



THE DIGITALIZATION OF SMEs:

Proposals for a Solution for Post-COVID Economic Recovery

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Executive Summary

- COVID-19's economic toll on Mexico is one of the worst in the world. Given the lack of fiscal incentives, monetary relief packages and digitalization are the two main solutions to the crisis.
- Close to 25 percent of micro businesses are in danger because of COVID-19, which means 725,000 jobs are at risk. Thus, digitalization of small and micro businesses is urgent, especially since only 10% of micro businesses have a digital presence.
- Mexico has important advantages to foster its digital market growth: two out of three Mexicans (older than 6 years old) use the internet, amounting to almost 75 million people. Mexico has the greatest ease in Latin-American to operate and grow the digital economy (Harvard Business Review), and the country has, on the one hand, advanced regulation on data protection and an adequate infrastructure at competitive prices.
- To preserve such advantages, especially regulation under the United States-Mexico-Canada Agreement (USMCA), it is key that the secondary regulation that will be discussed in Congress promotes competition, innovation, and data protection.
- Even though e-commerce in Mexico represents 2% of all commercial transactions, it has been growing steadily in the last years, over 40% during the past 2 years. Today, close to 70% of all internet users in Mexico access the web through their cell phones, and 90% are willing to pay for the service.
- There are sound conditions to foster Mexico's digital economy: The Competition Commission has been effective in guaranteeing competition among digital platforms; online frauds do not seem to be a problem (less than 4% of users are concerned about them); and, Mexico is the world's ninth largest exporter within the Information, Communications, and Technology Industry.
- The most recent research during COVID-19 shows that digitalization will be the new norm. Over 55% of Chinese consumers will continue to purchase groceries online; while in the US, online trade among businesses (B2B) grew 30% during COVID-19. In Argentina, those firms that adopted online sales during COVID-19 increased their revenue by 134% from 2019.
- In Mexico, the main challenges for Small and Medium Businesses (SMEs) to migrate to a digital economy are:
 - Organize/prioritize the different initiatives that have emerged since COVID-19.
 - Educate and train SME owners on digital technologies.
 - Create and make more accessible to SMEs digital tools and platforms that are adequate for their needs.
 - Reduce the digital gap (rural vs urban).
 - Migrate to 4 and 5G technology to reduce transaction interruptions.
 - Create fiscal and credit history for small and medium businessmen.

- Among the main findings of other countries experiences promoting digitalization of their SMEs are:
 - Make digitalization a national priority with goals, responsibilities, and effective coordination within the government.
 - Use public policies as an instrument to scale digital transformation, for example public procurement.
 - Design regulations that enable firms to develop interoperable infrastructure.
 - Work with SMEs to promote digital technologies.
 - Co-create products and services with the private sector adequate for SMEs using Research and Development incentives.

Roadmap to digitalize Mexican SMEs:

Step 1 (first 2 months)

- 1) Create a national plan with a Steering Committee responsible for building, implementing, and evaluating such a plan under a tight schedule.

Step 2 (next 8 months)

- 2) Launch an awareness campaign for SMEs with digital guides and coaches (Example: France)
- 3) Train and mentor best practices for digital technology adoption by sector using a one-stop shop approach (Example: European Community in financial market).
- 4) Donate smartphones massively to micro entrepreneurs in both rural and urban settings.
- 5) Adapt the regulatory framework to promote innovation and digital transactions both at a national and international level securing personal data.
- 6) Create a marketplace with available technologies for SMEs that enables to evaluate the best options with expert advice (Example: Singapore).
- 7) Build capacities for micro businesses to solve challenges of online trading.
- 8) Create specific logistics solutions for SMEs.
- 9) Create a specific group to solve SMEs financial challenges for digital transformation (Example: *Bavaria Digital initiative*, which uses parametric criteria to give credits for SMEs transformation)

Step 3 (Longer term)

- 10) Create incentives to expand internet coverage to rural areas.
- 11) Build a Public Registry that includes trustworthy businesses to expand the amount of digital projects.
- 12) Build an internship program within digital firms in order to increase the soft skills of those entrepreneurs interested in the digital economy.
- 13) Work with global philanthropy and financial institutions to create tools that allow risk capital to invest in digital innovations with social impact.
- 14) Design digital products for marginalized communities.
- 15) Promote digital opportunities for women.
- 16) Make digital signatures and contracts accepted in all transactions.
- 17) Train micro entrepreneurs in data management models to enable them to exploit the data generated in the digital economy as an additional income source.
- 18) Work with all stakeholders to facilitate Mexico's registry of patents and brands.