (licensed or registered but not fully compliant with labour, tax or environmental/health laws and regulations).

Evidence collected by different sources (ILO, country labour and other types of surveys and economic census) shows that most of those enterprises are very small, less than 10 and most often less than 5 employees and family run. As the degree of informality is determined by the level of non-compliance to the country laws and regulations, it is not possible to apply a single definition of informality across all the AMS. However, it is possible to define common criteria enabling ASEAN policy-makers to classify an enterprise as fully or partially informal, or fully formal.

Aside from the relatively large stock of micro enterprises across ASEAN that are wholly or partially informal, and typically *necessity-driven*, there are also a growing number of firms that are *opportunity-driven*. These firms typically operate on business models made possible by rapid digitalisation. They are also likely to be more prevalent in societies that foster a digital entrepreneurial culture. Such enterprises include the born-global enterprises, i.e. enterprises established with the mindset to penetrate the global market from their birth.

As opposed to traditionally exporting enterprises that are only able to achieve internationalisation when they have grown to large sized enterprises, born global enterprises are able to penetrate foreign markets in the first 2 – 3 years of firm establishment (Lin and Wang, 2008), and generate between 50-80 % of sale turnover from export market (Sylvie, Chetty and Hunt, 2014). Such enterprises include fashion brand Na Forrér, (Brunei Darussalam), specialty coffee producer Genius Shan Coffee (Myanmar) and organic rice

¹Through the Canada-OECD Project on ASEAN SME (COPAS)

producer Naturefood (Thailand). These enterprises have established online presence and utilise online tools to access the global market. Besides reaching out to the regional market, they have also successfully gone beyond the region, penetrating countries such as France, Italy, Japan, and the United Kingdom²

Stimulating the creation and growth of these enterprises brings a different set of considerations for policymakers. Given the right product and services with good market fit, these companies could be on the fast-track of their growth trajectory and could benefit from agile policy making. These enterprises would greatly benefit from public policy interventions that support their entrance into and enable them to operate in the international market such as increasing their access to innovative financing mechanisms, electronic payment solutions, safeguarding their intellectual property rights, providing them with access to digital skills, and lowering barriers to trading across borders, among others.

Background

Micro, small and medium enterprises (MSMEs) play an important role across all ASEAN economies. They are essential for providing jobs and social stability, and livelihoods for hundreds of millions of people across the region. Micro enterprises are especially sensitive to the systemic changes as on one side they can create opportunities, they can also be affected by these changes, not being able to compete with the larger enterprises.

Digitalisation is having a major effect on the way enterprises operate. In Southeast Asia, the uptake of digital services and applications has grown apace and the rapid diffusion of mobile broadband, in particular, is enabling more and more people and firms to connect to communication networks. At the end of 2017, there were around 286.4 million of the approximately 647.5 million people in ASEAN using the Internet – that is, around 44% of the population, a steep increase from just over 12% of the region's population at the end of 2007¹ (ITU, 2018).

The digital transformation offers an unprecedented opportunity to address eligibility and barriers to formalisation faced by informal individuals and firms. Digital technologies open up new opportunities for policymakers to transform public service delivery and general administration – making compliance cheaper and more straightforward for all enterprises, including SMEs, and allowing for more targeted and efficient policy interventions. The increasing use of communication infrastructures in ASEAN facilitates new services, products and applications, potentially transforming how people live and work. This offers many opportunities for MSMEs to benefit from access to global markets and consumers to a greater diversity and choice in products, can also facilitate their management, simplifying the administrative burdens and help address the issue of informality. This has also allowed creation of born global enterprises.

By promoting companies to go digital, policy-makers could help enterprises become more competitive and enter new markets and segments. Digitalisation can also facilitate the formalisation of companies by offering easier ways to get registered with local authorities and making their accounting easier. Currently, most micro and small businesses are unregistered, thus contributing to high levels of informality in many AMS. There is a general trend of encouraging micro enterprises to register, to promote business formalisation and to reduce the size of the informal economy. This aims to facilitate the organic growth of micro enterprises, promote an equal business environment and a level playing field. However, there are also arguments that the policy to encourage micro enterprises to register should take into account the nature of micro enterprises, their advantages and reasons for remaining micro and informal, as well as the special characteristics of each economy.

² Examples cited from the Workshop on Global Digitalisation Model for Micro Enterprises, May 2019, Bangkok, Thailand.

In ASEAN, AMS are tackling informality from different perspectives. Of the eight AMS scored in the ASEAN SME Policy Index 2018's sub-dimension of "measures to tackle the informal economy," five countries have attempted to assess the size and characteristics of the informal sector (Brunei Darussalam, Indonesia, the Philippines, Thailand and Viet Nam). In three countries (Cambodia, Lao PDR and Myanmar), where the level of informality is believed to be particularly high among micro enterprises, the government is considering policy options to tackle informality.

Informal businesses targeted and captured in this background reader are economic establishments which are owned by one person or a family or fall under a formal definition of micro enterprises for each of the AMS. They are not registered (or loosely registered), not in the form of formal legal institution, without legal status and thus being considered as informal (or quasi-formal). They often employ less than 10 employees and rely mostly on family members as workers. They also include non-farm self-employed who operate as sole proprietorship or sole traders, but are unregistered or loosely registered. When referring to informality for the sake of this paper we consider a wide definition, which could include an entirely unregistered enterprise, an enterprise that does not register all its employees (labor informality), or an enterprise that is not fully registered – for example one that is only registered with local authorities but not with the central government or tax authorities.

Among AMS there is a strong belief that digitalisation can play a role in reducing informality. The statistics and data on informal micro enterprises are generally lacking in ASEAN countries, however it is estimated that there are about 66.83 million informal or semi-formal business across ASEAN. They are either not yet registered (informal) or loosely registered (semi-formal). The figure shows that informal and semi-formal businesses significantly outnumber those in the formal sector. These businesses are providing employment opportunities for about 117 million people across ASEAN. This figure is much higher than the number of jobs created by formal enterprise. In ASEAN, about 10.04 million companies are formally registered businesses creating over 72 million jobs. Although we do not have concrete numbers, it is clear that informality creates a considerable economic loss, moreover it could hamper economic development of companies due to lack of access to crucial resources and knowledge. (*Source: Background note for the Policy Dialogue on Formalisation of Micro Enterprises in ASEAN*).

Factors discouraging micro enterprise formalisation, and benefits of corrective action

The causes of informality are multifaceted and variate. They include:

- **Low enterprise productivity and growth ambitions.** Many micro enterprises are characterised by low levels of productivity and limited growth ambitions – particularly in emerging economies, where they are often necessity-driven. They therefore often compete on price, and see limited advantages to formalising.
- **Complex and expensive procedures to formalise.** In many economies, particularly emerging markets, registration and compliance costs are complex and costly. Many informal micro enterprises operate close to subsistence levels, and therefore these costs often prohibit formalisation.
- **A lack of trust in the public sector.** Many enterprises are reluctant to formalise because they fear harassment from public authorities. A clear and reasonable taxation regime, as well as measures to tackle increase public sector integrity and transparency, can help to address these barriers.

- **Limited incentives to formalise.** In many emerging economies, the limited availability of public service delivery and targeted policy interventions reduce incentives to formalise. Given the social contribution of micro enterprises in many countries, enforcement is rare, and targeted policy interventions are sometimes also extended to informal enterprises, further reducing incentives to formalise.

Firm-level studies (La Porta and Shleifer, 2008) suggest that an increase in the number and/or the size of formal enterprises translates into higher GDP levels and growth rates. It tends to translate into higher wages and greater levels of social protection – La Porta and Shleifer (2008), for instance find that wages in informal firms are roughly one-half of those in small formal firms and less than one-third of those in large formal firms. It also levels the playing field for formal firms, relieving price pressures, and may expand the taxation base – thus also facilitating more and better public services.

Approach for micro enterprise development in ASEAN

Micro enterprises are crucial to ensure social stability and provide livelihoods for hundreds of millions of people across the region. However it is noted that one of the characteristics of the region is that the vast majority of micro enterprises are *necessity driven enterprises*. These are typically entrepreneurs or individuals having no better alternatives. These are typically small enterprises working in low- productivity sectors such as small shops in wholesale /retail trade, transport, construction and hospitality (from street hawkers to small restaurant, bars, B&B and hotels). These enterprises typically have one owner/manager/main service provider, supported by family members and, sometimes, paid employees. They are not expected to generate innovative ideas, but are crucial for the social stability and the provision of a wide range of services to local communities.

Opportunity-driven enterprises are still relatively few in ASEAN, particularly in the low and middle-low AMS, but it is this sub-group of micro enterprises that will have a higher propensity for growth and digitalisation absorption. Opportunity-driven enterprises would also typically have better skillsets and would have a higher demand for business development support services. Since this sub-group of micro enterprises would have a growth ambition, they are more likely to be registered or formalised. These types of micro enterprises are more likely to take advantages from digitalisation and could achieve significant growth and provide opportunities for employment. Born-global enterprises would fall under this sub-group, which were created with a clear ambition to pursue international and rapid growth expansion.

A number of research papers have concluded that, for the vast majority of enterprises they tend to shift from necessity-oriented to opportunity-oriented motivations as their ventures become more established. Currently in ASEAN, majority of enterprises are still necessity-based. Further promoting formalisation (and using digital tools for that) could in a long run help create a larger class of opportunity –driven ventures. From the public-policy point of view, it is important to support both necessity-driven enterprises, for their contribution to subsistence, social stability, cohesion and local community support, while likewise opportunity-driven enterprises are crucial for development of growth potential and innovation. This set of guidelines will provide elements relevant for both groups, but would specify in some cases to which sub-group which guideline is more relevant.

Purpose of the Guideline

The purpose of the guidelines is to provide reference to policy makers in fostering an enabling environment for micro enterprises to formalise and utilise digital tools to penetrate and grow in the global

markets. Different set of principles would apply for necessity-driven and opportunity-driven enterprises, and this document will help to distinguish the right set of principles for the right sub-group of micro enterprises.

It will promote the principles for formalisation of micro enterprises and advantages they can get through digitalisation, and guidelines for the governments to adopt digitalisation tools in their processes. Finally, it will refer to relevant elements to consider or relevant good practice examples per principle suggested.

Guidelines and what to consider

1: Governments should foster an enabling environment for the development of micro enterprises.

Governments should focus efforts on a particular subset of enterprises to ensure targeted strategies and effective utilisation of resources, and these strategies could be driven either by social needs or by the expectation of micro enterprises to grow.

Policy makers could consider the needs to digitalise micro enterprises and the resources needed for the digitalisation effort. Necessity-driven micro enterprises should be supported with a set of measures due to their specific characteristics. Opportunity-driven enterprises should be given priority in formalisation process and digitalisation effort should be attached to this sub-set of micro enterprises.

Thailand's newly-created Digital Economy Promotion Agency (DEPA), for instance, implements targeted programmes for both high-growth and for traditional enterprises. It has set a quantitative – albeit ambitious – target of transforming 25, 000 traditional firms over a five-year period. Its main policy tool is the Digital Transformation Fund. This scheme originally sought to match SMEs to a consultant, who would help them to develop a new business plan, after which they could apply for financing to invest in new technologies. After 7-8 months of operation, however, DEPA observed that the scheme was exhibiting limited scalability, and they therefore adapted the scheme. The programme now begins with a workshop, wherein they provide SMEs with information on DEPA and connect them digitally with a consultant. To finance the adoption of new technologies and standards, they provide SMEs with vouchers such as the “mini transformation voucher” and the “standardised voucher.” They also undertake continuous awareness-raising and stakeholder engagement efforts, such as on-site visits. (OECD (forthcoming))

2: Governments should develop a conducive regulatory environment, trying to maximize the benefits generated by the provisions of digital government services both for the enterprises, in terms of reduction of the administrative burdens, as well as for the public administration (simplification of procedures, lower administrative costs and better data and information collection).

Governments need to review the administrative processes, adopt new technological and organisational solution to simplify procedures and keep up with the fast-paced changes in the enterprise world. Not only that, the Governments need to equip themselves with the necessary technical knowledge, or at the very least, establish “technology units” in relevant agencies to communicate better with the enterprises.

In developing the regulatory framework to address the changing needs of micro enterprises due to the digitalisation, it is important that policy-makers consider broader issues related to connectivity, skills, privacy and digital security. Policy makers could also consider establishing a robust and secure digital identity infrastructure in which the digitalization needs of micro enterprises are met in a secure manner.

Governments are encouraged to make full use of good regulatory practices (GRPs) to maximize the benefits generated by new policies, such as e-government services, as well as reduce administrative

burdens on micro enterprises. Reference and guidance could be drawn from the ASEAN Good Regulatory Practice (GRP) Core Principles³, which provide broad parameters for assessing the application of GRP; as well as the ASEAN Regional Principles for Good Business Registration Practices⁴ that provides common reference and implementation targets for easing the business registration process for businesses in ASEAN. GRPs include the use of ex ante impact assessments, stakeholder engagement and ex post evaluation to help create a stable and enabling regulatory environment for investment, trade, and entrepreneurship, and thus supports healthy economies and regional competitiveness. From a forward-looking perspective, new regulations should be developed based on an impact assessment conducted in the early stages of the policy process and systematically discussed with stakeholders. Conducting rigorous ex post reviews of regulations is equally important, as technological change inherently challenges the existing stock of regulation that contain legacy provisions that may no longer be fit for purpose.

The Government of Sweden has created a number of regulatory sandboxes and policy labs to facilitate the creation of more agile and fit-for-purpose policies and regulations, in the context of more complex and rapidly-changing needs. One successful example includes the Innovation Centre launched by the country's Financial Supervisory Authority, the Finansinspektionen (FI). This body provides a single point of contact for innovation-based firms that are unsure of the rules, processes and principles that apply in the financial sector to their innovations. It also allows the FI to monitor the development of the financial sector, and thus to develop stronger supervision and consumer protection mechanisms. Another example includes the policy lab established by the Swedish Tax Agency, which aims to explore the difficulties and incentives for tax compliance among enterprises and individuals operating in the sharing economy, and to develop proposals to increase compliance. (OECD, 2018)

3: Governments should promote formalisation of micro enterprises, supporting efforts with a clear explanation on the benefits that business registration could give access to including access to financial services, business development support, access to public procurement, as well as ability to apply for standards and licenses. At the same time, governments should also highlight the risks and the underlying costs linked to informality (fines, lack of legal protection, higher costs of finance, inability to attract skilled labour, exclusion from government services and public procurement).

Awareness over the benefits of formalisation play an important role in the decision of micro enterprise when they consider going formal. Governments should inform various stakeholders of the benefits of formalisation and through highlighting concrete examples of how micro enterprises benefited from formalisation, demonstrate the advantages of being formalised. The incentives offered to micro enterprises when they formalise should be relevant and equal. Incentives offers should be justifiable and effective.

In addition to incentives, efforts for law enforcement need to be reviewed. Law enforcement should not discourage creation of micro enterprises. A system of first and second warning could be applied to display the willingness of the government to give a chance for a micro enterprise. Enforcement efforts should be twinned with initiatives that provide attractive alternatives for potentially non-compliant enterprises. Grace period could be granted to micro enterprises in order to give them time to comply with the relevant legislation and regulations. This period should not exceed one year and its criteria should be clearly defined. The Government should also provide support programme to the micro enterprises within this grace period to ease their compliance process.

The OECD has produced Best Practice Principles for Regulatory Enforcement and Inspections, which construct an overarching framework to make enforcement more effective, efficient and less burdensome

³ <https://asean.org/storage/2017/11/ASEAN-GRP-Core-Principles-FINAL-ENDORSED.pdf>

⁴ <https://asean.org/wp-content/uploads/2012/05/ASEAN-Regional-Principles-for-Good-Business-Registration-Practices1.pdf>

for regulated entities and less resource intensive for governments. This is supplemented with the OECD Regulatory Enforcement and Inspections Toolkit, which gives a checklist of 12 criteria that can be used to identify strengths and weaknesses, gauge actual performance and pinpoint areas for improvement. For MSMEs, the key goal would be to not discourage.

4: Governments should take full advantage of existing digital platforms and tools facilitating management, market access and formalisation of micro enterprises. These could be digital tools for bookkeeping, e-commerce platforms and on-line systems developed by governments and private sector.

Governments should take full advantage of digitalisation and develop online registration portals. At the same time Governments should strive to ensure the relevance and accuracy of information provided to companies. Digital platforms should be embedded with a mechanism that allows for the systematic updating and verification of the information provided, ensuring that it remains relevant and reliable.

To encourage micro enterprises, particularly the opportunity-driven subset, to take full advantage of existing digital platforms and tools facilitating enterprise management and market access efforts, governments could consider creating awareness programmes and facilitating access to existing e-commerce platforms or solutions such as the book-keeping system. Internet-based applications, the Internet of Things (IoT), and artificial intelligence solutions are also digital tools which governments could take into account when formulating policies and regulations in support of formalisation and growth of micro enterprises.

Chile rolled out its *Escritorio Empresa*, or “Business Desk,” platform in 2015. Enterprises can use this platform to complete a broad set of procedures (50, as of 2017), including enterprise registration, license and titling applications, applications for public funds and contracts, and patent registration. This builds on pre-existing and complementary efforts to digitise business transactions, such as through e-invoicing. Chile was the first Latin American country to roll out an Electronic Invoicing System in 2003, and it has become a pathfinder for many countries in the region. Through e-invoicing, the government not only lowers compliance costs for all enterprises – particularly SMEs – but it also obtains access to a huge amount of data. This has allowed for the simultaneous, reliable and traceable registration of taxes on sales and income, as well as social security contributions. (OECD, 2016)

5: Digitalisation and formalisation effort should be promoted in partnership with private sector organisations and civil society by developing feedback mechanisms and encouraging the private sector to promote among their members the importance of being formalised.

By engaging with stakeholders – who can contribute their own experiences, expertise, perspectives and ideas to the discussion – governments gain valuable information on which to base their policy decisions. Information from stakeholders can also help to avert unintended effects and practical implementation problems of regulations. Together, this can contribute to encouraging formalisation as governments can better learn what barriers exist to formalisation and how to potentially reduce them. Moreover, meaningful stakeholder engagement in the development of regulations is expected to lead to higher compliance and acceptance of regulations, particularly when stakeholders feel that their views were considered.

Private sector stakeholders, business and associations may be the best and the most reliable advisors to micro enterprises when they face the decision of becoming formal. Policy makers and governments should develop feedback mechanisms and encourage the private sector to promote among their members the importance of being formalised. Engagement with civil society, business associations, business membership organisations, etc. should be promoted and well considered in policies and programs to promote micro enterprise to become formalised.

The 2018 Regulatory Policy Outlook recommends engaging with those concerned and affected by regulation is fundamental to improving the design of regulations, as well as enhancing compliance and trust. In 2014, the Korean government introduced a new regulatory petition system on the dedicated regulatory information portal www.better.go.kr, called “Regulatory Reform Sinmungo”. Any member of the public can submit a suggestion for regulatory reform through the Regulatory Reform Sinmungo website. Regulatory Reform Sinmungo also provides other methods for filing a petition, such as mail, fax or personal visits. Between its inception in March 2014 and 2016, the Regulatory Reform Sinmungo accepted 3,645 petitions out of 9,333. All accepted petitions need to be implemented within six months in case of acts enacted by the Korean National Assembly, or within three months in case of rules and regulations enacted by ministries. Resulting policy changes from petitions can be browsed online grouped by policy field. The performance of the Regulatory Reform Sinmungo is monitored by the Korean government. Each administrative agency receives an annual evaluation from the Office for Government Policy Coordination on its performance in the Regulatory Reform Sinmungo.

6: Governments should ensure that micro enterprises have reliable, affordable and high-quality access to communication services, in particular, mobile and fixed broadband

Communication infrastructures and services underpin the use of digital technologies, and facilitate interactions between connected people, organisations and machines (OECD, 2019). Policy makers should seek to ensure that all enterprises have reliable, high-quality and affordable access to communication infrastructures and services. This requires measures to increase coverage as well as quality considerations such as the speed and latency of communication services. It may also require targeted measures to increase access to broadband from often-underserved groups, such as firms and individuals located in rural areas. Policymakers could also consider specific demands for priority sectors – for instance. As more people and things connect, new demands will be placed on networks. Many connected devices, including those that are powered by emerging digital technologies like artificial intelligence (AI), will require real-time transmission of huge amounts of data (OECD, 2019). Therefore, extending both fixed and wireless high-capacity networks will have numerous advantages for Industry 4.0, including faster download speeds, greater reliability as well as lower latency.

Strengthening the institutional and regulatory frameworks for connectivity and implementing regulatory measures and policies that are based on consistent, clear and transparent principles, is crucial to foster competition in both fixed and mobile broadband markets and extend access to affordable and high-quality communication services. (OECD, 2019 – forthcoming) In less developed private markets, additional interventions may be required, such as competitive public tenders for infrastructure deployment, or fostering open access arrangements and initiatives to reduce deployment costs, such as “dig once” practices (OECD, 2018).

Between 2013 and 2016, for instance, the Government of Mexico embarked upon an ambitious and comprehensive set of reforms to transform the country’s telecommunication sector. This included measures to reduce barriers for market entry, including for Foreign Direct Investment (FDI), and they created strong, independent, and converged regulator for telecommunication and broadcasting, the Instituto Federal de Telecomunicaciones (IFT) that clearly separated policy formulation and regulatory and market monitoring functions (OECD, 2017). The regulatory reform in Mexico’s telecommunication sector fostered competition, and as such, these measures have led to a rapid increase of mobile broadband subscriptions in Mexico, and has also contributed to lower prices and enhanced access for many households and firms.

7: Governments should promote development of finance ecosystem facilitating access of micro enterprises to finance

In many emerging economies, external financing for micro enterprises is generally limited to retained earnings, borrowing from family and friends, borrowing from moneylenders, and, in some cases, microfinancing instruments, often provided by NGOs. Limited access to finance may reduce micro enterprises' ability to scale, increase their productivity, and to ride out periods with limited cash flow. Digitalisation may offer new solutions to broaden the range of financing options available to micro enterprises, thus enabling them to enhance their productivity and become more structured. Public policy interventions could include measures that encourage more individuals and micro enterprises to bank online, to use innovative instruments such as digital wallets, and that increase the availability of alternative sources of finance – for instance peer-to-peer lending platforms. To increase the “visibility” of informal enterprises, policymakers could also explore ways to increase the use of alternative data for credit reporting, and offset its risks. Public policy interventions could include amending regulations, in order to oblige all payment service providers to report credit data to credit reporting services in for their jurisdiction, and harmonising data privacy laws in relation to alternative data, in order to facilitate cross-border data exchange (GPFI, 2018). For opportunity-driven enterprises, governments could consider introducing mechanisms to encourage viability-based financing, such as introducing tax relief to incentivise private sector investments. Further, the governments could also consider directing a small amount of government funds towards high-growth firms, for example institutional investor funds or by co-investing with a third party (OECD/ERIA, 2018)

The Philippines is currently exploring ways to increase its credit information coverage – that stood at around 8% of the population in 2017. As a stopgap measure until more enterprises and individuals hold actual financial records, the country has become a testbed for fintech startups that provide alternative sources of data to assess creditworthiness. Many of these startups receive some support from the Philippine government, such as First Circle, which uses data from social media and cell phones and has developed a database on supply chain networks, in order to determine the feasibility of a loan. The country has also rolled out complementary measures, such as the Data Privacy Act (DPA), which takes into account specific considerations relevant to fintech companies, that typically seek to collect and use vast amounts of highly-personal behavioural data. These considerations include issues of consent, the right to be forgotten, notification and registration of automated decision-making processes, the necessity of appointing a data protection officer in each fintech company using personal data, and a requirement to file data breach notifications.

8: Governments should ensure that micro enterprises have access to business development services

In an increasingly complex and specialised global marketplace, business development services can be an important resource for firms, enabling them to improve their performance, access new markets, and compete. In many emerging economies, business development services are relatively lacking, which may mean that there are few facilities available to plug knowledge and access gaps. Many countries adopt a two-tier system in order to avoid over-investment. They provide basic digital business diagnostic tools to reach many firms at low cost, and then they provide targeted and more costly support for a small group of firms selected through a competitive process, based on edibility criteria aligned with policy objectives. To encourage further digitalisation, these interventions could also consider technology diffusion. Such initiatives could include targeted advice linked with finance and capacity development, the involvement of necessity-driven micro enterprises in applied technology centres, technology community networking initiatives, or knowledge transfer incentives such as innovation vouchers. Some good practices include

signposting to reliable SME-specific expertise (such as Singapore's TechDepot⁵) and providing information on the expected return on investment (ROI) for new technologies. To unleash innovation in start-ups and young firms, incubators and accelerators can be useful tools to promote synergies and learning among entrepreneurs. Typically incubators and accelerators can also provide intensive education along with seed funding for selected businesses.

Canada's Industrial Research Assistance Programme, for instance, provides financial and non-financial services to support innovation in firms, including technical and business advisory services, networking and linkages services, and research equipment and facilities. It offers financial assistance to support up to 75% of total estimated costs (with a maximum of USD 1 million per year) for a firm's R&D projects. In addition, it provides technical and business advice through 255 Industrial Technical Advisors located across Canada. It targets high-potential firms, and has been operational since 1962. It deploys a yearly budget of around USD 100-500 million.

9: Governments should promote development of relevant skills and knowledge among its population. Digitalisation will require new skillsets

New skills will be required to operate in a more digital world, and to fully reap the benefits of digitalisation. This includes not only ICT skills, but also a new range of competencies, such as the ability to navigate huge quantities of data, compute it in a deep way, consider it critically and to develop innovative and creative solutions. To sufficiently equip workforces for the skills of the future, formal education systems will need to develop new skills sets, and lifelong learning will become increasingly important. Since micro enterprises tend to have lower access to resources for human capital development, horizontal policies that provide access to such skills may be particularly beneficial to them. Promoting digital skills in schools, universities and in lifelong education is essential to increase the overall effective use of digital tools and services in society.

This concerns not only workers but also business owners. Surveys find that many business owners feel their current business models are fit for purpose and fulfil their current needs, and so are reluctant to transform their processes or invest in new technologies. Communicating to them the urgency of change, and imbuing them with a new mind-set, will require a concerted public policy effort. Some partnerships among industry players (e.g. communication service providers, content providers and digital platforms) and the public sector already include programmes focused on developing digital businesses. National awareness campaigns that show the benefits of the digital transformation to those who are not currently digitally engaged also can spur adoption of digital tools. Micro and small companies especially should be a priority target of such campaigns. Concerted regional efforts on advocating capacity building among MSMEs include the Master Plan on ASEAN Connectivity 2025⁶ and the ASEAN Digital Integration Framework⁷, while national initiatives include, Cambodia's upcoming MSME Go Digital Programme, a platform under the cooperation between Ministry of Industry and Handicraft, Ministry of Economy and Finance, Ministry of Post and Telecommunication, the Philippines' Small Enterprise Technology Upgrading Programme (SETUP), an initiative to encourage and facilitate SMEs' adoption of technological innovations to improve their operations as well as Singapore's TechSkills Accelerator (TeSA)⁸, a programme that aims to enhance training and placement opportunities for ICT jobs across the economy, by facilitating the reskilling or upskilling of individuals from both ICT and non-ICT backgrounds to meet industry needs.

⁵ The Tech Depot is a first-stop, centralised platform under the SME Portal aimed at improving SMEs' access to technology and digital solutions. For more information, please visit <https://www.smeportal.sg/techdepot>

⁶ <https://asean.org/storage/2016/09/Master-Plan-on-ASEAN-Connectivity-20251.pdf>

⁷ <https://asean.org/storage/2019/01/ASEAN-Digital-Integration-Framework.pdf>

⁸ <https://skillsfuture.sg/tesa>

In the UK, for instance, the Mayfield Commission created an online self-assessment tool in 2017 (www.bethebusiness.com) that allows SMEs to identify the best practices and key technologies that are being used by the most productive firms in their industry. This tool not only allows SMEs to identify new technologies for priority adoption, but it also provides guidelines on supporting actions. Alongside providing inspiration, this tool also makes use of innate social influence bias to catalyse change.

10. Governments should ensure cooperation between different agencies and levels of governance, some good practices include: i) establishing a high-level steering committee for inter-agency coordination; ii) ensuring buy-in, by encouraging participating agencies to each contribute a share of budgetary resources; iii) communicating the benefits of sharing data with other agencies.

One of the main factors discouraging enterprise formalisation are the higher compliance costs associated with formality. In pursuing this objective, policymakers could consider adopting a government transformation strategy that combines three objectives in tandem: *i*) digital government; *ii*) administrative simplification; and *iii*) public service delivery enhancement. Since digital government services are one of the most effective ways to simplify administrative procedures and enhance public service delivery, adopting this approach could ensure that transformation efforts effectively harvest the synergies between each. Measures to bring more public and private transactions online should not only focus on developing new digital platforms, but they should also pay considerable attention to developing the ‘back office’ for digital services. In many countries, this aspect is relatively neglected impacting process automation, key to simplify procedures and enhance service delivery. As a result, many enterprises still need to interface with a number of different government agencies in order to operate – for instance to obtain licenses, or to file tax or social security contributions.

Pursuing this aim will entail a number of demands and challenges, such as strategic public sector investments in digital services and applications and management of data value chains, and redesigning how the public sector functions and how public sector officials are incentivised to collaborate, share and integrate. To make the digital transformation work for growth and well-being of all, including MSMEs, a whole-of-government approach for Going Digital is needed (OECD, 2019). This typically requires with a high-level mandate – for instance a specialised agency or task force sitting under the Prime Minister’s office to facilitate and encourage inter-agency cooperation and coordination. It will also the maintenance of physical centres or ‘handholding’ services for transacting with the public sector, particularly in the early stages of bringing more services online. This will be important for more traditional enterprises, that may not yet have the skills, knowledge or access required to use digital platforms.

Policy makers should seek to establish and effectively implement a strategic and coherent policy framework for the digital transformation of SMEs through co-ordinating the government institutions and stakeholders dealing with both SME and digital policy issues; identifying the main challenges and policy objectives; and building an evidence-based action plan with clear milestones and allocation of responsibilities.

Portugal has been undertaking a comprehensive process of administrative simplification and e-government implementation since 2005. Its Simplex programme now counts over 750 initiatives and is the country’s main mechanism to assess and improve the quality of the stock of its regulation. Initiatives are based on the principle that reforms should target concrete problems, and are based on proposals submitted by various stakeholders, such as the government and the private sector. A key component of this programme was to develop an Interoperability Platform for the public sector, which is today managed by the country’s Agency for Administrative Modernisation (AMA). It defines an architectural standard with rules and procedures that enable interconnectivity and interoperability between e-government services. This platform is supported by a Common Services Framework, which includes: *i*) an authentication system guaranteeing security and compatibility among several agents; *ii*) identity federation ensuring that no system or public

body knows all the different identities of citizens and businesses, such as private individuals and public authorities will both be guaranteed privacy, confidentiality and security of their data; *iii*) electronic services and workflow management; *iv*) transaction, message and e-payment engines.

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ⁱ The figures are based on information and communication technology statistics from the International Telecommunication Union and are estimated using the variable “Individuals using the Internet (% of the population)” multiplied by the country’s population of the given year. This estimate is based in survey data per country, and does not reflect the amount of broadband subscriptions in a given country or in the region as a whole. .