Scoping Note – MSME/Informal Sector

'Harnessing the Full Potential and Building the Resilience of MSMEs And The Informal Sector for an Inclusive and Sustainable Recovery In Developing Countries, LDCs and SIDS'

1. Introduction

Micro-, Small and Medium-sized Enterprises (MSMEs), both formal and informal, make up over 90% of all firms around the globe.[i] They are the backbone of most economies, particularly in developing countries Least Developed Countries (LDCs), and Small Island Developing States (SIDS). MSMEs have been recognized as important catalytic forces for the achievement of the Sustainable Development Goals (SDGs). The development of MSMEs has the potential for wide reaching impacts on economic growth, employment, gender equality, food and nutritional security, health, education, sustainable industrialization, and innovation, including through advancing transitions to the green economy.[ii] MSMEs, both formal and informal, contribute to more than half of GDP in most countries irrespective of income levels.[iii] Through their critical contribution to job creation and livelihoods, particularly for the most vulnerable and disadvantaged segments of the population, including migrants, minorities, and people with disabilities, MSMEs play a key role in reducing poverty and inequality, including through driving progress on women and youth economic empowerment. Within the MSME sector, Micro and Small enterprises (MSEs) and informal enterprises at large, make an overwhelming contribution to job creation ranging between 80 and 90 per cent in low- and middle-income countries[iv]. In crisis and conflict-affected settings, they also prove to be instrumental in supporting recovery and social cohesion.[v]

Yet, MSMEs have been disproportionately impacted by the COVID-19 resulting in financial instability, business closures, and employment losses, and the situation is especially dire for MSEs particularly those led by women, youth, and other disadvantaged groups. The International Trade Centre (ITC) survey on the early impact of COVID-19 that was conducted among 4467 MSMEs across 132 countries revealed that 60% of micro and 57% of small businesses had been strongly affected compared with 43% of larger enterprises. Across countries, nearly 62% of women-led small businesses were strongly affected compared to just over half of firms led by men, while women-led businesses were 27% more likely not to survive the crisis. About 26% of youth-led firms reported that they risked shutting down permanently, compared with 18% for firms led by older people. Informality further compounds these challenges due to limited access to government support and safety nets. In Africa, which is home to 33 LDCs and where MSEs dominate, two out of three businesses had been strongly affected by COVID-19.[vi] Nearly two years into the pandemic and amid the surge of new COVID-19 variants, recovery prospects for MSMEs remain highly uncertain.

Whilst (M) SMEs have been a long-standing focus of research, policy, advocacy initiatives supported by various G20 bodies over the past 15 years (See Annex), addressing the persisting and emerging challenges facing MSMEs, including informal enterprises requires sustained attention and has been identified as a top priority by the G20 Development Working Group (DWG),alongside other two mutually reinforcing priorities on 'Adaptative Social Protection' and 'Green Economy and Low Carbon Development'.

In this context, the Scoping Note reviews the challenges surrounding MSMEs' recovery and development in the post-COVID era (Section 2) and identifies opportunities for collective action to *strengthen the productivity, competitiveness, and long-term resilience*[vii] *of MSMEs, taking into account the diversity of MSMEs and specific needs of most vulnerable enterprises* (Section 3).

In line with the pledge to 'build forward better', the Scoping Note advocates for and adopts **an inclusive and holistic approach which underscores renewed and coordinated action** for instance to (i) reduce financing gaps, including through innovative, digital - financing solutions tailored to the specific needs and capacities of MSEs (ii) foster a better and more *resilient* integration of MSMEs into global and regional value chains and promote Inclusive Businesses (IBs), and the adoption of sustainable business practices (iii) promote disaster risk management and prevention in MSMEs business models and MSME policy frameworks.

The Scoping Note also zooms on the specific challenges facing MSEs the informal sector.[viii] Efforts to support greater formalization within MSME ecosystems have indeed gained renewed traction among many developing countries and the international community, not only to secure a better outreach of relief measures and reduce short term vulnerabilities, but also to support post-COVID-19 recovery efforts, given the benefits formality can potentially bring in terms of productivity, decent job creation, and fiscal space. In this regard, the Scoping Note underscores the need to expand outreach of government support to informal MSEs in the short-medium-term whilst fostering gradual transitions to formality in the longer run. It highlights some lessons learned from past formalization strategies, and the role that tailored investments to enhance the productivity of informal enterprises can play, alongside enabling policy and regulatory environments. It also emphasizes digital transformation as a 'win-win' solution for MSME revitalization, competitiveness, and long-term resilience.

In light of the analysis and the initiatives (past and on-going) of the G20 in support of MSMEs, the Note identifies a set of strategic entry-points for further discussion and action by the G20/DWG (Section IV).

2. Challenges surrounding MSMEs' recovery and development post-COVID

2.1 The competitiveness-resilience nexus: According to the ITC (2021),[ix] the resilience of MSMEs in the face of economic shocks, defined as their capacity to be *robust, related, and responsive* is largely determined by the attributes that also define their competitiveness prior to shocks, that is, their *capacity to compete, to connect and change* **(See Box 1).**

Box 1. Enterprise competitiveness and resilience: "two sides of the same coin"

According to the ITC, the capacities of enterprises to compete such as efficient inventory management, complete record-keeping, possession of a bank account, also affect their resilience to shocks due to strong management and operational procedures that work as "shock absorbers" in the structure of the enterprise, such as effective risk management and business contingency plans, inventory management, and bank savings.

Figure 1: Competitiveness builds resilience

Source: International Trade Centre (2021)

Moreover, their capacity to connect, such as strong and diversified relationships with business partners and suppliers and access to buyer and supplier information, also determine the level of the internal communication and the strength of external relationships that they can leverage to access information and benefits. Lastly, aspects that foster enterprises' ability to change, such as investment in research and development, skills matching and access to finance, are positively related with enterprises responsive coping strategies.[x]

The ITC tested this framework through a survey covering 770 enterprises in Benin, Cambodia and the Philippines over the period July 2019-August 2020.[xi] It was found that enterprises that were able to leverage their competitiveness attributes were also more resilient during the COVID-19 crisis. As an indication, 73% of businesses without a bank account were strongly affected by the pandemic compared with 50% of those with a bank account. Firms with a diversified supplier base (six or more suppliers) were four percentage points less likely to report difficulty accessing inputs, compared with firms with a less diversified supplier base. In Benin, 28% of enterprises with weak financial management practices were found at permanent risk of closure, against 16 for businesses with good practices. In Cambodia, enterprises connected with at least one business support organization were found to have easier access to information and government support. Consistent with these findings, another study by World Bank (2021)[xii] covering 30 countries[xiii] reveals that less productive enterprises prior to the crisis, especially young enterprises, had a higher probability of permanently closing during COVID-19. Conversely enterprises, displaying capacities to innovate (i.e., capacity to introduce new products on markets) and to leverage digital technologies had a higher probability of survival.

There is a salient ‘competitiveness-resilience divide’ between smaller/more vulnerable enterprises and larger enterprises. According to the ITC survey[xiv], MSEs, which were also the hardest hit by the impact of COVID-19, displayed a ‘competitiveness-resilience score’ before the pandemic that was 16% lower than that of medium and large firms. Similarly, *the scores for youth-led enterprises were lower than those for firms led by people over 34 years old and men, respectively*.[xv] Generally, the evidence shows that MSEs in developing countries have mainly resorted to negative coping mechanisms rather than positive adaptation mechanisms. For instance, a survey of microenterprises conducted by the Center for Financial Inclusion (CFI) over 6 periods in Colombia, India, Indonesia, and Nigeria reveals that enterprises have mostly used workforce reduction as a cost-cutting measure. More than one year into the COVID-19 crisis, surveyed enterprises in Colombia were found to operate with 48 % of their pre-pandemic workforce, India with 58 %, Indonesia with 63 %, and Nigeria with 74 percent.[xvi] Furthermore, the Socio-Economic Impact Assessments (SIEAs) conducted by UNDP in Ghana, Colombia, Turkey, and Philippines revealed that, worrisomely, more than 50% of MSMEs were ill-equipped or unsure how to prepare for the medium to long term, making them very vulnerable for potential future shocks, including pandemics, livelihood crises, and extreme weather events.[xvii]

2.2 Constrained and unequal access to finance: Historically, access to finance and fierce competition are the two most significant obstacles hindering MSMEs productivity, competitiveness, and resilience.[xviii,xix] As estimated by IFC's MSME Gap Assessment report (2017), the potential finance demand in developing countries stands at 8.9 trillion USD, while the existing finance supply is measured at 3.7 trillion USD resulting in yearly unmet financing needs of approximately 5.2 trillion USD, faced by 40% of micro-enterprises and 44% of small and medium enterprises. To bridge this global finance gap, the current level of global MSME lending would need to grow 1.4 times.[xx] Small enterprises are also facing significant constraints in accessing trade finance. Moreover, the gap in trade finance is estimated at around USD 5 trillion every year in the formal sector while the potential demand for finance from informal enterprises in developing is estimated at USD 2.9 trillion.[xxi]

MSMEs in Low Income and Lower-Middle Income countries are the most financially constrained, with 67% and 48% MSMEs, respectively, being unable to meet their financial needs.[xxii] At the regional level, it is estimated that the South Asia, Sub-Saharan Africa, and East Asia Pacific regions hold the largest proportion of financially constrained micro-enterprises, 53%, 52%, and 41%, and small and medium enterprises, 50%, 53% and 44%, respectively[33]. However, this finance gap is most severe in Middle East and North Africa (88%) and Latin America and the Caribbean (87%) regions, where it is measured the highest proportion of the finance gap compared to potential demand.[xxiii]

Within the MSME sector, microenterprises have also relatively higher unmet needs from formal sources of finance than small and medium enterprises. Microenterprises represent 86% of credit-constrained MSMEs, and only account for 14% of the MSME finance gap, while small and medium enterprises account for 14% of credit-constrained MSMEs, and account for 86% of the MSME finance gap. Women-owned MSMEs (28% of MSMEs globally) account for 32% of the global MSME finance gap, 24% of the total micro-enterprises finance gap and 33% of the total small and medium enterprises finance gap. The share of financial constrained women-owned micro-enterprises is especially hight in East Asia Pacific (37%), Middle East and North Africa (20%), and Europe Central Asia (26%). East Asia Pacific, Sub-Saharan Africa and Middle East and North

Africa regions also hold the largest proportion of financially constrained women-owned small and medium enterprises, at 59%, 17% and 16%, respectively.[xxiv]

Traditional financing mechanisms extended to MSMEs in developing countries (i.e., lending, leasing, trade credit, and microloans) by commercial banks, credit unions, cooperatives, and microfinance institutions, are largely inadequate.[xxv] Although the MSME sector is perceived to be profitable, information asymmetries, limited default collaterals, and fierce MSME competition are some of the main reasons cited for financing mechanisms to provide lower investment shares, charging higher fees and higher interest rates to MSMEs.[xxvi,xxvii] *When lenders have insufficient information to assess the risk associated with MSME potential borrowings, inefficiencies in the lending market arise where potential borrowers are denied loans even if they are willing to pay higher interest rates or to offer additional collateral.*[xxviii] While credit reporting systems can play an important role in increasing credit information transparency; however, the combination of MSMEs' size and age with credit reporting and data collection requirements still present serious challenges to MSME credit reporting service providers. Moreover, machinery, equipment, and other movable assets which account for 78% of MSMEs' capital stock and represent the main type of collateral that an MSME can offer to secure financing", are rarely accepted as collateral due to inadequate legal and institutional protections for creditors.[xxix] The lack of access to secured transaction frameworks that register movable assets has been found to place a significant constraint on MSME access to finance, particularly in Sub-Saharan Africa, Middle East and North Africa, and South Asia.[xxx]

There are signs that COVID-19 has exacerbated the financial gap. Studies show that the limited cash reserves, pre-pandemic unmet financing needs, and bootstrapped operating expenses of MSMEs in developing countries resulted in severe liquidity shortages.[xxxi] Reportedly, there has been a reduction in lending by microfinance institutions (MFIs), which left many MSMEs, particularly the most vulnerable, with limited financing options at the very outset of the crisis. According to a survey conducted by Consultative Group to Assist the Poor (CGAP) more than two thirds of surveyed MFIs reportedly curtailed lending due to COVID-19 by more than half compared to normal times.[xxxii,xxxiii]

2.3 Limited participation into global trade and value chains (GVCs): The low representation of developing countries, particularly low-income and LDCs, in global trade and value chains represent a significant opportunity cost in terms of productivity and competitiveness.[xxxiv] MSMEs in these countries operate mostly in the agriculture and labor-intensive sectors with low value added, low barriers to entry and capital intensity, as well as high levels of informality.[xxxv] Major obstacles (both internal and external) to the participation of MSMEs in global value chains include skills and productivity, infrastructure, border procedures, limited trade facilitation, monopolies, and critically also, a limited access to trade finance.[xxxvi]

The COVID-19 crisis has added an additional layer of challenges: as such, the pandemic has been an unprecedented shock to global value chains, particularly labor-intensive value chains in which most MSMEs operate.[xxxvii] As pointed by the ITC (2020) "*In many cases during the crisis, lead firms passed the risk burden along the supply chain to vulnerable SMEs in developing countries. As a result, the shock triggered job losses and bankruptcies in these economies*".[xxxviii]

Critically also, the pandemic has accelerated certain long-term trends which are significantly altering the way global value chains operate, which poses new challenges (and opportunities) for MSMEs' participation. Long and complex global value chains sustained by production networks which optimize costs and efficiency can be vulnerable to external shocks such as environmental hazards, which are becoming more intense and occurring more frequently due to climate change. The penetration of digital technologies is also altering costs structures in a way that tends to reduce the value of labor costs arbitrages that made it possible the participation of developing countries and their MSMEs in labor-intensive segments of global value chains. On the demand side, proximity to customers is also becoming a major factor in the creation of value: value chains must be tailored to deepen the sources and use of demand data, and to rapidly tailor offerings to customers' personal preferences and priorities.[xxxix]

2.4 Limited digital uptake: Whilst there are variations across countries and regions, the digital uptake among MSMEs in developing countries, particularly in LDCs, remains overall limited. This is due to a range of factors including the lack of enabling digital infrastructure (particularly internet), lack of technological awareness, lack of finance, low levels of digital literacy as well as concerns over privacy and security. The digital divide between MSMEs and large enterprises is particularly striking. A recent study on the use of digital technologies by enterprises in Sub-Saharan Africa over the period 2013-2018 shows that only 57% of SMEs and 44% of microenterprises were reportedly using internet during their operations compared to 92% for large firms. Only 13 % of microenterprises and 29% of SMEs reported using website technology against 72% for large firms.[xl] A similar study for South Asia shows that by 2016, 45% of SMEs reported using email compared to 86 % for large firms; and only 26 % of small firms reported having their own website versus 62% in the case of larger firms[xli]. Generally, the digital uptake amongst MSMEs is to a large extent still confined to basic technologies. As an indication, a recent survey conducted in the ASEAN region shows that only 34% of MSMEs have adopted intermediate tools and processes, such as having access to a printer, having a website, social media use, and only 10% of MSMEs have adopted advanced digitalization tools, such as customer relationship management, big data, pure on-line business, bank card readers, etc.[xlii]

Critically, with women and girls still accounting for the majority of the 3 billion people offline, with 1.2 billion women still off mobile internet, MSMEs digital divide is also strongly gendered[xliii]. The gender gap in mobile data use is particularly high in Asia (79%), Sub-Saharan Africa (34%), and Middle East and North Africa (21%)[xliv]. Pre-existing gender inequalities including lower participation in decision-making processes, limited digital skills, lack of trust, and lower access to finance, are likely to make digital transitions of women-led businesses even more challenging.

Although the COVID-19 crisis has in many ways served as a catalyst for the digital transformation of MSMEs around the globe, the opportunity has not been seized equally.[xlv] A study of the World Bank found for instance that the proportion of enterprises that have increased their use of e-platforms varied from 11 percent in Ghana to 81 percent in Indonesia.[xlvi,xlvii] However, there is evidence that this transition has been more challenging for the smallest enterprises. For instance, the multi-wave survey conducted by the Center for Financial Inclusion (CFI) amongst microenterprises in India, Indonesia and Nigeria found that the use of digital platforms has overall been limited, inconsistent, and that it has even declined over time. [xlviii]

2.5 Lack of disaster-risk management capacities: MSME-dominant sectors such as agriculture, manufacturing and services are vulnerable to climate-induced events such as floods, droughts, and sea level rise. According to the Emergency Events Database (EM-DAT), there were 7,348 disaster- related events recorded worldwide from 2000-2019 and these disasters have affected over 4 billion people and led to approximately $2.97 trillion in terms of economic losses.[xlix] Climate change related hazards poses particularly serious threats to SIDS, given the high reliance of their national economies—such as tourism, fisheries, and agriculture— on environmental conditions[l].

While MSMEs are considered as the bedrock of national and local economies in developing countries, their capacity to reduce and manage risks is however constrained by multiple factors, including, the lack of access to finance for investment in disaster risk reduction; limited capacities to adopt new business models which also includes the lack of infrastructure to support digitization; asymmetric contractual relationships; and the low uptake of preventative risk management and business continuity planning.[li]

When MSMEs are affected by disasters, the impacts are usually more severe, and recovery is longer as compared to larger firms that have more resources and well-established risk management mechanisms.[lii] In particular, while multinational and (large) national companies typically have their business continuity and disaster recovery strategies and plans in place, the MSMEs which usually form part of their supply chains, do not. MSMEs struggle with limited resources and capacity to ensure that the business' critical activities will be able to resume and recover immediately following disasters. As evidenced earlier, their capacity to introduce new and more resilient and sustainable business models, including through digitalization is also limited. These challenges are compounded for MSEs, especially young and women-led, as well as informal enterprises, due to limited access to public social safety nets, formal finance channels and other resources. As an indication, it was found that, among African MSMEs, only 27% of women-led firms had invested in at least one measure to reduce exposure to environmental risks, while 45% of men-led firms had done the same[liii]. The systemic lack of effective risk reduction and management capacities amongst MSMEs in developing countries is further evidenced by the fact that MSMEs that have experienced other shocks or crises prior to COVID-19 are also facing more challenges in recovering from the financial effects of the pandemic. For instance, it was found that in Colombia, Indonesia, and Nigeria, MSMEs that had been impacted by a climate shock (e.g., flooding, droughts, heatwaves, etc.) were more likely to report declining profit trends in the wake of COVID-19[liv].

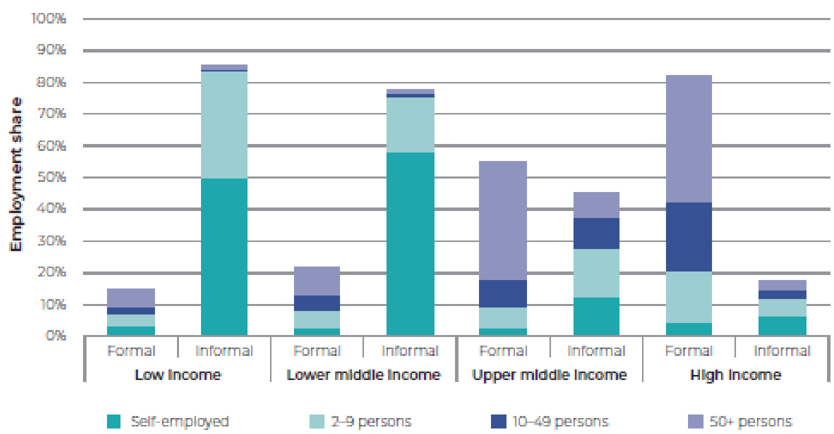
The complexity and inadequacy of financing options for disaster risk reduction[lv], and the lack of appropriate risk insurance mechanisms and products to cater to the specific needs of MSMEs compound these challenges, pointing to the need to rethink current instruments[lvi]. For instance, in Sub- Saharan Africa, it is estimated that less than 2% of all MSMEs have any form of insurance whilst those that have insurance are only covered for personal risks, while their enterprises remain highly exposed to risks.[lvii]

2.6 Limited capacity to make the green transition and integrate sustainability and impact considerations into business practices: While individual MSMEs have relatively small environmental and social impacts, as a group, their impacts are much larger. In Europe for instance, MSMEs on the aggregate are estimated to contribute 60-70% of industrial pollution in Europe with similar impacts in developing countries.[lviii]

Engaging MSMEs into green transitions, including climate change adaptation activities, will be key to building forward better and ensuring an inclusive and sustainable recovery. However, compared to larger firms, MSMEs face greater challenges in adopting sustainable practices and pursuing green (or blue) growth. In addition to major constraints related to finance, technology, skills, and business capacities, MSMEs have also more limited access to information on the long-term value creation in systematically integrating impact management into decision-making and business practices, which restricts market demands, limit business performance, and efficiency gains[lix].

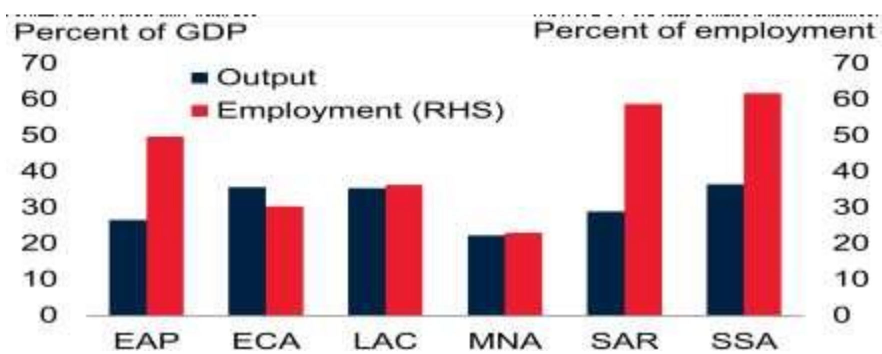
2.7 Informality: Informality is a prominent, yet still overlooked, feature of MSME ecosystems. Informal MSMEs mostly operate in those sectors, including manufacturing, services and tourism that have been hardest hit by COVID-19. Most are led by the working poor, women, youth, and other marginalized and vulnerable groups, making it imperative to include informal MSMEs in post-COVID recovery efforts.

Figure 2a: Distribution of employment by sector (formal versus informal) and economic unit size, across country income groups (%)



Source, ILO, 2019[lx]

Figure 2b: Informality as a % of GDP



Source World Bank (2021) [lxi] Blue bars show the simple average share of informal output as estimated by DGE model during 2010-18. Red bars show the simple average informal employment rate (proxied by self-employment rate) during 2010-18. EAP = East Asia and Pacific; ECA = Europe and Central Asia; LAC = Latin America and the Caribbean; MNA = Middle East and North Africa; SAR = South Asia; SSA = Sub-Saharan Africa.

According to the ILO (2019) [lxii], in low and middle-income countries, the employment contribution of the informal sector across all firm sizes averages 80 per cent compared to 18 per cent for high-income countries (**Figure 2a)** whilst the World Bank (2021) estimates that the economic contribution of the informal sector remains high, at about 30% of GDP or more, in Sub-Saharan Africa, Latin America, Europe and Central Asia and South-East Asia (**Figure 2b**).

Given their smaller size, lower productivity, limited capital and savings, informal firms are generally less able to weather shocks compared to formal enterprises. The available evidence, though still sporadic, suggests that compared to their formal counterparts, informal MSEs have been more deeply affected by liquidity shortages, disruptions in supply chains, and ensuing risks of closure. In Africa, the International Trade Centre (ITC) COVID-19 Business Impact Survey found that informal enterprises were *25 per cent more likely* than their formal counterparts to state that the pandemic was pushing them towards bankruptcy[lxiii]. In Malaysia, according to the Ministry of Entrepreneur Development and Cooperatives (MEDAC), in June 2021, 72% of micro-entrepreneurs expected their businesses would continue to suffer losses, with up to 90% at risk of premature business closure.[lxiv]

Conversely, because they are not registered, might not have access to business bank accounts, and other key formal services, informal enterprises are more likely to be 'left behind' by the stimulus packages put in place by governments to support (primarily- formal) MSMEs. The overall lack of data on informal enterprises in developing countries compounds this challenge, making it more difficult for governments and financial institutions to deliver support and services that are tailored to their needs.

A study by the World Bank conducted over 120 000 firms across 60 countries between April and September 2020 found that microenterprises were *about half as likely* to access support as large firms. Interestingly, formal enterprises were found to be only slightly more likely to access public support compared to informal enterprises.[lxv] However, this result should be interpreted with caution as access to public support typically requires formal registration (see below). A more recent study based on multi-round daily surveys of small and informal enterprises (with less than 5 full-time employees) in Latin America (Argentina, Bolivia, Brazil, Chile, Colombia, the Dominican Republic, Mexico and Peru) between March and December 2020 reveals that they were less aware of government support programs, less likely to apply for aid and less likely to receive aid and that *these gaps actually grew over the course of the pandemic*.[lxvi]

Widespread and persisting informality has also significant implications for economic and broader development outcomes in the longer run. A recent study of the World Bank (2021)[lxvii] estimates that emerging and developing countries (EMDEs) with above-median informality in terms of output rank, on average, around 110 out of 166 in overall SDG achievement, which is significantly worse than countries with below-median informality. Widespread informality is also found to be *correlated* with less developed financial sectors, weaker output growth, investment, and low aggregate productivity, with the productivity of informal enterprises being only about one-fourth that of formal ones. Furthermore, informality is found to be associated with weak resource mobilization: government revenues in countries with above-average informality are estimated to stand at about 20% of GDP, which is five to 12 percentage points below the level in other countries, whilst government expenditure is found to be lower by as much as 10 percentage points of GDP. This means untapped resources to support economic revitalization, drive investment, build infrastructure, improve human capital, and protect people, leading the World Bank to conclude that is a risk that "*informality may hold back the recovery to a green, inclusive, and resilient development path*".

However, one should be cautious in establishing a causal relationship between informality and development gaps, and in assuming that abolishing the informal economy would necessarily lead to significantly higher productivity or government revenues.[lxviii] As noted by the IMF (2021), informality is driven by multiple factors and '*informality can be best understood as a response to* *a broad set of institutions, which can explain the high persistence of informality, the wide cross-country variations in the size of informal economies, and the equally large within-country variations in types of informality*".[lxix] Given the importance of informal MSMEs for sustaining the livelihoods of millions of poor and vulnerable, a major policy challenge facing governments in developing countries in the short term-medium term is therefore to find ways, amidst heightened fiscal pressures, to protect and strengthen the resilience of informal enterprises whilst incentivizing transitions towards greater formality in the longer run.

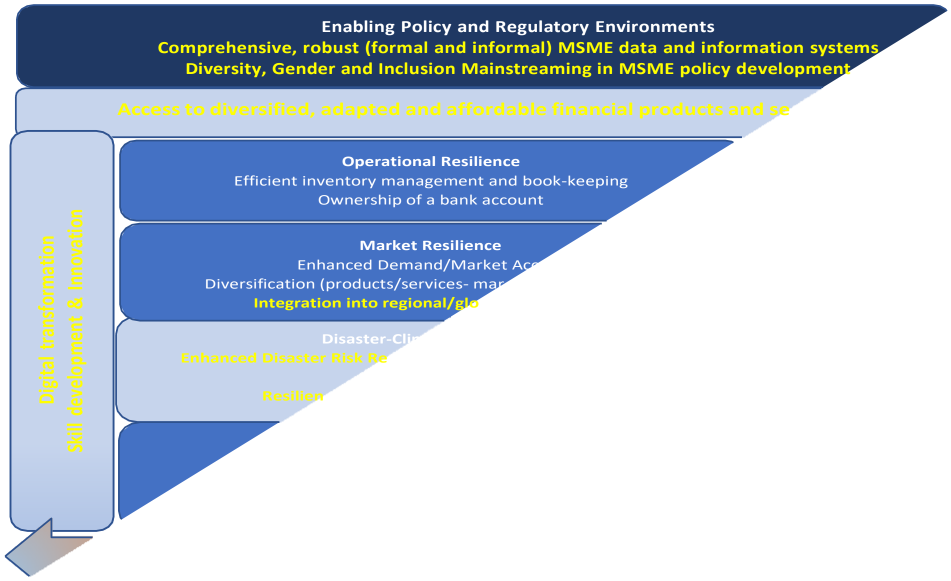
3. (Opportunities) Strategic pathways to strengthening MSMEs' competitiveness and long-term resilience in the post-COVID-19 era

In the context of the COVID-19 pandemic, governments across the world have implemented a mix of financial and non-financial measures to support MSMEs cope with adapt and recover from the crisis. These comprised short-term measures (deferral measures, direct financial assistance, and information provision) and more longer-term structural measures (e.g., digitalization, accessing new markets, innovation, diversification, training, capacity building through upskilling / reskilling, and redeployment, business continuity planning) that have the potential to build MSMEs' competitiveness and long-term resilience.

Yet, long-term, resilience- oriented measures have not been a prominent practice. The State of Least Developed Countries report (2021) noted that "*many LDC governments provided short-term, 'survivalist' measures (such as wage support programs and credit support), designed to alleviate the immediate hardships facing MSMEs, but less were able to implement growth-oriented structural policies".*[lxx] But this trend holds even for high and middle-income countries. As an indication, the most recent OECD mapping of national policy responses for SMEs (2021) covering 60 countries over the period February 2020-February 2021, shows that less than half of countries included such measures in their MSME policy responses. Nevertheless, an increasing number of countries have adopted digitalization support (28 countries in the first quarter of 2021 against only 13 countries in July 2020). [lxxi]

Moving forward, it will be paramount for policy action in developing countries to shift gears away from short-term support to building MSMEs' long-term resilience to various shocks, not least climate-related shocks. As the emerging and growing literature on MSMEs' competitiveness and resilience suggest, this requires action by governments, development agencies, and other stakeholders, including the private sector, in various mutually reinforcing areas (**Figure 3 below**).

Figure 3: Pathways to MSMEs' competitiveness and resilience in the post-Covid19 era



Source: Authors based on: UNDRR. (2020). *Reducing Risk and Building Resilience of SMEs to Disasters*. https://www.undrr.org/publication/resilience-smes; Bingxun Seng (2021, September) How to Give MSMEs a Better Chance against Economic Shocks, How to Give MSMEs a Better Chance against Economic Shocks | SEADS (adb.org); *ITC. (2021). Competitive in good times, resilient in bad times: What COVID-19 taught us about MSMEs (SME Competitiveness Outlook 2021). ITC. https://tradebriefs.intracen.org/2021/6/special-topic;* G20. (2021). *Promoting Born Green via Digital MSMEs and Entrepreneurship in Global Supply Chains: Non-Binding Policy Toolkit. https://www.g20.org/wp-content/uploads/2021/10/ItalianG20Presidency-MSMEs-20-September.pdf;* Nandakumar A.. (2021). MSME Resilience: A New Framework for the New Normal For Micro, Small, and Medium Enterprises; FSG https://www.fsg.org/publications/msme-resilience

In a cross-cutting manner, expanding financing solutions and access, supporting digital transformation, will be critical to strengthen MSMEs' productivity, competitiveness, and long-term resilience. Against the spectrum of future shocks, a better integration of DRR/DRM and prevention at large in MSMEs' business models and supply/value chains and MSME development policies, the promotion of sustainable business practices, including impact management and empowering MSMEs to engage in green transitions should be viewed as equally critical.[lxxii] An integrated policy agenda for strengthening MSMEs' competitiveness and resilience also underscores efforts to developed integrated strategies that can facilitate the gradual formalization of MSEs alongside the expansion of social protection for business owners and informal workers.

Critically, this agenda needs to account for the diversity of MSMEs, with solutions adapted to the needs and potential of most vulnerable segments of the MSME sector. This underscores the importance of reliable, comprehensive, disaggregated national and sub-national data on MSMEs. Likewise, a gender lens is required across all policy pathways to ensure that women are not further disadvantaged. The COVID-19 crisis has had a disproportionate and possibly long-lasting impact on women-led businesses and owners, which notably led the G20 2021 Taskforce on the 2030 Agenda and Development Cooperation to recommend the development of "*a global strategy that empowers women-led businesses and improves gender diversity among SMEs, especially those most affected by the post-COVID-19 transition*" to avoid reversals in gender equality, particularly in the global South.[lxxiii]

Generally, it will be critical to ensure that regulatory environments, policies, products, and services targeting MSMEs account for the diversity of MSMEs, ensuring equitable access and benefits irrespective of their background in terms of gender, race, ethnicity, religion, disability, etc. to ensure that most vulnerable businesses, particularly micro and informal enterprises are not left behind in the event of future crises.

3.1 Strengthening MSME data and information systems. The COVID-19 crisis has amply exposed the need to strengthen MSME data and information systems. As noted earlier (see 3.2), efforts to improve MSME credit risk information systems will be paramount to reduce information asymmetries between MSMEs and financial service providers, allowing the latter to assess risks and make informed decisions about the type of financing needed for different categories of MSMEs. The establishment of integrated nationwide *credit risk databases/databanks*, such as the Japan Credit Risk Database (CRD), which incorporates both financial data and alternative data, has proved to be instrumental in advancing financial inclusion.[lxxiv] More generally, the establishment of reliable, comprehensive, and disaggregated (by location, sector/industry/value chains, size, age, gender, formal/informal status) databases on MSMEs will be key to help policymakers develop evidence-based and gender-sensitive policies and programs tailored to the different categories of MSMEs and their different needs as well as evaluate their impact. This requires efforts to capture a wide range of MSMEs' business and other characteristics, including access to finance, technology, support services and programs. This could also involve efforts to better capture their exposure to various hazards, including natural disasters. Harmonizing definitions of MSMEs (both formal and informal), strengthening capacities for data collection, and establishing effective institutional frameworks for data sharing amongst agencies involved in the promotion and development of MSMEs and the broader range of public/private institutions that hold MSME data, including relevant line ministries, statistical offices, financial institutions, chambers of commerce etc., are important prerequisites. Significant strides have been made in these directions for instance in Morocco, through the SMEs observatory[lxxv], while the establishment of comprehensive MSME databases is underway or under discussion in a number of developing countries (e.g., Egypt[lxxvi] and in Ghana[lxxvii]).

3.2 Expanding financing options and mechanisms tailored to the diversity of MSMEs: The financial pressures generated by COVID-19 were met with unprecedented measures from central banks around the world, 78% in low-income countries and 74% in emerging markets, who took rapid action to loosen their monetary policy by launching several measures, including easing collateral standards, reducing capital requirements, decreased interest rates, established temporary liquidity lines, direct purchase of corporate bonds, and easing regulatory restrictions.[lxxviii],[lxxix] However, countries with fragile monetary frameworks, such as Argentina, were also constrained by the impact of COVID-19 on inflationary pressures, price increases, and capital outflows, compromising their ability to cut interest rates or adopt more radical monetary policies.[lxxx] To alleviate pressures on developing countries' MSMEs, the G-20 led a debt moratorium initiative, advanced economies' central banks advanced massive liquidity provisions, and the IMF launched a COVID-19 lending toolkit and later enhanced it with a short-term liquidity line.[lxxxi] Against the spectrum of a continuous rise in business insolvency and economic decline in developing countries, as well as lower levels of credit supply[lxxxii], there is an urgent need for more innovative and transformative approaches to MSME finance that can boost competitiveness and increase resilience to economic, social and environmental shocks.

The range of financing options available to MSMEs need to be expanded while accounting for the diversity of MSMEs. For instance, the Omidyar Network/Dutch Good Growth Fund (DGGF) [lxxxiii] suggested to address MSME financing gaps by considering four categories of enterprises, based on their characteristics and financial access capacities: 'high growth' enterprises; 'niche ventures';

‘dynamic enterprises’[lxxxiv] and ‘livelihood-sustaining enterprises’. For the latter, which make the lion share of MSMEs in developing countries and LDCs, digital financial services and data-driven solutions for credit and risk assessments, have emerged as most promising approaches. Generally, leveraging digital technology and public data sharing is an opportunity to serve MSMEs, including the most vulnerable through various financing schemes.[lxxxv] With digital finance/fintech solutions, finance providers can better observe cash flows of MSMEs which may reduce information asymmetry, may lower collateral requirements, and increase loan disbursement, which, as noted earlier, are major obstacles to MSMEs' access to finance.[lxxxvi] In India, for instance, the Ministry of Micro Small and Medium Enterprises has incentivized the use of digital payments as means to improve the credit scores of MSMEs, and improve their access finance.[lxxxvii] *Indifi Technologies*, an Indian fintech firm, has partnered with the Google Pay platform to provide instant loans to help 10 million small business owners (merchants) meet their working capital needs during COVID-19.[lxxxviii] Likewise, in Indonesia, *Amartha*, a fintech firm that started as a microloan enterprise, reportedly disbursed 5.1 million USD in loans to 30,000 microentrepreneurs, raising the maximum loan value from 225 USD to 750.27 USD.[lxxxix]

Tailored financial instruments need also to be developed for ‘dynamic SMEs’ which may be considered too large for microfinance but too small and risky for local commercial banks and Development Finance Institutions (DFIs) or not sufficiently scalable or profitable for venture investors (the ‘missing middle’).[xc] ‘Mezzanine’ financing schemes[xci] and generally, more flexible debt instruments are important options to consider[xcii]. In the context of COVID-19, rising indebtedness, and the spectrum of a potential insolvency crisis, also underscores the development and access to non-debt financial instruments and services.[xciii]

Critically, there is scope to expand financing mechanisms that can reduce risks for and/or share the risks with MSMEs, particularly in LDCs.[xciv] In addition to catalytic grants, concessional loans, and equity investments, *guarantee schemes and risk sharing facilities (RSF)*[xcv] especially when coupled with technical assistance, have emerged as promising blended finance mechanisms to promote MSMEs’ access to finance in developing countries. By de-risking funding for financial institutions and private investors, they increase their incentives to lend or invest. Generally, blended finance allows to leverage modest amounts of public/donor funding to unlock much larger amounts of private funds towards alleviating MSME financial constraints, support resilience of their operations and improve/grow their businesses. Meanwhile, blended finance schemes may also facilitate MSMEs’ transitions towards greener practices.[xcvi]

Other innovative financing options for MSMEs could be further established and/or scaled up including *crowd-sourcing lending platforms* which can lower costs and provide quicker funding options. For instance, *Crowdo*[xcvii], a regional fintech platform operating in Singapore, Malaysia and Indonesia that connects businesses with investors has so far helped to finance 3,500 projects.[xcviii]

As noted below, there is also a considerable opportunity to bridge the knowledge and practice gap related to insurance solutions for MSMEs (incl. tail-risk business insurance, group-insurance schemes that could for instance over for instance clusters of MSMEs rather than individual MSMEs). Further support by governments and international organizations is needed to promote the development of inclusive and effective insurance markets for MSMEs.

In a cross-cutting manner, the establishment and scale-up of suitable solutions to expand MSMEs’ access to finance will require strengthening and MSME data (including -gender disaggregated data) and information sharing systems, including enhancing regulatory frameworks to increase the number of new providers and distributors of innovative and tech-based financial and non-financial instruments.[xcix]

> Amongst the major workstreams of the G20 of relevance to MSMEs digital transformation, the above notably underscores the need for a sustained commitment to enhancing digital financial inclusion of vulnerable and underserved segments of society, including MSMEs, through the effective implementation of the *G20 Financial Inclusion Action Plan*[c] and other guidelines and/or policy options recently issued by the GPFI, including the G20 "*High-Level Policy Guidelines on Digital Financial Inclusion for Youth, Women and SMEs*"[ci], and follow-up on *Navigating the Storm: MSMEs' Financial and Digital Competences in Covid-19 Times*[cii] and *MSME Digital Finance: Resilience and Innovation during COVID-19*[ciii] *and the G20 Menu of Policy Options for digital financial literacy and financial consumer and micro, small and medium-sized enterprises (MSMEs* which commonly stressed the need to improve digital financial literacy, particularly for women, and digitalization to facilitate MSMEs' access to financial services whilst highlighting the need to raise awareness on the benefits and risks related to a wider use of digital financing services (DFS), and strengthen MSMEs (and vulnerable groups) protection in the post COVID-19 era.

3.3 Fostering MSMEs' participation into more *resilient* global/regional value-chains (GVCs/RVCs): As reiterated under the 2021 G20 presidency as a follow-up to the G20 Riyad Declaration[civ], the integration of M/SMEs into global value chains, alongside strengthened linkages between MSMEs and larger firms, and between micro-enterprises and SMEs, can be an important pathway to strengthening their productivity and competitiveness. Member States have been therefore encouraged to a) facilitate the access of MSMEs to information, opportunities, and potential partners, particularly transnational companies; and b) expand trade finance instruments for MSMEs.[cv]

Such efforts and other support measures, such as financial/tax incentives, trade facilitation measures, simplification of trade procedures, improvements to domestic infrastructure, including ICT and transport as well as programs that can support skill development, access to technology and know-how will remain paramount particularly MSME suppliers LDCs.[cvi] In LDCs, these measures have been identified by both SME suppliers and lead firms as the most effective to improve business linkages and connection to global value chains. Business support organizations have also a role to play given their knowledge of business, and their ability to represent MSEs and make their specific needs and vulnerabilities known among policymakers and funders.[cvii] They can also help shoulder some of the risks associated with the entry of MSMEs into new markets or international supply chains.[cviii]

However, further thinking and action around the integration of MSMEs in international value chains is also needed. For a successful and sustainable integration, global value/supply chains need also to be made more resilient to shocks. This requires efforts by firms themselves including through better risk management (e.g., through risks and costs assessments) and reduction of uncertainties and the diversification of market and supplier bases.[cix] Lead firms have an opportunity and special responsibility to take in securing better contracts and collaborations with MSMEs in their value chain to allow for more equal risk and value-sharing and identify win-win partnerships in the future.[cx,cxi] This may involve providing financial support to MSME supplier or retail partners to adopt new business models in exchange for more secured supply or increased sales[cxii]. Lead firms can also support the wider adoption of digital solutions, including e-commerce and greater interactions within value chains. On the side of policymakers, building greater resilience into value chains will also require fostering stable regulatory environments, promoting standards and certification procedures, including risk awareness, reviewing logistics and customs clearance procedures to mitigate disruptions, developing 'stress-tests' for critical value chains, and, here also, promoting the use of digital technologies to improve risk management.[cxiii]

Regional value-chains (RVCs) also deserves special attention. RVCs can allow both better collaboration among suppliers, reducing risks and costs of transport and proximity to customers.[cxiv] Participation in regional production networks also opens more significant opportunities for economic diversification and inclusion. The importance of integrating MSMEs into regional value chains has been reiterated by the ASEAN community in the context of the Regional Comprehensive Economic Partnership (RCEP) Agreement[cxv] while the African Continental Free Trade Area Agreement (AfCFTA) is seen as a major opportunity for the sustainable and inclusive industrialization of the continent.

3.4 Promoting Inclusive Businesses (IBs). The new context also gives a special value to a more active promotion of inclusive businesses (IBs), as an integral part of policy agendas for MSME recovery and resilience. The recent adoption of *Guidelines on IB promotion*[cxvi] by the ASEAN Coordinating Committee on Micro, Small and Medium Enterprises (ACCMSME) in 2020 is an important stride in this direction. As per the global definition developed by the G20 framework in 2015, "*Inclusive Businesses provide goods, services, and livelihoods on a commercially viable basis, either at scale or scalable, to people at the Base of the economic Pyramid (BoP), making them part of the value chain of companies' core business as suppliers, distributors, retailers, or customers*".[cxvii] IBs have been referenced for creating 'triple wins' by working on an economically sustainable and scalable model that improves low-income communities' access to services, products, and income while reducing governments' social expenditures.[cxviii] A recent paper developed by UNDP, GIZ in partnership with IFC, ADB and the European Commission on *Inclusive Businesses Features*[cxix] further highlighted the unique potential of IB to engage the private sector in systemic poverty alleviation for low-income populations that are most affected by climate change as well as the COVID-19 crisis.

IBs can be key to MSME growth and resilience. IBs often integrate MSMEs, including micro-enterprises as suppliers, distributors or retailers in their operations and enhance market access for MSMEs. They can also contribute to build their capacities and improve their access to inputs, technology and resources.[cxx]

In the context of the COVID-19 pandemic, IBs have exhibited extraordinary resilience in their local value chains (see below **Box 2**) and in maintaining last mile access to hard-to reach populations, which, depending on context may include women and gender minorities, displaced populations, people living with disabilities, and individuals with other social identities.[cxxi]

Box 2. Fostering and maintaining inclusive value chains and sustainable business linkages: highlights on the role of Inclusive Businesses during COVID-19.

Many inclusive businesses notably used technology platforms to support and engage with micro and small enterprises in their supply and distribution chains. As an example, UNDP's BCtA member companies operating in the health sector, which deployed technology-enabled solutions to community health workers for delivering cost-effective healthcare services. These business models agilely pivoted their operations in South Africa to work against a backdrop of rapidly changing government policies to adjust screening protocols, support the contact tracing of workers with COVID-19 symptoms and prepare government reporting on the overall number of cases, contact tracing efforts, and similar key activities.[cxxii] Others IBs have adapted their product and service offerings to help their micro-distributors/retailers continue operating. For instance, *Dodla Dairy* (a dairy company in India) that sources from cooperatives of small farmers began purchasing some of farmers' excess milk and converting it into powder, which promoted continuity and stability in the dairy supply chain.[cxxiii]

Various policies can contribute to creating enabling environments for IBs and the mainstreaming and replication of inclusive business practices across the business community and increase the impact of IBs beyond individual businesses, such as the IB investment incentives in the Philippines and IB accreditation in Cambodia.[cxxiv]

The promotion of IBs requires a holistic approach that engages a broad range of stakeholders such as government agencies, business associations, impact investors, business facilitators and development partners, alongside enabling environments and tangible programs. In the Philippines, for instance, the Department of Trade and Industry together with the Board of Investment developed in 2019/20 the Inclusive Business Roadmap with representatives from the private, public, and civil sector, which outlines alignment strategies of IB and MSME development. A close integration between MSME development policies and IBs promotion is important. In particular, the channeling of MSME promotion support through larger enterprises that embrace IB models could help accelerate knowledge and technology transfer to MSMEs, particularly MSEs to help them increase productivity, access finance, as well as critical information, including on sustainable practices and standards and strengthen their positions in value chains. As notably emphasized by the ASEAN *Guidelines on IBs*, the development of readily accessible on-line portals for knowledge sharing and matching of IBs and MSME value chain partners, as well as the establishment of effective monitoring and evaluation frameworks to assess IB/MSME performance and impact will be important moving forward.[cxxv]

Meanwhile, IBs represent unique, sustainable investment opportunities for investors as they combine financial returns with measurable positive social impacts. In this regard, it is also important to broaden the understanding of IB among those investors, as an integral part of the 'S' criteria in the environmental, social and governance (ESG) standards through their investment portfolios.[cxxvi]

3.5 Strengthening disaster risk reduction and disaster risk management for and by MSMEs. Disaster risk reduction, which aims to prevent new and reduce existing disaster risk, as well as manage residual risk is and *shall* continue to be a cross-cutting theme for MSME development.[cxxvii] Proper risk management can make MSMEs resilient to shocks and more financially sound and credit worthy. Other benefits include improved reliability, enhancing reputation.[cxxviii] While significant business continuity planning resources such as toolkits have been made available to small businesses, COVID-19 has shown that in the context of systemic risks, existing business continuity plans and SME resilience tools, are no longer sufficient and that there is a greater need to focus on prevention. [cxxix,cxxx,cxxxi] This is to ensure that measures can both address underlying drivers of disaster risks of the community within which MSMEs operate and provide opportunities for MSMEs to reduce their own exposure vulnerability by configuring current business models to prevent and anticipate future shocks and stresses.

"*The economic damage of climate change could be as bad as having a pandemic the size of COVID-19 every ten years", Gates (2020).*[cxxxii]

There is a range of opportunities to integrate disaster risk reduction and disaster risk management into MSME development and ecosystems in particular, action can be taken to:

- *Link business continuity planning capacity-building measures with opportunities to transform business models*, including "opportunities for restructuring, reorganizing production, creating new products, services and technologies, developing new markets for existing products, and new branding opportunities."[cxxxiii] In the Philippines, the Philippine Disaster Resilience Foundation, a network of national and multi-national companies that are working together to promote disaster risk reduction and management in the private sector, assists MSMEs to use digital technology to help with their business operations during the pandemic.[cxxxiv] They launched a digital one-stop shop platform called *SIKAP* [cxxxv] to provide MSMEs business continuity and recovery tips, and opportunities for coaching and mentoring. Another example is how the Turkish Enterprise and Business Confederation launched a project called *"Resilient SMEs, Strong Tomorrows"* which provided training and one-on-one coaching on topics such as digital technologies, financial risk management, branding and e-commerce among others.

However, there is also a need to assess how business continuity or business preservation strategies can aid in re-assessing business models to prepare for future uncertainties[cxxxvi] and to ensure that business continuity strategies do not result in a contraction of business activity or unsustainable adaptation practices.[cxxxvii]

- *Develop business insurance, including microinsurance solutions tailored to MSMEs*: In addition to initiatives targeting availability of executable collateral and credit risk assessment to improve access to finance (see i), MSMEs also need suitable business insurance schemes to manage risks, stay competitive and resilient in the face of shocks[cxxxviii]. Given the diversity of MSMEs, this requires promoting a deeper understanding of MSMEs and the risks that surrounds them in various sectors to identify sub-groups of MSME with similar risks for customized approaches, considering also that MSMEs taken individually are often too small to constitute a sustainable business case for insurance providers[cxxxix]. Effective legal and governance frameworks that can also provide space for testing and learning, alongside multi-stakeholder platforms, also need to be put in place for the development of insurance markets for MSMEs[cxl] Additionally, business insurance solutions need to be disseminated to MSMEs through suitable distribution channels and approaches to encourage wider adoption.
- *Improve value chain cooperation and partnerships to promote awareness and adoption of disaster risk reduction and adaptation practices*: as noted earlier, enterprises do not operate in isolation. There is a need to understand how the exposure, sensitivity, and adaptive capacity of the different actors within the value chain are influenced by business interdependencies and interfirm relationships.[cxli] As such, there are opportunities to broaden current business continuity approaches by looking into enhancing contracting mechanisms and fostering partnerships to support MSMEs. An example is how the Conservation Agriculture for Food Security (CA4FS) partnership linked agricultural producers to conservation agriculture fabricators and buyers, to support the adoption of climate-smart agricultural strategies.[cxlii] The partnership also brokered agreements and mechanisms for producers to access inputs on credit and held training sessions on conservation agriculture.
- *Mainstream DRR/DRM and prevention in MSME policies and adopting dedicated DRR policies for MSMEs, alongside efforts to incentivize DRR investments*.[cxliii] An example is how the Vanuatu Business Resilience Council embarked on a project with the Global Green Growth Institute to mobilize the Vanuatu private sector towards climate action.[cxliv] The project aimed to address barriers to private sector access to climate financing by providing information and knowledge-sharing opportunities to SMEs on climate financing, conducting training on climate change adaptation and mitigation options for SMEs, providing assistance

on project proposal developments, and facilitating opportunities for public-private partnerships.

3.6 Promoting sustainable business practices and furthering MSMEs' engagement in the green economy and the SDGs: The adoption of sustainable practices by MSMEs is increasingly acknowledged as a critical opportunity to boost MSMEs' competitiveness and resilience. Indeed, preferences of consumers are changing, and sustainability is increasingly influencing consumption patterns particularly amongst the new generations. Moreover, investors around the globe are increasingly seeking opportunities to make a positive impact from their investments. The global impact investing market is exponentially growing, with $2.3 trillion invested in 2020 alone.[cxlv] An increasing number of public and private financial institutions are offering funding to MSMEs based on environmental and social criteria.[cxlvi] For instance, the global Green Climate Fund recognized the importance of engaging MSMEs in climate action through a dedicated program that supports MSMEs in developing countries, LDCs and SIDS that engage in climate and adaptation activities, including the adoption energy efficient approaches.[cxlvii]

Fostering the integration of SDG-aligned and sustainable practices in MSMEs' business models can work as an important tool to prepare MSMEs to understand and mitigate negative social and environmental impacts, improve their positive outcomes, diversify their business opportunities, and strengthen their access to capital through innovative financial mechanisms, including green financing. There are various ways through which MSMEs can adjust their business practices towards greater social and environmental sustainability in line with the SDGs. A promising approach - as for instance acknowledged for MSMEs' development by stakeholders in the ASEAN[cxlviii] - involves *embracing circular economy models* that substitute raw materials in products with post-consumer materials through recycling and upcycling.[cxlix] Likewise, efforts to reduce waste, promote energy efficiency across all operations and the adoption of clean technologies, as well as efforts to identify business areas where action needs to be taken to prevent negative environmental or social impact can contribute to this dynamic.[cl]

However, MSMEs need guidance as well as technical and financial support to pivot towards sustainable business models and seize the opportunities emerging from green transitions. There is scope for policymakers and the international community to encourage MSMEs in developing countries to capacitate MSMEs with skills and technologies enabling them to be more innovative and to adopt more sustainable practices. Critically, there is an opportunity to make the measurement and management of business impacts on social and environmental sustainability accessible for a wide range of MSMEs, so that necessary capital can be channeled to those creating deep positive impact at a greater scale.[cli]

The policy work conducted under the G20 2021 presidency explicitly encouraged "*governments to provide in post-pandemic recovery packages additional stimulus for MSMEs and entrepreneurs engaged in the green and digital transition, with a special focus on MSMEs in developing countries and LDCs, and vulnerable and marginalized segments of the population*". It notably called for encouraging "*developing specific financing mechanisms and incentives for MSMEs, aligned with the implementation of sustainable business practices and sustainability standards*". [clii]

Generally, support to the adoption of sustainable business practices will need to be embedded in broader MSME and business support programs implemented by governments and international organizations in developing countries, alongside efforts to share good practices that can demonstrate how such business practices can be conduce to greater productivity, competitiveness, and resilience.

3.7 Fostering MSMEs' digital transformation and closing digital divides: Digitalization can be a 'win-win' solution for MSME's productivity, competitiveness, and resilience since there are several positive outcomes that arise when MSMEs become digitally connected, or in other words, escape the digital divide. Moreover, efficiency and productivity gains enabled by the use of digital technologies, products and platforms have the potential to accelerate the transition of SMEs from microenterprises to larger, formal firms that are both more resilient and competitive with greater scope to create jobs (see 3.6).

Generally, digitalization can increase MSMEs' access to information about market prices, new products and services, and customer enquiries and feedback while securing and an improved ability to communicate. As noted earlier (see 3.2), the digitalization of financial products and services can support financial inclusion and help MSMEs access a greater variety of financial services. Digitalization can also facilitate whilst evolving the participation of MSMEs in global trade and value chains.[cliii] It allows trading more easily and across greater distances, with both customers and supply chain partners. Research shows for instance that MSMEs with cross-border digital payments have a 97% first year survival rate, compared to 43% for MSMEs that do not have cross-border digital payments.[cliv]Digital payment channels have been important enablers of online trade, while digital platforms that integrate these channels ensure security and convenience for buyers and sellers alike.[clv] Furthermore, e-commerce and digitalization of supply networks could play an important role in strengthening and maintaining business linkages in value chains and promoting their resilience.[clvi] Last but not least, and as emphasized by the 2021 G20 "*Promoting Born Green via Digital MSMEs and Entrepreneurship in Global Supply Chains: Non-Binding Policy Toolkit*", advances around MSME digitalization, technology, and innovation play an essential role in leveraging the adoption and promotion of sustainability practices[clvii].

The digitalization of MSMEs has undoubtedly a strong potential for reviving economies after the COVID 19 crisis, promoting sustainable growth, and advancing towards the SDGs.[clviii] There is scope for policymakers in developing countries to embrace existing trends in digital innovation in MSMEs' financial and market ecosystems. Some countries have already made important strides in this direction. For instance, in Colombia, starting in 2018, the government has put in place Digital Business Transformation Centers that provide technical assistance (including digital status assessments, formulation of digital transformation plans, digital skills development) to support the use of technologies in SMEs. As of mid-2020, 14 centers had reportedly started operations.[clix]

Improving the digital capabilities of MSMEs in developing countries will require holistic efforts to create enabling environments and address the digital divide**,** which remains the greatest obstacle to scaling-up digital solutions, including digital finance and e-commerce platforms. Renewed commitment for action and broad-based partnerships between governments, the private sector (particularly in finance and telecommunications sectors) and other actors on at least six major fronts:

- *Improving and closing the gap in ICT Infrastructure*: Expanding internet connectivity to underserved areas (particularly rural areas) and facilitating access to mobile phones, computers, etc. will be critical to enable MSMEs embrace digitalization. In many developing countries, levels of broadband access remain low. According to a recent report by the ITU (2021) only two LDCs – Bangladesh and Bhutan – have met both targets of SDG 9 on digital connectivity.[clx] The ITU (2020) further estimated that addressing this gap would require a USD 135 billion investment in South Asia, and USD 97 billion in Sub-Saharan Africa.[clxi]

- *Reducing costs of digitalization*: digitalizing their businesses will be costly for many MSMEs in the developing world, particularly MSEs and informal enterprises in LDCs. A recent survey of 45 African countries shows that only 10 countries meet the standard of affordable internet, defined as paying 2% or less than the average monthly income for 1 gigabyte (GB) of data.[clxii] Efforts to lower data costs and enhance the affordability of ICT facilities will be critical to incentivize MSMEs' participation in digital capacity building initiatives, shift to digital transactions and e-commerce.
- *Enhancing digital skills*: Commensurate efforts are also needed to improve internet usage, by strengthening the digital literacy of existing and future entrepreneurs through tailored training programs with a particular focus on the needs of women and other underserved groups. It is estimated for instance that Sub-Saharan Africa has USD 130 billion investment opportunity in digital skilling through 2030.[clxiii] Digital literacy will be key to foster a deeper integration of digital technologies into MSME business models. Promising partnerships with the private sector have already emerged. For instance, the Asian Foundation with support from Google have launched Go Digital ASEAN, to provide 200 000 MSEs with digital skills and tools as well as networking opportunities for MSMEs across ASEAN member states.[clxiv] In Africa, the Ecobank Group, a pan-African banking conglomerate entered in a similar partnership.[clxv]
- *Enabling policy environments:* MSMEs need to be supported by conducive business environments and laws as well as dedicated capacity development initiatives that promote digitalization uptake (e.g. laws on digital signatures and electronic authentication, among others). For instance, the Bank of Indonesia implemented the Quick Response Code Indonesia Standard (QRIS) which enables the creation of a digital payment channel (QR code-based transactions) for MSMEs. In Thailand, the Digital Economy Promotion Agency (DEPA) offers many services for MSMEs, including vouchers for digital transformation through the Digital Transformation Fund.[clxvi] In Indonesia also, the 'MSME Go online' program[clxvii] provides capacity building to MSMEs to support their digitalization.[clxviii]
- *Building trust: managing risks related to digital transaction*s.[clxix] Weak cybersecurity foundations, and limited international commitments are some of the most cited barriers for MSMEs to access and offer digital financial services.[clxx] Fintech small payment processors, the main actors involved in MSME payments digitalization, further identify fragile relationships with large banks, unfit regulatory frameworks, lack of rules on information exchange and secure tools for digital reporting, and limited international cooperation in the alignment of regulatory requirements.[clxxi] For instance, in Malaysia, Sierra Leone, Mozambique and Rwanda, '*regulatory sandboxes'* have been introduced to test new financial products in secured environments, so as to promote financial innovation and inclusion.[clxxii] In the context of cross-border transactions, there is also a need for greater international cooperation, as siloed security and privacy domestic policies are acting as market barriers, in the form of domestic processing requirements, forced data localization, and licensing and equity requirements.[clxxiii]

3.8 Advancing while rethinking transitions to formality[clxxiv]: The call for greater formality is central to SDG 8 on Economic Growth and Decent Work which underscores the *formalization and growth' of micro-, small- and medium-sized enterprises* and this issue has been on the policy agenda of many emerging and developing countries prior to COVID-19.[clxxv] However, the COVID-19 crisis generally gave a new sense of urgency to the formalization agenda, driven by the need to reduce vulnerabilities facing informal workers and businesses, to increase tax revenues amidst the growing debt burdens, as well as the recognition that greater formality could help foster more sustainable recovery pathways through strengthening business resilience, fostering productivity development[clxxvi], and expanding decent job creation and social protection. The UN Secretary General's *Our Common Agenda* (OCA) explicitly called for "*roadmaps to be established to integrate informal workers and enterprises into formal economies in order to benefit from women's full participation in the workforce*".[clxxvii]

In many developing and emerging countries, governments have established specific schemes to expand access of informal enterprises to financial and other COVID-19 relief measures, using these as an *incentive* to encourage registration --- or conversely, *conditioning* access on registration (**see Box 3).**

Box 3: Country examples of programs that linked support to informal MSMEs to registration during COVID-19

In Panama, where the informal sector employs 45% of the workforce, an online registration platform was established in April 2020 to facilitate access to the financial and non-financial support programs of the Micro, Small and Medium-Sized Enterprise Authority (AMPYME), whereby registered informal microentrepreneurs would receive these benefits automatically.[clxxviii] In 2020, the government of Colombia put in place a special guarantee program (*Unidos por Colombia*) that provided own-account workers and both formal and informal entrepreneurs' guarantees, covering up to 90% of payroll and working capital loans.[clxxix] In Argentina, the established MSME Register served a gateway to preferential credit lines and assistance programs. Reportedly in July 2020, the register contained 1.4 million firms with a MSME certificate against 530 000 registered by end 2019.[clxxx] In Ghana, where microbusinesses make up 85% of all businesses (Ministry of Trade and Industry, 2019) a registration system was established by the National Board for Small Case Industries (NBSSI) alongside the implementation the Coronavirus Alleviation Program Business support (CAPBuSS) and the COVID-19 Recovery and Resilience Program for MSMEs (Nkosuo). Both programs were conditional upon having a business registration certificate/Tax Identification Number (TIN). Reportedly, the pace of registration increased from approximately 110,000 a month to 815,449 from May 19 to June 30, 2020.[clxxxi] In Cote d'Ivoire, a Support Fund for the Actors of the Informal Sector (FASI) was established with the aim of identifying the actors of the informal sector and their financing needs, and to grant them loans, as well as to refinance credit institutions involved in the implementation of financing programs. By the end of 2021, reportedly, more than 1.2 million informal actors had registered on the FASI platform, whilst more than 20 000 informal actors had benefited from the Fund subsidies.[clxxxii]

However, it should be noted that the support schemes were not *initially* or necessarily tied to 'full formalization requirements' (i.e., tax and regulatory compliance), given the threats that related costs could pose to the survival of most vulnerable businesses. As noted in the case of Ghana[clxxxiii], the readiness of some micro-enterprises to register, was in most instances driven by the need to access COVID-19 relief programs, rather than by strong long-term commitments to formalize.

As recommended by the World Bank and others, so long as the impact of the COVID-19 crisis continues to unfold and given the importance of informal MSEs for sustaining the livelihoods of millions of poor and vulnerable, efforts to support business continuity and protecting jobs in informal enterprises should be delinked from enterprise formalization objectives.[clxxxiv] Meanwhile, support policies should take into account the preferences of informal MSMEs (grants and subsidies likely to be preferred over credit instruments given low repayment capacities). Partnerships with microfinance and other local institutions can also prove helpful in improving informal enterprises' access to information and government support.[clxxxv]

What kind of policy pathways towards greater formalization in the longer run?

Whilst there is no single pathway to the formalization of enterprises, the ILO recommends a 4-tier comprehensive approach focused on simplifying regulatory frameworks, including registration processes, providing incentives, enhancing productivity, alongside efforts to improve enforcement and compliance.[clxxxvi]

However, the international experience suggests that these various paths to formalization are highly context-specific and not equally effective. Generally (and acknowledged by the ILO), interventions centered on simplifying registration and likewise, enforcement and compliance with tax and regulations, are unlikely to incentivize formalization on a large scale, unless commensurate efforts are made to raise awareness and support informal enterprises as well as enhance perceptions and trust that there is a 'clear value' in switching to formality. Meanwhile, formalization strategies cannot be disconnected from the broader economic environment, as their impact on MSMEs' formalization decisions will largely depend on the degree to which this environment can ensure that formal enterprises can thrive and grow.

Box 4: The *Enterprenant Status* service packages and formalization outcomes in Benin[clxxxvii]

The ***Entreprenant Status*** launched in Benin in 2014, provided small informal enterprises with a simplified and free legal regime to enter the formal sector. To inform the implementation of the scheme, the World Bank tested the effect of various service packages on formalization rates over a sample of sample of 3,596 informal businesses. It was found that interventions centered on the provision of information only were ineffective, whilst the combination of information, access to government training programs, access to a bank account and tax mediation services (in addition to an initial tax holiday) boosted the formalization rate by 16.3 percentage points. Interestingly also, the study found that the formalization rate increases by 27 percentage points when the support targets informal enterprises with characteristics (i.e.location, gender, age, education, sector, firm age, business practices, sales) close to that of formal enterprises.

Available evaluations show that the impact of formalization strategies implemented in developing countries over the past decade have yielded rather mixed and overall limited results (especially in terms of tax registration).[clxxxviii] Yet, recent research suggests that efforts aimed at increasing the benefits of formalization (through incentives, improved access to finance, counselling, training and other types of business support) might be more effective compared to interventions centered on reducing registration costs and time and/or enforcing compliance. Findings from the pilot experiments on the ''*Entreprenant status'* in Benin (see **Box 4**) are particularly enlightening in this regard. These findings notably highlight the need for a stronger emphasis on productivity-enhancing interventions as these could bring informal MSMEs *closer to point* where formalization may carry higher benefits and happen voluntarily, as higher productivity can also make it easier for them to bear the costs of formalization.[clxxxix] In this regard also, it has been suggested that formalization support policies are likely to be more effective when *targeting* dynamic informal small and medium-sized enterprises rather than micro, subsistence- oriented enterprises.[cxc]

Moving towards greater formality in developing countries, particularly in countries where informality is pervasive, is a complex and challenging process and necessitate both a deep understanding of the informal sector and careful planning.[cxci] More systemic approaches are needed as 'single point' solutions (e.g., facilitating and simplifying business registration and improving the regulatory or tax environment) may fail to account for the various underlying causes and drivers of business informality whilst challenges like informality are fast changing and require constant adaptation. This underscores anchoring the design, implementation, monitoring and evaluation of enterprise formalization strategies in a continuous process of dialogue with a range of stakeholders, including business development support providers, chambers of commerce, and representatives of MSMEs and, *critically*, representatives of informal and other local actors to ensure that strategies are 'fit for purpose', accounting for informal actors' specific needs and constraints, while learning about the type of policy that can or not work.

There is a need to better understand the constraints facing different groups of informal businesses (be it in terms of growth status, sectors, gender, age) as well as the broader ecosystem in which they operate, including market conditions, business culture as well as relationships with the formal sector, which also requires to move beyond the standard 'formal-informal' dichotomy. As suggested by the World Bank (2019), various innovative formalization pathways could be explored such as policies aimed at enhancing productivity and resilience of informal enterprises without necessarily setting "formalization as a target", policies targeting clusters of (rather than individual) informal enterprises, as well more gradual, 'intermediate' regulatory solutions (such as granting informal MSMEs intermediate legal or tax status).[cxcii]

Meanwhile, there is scope to further explore the role that digitalization of businesses and governments can play in fostering transitions to formality (**Box 5**)

Box 5- The Digitalization-Formalization Nexus

The view that digitalization, particularly digital finance services, can accelerate transitions to formality is shared by the World Bank Group[cxciii], the United Nations Secretary General's Special Advocate for Financial Inclusion (UNSGSA) and the G20 Global Partnership for Financial Inclusion (GPFI). According to the G20 *Policy Guide on* "*Digitization and Informality—Harnessing Digital Financial Inclusion for Individuals and MSMEs in the Informal Economy*"[cxciv] access to formal financial services can reduce informal economic activity over the long term by increasing the credibility and productivity of informal MSMEs, helping them overcome entry costs into the formal sector, and reducing the opportunity cost of operating in the informal sector. Meanwhile, the creation of on-line **one-stop shops**, that bring together several registration procedures and relevant agencies, the **digitalization of government services** which can reduce the costs to enterprises of transitioning to, and remaining in the formal sector, and likewise **electronic payments** (of services charges, taxes…) which reduces the need for informal enterprises to carry large amounts of cash whilst improving traceability, transparency and reducing corruption. These can also make it easier for governments to also enforce laws and regulations, including tax collection.[cxcv] However, as stressed by the World Bank (2019) digitalization is unlikely to act as an incentive to formalize, unless digital transactions are affordable and widely available. The specific role that digital financial services in advancing registration – and other dimensions of formalization such as tax payments, compliance with labor health and environmental regulations needs to be gauged against the broader set of drivers of informality, including the costs and benefits associated with formality. The report notably concludes that financial inclusion, including digital financial inclusion should primarily been seen" *as a tool to facilitate development goals, not a bludgeon to force formalization".*

IV. Recommendations towards strengthened collective action by the G20/DWG

The comprehensive framework put forward in this Scoping Note cuts across all dimensions of sustainable development and could provide a basis for increasing information sharing, ensuring policy consistency, and building synergies across various G20 engagement groups and partners' workstreams and initiatives that seek to enhance the competitiveness and resilience of MSMEs in developing countries, particularly LDCs and SIDS.

Generally, the challenges, opportunities and policy pathways reviewed in this Note call for renewed and sustained action by relevant G20 bodies and workstreams in the following areas:

- *Advancing the G20 SME Finance and broader Financial Inclusion Agenda with a special focus on a better outreach of digital solutions to most vulnerable MSEs.* In this regard, the effective implementation of the G20 Financial Inclusion Action Plan for 2022, will be paramount.[cxcvi] The plan includes taking stock of new digital financial products and services, including fintech that allow overcoming constraints in MSME financing and address sustainability challenges; improving the collection and availability of more granular and disaggregated data on MSMEs led by women, youth and other groups; the development of a regulatory diagnostic toolkit focused on best practices and policies in areas such as regulatory architecture, digital financing ecosystems, protection, and financial literacy.[cxcvii]These provides a window of opportunity for strengthened collaborations between the G20 and the GPFI community towards ensuring a genuine focus on the specific digital financial inclusion challenges facing formal and informal MSEs, especially those owned by women and or engaging other disadvantaged groups, such as people with disabilities (PWDs).

- *Sustaining guidance and support to the digital transformation of MSMEs, including the management of related risks and challenges, with a particularly focus on women and youth-led enterprises*. This notably calls for a sustained commitment to closing the digital divide[cxcviii], not least the gender digital divide, while following-up on the policy options identified by the G20 *Promoting Born Green via Digital MSMEs and Entrepreneurship in Global Supply Chains: Non-Binding Policy Toolkit* '[cxcix] and other relevant G20 initiatives centered on MSME digital transitions.

- *Fostering greater business linkages and integration of MSMEs, particularly MSEs into resilient RVCs/GVCs.* This may involve following up on the G20 (2021) policy recommendation to create a platform (MSMEs Link-20 Initiative) to facilitate the exchange of knowledge and good practices, foster cross-country partnerships; support linkage development and provide technical assistance",[cc] noting that various platforms have already been put in place by international organizations such as the *Trade4MSMEs platform*[cci]*, or the UN COVID-19 Private Sector Facility.*[ccii]

- *Accelerate the promotion of Inclusive Business models,* including among MSMEs led by, serving, or engaging with low-income populations, including vulnerable women and youth, minorities, displaced populations, people living with disabilities (PWDs) and other vulnerable groups. There is scope to build upon the work of the G20 Argentina (2018) including the G20 call on Financing Inclusive Business[cciii], the platform on Inclusive Business[cciv] as well as the promising approaches recently developed by the ASEAN[ccv] to further raise awareness, promote knowledge and experience sharing on IBs amongst G20 members and other countries, particularly LDCs and SIDS.

In addition to the above, and in line with the comprehensive approach recommended in this Note, there is scope for the G20/DWG to move forward policy dialogue, the exchange of experiences and good practices, and the mobilization of assistance in the following critical areas:

(1) Promoting the adoption of evidence-based, comprehensive frameworks to improve coordination between all stakeholders in designing policies to support and strengthen

MSMEs competitiveness and resilience, including informal enterprises in developing countries: Whilst the G20 work on MSMEs cuts across various G20 workstreams and engagement groups, the G20 DWG could promote policy dialogue and advocacy around the policy framework put forward in this Note, which encourages an inclusive, integrated and forward-looking approach to strengthening the productivity and competitiveness of MSMEs, and critically their resilience to future shocks, including through enhancing their capacities for disaster risk management and the promotion of SDG-aligned sustainable business practices.

(2) Encouraging and supporting developing countries, particularly LDCs, to establish comprehensive databases on MSMEs: The G20 acknowledged the overarching and cross-cutting need to improve data availability and provision, including through digital solutions, as key for informed decisions[ccvi]. This is of high significance for the MSME policy agenda post-COVID**.** Strengthened international cooperation is needed to help bridge MSME data gaps and address emerging data needs, including through the collection and use of new data (such as 'big data'). Support to the establishment of reliable, up-to-date, comprehensive/disaggregated databases, including e-databases, covering both formal and informal MSMEs will be key to foster financial inclusion as well as to enhance the ability to design, implement and evaluate policies and support programs tailored to the diversity of MSMEs.

(3) Evaluating and monitoring MSME development policies and support programs outcomes and promoting policy approaches based on MSMEs categories. Alongside stepped-up investments in MSME data, there is a need for greater investments in the monitoring and evaluation (M&E) of policy and support programs for different categories of MSMEs, including informal MSEs, in the context of the COVID-19 recovery strategies and beyond. Reliable methods for the monitoring and evaluation of MSME policies and programs have been established[ccvii] and there is scope for the G20/DWG to support further knowledge-sharing and cross-country peer-learning on good practices, as well as for guidance and capacity development.

(4) Fostering the establishment and/or scaling up of financing solutions that can help 'de-risk' financing for MSMEs: Guarantee schemes and other blended finance initiatives have emerged as promising approaches to 'de-risk' lending and unlock additional finance for M/SMEs and projects in the 'missing middle' in developing countries, particularly in LDCs. [ccviii] Within the broader development finance architecture, this is an important niche area for enhanced cooperation and technical assistance.

(5) Strengthening capacities for disaster risk reduction and management (DRR/DRM) within MSME business practices and the expansion of insurance mechanisms for MSMEs. These are important and relatively unexplored areas for consideration by the G20, which have important implications for recovery and resilience prospects in developing countries, particularly LDCs and SIDS. Efforts to strengthen private sector networks, e.g., industry and small business federations and others, that focus on supporting business continuity, integration of disaster risk preparedness and management in MSME business practices, and promote resilience in value chains are of particular significance.[ccix] As part of this agenda, there is also a need to further explore the possibility of expanding *business interruption risk insurance* for pandemic and climate related shocks, with the development of solutions adapted to the needs and capacities of MSMEs.[ccx]

(6) Strengthening the capacities of MSMEs to adopt SDG-focused and sustainable business models. Whilst challenges are numerous, the adoption of environmentally and socially sustainable business practices and further engagement in critical SDG areas such the circular economy, energy efficiency, climate adaptation, represent tremendous opportunities for MSMEs to enhance their competitiveness and resilience, as well as their contribution to inclusive and sustainable economies. As a starting point, there is scope for enhancing the awareness of MSMEs and build their capacities to identify, manage and report on their sustainability impacts and contributions to the SDGs.[ccxi]

(7) Advancing policy research and dialogue and South-South and Triangular Cooperation on addressing MSME informality: Protecting and empowering informal MSEs will be paramount to ensure an inclusive and sustainable recovery in developing countries, LDCs and SIDS. Critically, there is a need to better understand the role that digitalization, such as digital platforms, fintech and other digital solutions, can play in expanding informal MSEs' access to finance and markets, building their resilience to shocks, and fostering their gradual transition to formality. Equally critical is the need to understand and address the specific challenges (skills gaps and others) and the risks that different categories of informal SMEs may face when entering digital transitions, to ensure fairness, equity, and sustainability. Generally, much remains to be learned about MSMEs' incentives and disincentives to formalize and the effectiveness of different formalization strategies in different country contexts. Since the G20 Argentina presidency 2018, limited attention has overall been given by G20 workstreams to the specific challenges relating to MSME informality. It is important to revive this agenda, including through engaging representatives of Governments, private sector (including informal MSMEs) in policy dialogue, peer learning and knowledge sharing. Relevant G20 bodies, as well as the initiatives and platforms of the UN and other organizations working on informality issues could be leveraged for this purpose.[ccxii]

As part of the G20/DWG work agenda on MSMEs, there is also scope for exploring opportunities for cross-fertilization with the **new Doha Program of Action for the LDCs (2022-2031)[ccxiii]**, which is to be endorsed at the forthcoming LDC5 conference**.**

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The views expressed in this scoping note are those of the author(s) and the G20 Indonesian Presidency, and do not necessarily represent those of the United Nations, including UNDP, or the UN Member States."

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[clxxxviii] See: Benhassine, N., McKenzie, D., Pouliquen, V., & Santini, M. (2018). Does inducing informal firms to formalize make sense? Experimental evidence from Benin. *Journal of Public Economics*, *157*, 1–14. https://doi.org/10.1016/j.jpubeco.2017.11.004; and Bruhn, M., & McKenzie, D. (2014). Entry Regulation and the Formalization of Microenterprises in Developing Countries#. *The World Bank Research Observer*, *29*(2), 186–201. https://doi.org/10.1093/wbro/lku002
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[cxci] The ILO (2021) op. cit stresses that "tailor an enterprise formalization strategy to the needs and characteristics of the entrepreneurs, based on an assessment of the situation in a particular country or region"

[cxcii] World Bank (2020). Re-thinking the Approach to Informal Businesses Typologies, Evidence and Future Exploration. https://openknowledge.worldbank.org/handle/10986/34926
[cxciii] Klapper, L., Miller, M., & Hess, J. (2019). *Leveraging Digital Financial Solutions to Promote Formal Business Participation* [Working Paper]. World Bank. https://doi.org/10.1596/31654
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[cxciv] G20 & GPFI. (2018). *G20 Policy Guide: Digitisation and informality—Harnessing digital financial inclusion for individuals and MSMEs in the informal economy*. https://www.gpfi.org/publications/g20-policy-guide-digitisation-and-informality-harnessing-digital-financial-inclusion-individuals-and
[cxcv] ILO. (2021). *Small goes digital - How digitalization can bring about productive growth for micro and small enterprises*. https://www.ilo.org/wcmsp5/groups/public/---ed_emp/---emp_ent/---ifp_seed/documents/publication/wcms_808632.pdf "
[cxcvi] G20 Presidency Indonesia: Financial Inclusion Agenda at the GPFI *ver30 November 2021*;
[cxcvii] The intent is to go beyond credit, looking at alternatives such as digital payments, social/community-based financing, digital securities crowdfunding, with a focus on the specific needs of women-led, youth-led MSMEs and 'social finance recipients';
[cxcviii] Shenglin, B., Simonelli, F., Bosc, R., Zhang, R., & Li, W. (n.d.). Digital infrastructure: Overcoming Digital Divide in Emerging Economies. *G20 Insights*. Retrieved January 27, 2022, from https://www.g20-insights.org/policy_briefs/digital-infrastructure-overcoming-digital-divide-emerging-economies/
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[cci] See Home - Trade4MSMES The platform aims at helping small companies find trade-related information that improves their ability to trade internationally as well as helping policymakers design measures tailored to the needs of small companies.
[ccii] See https://www.unglobalfacility.org/; established by the United Nations Development Program (UNDP), the United Nations Global Compact (UN Global Compact), and the International Chamber of Commerce (ICC) the platform aims to promote solutions tailored to the needs of women and youth-led SMEs, including access to finance through trade finance and others; the Facility focuses on empowering SMEs with digital capabilities, building e-commerce opportunities; integrating SMEs into supply chains; boosting access to capital; enabling dialogues between SMEs, government, and larger enterprises.
[cciii] G20 Argentina. (2018). *G20 Call on Financing for Inclusive Business: Bridging the financial gap for Inclusive Business* https://www.inclusivebusiness.net/sites/default/files/2018-12/g20_call_on_financing_for_iibb.pdf
[cciv] The platform integrates the former G20 Global Platform on Inclusive Business (GPIB) that was established with support of UNDP and the Inclusive Business Action Network (iBAN).
[ccv] See for instance the ASEAN SME Academy
[ccvi] See G20. (2021, November). *G20 Rome Leaders' Declaration*. GPFI. https://www.gpfi.org/news/g20-rome-leaders-declaration-0
[ccvii] See for instance OECD (2018). *Monitoring and evaluation of SME and entrepreneurship programs*, OECD Ministerial Conference on Small and Medium-sized Enterprises, 22-23 February 2018 Mexico.https://www.oecd.org/cfe/smes/ministerial/documents/2018-SME-Ministerial-Conference-Parallel-Session-6.pdf
[ccviii] Amongst global initiatives, see for instance the UNCDF LDC Investment Platform
[ccix] Amongst the various regional and global initiatives that could be leveraged to advance this agenda see for instance, the ASEAN Agreement on Disaster Management and Emergency Response AADMER 2021-2025 or the the UNDP-OCHA Connecting Business Initiative (CBi)
[ccx] Amongst relevant global initiative see for instance the newly launched UNDP Insurance and Risk Finance Facility
[ccxi] Amongst new initiatives, see for instance, the Impact Management Platform that was launched in 2021 with support of a broad group of sustainability standards and guidance-focused organizations and UN agencies, including UNDP.
[ccxii] Note that the UN Global Initiative towards post COVID-19 resurgence of the MSME sector includes a dedicated pillar centered on business registration and formalization. The ILO and UNDP are also strengthening their collaboration on informality issues.
[ccxiii] The draft Program of Action (2022-2031), approved in December 2021, underscores renewed commitments on inclusive access to finance, particularly for women-led MSMEs, MSME digital transformation and innovation, the improvement of risk insurance mechanisms, supporting the integration of MSEs into value chains and their transitions to formality. For details, see https://www.un.org/ldc5/sites/www.un.org.ldc5/files/rev1_of_the_poa_ldc5.pdf