



The Role of Governments in Promoting ICT Access and Use by SMEs

Considerations for Public Policy

APDIP e-Note 12 / 2007



Inside

- Why Should Governments Encourage SME Access to and Use of ICTs?

- How Can Governments Encourage SME Access to and Use of ICTs?

- Policy Considerations in a Nutshell

- Conclusion

- Additional Reading

APDIP e-Notes present an analytical overview of specific issues related to information and communication technologies for sustainable human development in the Asia-Pacific region. APDIP e-Notes are developed by the United Nations Development Programme's Asia-Pacific Development Information Programme (UNDP-APDIP) based at the UNDP Regional Centre in Bangkok, Thailand. For more information, visit <http://www.apdip.net> or contact info@apdip.net

This document is released under a Creative Commons Attribution 2.5 License

Summary

The potential benefits of information and communication technologies (ICTs) to small- and medium-sized enterprises (SMEs) are well known. ICTs enhance SME efficiency, reduce costs, and broaden market reach, both locally and globally. Since the SME sector plays a major role in national economies, these benefits to individual SMEs collectively translate into positive results in the form of job creation, revenue generation and overall country competitiveness. Governments, therefore, have an interest in the promotion of access to, and use of, ICTs by SMEs.

Unfortunately, a number of factors hinder or discourage SMEs from fully realizing the benefits of ICTs, including, among others, lack of knowledge, resources and trust. Governments, using public policy as a tool, can play a critical role in addressing these concerns.

This APDIP e-Note provides an overview of the policy considerations that come into play in this regard. It discusses, in a nutshell, critical components for a comprehensive policy and legislative strategy that would address, in a holistic manner, the various policy, legal, market, technological and social considerations that are necessary in order to create conditions conducive for encouraging ICT-enabled SMEs.

These policy considerations should focus on issues related to a healthy business environment, network infrastructure and broadband deployment, regulatory trust content development, human capital and skills development, access to information, good e-governance, and public-private-civil society partnerships.

Why Should Governments Encourage SME Access to and Use of ICTs?

It should be noted that the SME sector, in virtually all countries, plays a key role in national economic development strategies by facilitating flows of information, capital, ideas, people and products.

The contributions of SMEs to employment and the countries' gross domestic product (GDP) are by no means trivial. As of July 2006, close to 140 million SMEs in 130 countries employed 65 percent of the total labour force (see Figure 1).¹

These contributions can further be enhanced and strengthened through the use of ICTs that are increasingly transforming modern businesses by enabling the rapid, reliable and efficient exchange of large amounts of information. Access to and the use of ICTs by SMEs, particularly as a collective sector, will lead to greater job creation, increased public revenue and a general rise in the standard of living.

Moreover, while ICTs are not a panacea for all development problems, they do offer enormous opportunities to reduce social and economic inequalities, particularly those related to income generation, poverty reduction, education, health, environment and gender equity, and thus help achieve broader development goals.

From a public policy perspective, the immense impact of SME fortunes or failures on the economy makes it critical for SMEs to be prepared for and take full advantage of any benefits offered by ICTs.² Governments, therefore, have a strong interest in fostering a strong SME base that is integrated into the global digital economy.

ICTs will increasingly empower SMEs to participate in the knowledge economy by facilitating connectivity; helping to create and deliver products and services on a global scale, and providing access to new markets and new sources of competitive advantage to boost income growth.

¹ International Financial Corporation Report on Micro-, Small- and Medium-Enterprises, 2006.

² For details and examples of how ICTs can benefit SMEs, see APDIP e-Note 4 – Why Should Countries Embed ICT into SME Policy? 2005. <http://www.apdip.net/apdipenote/4.pdf>

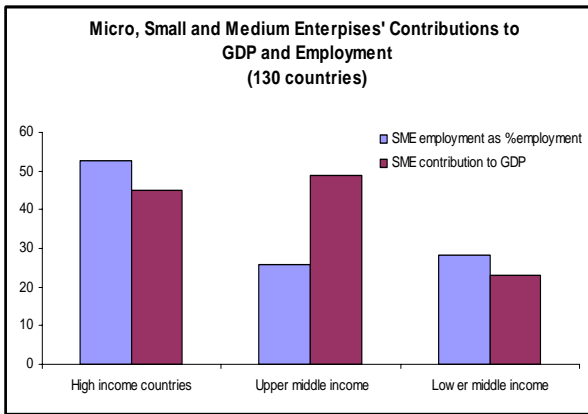


Figure 1: Micro-, Small- and Medium-Enterprises' Contributions to GDP and Employment

While it may be easy to reach a consensus on the point that ICTs are beneficial to SMEs, and to a country's overall economic well-being, several barriers hinder its use by SMEs.

For one, SMEs themselves may not see the relevance or suitability of ICTs to their businesses. In many instances, they may find it more difficult, relative to larger firms, to find an e-business case applicable to them because of lack of time, information and knowledge.

Moreover, SMEs often lack the human and financial resources needed for ICTs and e-commerce,³ especially because they have to focus on day-to-day operations, and lack the time and extra resources necessary to understand the benefits of new technologies. SMEs are generally concerned about the costs of establishing and maintaining e-commerce systems since they often suffer from budget constraints and are less sure of the expected returns on such investments.

The availability of reliable Internet connections and other communications services, preferably broadband at competitive prices, also affects the inclination of SMEs to adopt ICTs.

Other related barriers include payment uncertainties and contract, delivery and guarantee uncertainties. Privacy and legal protection for Internet purchases are also significant concerns, both for businesses and customers alike.

Awareness of these barriers is the critical first step for policy makers who may be interested in promoting access to, and use of, ICTs by the SME sector.

³ Electronic commerce or e-commerce refers to a wide range of online business activities for products and services. For more information, please refer to the UNDP-APDIP e-Primer entitled *e-Commerce and e-Business*, 2003. <http://www.apdip.net/publications/iespprimers/eprimer-ecom.pdf> and http://en.wikibooks.org/wiki/E-Commerce_and_E-Business

How Can Governments Encourage SME Access to and Use of ICTs?

There are a number of specific steps that governments can take to promote the access to, and use of, ICTs by SMEs.

First, governments themselves can and should engage in e-commerce. In most countries, governments are the largest buyers of goods and services. Many governments also make sure to buy a share of their goods and services from domestic SMEs. If governments begin using e-procurement techniques to do so, they can provide an important incentive for SMEs to begin using e-commerce as well. In fact, several developing countries are now implementing or planning e-procurement projects (e.g. in Chile, Philippines, Romania and Russia).

Second, through a deliberate effort at e-governance, governments can use ICT to provide better and more transparent service. Businesses turn to governments for a wide variety of services, from customs clearances to business licenses to dispute resolution mechanisms. Today, the length of time needed to obtain these services, and in some cases, the lack of transparency in the process (corruption) can and often does thwart SME efforts to compete internationally.

Finally, and most importantly, governments can provide the legal, policy and regulatory framework and public services that can encourage, or discourage, the growth of e-commerce amongst SMEs.

Public policy is the tool by which governments can help to create an environment, and remove barriers for businesses to adopt ICTs.

Policy Considerations in a Nutshell

A comprehensive policy and legislative strategy that addresses, in a holistic manner, the various policy, legal, market, technological and social considerations, that interact both at domestic and global levels, is necessary in order to create conditions conducive for ICT-led growth.

This requires careful thinking of legislation and policies that are, or ought to be in place for a wide array of interests and covering issues on e-commerce, cybercrime and security, privacy and data protection, competition, intellectual property rights, consumer protection, the digital divide and e-governance, among others.

Key policy directions in this respect should cover:

1. **Business Environment.** As a basic requirement, a healthy business environment is fundamental for firms to thrive and benefit from ICTs. This includes:

- a transparent, open and competitive business framework;
- clear independent rule of law for all firms;
- easy set up and dissolution of businesses;

- transparent, simple and accessible corporate regulations, and
- equal and stable legal treatment for national and cross-border transactions.

In other words, governments must develop and implement policies and regulations that will make it easy for people to set up (and dissolve) businesses, and remove barriers to help these businesses become more profitable and competitive.

2. **Network Infrastructure and Broadband Deployment.** Broadband connectivity is a key component in ICT development, adoption and use. It accelerates the contribution of ICTs to economic growth, facilitates innovation, and promotes efficiency, network effects and positive externalities. The development of broadband markets, efficient and innovative supply arrangements, and effective deployment and use of broadband services require policies that:

- promote effective competition and which continue to stress liberalization in infrastructure, network services and applications across different technological platforms;
- encourage investment in new technological infrastructure, content and applications; and
- take a technology-neutral stance among competing and developing technologies to encourage interoperability, innovation and expand choice.

Public financial assistance and other initiatives to expand coverage for under-served groups and remote areas could complement private investment where appropriate, provided it does not pre-empt private sector initiative or inhibit competition.

3. **Regulatory Trust.** SMEs need to be able to ensure that the regulatory system will address security, privacy and consumer protection interests. Issues that need to be considered include:

- cyber-crimes and cyber-security;
- spam;
- cross-border cooperation, and
- presence of low-cost online dispute resolution mechanisms among firms, and between firms and consumers.

4. **Content Development.** Governments and the private sector have key roles in facilitating content availability across all platforms and encouraging local development of new content, including content from public sources. In this area, governments must consider and strike a balance between the need to protect intellectual property rights, and their interests in fostering access to information and new ideas in order to promote innovation.

5. **Human Capital Development and Skills Enhancement.** Lack of ICT skills and business skills are widespread impediments to effective uptake once adoption decisions are made. Governments have major roles in providing basic ICT skills in primary and secondary schooling, and an important role in conjunction with education institutions, business, and individuals in providing the framework to encourage ICT skill formation at higher levels, in vocational training and in ongoing lifelong learning.

6. **Information.** Small firms may lack objective information regarding the benefits and costs of adoption of ICTs. The private sector (e.g. business associations) and governments have a role, and can provide information about services, and when necessary improve coordination of government information on the benefits of adoption and use of ICTs, for example case studies and good practice demonstrations to tackle market failures in information supply.

7. **e-Governance.** Online provision of government information and services can increase the efficiency and coverage of public service delivery to SMEs. Moreover, as model- and standard-setting users of broadband, governments can convincingly demonstrate the potential of broadband-based services and content as well as the benefits of ICT adoption by small firms, thus helping to spread new services more widely. Education, general government information and services, and provision of government services to businesses and citizens can all potentially benefit from the use of new high-speed infrastructure and services, and should be given priority in government strategies.

8. **Public-Private Partnerships.** Authentic partnership with the private sector is key to developing effective e-business policies for SMEs.

In public-private partnerships, there is a recognition that governments' primary role in ICT development is to provide an enabling policy, legal and regulatory environment that levels the playing field and allows the private sector to compete freely and fairly.

Thus, while public authorities play a crucial role in promoting the adoption of the Internet for business purposes, it is important to note that ultimately, the private sector is better positioned and qualified to undertake implementation.

Initiatives and projects to develop the ICT sector will have a higher chance of success and sustainability if these are market-led, rather than government-led. The private sector should provide leadership through investments, capitals and other resources.

Market forces alone, however, cannot guarantee the full development of an inclusive knowledge-based economy. Programmes to promote access to ICTs, particularly in rural and remote areas, may

fail if the private sector does not feel ready or inclined to invest in places where there is little profit to be made.

Governments, therefore, must remain vigilant in their role of verifying that, at any time, implementation is proceeding consistently with their policy objectives. As enablers, their involvement in the markets should be predictable, developmental, transparent and efficient. Regulations, where necessary, should promote a level playing field and should not hinder companies from competing in free and fair markets.

Conclusion

The range of policy options for the promotion of ICT access and use by SMEs is obviously very broad and seemingly overwhelming.

All countries will have to make difficult choices, and while they may learn from each other's past experiences, the package of laws, rules and incentives that each country adopts will undoubtedly differ and be driven by unique socio-economic and political contexts.

It is also important to state that, given the breadth and depth of interests involved, public-private partnerships, including participation by civil society is critical to its success.

Nonetheless, both the benefits to SMEs, as well as the stakes involved for countries in the success of their respective SME sectors – in terms of jobs created, revenues generated, global competitiveness, and overall increase in the quality of life – necessitate careful and comprehensive strategizing, and action to meaningfully place ICTs in the hands of SMEs.

This requires an understanding, not only of the benefits that ICTs provide, but also of the barriers that hinder their use and availability. Equally important, it calls for decisive political will on the part of governments, balanced by an appreciation for the need to solicit and nurture participation and support from private sector and civil society stakeholders.

~ Gigo Alampay, Executive Director, The Center for Art, New Ventures & Sustainable Development
<http://www.canvas.ph>

Additional Reading

Alampay, G. and Quimbo, R. (forthcoming) Promoting ICT Access and Use by SMEs: An Introductory Set of Training Modules for Policymakers. UNESCAP.

Andam, Z. R. (2003) e-Commerce and e-Business, e-Primer for the Information Economy, Society and Polity Series, UNDP-APDIP and e-ASEAN Task Force. <http://www.apdip.net/publications/iespprimers/eprimer-ecom.pdf> and http://en.wikibooks.org/wiki/E-Commerce_and_E-Business

APDIP e-Note 4 - Why Should Countries Embed ICT into SME Policy? Carol Chyau, 2005.
<http://www.apdip.net/apdipenote/4.pdf>

Asia Foundation (2002) SMEs and e-Commerce. <http://www.asiafoundation.org/pdf/SME-e-commerce1-thailand.pdf>

da Costa, Eduardo (2001) Global E-Commerce Strategies for Small Businesses. The MIT Press Cambridge, MA, USA.

Kotelnikov, V. (forthcoming) Small- and Medium-Enterprises and ICT. e-Primer for the Information Economy, Society and Polity Series, UNDP-APDIP. <http://www.apdip.net/elibrary#iesp>

Labelle, R. (2005). ICT Policy Formulation and e-Strategy Development: A Comprehensive Guidebook. UNDP-APDIP and Elsevier. <http://www.apdip.net/publications/ict4d/ict4dlabelle.pdf>

Organization for Economic Co-operation and Development (2004) Promoting Entrepreneurship and Innovative SMEs in a Global Economy: Towards a more responsive and inclusive globalization.

Payne, J. (2005) E-Commerce Readiness for SMEs in Developing Countries: A Guide for Development Professionals. Learn Link – Academy for Educational Development. Washington, USA.

Quimbo, R. (2003) Legal and Regulatory Issues in the Information Economy. e-Primer for the Information Economy, Society and Polity Series, UNDP-APDIP and e-ASEAN Task Force. <http://www.apdip.net/publications/iespprimers/eprimer-legal.pdf> and http://en.wikibooks.org/wiki/Legal_and_Regulatory_Issues_in_the_Information_Economy

World Bank (2006) Information and Communications for Development 2006: Global Trends and Policies.

World Bank (2006) International Financial Corporation Report: Micro, Small and Medium Enterprises 2006.