

ADVANCING INCLUSIVE GROWTH IN THE APEC REGION:

CHALLENGES AND POLICY SOLUTIONS FOR MSMES



ASIA PACIFIC
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OF CANADA

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ABOUT THE ASIA PACIFIC FOUNDATION OF CANADA

The Asia Pacific Foundation of Canada (APF Canada) is dedicated to strengthening ties between Canada and Asia, with a focus on expanding economic relations through trade, investment, and innovation; promoting Canada's expertise in offering solutions to Asia's climate change, energy, food security, and natural resource management challenges; building Asia skills and competencies among Canadians, including young Canadians; and improving Canadians' general understanding of Asia and its growing global influence.

The Foundation is well known for its annual national opinion polls of Canadian attitudes regarding relations with Asia, including Asian foreign investment in Canada and Canada's trade with Asia. The Foundation places an emphasis on China, India, Japan, and South Korea while also developing expertise in emerging markets in the region, particularly economies within the Association of Southeast Asian Nations (ASEAN).

Visit APF Canada at <http://www.asiapacific.ca>

ABOUT THE APEC–CANADA GROWING BUSINESS PARTNERSHIP

The APEC-Canada Growing Business Partnership is a four-year initiative jointly implemented by APF Canada and the Asia-Pacific Economic Cooperation (APEC) Secretariat. Funded by Global Affairs Canada, this initiative helps build the potential of MSMEs to promote poverty reduction and sustainable economic growth in the APEC region.

The Partnership offers best practice tools, ideas, knowledge, and critical connections derived from Canadian experience, tailored to the local markets of APEC countries. The current economies of focus are Indonesia, Peru, the Philippines, and Vietnam. The focus areas of the Partnership aim to address key challenges faced by MSMEs and aspiring entrepreneurs from APEC developing economies in the areas of technology and innovation, market access, human capital, and social entrepreneurship, with an emphasis on the crosscutting themes of women, youth, governance, and the environment.

Visit the APEC-Canada Business Partnership at <https://apfcanada-msme.ca/>.

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EXECUTIVE SUMMARY

From 2016 to 2021, the APEC-Canada Growing Business Partnership (the “Partnership”) has sought to build the capacity of micro, small and medium enterprises (MSMEs) in developing economies in the Asia-Pacific Economic Cooperation (APEC) region. The goal of the Partnership is to build the capacity of MSMEs toward an ultimate goal of promoting poverty reduction and sustainable economic growth in the APEC region. The Partnership recognizes the central role of MSMEs in directly providing economic opportunities to local populations in APEC economies, while also contributing to overall economic growth in the region. APF Canada has implemented a four-year program focusing on research, training, and mentorship of MSMEs with the end goal of offering best-practice tools, ideas, knowledge around fostering economic growth and poverty reduction.

While MSMEs have immense potential to achieve these goals, these smaller businesses face a number of challenges to their growth and success. The Partnership has endeavoured to build the MSMEs’ capacity in four main thematic areas: technology and innovation, human capital, market access, and social entrepreneurship. Now in its final year of implementation, as MSMEs in the APEC region grapple with the short-term and long-lasting impacts of the COVID-19 pandemic, the Partnership is further examining the on-the-ground research and activities that have been undertaken in Indonesia, Peru, the Philippines and Vietnam, with the goal of illustrating the pre-pandemic challenges that MSMEs have faced, and identifying the gaps and priorities for the “new normal” era during the COVID-19 pandemic. In this report, the Partnership has compiled its best practices and lessons that it has learned in its on-the-ground activities and working with various project stakeholders including governments, entrepreneurial networks, academia and most of all, MSMEs themselves.

This capstone policy paper highlights the key policy findings and recommendations from throughout the Partnership’s implementation cycle in response to six key thematic areas featured in the project’s capstone conference. These themes are as follows:

- 1. Promoting Inclusive Growth**
- 2. Supporting Women and Youth Entrepreneurs**
- 3. Aiding MSMEs’ Digital Transformation**
- 4. Securing MSMEs’ Access to Financing**
- 5. Ensuring Access to MSME Support Services**
- 6. Encouraging Broader Market Access**

In responding to these themes, this paper features findings from the Partnership's on-the-ground implementation experience in Indonesia, Peru, the Philippines, Vietnam, and a cross-national analysis of the project's national survey datasets. This paper aims to draw comparisons between entrepreneurs' experiences of running an MSME in the Partnership's four focus economies, and the landscapes that they operate in. In doing so, this paper provides policy recommendations for MSME capacity building moving forward, during and beyond the COVID-19 pandemic.

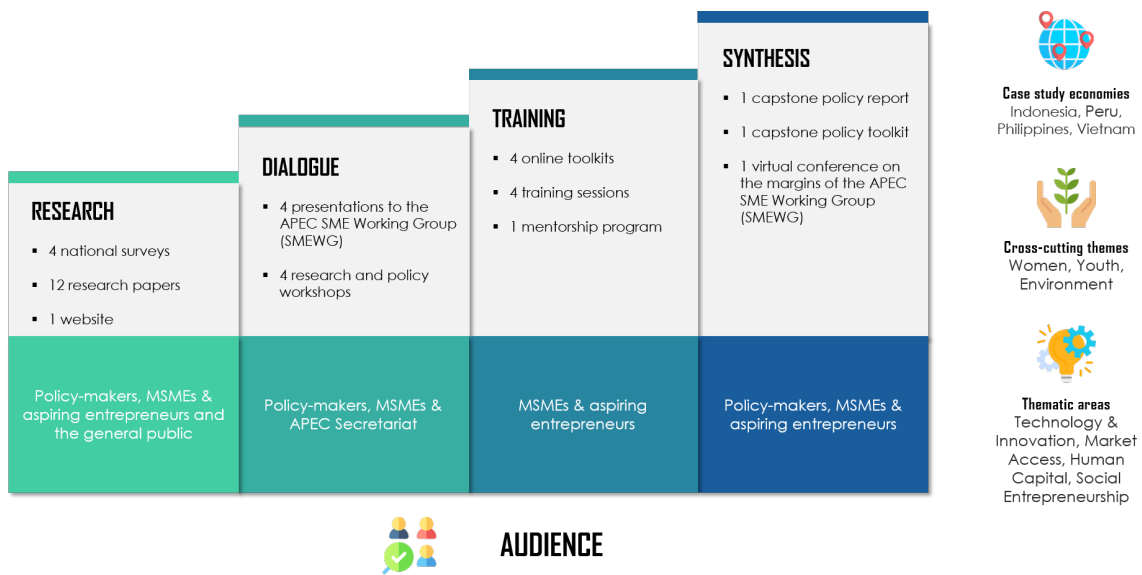
The policy recommendations in this report are based on qualitative and quantitative evidence taken from the Partnership's on-the-ground activities and national survey datasets. These recommendations are guided by regional MSME policy visions and frameworks, particularly the APEC SMEWG Strategic Plan for 2020-2025 and Putrajaya Vision 2040.

The main policy recommendations provided by this report include the following:

1. **Promoting Inclusive Growth:** Dialogue between governments, MSMEs and other key stakeholders is critical for achieving an inclusive crisis response and sustainable routes to recovery. Governments must ensure that the needs of small businesses are addressed through action plans that work toward long-term economic recovery.
2. **Supporting Women and Youth Entrepreneurs:** Further capacity building, knowledge networks and collection of disaggregated data are needed to address systemic barriers that limit the economic empowerment of women and youth.
3. **Aiding MSMEs' Digital Transformation:** Policymakers must assess the existing efforts of MSMEs to incorporate a digital strategy into their business model, and provide additional support for digitalization, such as stronger ICT infrastructure and upskilling in social media usage.
4. **Securing Access to Funding:** Governments must make access to finance and various funding mechanisms well-known, accessible, as well as targeted to the distinct needs of MSMEs and entrepreneurs (e.g., by enterprise size, industry, gender and age). These needs can be assessed through data collection.
5. **Ensuring Access to MSME Support Services:** Governments are encouraged invest more resources in the marketing and information distribution of MSME support programs and services, and targeting these resources to women and youth entrepreneurs.
6. **Encouraging Broader Market Access:** Entrepreneurs and MSMEs must be supported by government actors in gaining international market experience and expanding their markets overseas. This includes investing in clear promotion of international opportunities, and in entrepreneurs' upskilling to participate in international markets.

MSMES IN THE APEC REGION

As part of the APEC-Canada Growing Business Partnership’s goal to drive sustainable and inclusive growth across the APEC region, micro, small and medium enterprises (MSMEs) have been a key analytical focus for the Partnership’s research, training and mentorship programs. Tailored to four focus APEC economies – Indonesia, Peru, the Philippines, and Vietnam – the Partnership has fostered the best-practice tools, ideas, and knowledge that are critical to fostering economic growth and reducing poverty. The Partnership has supported efforts to propel the MSME sectors of APEC economies forward, drawing from both local and Canadian best-practice experiences, and translating these recommendations to support MSME and entrepreneurial-friendly policies within the region.



MSMEs are well known as the backbone of economies in the Asia-Pacific Economic Cooperation (APEC) region. These enterprises typically comprise the vast majority of businesses in each economy, and provide crucial economic opportunities to the local populace, especially for women, youth, and rural communities. In the APEC region as a whole, MSMEs make up 97 per cent of all businesses, and provide employment to over half of the regional workforce. As a result, MSMEs are among the key drivers of economic growth, innovation, and opportunity in the region.

The recent COVID-19 pandemic has posed an existential crisis to these small businesses. Due to domestic and international restrictions on movement, many MSMEs have experienced a sudden and drastic reduction in physical business traffic. As a result of the ongoing pandemic, MSMEs have had to proactively explore new opportunities to transition their traditional in-person businesses into online platforms. Digitalization, or the transition of an in-person business model to a digital one, has fast

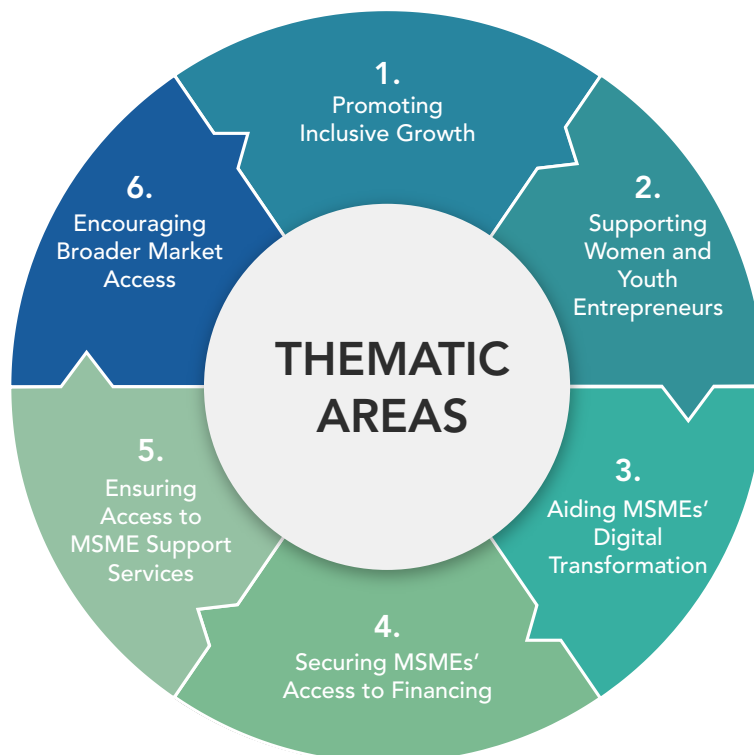
become the new priority for MSMEs, governments across the APEC region and large corporations. While businesses have incorporated digital business practices prior to the pandemic, such as e-commerce platforms and digital communications, these have now become a requirement for MSMEs’ survival in the so-called “new normal.” Borderless e-commerce has opened opportunities for MSMEs to reach larger regional value chains, increasing exposure of these MSMEs, but still brings many logistical challenges to deliver goods and services through digital platforms.

While the pandemic and its restriction on physical movement poses a new challenge to MSMEs, many other issues that MSMEs are facing stem from before the pandemic. These issues, including access to financing, usage of MSME support services, and efforts to increase market access, are prior challenges that are now exacerbated by the present health and economic crisis.

POLICY FINDINGS AND RECOMMENDATIONS IN THEMATIC AREAS

To provide high-level policy recommendations and actions pertaining to specific areas of MSME capacity building, a combination of both qualitative and quantitative data is used from the Partnership’s implementation experiences and are based on various national surveys, training events, policy directions and goals of relevant partner organizations on-the-ground.

The recommendations in each of the six following areas are targeted toward APEC policymakers in order to further understand entrepreneurs, their current capacity to operate, and optimizing these lessons for post-pandemic growth. The six thematic themes covered by this paper include the following:



AIDING MSMEs' DIGITAL TRANSFORMATION

While “digital entrepreneurship” was already being encouraged prior to the pandemic, the current crisis has made it a requirement for MSMEs to survive the economic downturn. In order to have a successful transition to the digital economy, the Partnership recommends that entrepreneurs receive training and mentorship on the effective usage of digital tools like social media. Moreover, the Partnership recommends that policymakers take account of businesses’ existing usage of digital tools, and create responsive policies that build MSMEs’ capacity from this baseline.

Main Recommendation: Policymakers must assess the existing efforts of MSMEs to incorporate a digital strategy into their business model, and provide additional support for digitalization

Policy actions for supporting MSMEs’ digital transformation include the following:

1. Build and maintain a robust internet infrastructure in a given economy, to ensure that all entrepreneurs, regardless of location (e.g., urban vs rural-based businesses) have a consistent and financially accessible internet connection.
2. Collect data on MSMEs’ usage of social media, websites, and other digital tools, toward informing support programs and policies for MSME digitalization, and target such initiatives to their needs.
3. Encourage information sharing and partnerships between government and large corporations to provide knowledge and training to MSMEs on creating a digital strategy, and how various online platforms can be used to entrepreneurs’ advantage

DIGITALIZATION AND DIGITAL TRANSFORMATION

Digitalization refers to an MSME’s transition of existing business operations, such as communications and payment methods, to online platforms and software. Oftentimes, this transition will involve a mix of physical and digital processes, depending on a given business’ needs. One example is the transition of in-person payment methods to e-wallets and mobile commerce, where consumers are now able to pay for goods and services using their mobile devices.

Digital Transformation then refers to an MSME’s overall transition to a digital business model, with the goal of entering the digital economy.



Photo by NASA on Unsplash

To provide context to its recommendations, this section will discuss how MSMEs and entrepreneurs have implemented and used digital business tools thus far. In particular, it will highlight the use of company websites, social media and online learning applications entrepreneurs, and the barriers that they may face in MSME digitalization.

POLICY AREA 1: INTERNET ACCESS AND ICT INFRASTRUCTURE

The foundational component of MSMEs' digital transformation is robust, affordable, and sustainable access to the internet. As more businesses shift to online and digital platforms, governments and telecom providers must ensure that all their residents have reliable access to the internet. **This factor is a critical step towards determining MSMEs' ability to digitalize and participate in the digital economy. Moreover, a lack of internet connection can significantly limit MSMEs' ability to reach broader markets and consumers.**

The Partnership's research has previously emphasized internet access, and more broadly ICT infrastructure, as a crucial building block that enables MSME capacity and further unlocks their potential.

ICT, or information and communications technology infrastructure, refers to the equipment, software and systems that are required to facilitate digital business processes. This encompasses access to the internet, personal computers, workplace software, e-commerce platforms, and others.

In Vietnam, the Partnership's research emphasized that "reliable and future-ready ICT infrastructure" can be a foundation for MSME innovation and market expansion.¹ Similarly, in Indonesia and the Philippines, investment into ICT-related infrastructure was emphasized as a necessary support for MSMEs to enhance their human capital and market access. Meanwhile, in Peru, the topic of internet access was discussed in relation to MSME support services, and enhancing the accessibility of information on various types of MSME support.

¹ Lan H. Phan, Hieu M. Tu and Thomas Borgert, *Innovation Policy to Promote MSME Growth: Best Practices and Implications for Vietnam and Other APEC Developing Economies* (Vancouver: Asia Pacific Foundation of Canada, 2018), 42.

A strong ICT infrastructure is critical to the successful digital transformation of MSMEs, and entrepreneurs' resulting participation in the digital economy. Given this, how robust is their access to the internet? In the Partnership's national surveys, entrepreneurs were asked about whether ICT, or technical infrastructure, is a barrier for their MSME.²

In each of the focus economies, at least a fifth of the survey population said that technical infrastructure was either a barrier or high barrier to their MSME's success. The highest rate was in the Philippines, where 34 per cent of surveyed Filipino entrepreneurs said that internet connection is one of the problems for their business. Meanwhile, this number was 27 per cent in Indonesia, 23 per cent in Vietnam, and 22 per cent in Peru.

It is vital that no entrepreneurs and MSMEs are left behind in terms of internet access.

POLICY AREA 2: DIGITAL TOOLS – SOCIAL MEDIA AND WEBSITES

The pandemic has significantly restricted in-person business, and has pushed business interactions with consumers into online spaces. MSMEs therefore need the resources and support to help them optimize their usage of social media and websites, among other tools, to conduct and promote their business.

One key component of MSMEs' digital transformation is their engagement through social media and company websites. The ubiquity and wide accessibility of social media makes it a highly impactful tool in the digital economy. Social media also provides businesses with the ability to disseminate information to a wide and targeted audience, facilitate interactions with consumers, and even shape consumers' preferences. Most of all, social media is a low-cost tool, and is typically available for free to businesses.

²Technical infrastructure here refers to internet reliability and accessibility, and if survey respondents experience unreliable, inaccessible, or too costly internet access.



Another important component of MSMEs' digital presence is a company website. This digital tool is often the primary form of engagement that a business has with its consumers, and provides key information about a company to clients, such as a business' list of goods/services and contact details. In turn, having a website can add credibility to a business by showing that it has an established presence online.

It is crucial to support entrepreneurs in the effective use of digital business tools, such as social media and websites. It would be beneficial for APEC governments and large corporations to assist MSMEs with information-sharing and provide them with training in digital strategy development, as well as how to use platforms to entrepreneurs' advantage. Moreover, data on MSMEs' use of social media will be especially crucial for informing policies and initiatives to assist enterprises in digitalization, and thereby targeting initiatives according to MSMEs' needs.

The importance of digital business tools was especially emphasized in the Partnerships' research in Indonesia and the Philippines toward expanding market access. In a research study by the Asian Institute of Management on the importance of SME Business Associations, the authors emphasize that "although the use of internet-based sales platforms may require significant investments from SMEs as well as notably different skill sets and marketing expertise, SMEs lose out on a significantly growing market if they do not engage in online product distribution and display."³ Moreover, the authors suggest that business associations can help MSMEs engage in the digital economy by providing them with resources and support.

The Partnership's research on MSMEs in Indonesia's digital economy also explores the role of policymakers. Here, the author argues that policymakers should ideally focus on "increasing mobile device penetration and infrastructure, supporting existing and nascent e-commerce platforms with the rollout of digital wallets" and their accompanying regulation and enforcement mechanisms. In doing so, the ubiquity and accessibility of these digital tools can become more widespread for entrepreneurs.

In understanding the wide variety of digital tools available, the digitalization of MSMEs will also create new challenges for MSMEs, including encountering new regulations and security concerns on online platforms. The Partnership's research in the Philippines has recommended that government agencies and business organizations can help MSMEs navigate the digital economy by conducting compliance training and information seminars on the usage of digital tools. APEC governments will also need to consider appropriate regulatory frameworks for data protection and security.⁴ It is important that governments

³ Jamil Paolo Francisco and Tristan Canare, *The Challenges to SME Market Access in the Philippines and the Role of Business Associations* (Vancouver: Asia Pacific Foundation of Canada, 2019), 34.

⁴ In the latter example, interoperability, or the ability of different computerized systems to connect, communicate and interface with one another will be key as digital payment systems will become a dominant method of payment compared to cash or other traditional forms of payment typically used by informal enterprises.

create policies that ensure MSMEs and entrepreneurs are equipped with the digital literacy to access new technologies, as well as ensure that there are transparency standards and adequate disclosure of digital rights.⁵

In addition, MSMEs will furthermore need to learn and adapt to conducting their traditional businesses in virtual spaces. The Partnership's national survey data assesses entrepreneurs' existing usage of social media and company websites prior to the pandemic. How did businesses utilize social media before the pandemic, and how can this existing usage be optimized for the new business environment during the pandemic?

The Partnership's national survey data assesses entrepreneurs existing usage of social media and company websites prior to the pandemic. **The highest rate of social media usage was in Peru**, where almost three-quarters of surveyed entrepreneurs said that they used at least one social media application for their MSME. In comparison, 60 per cent of Vietnamese respondents said the same, while this number is almost 50 per cent for Filipino respondents and a third of Indonesian respondents.

In terms of platforms, Facebook is the most popular social media platform. The majority of respondents in Peru (64 per cent), Vietnam (60 per cent) and the Philippines (44 per cent) said their business was active on Facebook. Usage of Facebook in these economies outpaces other platforms like Twitter or Instagram, showing the ubiquity and wide usage of Facebook among entrepreneurs. In contrast, **the majority of Indonesian respondents (29 per cent) said they use WhatsApp for their enterprise.**⁶

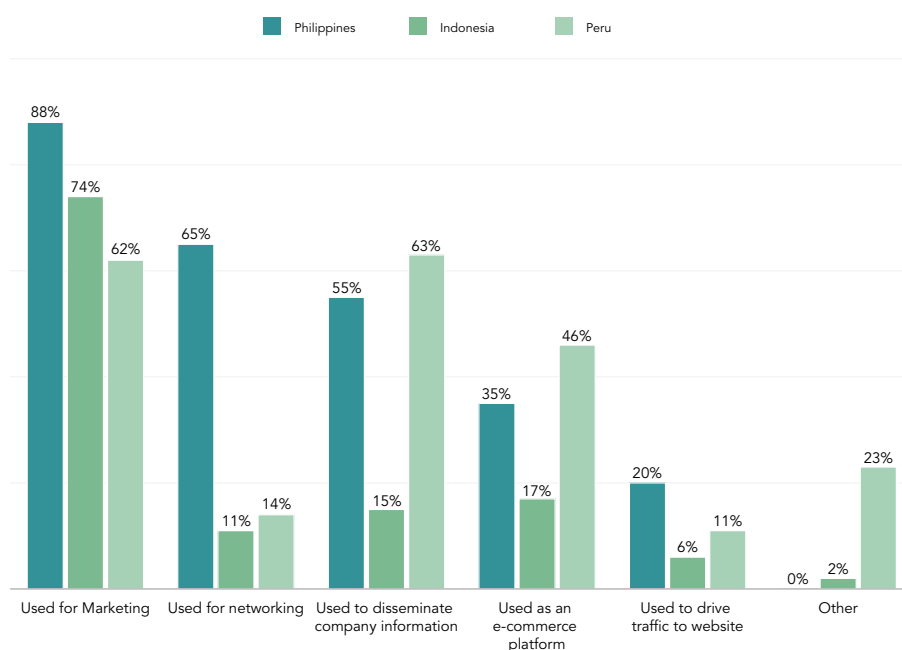
The most widely cited reason for social media usage is for marketing.⁷ Only a minority of users said they use social media platforms for e-commerce.

⁵ Global Partnership for Financial Inclusion and G20, *G20 Policy Guide: Digitisation and Informality - Harnessing Digital Financial Inclusion for Individuals and MSMEs in The Informal Economy*, Global Partnership for Financial Inclusion, 2018.

⁶ WhatsApp here is classified as 'Other', given that the platform was not commonly asked about across the three economies, and only in Indonesia and Peru.

⁷ This question was not asked in the national survey in Vietnam.

FIGURE 1. Purposes for Using Social Media Applications



Considering entrepreneurs’ usage of websites, in contrast to social media, this is very low. Almost all Indonesian respondents said their MSME does not have a website, while this number is 66 per cent for Philippine respondents, 59 per cent in Vietnam, and 56 per cent in Peru.

For the few that do utilize websites, the most widely mentioned reason for having one is to provide the company’s contact information for clients. While these results may have changed since the time of each national survey, this finding still demonstrates the overall low usage of websites by enterprises.⁸

Altogether, this data demonstrates that social media and website usage in MSMEs’ digital strategies can be optimized for the digital “new normal” mode of business during the pandemic. It is critical that entrepreneurs and MSMEs receive support and training according to their needs to build their capacity in digital business strategies.

⁸ The Partnership conducted the national survey in Vietnam in 2017, in the Philippines in 2018, and in Peru in 2019.

POLICY AREA 3: DIGITAL UPSKILLING AND ONLINE LEARNING APPLICATIONS

The topic of online learning applications was also discussed throughout the Partnership’s work in the focus economies. Even prior to the pandemic, online learning applications already played a substantial role in business development and employee upskilling. For example:

- In Indonesia, the Partnership’s research argued that “Indonesia’s national, regional, and local governmental institutions need to increase the amount of access to online educational resources regarding business management and digital skills” in order to effectively build MSME capacity in the digital economy.⁹
- In Peru, the Partnership’s national survey report recommended that MSMEs would benefit from expanded online courses provided through existing platforms such as Emprendedor Peruano, provided by the Ministry of Production of Peru for MSME support services.
- In the Philippines, the Partnership’s research specifically noted the wide discrepancy in usage of online learning applications between men and women, as well as older and younger entrepreneurs. This report recommended that the Philippine government “improve [accessibility to] online learning applications (ranging from mentor matching to platforms about accessing markets) [for] aspiring women and older entrepreneurs.”¹⁰

An important consideration in digital upskilling is the question of service providers, and which actors are responsible in MSMEs’ digital training. The Partnership’s research has especially highlighted the role of governments in ensuring the availability and accessibility of online resources and services for entrepreneurs through existing and well-known platforms. It is crucial that governments, in addition to these efforts, also work with local partners, including business associations, educational institutions, and social media companies to enhance knowledge and availability of digital upskilling opportunities.

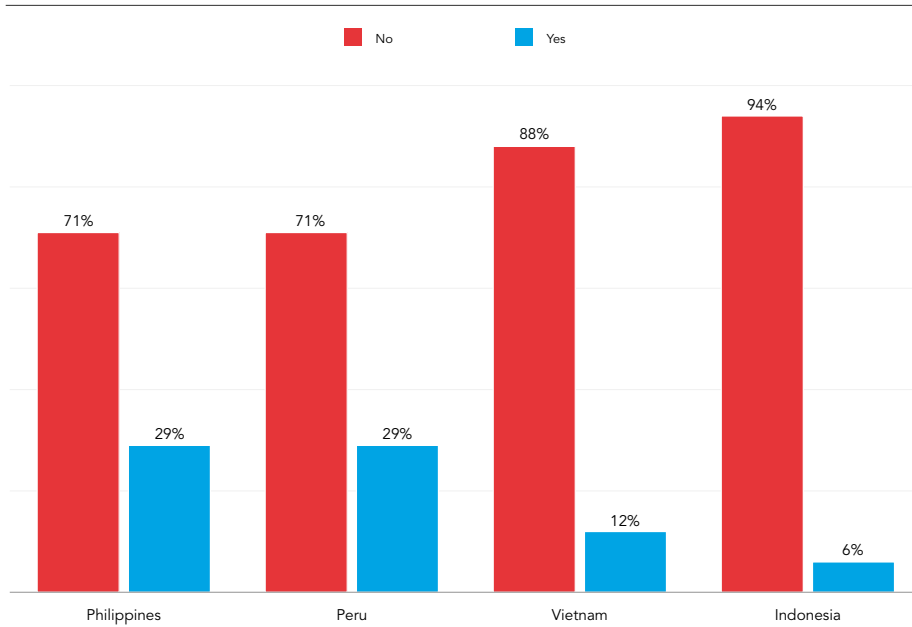
Given these previous findings, how did entrepreneurs utilize these online learning applications before the pandemic, and what gaps or priorities in online learning do pre-pandemic trends reveal?

Overall, the usage of online applications for business training is not widespread among surveyed entrepreneurs. While a considerable number of survey respondents said they have used online learning applications in Peru and the Philippines, there is a consistently low usage of these platforms in all four economies (see graph below).

⁹ Alex Capri, *Micro and Small Businesses in Indonesia’s Digital Economy*, (Vancouver: Asia Pacific Foundation of Canada, 2019), 27.

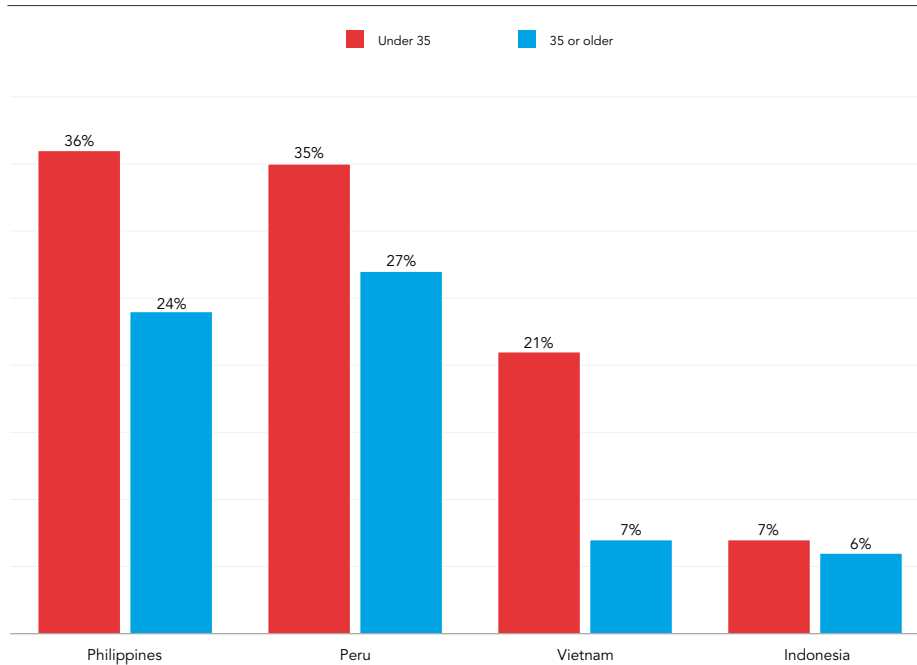
¹⁰ 2018 *National Survey of Entrepreneurs and MSMEs in the Philippines: Building the Capacity of MSMEs through Market Access* (Vancouver: Asia Pacific Foundation of Canada, 2018), 2.

FIGURE 2. Share of Entrepreneurs that Used Online Applications to Learn New Business Skills



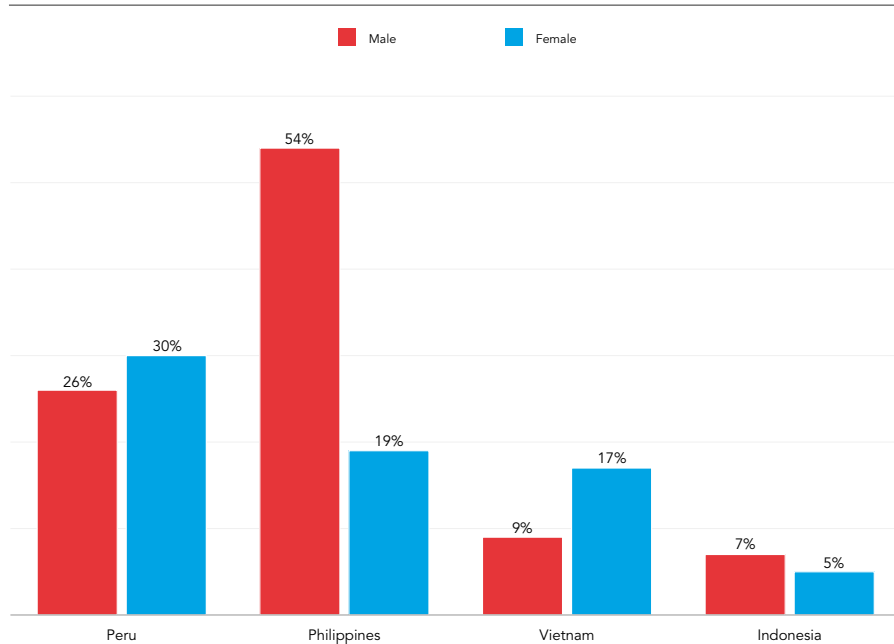
Age appears to be a major driver of the usage of online learning applications. In the Partnership’s surveys, a consistently higher number of respondents under the age of 35 years old said they used online applications to learn, in comparison with their older counterparts. In thinking about expanding the reach of online applications, both access to online courses as well as the technical knowledge to use these platforms should be taken into consideration, with further help required for those who need additional technical assistance.

FIGURE 3. Use of Online Learning Applications, by Age



On the other hand, in terms of gender, the results are more varied. In the Philippines, men were more likely to say that they have used online applications to learn when compared with women (54 per cent compared to 19 per cent). In contrast, in Peru and Vietnam, slightly more women than men said they used online applications to learn and upskill.

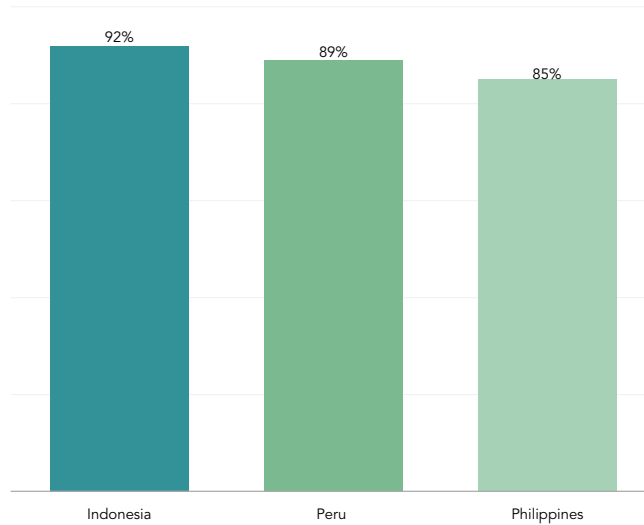
FIGURE 4. Use of Online Learning Applications, by Gender



As for what entrepreneurs learned, the majority of respondents in Indonesia and the Philippines (74 per cent and 71 per cent, respectively) said they used online learning applications to learn about marketing.

Moreover, while only a minority of survey respondents have used online learning applications, the majority of users said that these had a positive impact on their business practices. This indicates that investing in online learning applications will likely reap benefits for MSMEs.

FIGURE 5. Online Learning had a Positive Impact on Business Practises for Most Users



Note: Only includes respondents who said they used online applications to learn new business skills

It is crucial that during the pandemic and its limitations on in-person business, entrepreneurs are made aware of the resources and benefits of having a digital business strategy. It is important that entrepreneurs and MSMEs receive help transitioning to online platforms such as social media, and clear information about the benefits of these platforms for their businesses and clients.

SECURING MSMEs' ACCESS TO FINANCING

Securing sufficient and sustainable financing is an ongoing challenge for many MSMEs. The Partnership's on-the-ground research in Indonesia, Peru, the Philippines and Vietnam has consistently noted financing as the main barrier to success for MSMEs. Over half of surveyed entrepreneurs in each economy noted financing as either a "barrier" or "high barrier" to their enterprise's success. The Partnership's research has in turn highlighted that financing is linked to many other issues in MSME capacity building. Without sufficient funds or access to financing, entrepreneurs are unable to expand their markets, improve human capital, and undertake digital transformation, among other areas.

Now during the COVID-19 pandemic, as restrictions have significantly limited in-person business, MSMEs are especially in need of funding to survive and maintain their business operations. The long-term goals of post-pandemic recovery policies should ensure that funding is sustainable so that MSMEs can thrive during and after the pandemic.

Main recommendation: Governments must ensure that finance and various funding mechanisms are accessible and targeted to the distinct needs of MSMEs and entrepreneurs (e.g., by enterprise size, industry, gender and age). These needs can be assessed through data collection.

Policy actions regarding financing include the following:

1. Facilitate more favourable terms for bank loans and other forms of formal financing, to accommodate the small resource base of many MSMEs that, as a result, may be risk averse to acquiring loans.
2. Ensure that entrepreneurs are aware of and understand the various types of financing available, as well as their benefits. This includes sufficient promotion of financing options, including government grants and financial services, through partnerships with MSME business associations, banks and investors.

Photo by Obi Onyeador on Unsplash



3. Work with banks, investors and MSME business associations to provide targeted forms of funding according to different MSMEs' needs and capacity (e.g., blended financing structure with public and private funding).

The following section will focus on the number of entrepreneurs seeking financing for their MSME, and the types of funding that they want to obtain.

POLICY AREA 1: SEEKING FINANCING

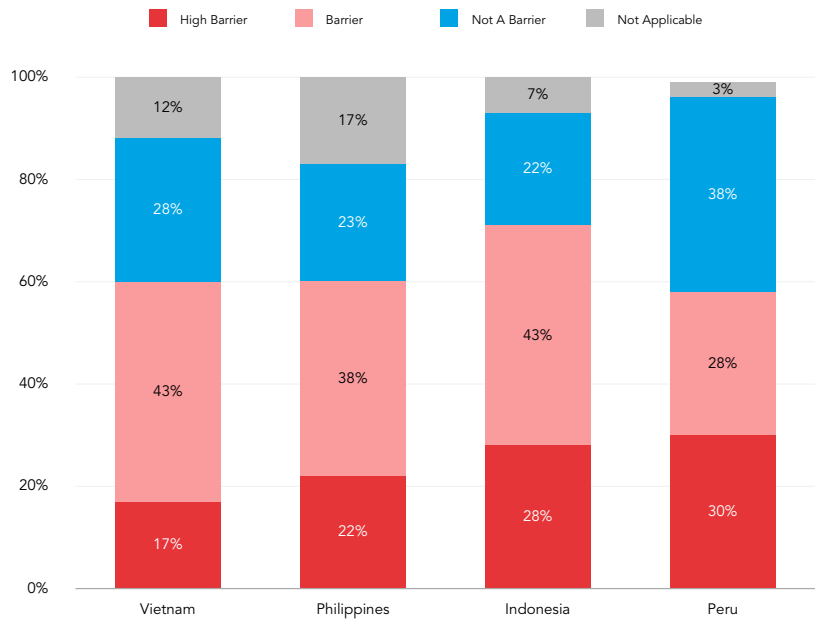
According to the International Finance Cooperation, approximately 40 per cent of MSMEs in developing economies have a combined financing need of US\$5.2 trillion every year.¹¹ Compared to large corporations, the small scale and early-stage status of many MSMEs can make access to bank loans difficult. For example, in Peru, only about six per cent of registered MSMEs are able to access the regulated financial system. Moreover, many MSMEs are risk-averse and face high lending rates for bank loans, further making this funding inaccessible to entrepreneurs. As a result, many MSMEs depend on informal funding for their business operations, with many entrepreneurs self-financing their operations.

Similarly, the issue of financing is persistently mentioned in the Partnership's national survey as a barrier for MSME success. In all four economies, financing is reported as the most common barrier to MSMEs. However, the majority of respondents say they were not seeking financing at the time the survey was taken. For example, in Indonesia, although 70 per cent of survey respondents noted financing as a barrier, only 23 per cent of respondents said they were seeking financing. The national survey report argues that this discrepancy indicates respondents' reliance on self-financing and family loans, and that obtaining formal financing is seen as a "secondary option with high barriers."¹² **Overall, accessing formal financing through banking institutions is a fundamental challenge for MSMEs, hindering enterprises from further building their capacity in human capital, market access, or otherwise.**

¹¹ World Bank, "Small and Medium Enterprises (SMEs) Finance" <https://www.worldbank.org/en/topic/sme/finance>.

¹² 2018 National Survey of Entrepreneurs and MSMEs in Indonesia: Building the Capacity of MSMEs Through Human Capital (Vancouver: Asia Pacific Foundation of Canada, 2018), 15.

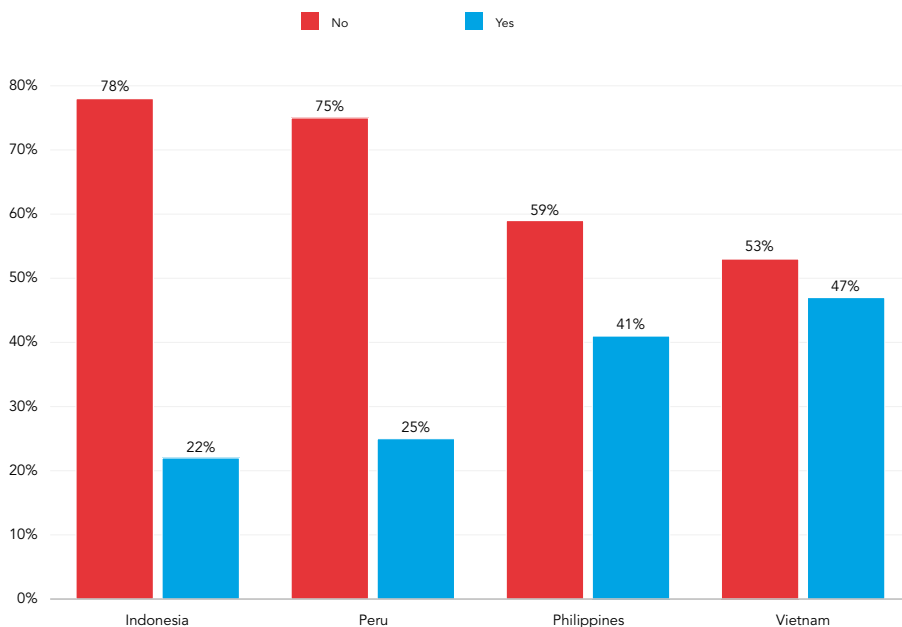
FIGURE 6. Financing as a Barrier for MSMEs



The Partnership’s survey data presents pre-pandemic numbers on several issues, namely how many surveyed entrepreneurs are seeking formal financing at the time of the survey, and the key demographic factors that appear to influence these numbers. Considering this data, how do entrepreneurs view the availability and importance of financing for their MSME?

As mentioned, the majority of respondents across the four economies said they were not seeking financing at the time of the survey. Less than half of the survey population in each economy said they were seeking financing, with the lowest number seen in Indonesia.

FIGURE 7. Share of Companies Seeking Financing



Despite this result, there is a consistent and substantial portion of the survey population who reported that they were seeking financing. At least a fifth of survey respondents in each economy said this, with the highest number seen in the Vietnam survey population (47 per cent).

More entrepreneurs in micro-enterprises said their business was not seeking financing, compared with those in small and medium enterprises. While the difference is small, this finding still poses the need for targeted outreach to micro-enterprises, which have far fewer resources and human capital.

Gender appears to be a significant factor in financing. Across all focus economies, more male respondents reported that their MSME was seeking financing than women. This trend can especially be seen in the national surveys in Vietnam and the Philippines. In Vietnam, 53 per cent of male respondents said they were seeking financing, compared to 39 per cent of women. Similarly, in the Philippines, these numbers are 51 per cent of men and 37 per cent of women.

Additionally, more respondents with post-secondary education said their enterprise was looking for funding than those without higher education. This gap is particularly visible in the Philippines and Peru. In the Philippines, 53 per cent of entrepreneurs with post-secondary education said they were seeking financing compared to 32 per cent of respondents without. In Peru, these numbers are 28 per cent of respondents with higher education and nine per cent of without.

Overall, it is crucial that the benefits of formal financing are highlighted, to address entrepreneurs' concerns and thereby give them the financial tools needed to build up their enterprise. The benefit of formal funding must especially be highlighted to micro-enterprises, women entrepreneurs, and entrepreneurs without higher education.

POLICY AREA 2: TYPES OF FINANCING

MSME financing can come from a variety of sources, including bank loans, loans from nonbanking financial companies, microfinance institutions, venture capital, government grants, informal financing (e.g., family loan), and an entrepreneur's own funds. As mentioned, though MSMEs may have a variety of financing options, a large number of these enterprises depend on self-financing or funds from friends and family. This is especially true of early-stage MSMEs that do not yet have a robust resource base. Moreover, MSMEs are less likely to obtain private sector investment compared to large enterprises, due to their size, high lending interest rates, and a lack of investor trust.

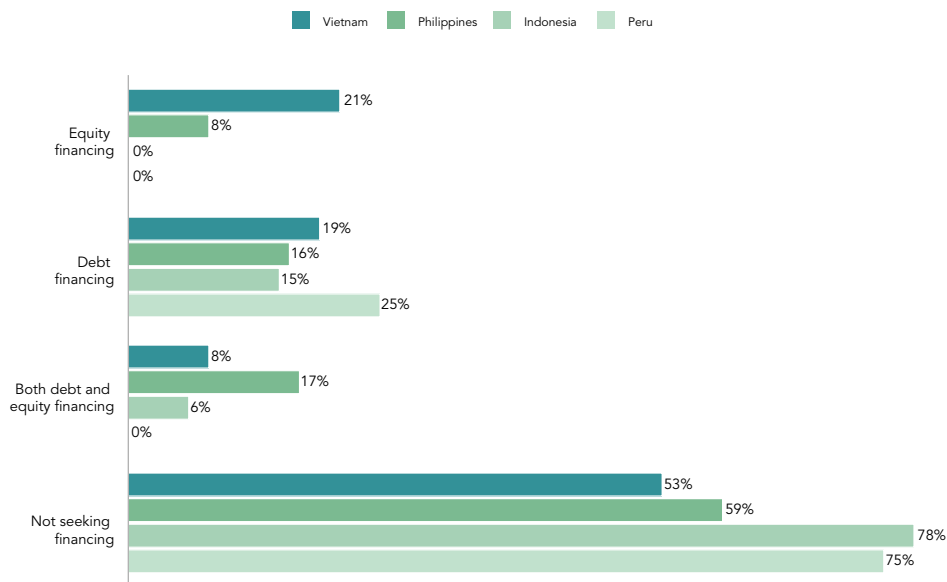
The availability of financing for MSMEs is also shown to vary considerably in the Partnership's focus economies. Evidence of this can be seen in data from the Global Entrepreneurship Monitor (GEM) on Entrepreneurial Framework Conditions in each economy. Financing in GEM data considers the availability of sufficient funds for MSMEs including sources such as bank loans and government grants.

According to this data, there is a relatively higher level of financing in Indonesia, which has a score of 3.24 out of a scale of one (highly insufficient) to five (highly sufficient).¹³ In contrast, there is a relatively lower level of financing in Peru, which has a score of 2.18.¹⁴ In between these two scores, the Philippines has a score of 3.09¹⁵ while Vietnam sits at 2.27.¹⁶ Overall, this data indicates that in addition to MSMEs’ hesitance to seek formal financing, there may not be sufficient financing for them to access to begin with.

In the Partnership’s national surveys, respondents were specifically asked about two types of funding, including debt financing and equity financing.¹⁷ Debt financing refers to when companies sell debt instruments, such as bonds, to investors to raise funds. On the other hand, equity financing refers to companies issuing stock shares for the same purpose.

There is a notable preference for debt financing among survey respondents. For respondents in Peru and Indonesia that indicated that they were seeking financing, most said they were seeking debt financing. In contrast, respondents in Vietnam said they were mostly seeking equity financing, while respondents in the Philippines wanted both debt and equity forms of financing.

FIGURE 8. Types of Funding that Companies are Seeking



¹³ Global Entrepreneurship Monitor, “Entrepreneurial Framework Conditions – Government Programs,” Accessed March 30, 2021, <https://www.gemconsortium.org/data>.

¹⁴ Global Entrepreneurship Monitor, “Entrepreneurial Framework Conditions – Government Programs,” Accessed March 30, 2021, <https://www.gemconsortium.org/data>.

¹⁵ Global Entrepreneurship Monitor, “Entrepreneurial Framework Conditions – Government Programs,” Accessed March 30, 2021, <https://www.gemconsortium.org/data>.

¹⁶ Global Entrepreneurship Monitor, “Entrepreneurial Framework Conditions – Government Programs,” Accessed March 30, 2021, <https://www.gemconsortium.org/data>.

¹⁷ Peruvian respondents were also asked about capital financing, impact investments, grants and subsidies, donations or charitable contributions, and non-traditional funding sources (e.g.: angel investors, crowd-funding, etc.).

More recently in the Partnership's national survey in Peru, survey respondents were asked about other types of funding, including capital financing, non-traditional funding sources such as angel investors or crowd funding, and impact investment. The most cited options include debt financing (17 per cent of respondents), capital financing (15 per cent), and impact investments (four per cent). Still, the majority of the survey population (57 per cent) said they were not seeking financing.

Taking these results into account, it is crucial to note that different types of MSMEs require targeted forms of funding. The type of funding that enterprises require may be best determined by the maturity of the MSME (e.g., early stage or established), the business model and mandate, and entrepreneurs' knowledge and networks.

The need for targeted funding is best demonstrated in the Partnership's research on financing structures for Peruvian social enterprises. Social enterprises are broadly defined as businesses with a social, environmental, or community-driven objective. In the Peruvian context, Kunan Peru, a local social entrepreneurship hub, specifically defines social enterprises as businesses with four key characteristics: an explicit social or environmental mission, a sustainable business model, an innovative and systemic solution, and a method to measure its impact.¹⁸

In contrast to other MSMEs, social enterprises must balance profit generation with their progress toward a social or environmental goal, and ensure success in both areas. The specific mission of social enterprises thus requires specific financial support. In the research study *Financing for Social Enterprises in Peru*, Carl Black notes the types of financial support that would best support Peruvian social entrepreneurship.

Black argues that access to financing is limited for social enterprises, particularly those in their early stages. Social entrepreneurs have a high degree of reliance on self-financing and funds from friends and family to start up their enterprise. Additionally, there is limited government support for start-ups and innovation in Peru, and their early-stage status dissuades ecosystem investors. In turn, social entrepreneurs feel restricted by investors' high interest lending rates.

To ameliorate these conditions, Black argues that social enterprises would benefit from blended finance that supplements existing public financing mechanisms with private sector funding. These blended financing structures could be implemented through direct contracts with public and private sector intermediaries, such as through government grants and angel investors. Furthermore, impact investment structures, where funding strategies are linked to a social or environmental impact, are essential and effective mechanisms for social enterprises.

¹⁸ Alexandra Ames Brachowicz and Carla Grados Villamar, *The Existing Landscape of Social Entrepreneurship in Peru* (Vancouver: Asia Pacific Foundation of Canada, 2020), 6.

However, these financing mechanisms do not exist in a vacuum. Black emphasizes that these financing instruments must also be complemented with government promotion and support for entrepreneurship and social enterprises.

Overall, this section emphasizes that greater awareness of types and benefits of various funding options is needed to increase MSMEs' access to financing. Promotion of financing options must specifically include information on requirements for obtaining different types of funding, the specific benefits of each option, and the fit of financing options to enterprises' needs and capacity. In tandem with this, this section suggests that MSMEs would benefit from more targeted forms of funding, according to their size and business model, among other factors. For example, MSMEs that operate as social enterprises would benefit from impact investment, which ties funding to the enterprise's social or environmental impact.

ENSURING ACCESS TO MSME SUPPORT

MSME support, such as business advisory services and government policy support, can greatly mitigate the impact of barriers to MSMEs' success. The Partnership's survey research has shown that in addition to financing and resources, entrepreneurs can greatly benefit from support services and programs that help them determine their business needs, identify potential solutions and resources required to address these needs, and strategize for new business opportunities. Moreover, the Partnership's research notes that this support can help build MSME capacity by helping entrepreneurs expand their entrepreneurial network and pointing them toward accessible financial resources, among other needs. MSME support has become crucially important during the COVID-19 pandemic, as MSMEs grapple with a reduction in their sales, resources and ability to conduct business.

Main recommendation: Governments are encouraged to invest more resources in the marketing and information distribution of MSME support programs and services, and targeting these resources to women and youth entrepreneurs.

Policy actions regarding MSME support include the following:

1. Review the marketing, promotion and accessibility of support initiatives to ensure that more MSMEs are aware of the support and resources available to them.
2. Ensure that the promotion of support services is targeted, first toward specific demographic groups that are less likely to seek out or receive this information, such as women and youth entrepreneurs, and second toward entrepreneurs in specific industries, with information on the fit of MSME support to their MSME.
3. Incorporate plans and investment for MSME support services into national industry support plans, which could save government resources and reduce policy overlap for more efficient delivery of services.

This section will consider the pre-pandemic accessibility and usage of MSME support, namely general business support services (e.g., networking, market intelligence), and the support programs, policies and initiatives provided by APEC governments that are targeted toward MSMEs (e.g., export incentives, incubator programs).

POLICY AREA 1: BUSINESS SUPPORT SERVICES

One vital component of MSME support is business support services, which provide a variety of resources and information to entrepreneurs in areas such as networking and financing. In the Partnership's surveys, entrepreneurs are asked about their usage of several business support services, including in-person

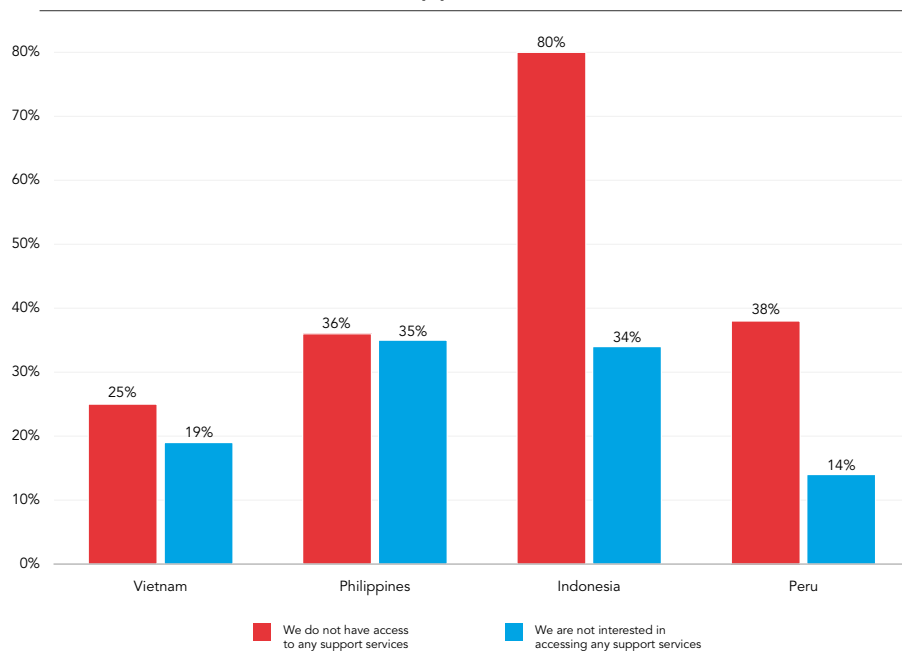
business advisory services (e.g.: mentorship, business strategy guidance, etc.), online business advisory services (e.g.: virtual mentorship), research and technology development services (e.g.: patent advice), networking services (e.g.: peer network events), financial support services (e.g.: advice on sourcing and securing funding or financing), and market information (e.g.: information pertaining to the demand for your company’s product or service).

Throughout the Partnership’s research in all four focus economies, the lack of access and awareness of MSME business support services is consistently discussed. The national survey reports in turn have issued recommendations for governments of APEC economies and their business communities to invest in increasing the awareness of these services for MSMEs. Some key recommendations contained in these reports include building and maintaining strong coordination between governments and business communities to help MSMEs utilize existing services, and showing entrepreneurs the benefits of accessing these often free or low-cost resources to build their MSME’s capacity.

Overall, at least a quarter of survey respondents in each focus economy said that they did not have access to support services. This number ranges from 25 per cent of respondents in Vietnam to a substantial 80 per cent of respondents in Indonesia.

On the other hand, a significant number of respondents in each focus economy also said they were not interested in accessing these services. This number ranges from 14 per cent in Peru to 35 per cent in the Philippines. This finding prompts further investigation into the reasons why MSMEs may not perceive a need to improve their access to support services.

FIGURE 9. Lack of Access to Support Services



For MSMEs that did use support services, the most commonly accessed one is in-person advisory services, particularly for respondents in Vietnam, the Philippines and Indonesia. This demonstrates that survey respondents from these economies are more accustomed to physical appointments and offices, which may pose an issue in the transition to online advisory services.

In terms of online business advisory services, the highest usage of these services can be found in the Vietnam survey population (21 per cent). This number is especially significant given that the survey was taken in 2017, and there is potential for an increase in usage since that time. **However, the low usage of online advisory services in other economies prompts consideration of how to make the transition to these services accessible and effective during the pandemic.**

Looking at tackling the issue of financing, specific services to help MSMEs find new sources of financing are utilized by just a minority of respondents. At least 15 per cent of the survey population in Peru, the Philippines and Vietnam reporting using financial support services. However, close to no respondents in Indonesia said they used these services.

POLICY AREA 2: GOVERNMENT PROGRAMS AND POLICY INITIATIVES

In addition to business support services, governments have also provided support programs, policies and support for entrepreneurship, such as wage subsidies, tax deferrals, lending credits, incentives for exporting and R&D, and digitalization services. These more specific forms of support can complement general business services by targeting the specific needs of MSMEs in areas like expansion to international markets and business innovation. Moreover, government programs may expand accessibility of MSME support for entrepreneurs, such as by providing free online courses for entrepreneurs to upskill in the area of their choice, and grants for financing that do not require entrepreneurs to take on financial risk. When comparing the availability of government support programs in the four focus economies, GEM data on this aspect shows that Indonesia has a relatively higher level of government support for entrepreneurship. Indonesia is then followed by the Philippines, Peru and Vietnam.¹⁹

In the Partnership's national surveys, entrepreneurs are asked about whether they accessed government-provided support programs and initiatives. In Indonesia, Peru, and the Philippines, respondents were asked about government programs that support various areas of entrepreneurship.²⁰ Filipino respondents were also asked about specific laws and international agreements related to market access and exporting.

¹⁹ Global Entrepreneurship Monitor, "Entrepreneurial Framework Conditions – Government Programs", retrieved from: <https://www.gemconsortium.org/data#>

²⁰ A complete list of these policies can be found in the Appendix of this paper.



Photo by Scott Graham on Unsplash

Overall, there is also a consistently low level of awareness among surveyed entrepreneurs of the types of government-provided support for MSMEs.

In the Philippines, at least a third of respondents said they were unaware of the various policies, laws and international agreements that support entrepreneurship, as well as international business expansion. For example, over a third of respondents said they were unaware of the Go Negosyo Act, a key piece of legislation that established “Go Negosyo Centers” that provide entrepreneurs with a one-stop shop for business support services.²¹

A similar situation can be seen in Peru. Over half of respondents said they were unaware of the majority of MSME support programs mentioned in the survey. Crucial online platforms that serve as information and applications hubs for various government-provided support services, like Produce Virtual and the Digital Kit, are underutilized by Peruvian entrepreneurs.²²

In contrast, relatively more Indonesian respondents said they were aware of government support programs. The most well-known is the Entrepreneur Program provided by the Ministry of Cooperatives and MSMEs. However, despite the seeming widespread knowledge of this program, just three per cent of respondents utilized it, while three quarters said it was not relevant to their program.²³

The Partnership’s pre-pandemic findings appear to be reflected in more current findings on MSMEs’ usage of government-provided support in response to the COVID-19 pandemic. In its October 2020 report on the economic status of East Asia and the Pacific, the World Bank found that the majority of firms did not receive policy support provided by governments in response to the pandemic.²⁴ A significant number

²¹ Asia Pacific Foundation of Canada, *2018 Survey of Entrepreneurs and MSMEs in the Philippines: Building the Capacity of MSMEs Through Market Access*, (Vancouver: Asia Pacific Foundation of Canada, 2018), 29.

²² *2020 National Survey of Entrepreneurs and MSMEs in Peru: Building the Capacity of MSMEs through Social Entrepreneurship* (Vancouver: Asia Pacific Foundation of Canada, 2020), 38-39.

²³ Asia Pacific Foundation of Canada, *2018 Survey of Entrepreneurs and MSMEs in Indonesia: Building the Capacity of MSMEs Through Human Capital*, (Vancouver: Asia Pacific Foundation of Canada, 2018), 25.

²⁴ The World Bank, *From Containment to Recovery: Economic Update for East Asia and the Pacific*, (Washington, DC: October 2020), retrieved from: <https://www.worldbank.org/en/region/eap/publication/east-asia-pacific-economic-update>

of firms in this study said that they were unaware of this support: in Indonesia, over half of survey respondents said they were unaware of policy support for entrepreneurs, while 27 per cent in Vietnam and a fifth in Philippines said the same.

It is imperative that relevant APEC economies increase awareness of support programs, policies and initiatives intended for MSMEs and entrepreneurs, to maximize the impact of this support. Governments must especially target promotion of this support toward women and youth entrepreneurs and their MSMEs. In addition to raising awareness, it is vital that governments incorporate a review process with entrepreneurs of the initiatives that it provides, in order to ensure that these programs meet and address the needs of entrepreneurs in MSMEs.

Another important consideration for APEC governments is how to reach MSMEs in the informal sectors, and how support can be extended to informal and unregistered enterprises. The Partnership's work has so far focused on formalized MSMEs, which limits the applicability of its research to registered businesses. In order to extend support to informal enterprises, and ensure that their unregistered status is not an overbearing obstacle for them to access services, APEC economies, as well as MSME capacity-building projects like the Partnership, need to target informal enterprises and have access to networks of informal enterprises.

Overall, the effectiveness of MSME support available in APEC economies is undercut by the lack of awareness and accessibility to these services and programs. The Partnership's national surveys consistently found an underutilization of key support services and initiatives by survey respondents, prompting several recommendations on increasing promotion of these services for entrepreneurs. This section also emphasizes that MSME business associations and entrepreneurial networks play a vital role in spreading information about these resources for MSMEs. In addition, there may be some preference for in-person advisory services, which prompts considerations of how to successfully transition services onto online platforms that are easily accessible to entrepreneurs.

ENCOURAGING BROADER MARKET ACCESS

Given their size, MSMEs may primarily see themselves as a local business serving their community. It is important that MSMEs and entrepreneurs are encouraged to see themselves as having the potential of becoming regional and global businesses, beyond their local or national market.

However, the Partnership's research has shown that the majority of MSMEs do not have aspirations to expand abroad. In order to expand into new markets, MSMEs need robust resources and operations, and assistance from their government and business community. The Partnership's research recommends that first, MSMEs need the necessary building blocks of sufficient funding, knowledge and support on how to effectively utilize their resources, and a cohesive online presence. Once MSMEs have these components, they will then have more capacity to expand their markets. Second, given their size and limited resources, the Partnership's research has argued that MSMEs need help from business associations, government actors, and other entrepreneurial actors to gain international experience, become familiar with foreign markets and exporting regulations, and build new networks in their target markets.

Main recommendation: Entrepreneurs and MSMEs must be supported by government actors in gaining international market experience and expanding their markets overseas. This includes investing in clear promotion of international opportunities, and in entrepreneurs' upskilling to participate in international markets.

Policy actions to encourage broader market access include the following:

1. Clear communication of the benefits of market expansion, done in collaboration with the local business community, MSME business associations, and other relevant stakeholder/partner organizations
2. Provide clear and updated information to entrepreneurs on the requirements and regulations of overseas market expansion and exporting
3. Invest in MSMEs' experience for market expansion, such as encouraging entrepreneurs to gain international work experience or foreign education or training credentials, and including MSMEs in international opportunities such as trade missions or conferences.
4. Ensure that entrepreneurs are aware of support programs and incentives for exporting and market expansion, as well as the requirements needed to utilize this support.

This section will focus on two aspects of entrepreneurs' potential to expand their markets. In order to effectively encourage MSMEs to expand their markets, two important factors must be considered: (1) their existing international experience, and (2) their intentions to export their goods and services.

POLICY AREA 1: GAINING INTERNATIONAL EXPERIENCE

In order to effectively expand MSME's reach to international markets, entrepreneurs must first gain international experience. This experience would ideally familiarize entrepreneurs with regional and international markets, and equip them with the skills and requirements needed to expand their MSME's reach, including entrepreneurial networks and exporting regulations. Entrepreneurs can gain their international experience in various ways, such as obtaining work or study experience abroad, participating in international mentorship or exchange programs for entrepreneurs, and joining in-person or virtual trade missions organized by their host government.

Having international experience can have multiple benefits for MSMEs. First, entrepreneurs will be able to see opportunities beyond their local market, and assess the feasibility of these for their MSME. Second, by gaining experience abroad, entrepreneurs will be able to understand their new markets first-hand by interacting with potential partners and consumers. Though in-person interactions are currently restricted due to the pandemic, networking and mentorship can be transitioned to virtual meetings. In doing so, however, access to internet and ICT technologies must be taken into consideration in relevant policies. Moreover, by gaining international experience, entrepreneurs will be able to network and exchange ideas with new partners, and gain new insights on how to innovate their MSME.

Investing in entrepreneurs' international experience can have several long-term benefits for APEC economies as well. By investing in MSMEs' international experience, governments build the groundwork for their future and sustained representation in international delegations, trade missions, trade expos, relevant international business development conferences, workshops and other opportunities.²⁵ The sustained inclusion of MSMEs in relevant international entrepreneurial forums can make this become commonplace, and an integral part of government engagement on trade and investment. The presence of

²⁵ Asia Pacific Foundation of Canada, *2018 Survey of Entrepreneurs and MSMEs in the Philippines: Building the Capacity of MSMEs Through Market Access*, (Vancouver: Asia Pacific Foundation of Canada, 2018).

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MSMEs in these forums can allow them to directly contribute to and inform discussions that are relevant to them, with regards to international trade.

Yet another potential beneficiary is the local business community, including higher education institutions. By encouraging entrepreneurs to gain international experience, through exchanges, internships, education and training abroad, business communities in Canada and the Asia Pacific can foster more knowledge exchange, innovation and growth. The Partnership has previously recommended that large corporations and business communities more broadly facilitate cross-Pacific exchanges and networking, namely between accelerators and incubators in Canada and other Asia Pacific economies. For example, this could be achieved through sister start-ups designing “ongoing, mutually beneficial arrangements to share resources, local market intelligence, training, and senior leadership strategy sessions”; university entrepreneurship programs creating internships for young entrepreneurs; and generally, building “cross-Pacific employee and working-team exchanges to enhance institutional and cross-cultural knowledge.”²⁶

Moreover, the Partnership has recommended that “big business sponsor content area experts – in finance, hiring, sales, manufacturing, IP, and so on – to serve as limited-time mentors to startups” in Canada and the Asia Pacific.²⁷ Implementation of these recommendations can contribute to more cross-Pacific engagement and partnerships, and most importantly, opportunities for local entrepreneurs.

However, the majority of MSMEs and entrepreneurs still do not have international experience. **In the Partnership’s national surveys, only a minority of surveyed entrepreneurs said they have studied, worked, or participated in training outside of their home economy.** Forty-seven per cent of entrepreneurs in all the Partnership’s focus economies said that none of their company’s employees have studied or worked outside of their home economy.

It is vital that APEC governments and business communities both continue to help and encourage MSMEs and entrepreneurs gain international experience. Moreover, as more opportunities to gain this experience shift to online delivery methods, it is important that policymakers consider the lack of access to internet and ICT technologies as a potential barrier in this area.

POLICY AREA 2: PARTICIPATION IN INTERNATIONAL MARKETS

When entrepreneurs have gained some international experience, their MSMEs can then have the opportunity to participate in international markets. There are several ways for their MSMEs to take part in overseas markets, including through exports, participation in supply chains, and through government

²⁶ Elizabeth Newton, Jonathan Berkowitz, Alexandra Mann and Charlie Shi, *Fuelling High-Tech Startups: Building the Capacity of MSMEs through Technology and Innovation*, (Vancouver: Asia Pacific Foundation of Canada, 2018), 51.

²⁷ *Ibid.*

procurement. This section will particularly focus on exporting, namely entrepreneurs' intentions to export their goods and services, and the barriers they face in this area.

On average, MSMEs account for less than 35 per cent of annual global exports. Due to their small size and typically local base, micro- and small enterprises in particular, do not have the sufficient infrastructure or resources to engage in export. Some of the main challenges for MSMEs in exporting include access to market information, marketing and branding constraints, access to finance, infrastructure and proximity of markets, inability to compete with competitors, difficulties in complying with international standards and government policies, human resource constraints, and inadequacies in business operations.²⁸ Research from the Partnership shows that “the most recurrent challenge to expanding markets identified by SMEs is business operation inadequacies“ including aspects such as business facilities and access to technologies.²⁹

Indeed, the majority of surveyed entrepreneurs across the Partnership's four economies had no plans to extend their businesses abroad and export. Ninety-eight per cent of Indonesian entrepreneurs said that they had no plans for exporting, while this number was 87 per cent of respondents in Vietnam, 70 per cent in Peru, and 63 per cent in the Philippines.

In addition to these high numbers of MSMEs who have no intention to export, respondents in each economy noted varying barriers to expanding their market access abroad. In Vietnam, 41 per cent of respondents said that successful expansion of market access was a barrier or high barrier to their MSME's success.

The national survey in the Philippines goes into greater detail about the barriers that entrepreneurs face in market access, as well as their knowledge of trade agreements and related programs to help them access international markets. **This survey data shows that finance is one of the most persistent barriers to exporting reported by 44 per cent of respondents, followed closely by a lack of market knowledge (40 per cent). The lack of capacity to export is also reflected in the lack of awareness of trade agreements, regulations and related programs for entrepreneurs.** At least a third of Filipino respondents said they were unaware of the various options they were asked about, including the Philippines' Export Development Act of 1994, the ASEAN Free Trade Area, and APEC itself.

Similarly, in Indonesia and Peru, only a minority of respondents were aware of and used export promotion programs provided by their governments. For example, in Indonesia, only one per cent of

²⁸ Jamil Paolo Francisco and Tristan Canare, *The Challenges to SME Market Access in the Philippines and the Role of Business Associations*, (Vancouver: Asia Pacific Foundation of Canada, 2019), 17-20.

²⁹ Ibid.



Photo by Peter Livesey on Unsplash

respondents used the smallholders export-oriented credit scheme. Meanwhile, in Peru, half of the survey population said they were unaware of the Peruvian government's export promotion program.

One effective way to tackle the lack of interest, knowledge and capacity to export is MSMEs' participation in an industry or business association. The Partnership's research on MSMEs' membership in business associations in the Philippines suggests there is a positive relationship between this membership and an MSME's inclination to export. Membership can be very beneficial for MSMEs because business associations can provide information and networking opportunities to its members, as well as provide clarification to government regulations and mechanisms for exporting. In other words, these associations can serve as a useful hub of information on exporting requirements and regulations, among other pertinent issues like financing for MSMEs.

More targeted outreach and promotion is required to share the benefits of gaining international experience. Moreover, in light of the pandemic and restrictions on travel, some of the most effective ways to gain international experience must be promoted through online opportunities, such as upskilling through online courses and webinars, and participation in virtual trade missions, mentorship and networking opportunities. As more of these opportunities shift to online delivery methods, it also becomes vital to ensure that access to internet and ICT technologies is also taken into consideration in promoting MSMEs' internationalization. Additionally, as digitalization continues to open new opportunities for MSMEs to internationalize, sufficient training and education will be required to help MSMEs adopt a global mindset, ensuring that they regard themselves not only as domestically oriented businesses, but also internationally oriented due to the new opportunities that digital technologies create in the speed and scale by which MSMEs can access global markets. There is ample opportunity for governments to begin through the actions outlined in the Boracay Action Agenda to Globalize MSMEs, which emphasizes enhancing regulation, financial and institutional support for MSMEs in supply chains, to encourage their expansion.

GENERAL LESSONS AND RECOMMENDATIONS FROM THE PARTNERSHIP

SUPPORTING WOMEN AND YOUTH ENTREPRENEURS

Gender equality and inclusive growth for women and youth have been a crucial cross-cutting theme of the Partnership. In including this specific focus in the Partnership, it is important to note the overall significance of integrating gender-inclusive and intersectional policy responses to ensure equitable access to funding, support services, digitalization, and other areas in MSME capacity building.

The Partnership's survey and on-the-ground research has shown that women and youth have distinct concerns in entrepreneurship. For example, the Partnership's work on youth entrepreneurs in Indonesia, Peru, the Philippines and Vietnam shows that their top concerns include insufficient cash flow to maintain their business, losing money, and insufficient and wasted time.

To this end, the Partnership has incorporated both a feminist and gender-based analytical approach to its MSME capacity building and all levels of its work, from the planning to implementation of all project activities, including its programming and research. These strategies are guided by Canada's FIAP and APEC PPWE's Gender Inclusion Guidelines, which recognize that investing in the economic inclusion and participation of women and youth can drive strong, sustainable economic growth, and that this is an effective method to reduce poverty and inequality.

Main recommendation: Further capacity building, knowledge networks and the collection of disaggregated data are needed to address systemic barriers that limit the economic empowerment of women and youth.

Policy actions for supporting women and youth entrepreneurs include the following:

1. Provide women- and youth-led MSMEs with new or improved policies focused on skills development and capacity building targeted toward their specific needs particularly for MSME digitalization.
2. Invest in entrepreneurial support networks for women and youth, mainly to improve their participation in the workforce, in leadership positions and in all levels of decision-making. Provided there is mentorship and resources invested into these networks, women and youth can more effectively use technology, gain financial literacy, and take advantage of opportunities for interaction and the sharing of best practices.

3. Advance women and youth economic empowerment through disaggregated data collection, language accessibility and locally contextualized information, as integral components of policymaking and research projects.

POLICY AREA 1: PROVIDING MENTORSHIP AND SKILLS DEVELOPMENT

Knowledge sharing and dialogue is key in advancing gender equality and youth participation. There is a need in particular for women and youth entrepreneurs to receive mentorship and upskilling opportunities. For instance, the Partnership's research has emphasized the need for policy-makers to focus capacity-building efforts toward the following areas:

1. Promotion of digital literacy programs for girls, starting in primary schools,
2. Creation of equal opportunity laws and employment programs targeting female students and employees and,
3. Support of collaborative partnerships with NGOs, businesses, academic institutions and governments that provide women with digital upskilling opportunities, and funding for women-owned businesses.³⁰

To better understand these challenges, a vital component of MSME growth is an increased understanding of the lived realities and needs of local MSMEs. In particular, the Partnership has emphasized the importance of capacity building through mentorship programs as an effective method of offering unique opportunities for women entrepreneurs to boost their confidence, build business skills, improve business performance and expand their professional networks of knowledge.

In collaboration with the Cherie Blair Foundation for Women (CBF), the Partnership sponsored women entrepreneurs from Indonesia, Peru, Philippines and Vietnam for one-year mentorship programs with a Canadian mentor. Held back by barriers such as lack of access to business skills, technology, networks and finance, mentorship provides an opportunity for further economic empowerment of women and youth by building skills in these areas and boosting their confidence as entrepreneurs. Likewise, mentorship also provides a tremendous learning and growth opportunity for the professionals who serve as mentors, which feeds back into and inspires their work at their own companies.

The Partnership developed a specific mentorship program for women entrepreneurs that boosts confidence, builds business skills, improves business performance, expands networks, and enables women entrepreneurs to build sustainable, successful businesses.³¹ The program gave participants the

³⁰ Alex Capri. *Micro and Small Businesses in Indonesia's Digital Economy*. (Vancouver: Asia Pacific Foundation of Canada, 2019), 30.

³¹ Cherie Blair Foundation for Women, *Mentoring Women in Business Programme: Final Report on the 2018 Asia Pacific Foundation Canada Mentees*, (London: Cherie Blair Foundation for Women, 2018).

opportunity to gain skills in various areas such as marketing, finance and IT, as well as a platform where they could build their confidence, decision-making skills, leadership skills, and other important areas. As a result, the mentorship program provided crucial support for women to grow their businesses and create employment opportunities for others. For example, as the CBF's survey of its mentorship participants revealed, several women became entrepreneurs to become financially independent, which in turn can have long-term impacts, including greater control over their own lives and businesses. Economic security also gives women a more influential role in tackling injustice and discrimination in their communities and wider society. Overall, providing women with the tools and support they need to gain financial independence, among other qualities, can generate lasting impacts, as research shows that women tend to invest 90 per cent of their income back into their families and communities.³²

One critical ingredient of successful mentorship programs is the matching process between mentors and mentees, and in turn, the frequent and regular check-ins that provide a structured and tailored mentorship environment. Successful matching between mentors and mentees ensures that mentees receive the tailored advice that they need for their businesses. Many mentees in the Partnership's mentorship program gave positive feedback on their relationship with their mentor, and the benefits of having this tailored advice and guidance. A successful mentorship experience then often engenders a pay-it-forward attitude whereby mentees move on to become mentors. This type of result can bring long-term sustainability and replicability of a mentorship program and its resulting benefits.

Another crucial component of the mentorship program is its virtual format. Having a virtual component of the mentorship program provides much-needed flexibility to mentees and mentors to conduct meetings and training according to their own schedules. This is particularly pertinent against the backdrop of the COVID-19 pandemic, which has disproportionately affected in-person interactions due

³² International Finance Corporation, *IFC Jobs Study: Assessing Private Sector Contributions to Job Creation and Poverty Reduction*, (Washington DC: International Finance Corporation, 2013), 1.

Photo by Christina @ wocintechchat.com on Unsplash



to social distancing and lockdowns. Setting a precedent for a virtual mentorship program also raises the prospect for such programs in the post-pandemic era.

In addition to catering to the needs of women entrepreneurs, the Partnership’s mentorship program also featured many youth entrepreneurs (below the age of 35 years old). In a post-pandemic world, there are a number of skills development initiatives that would be particularly important for youth entrepreneurs. As previous Partnership research studies have indicated, building more active ties and exchanges between university entrepreneurship programs in Canada and other Asia Pacific countries, such as Indonesia, Peru, the Philippines, and Vietnam is a necessary ingredient for fostering innovation and the capacity of youth-led MSMEs.

FIGURE 10. Top Concerns for Young Entrepreneurs from Indonesia, Peru, the Philippines, and Vietnam

TOP 5 ENTREPRENEURIAL CONCERNS

1. Insufficient cash flow to maintain the business
2. Losing a great deal of money
3. Insufficient and wasted time
4. Lack of knowledge
5. Stress

Adapted from *Fuelling High-Tech Startups: Building the Capacity of MSMEs through Technology and Innovation*

For instance, Newton – based on her four economy research with Jonathan Berkowitz – suggests that students can be exposed to more real-time, Asia Pacific venture case studies in the classroom through case competitions, which have been vetted by the relevant business communities or work with students in cross-country teams. These opportunities can help build hands-on experiences that can help youth further develop cross-cultural professional relationships, as well as entrepreneurial skills across different linguistic and cultural differences. Eventually, these initiatives could be scaled up with these young entrepreneurs to work with local and Asia Pacific start-up communities to offer internship or work experiences that teach students what it really takes to be Silicon Valley-ready with their pitches.

Similar programs exist in Canada, such as Canada Accelerator and Incubator Program (CAIP), Mitacs, Start-up Visa, Going Global Innovation (GGI), and Canadian International Innovation Program (CIIP). In the Canada-Asia Pacific context, support for existing hubs of knowledge and searching for opportunities to partner with institutions across the Asia Pacific can lead to the further resource sharing and collaborations, toward helping youth-led start-ups test their potential to internationalize their market access and enter foreign markets. Overall, such exercises offer students practical skills across the entrepreneurial life cycle, from ideation to execution, growth, and exit.

POLICY AREA 2: IMPROVING NETWORKS OF KNOWLEDGE

Prevailing norms produce systemic gender inequalities and it is important to recognize the diversity of the role that women play in regional MSME ecosystems. Already, the work has begun to shift existing policies to government interventions to focus more on business skills development and sustainable capacity building for women and youth in MSMEs in addition to traditional funding and resource approaches. Policy makers must not only provide material support to empower women to start MSMEs, but also emphasize principles of inclusion and gender mainstreaming as the core of national innovation agendas.

In the Partnership's programming, interactions with local stakeholders through research and training workshops have created a dialogue between the diversity of actors within the MSME policy space. Importantly, these workshops not only connect MSMEs and underrepresented groups, such as women and youth entrepreneurs, to decision makers and support networks, but also informs policy recommendations driven by the lived realities and needs of local MSMEs.

The need to create gender-focused efforts to connect women entrepreneurs must come from grassroots efforts by a wide range of civil society stakeholders. This includes connections to existing government support services, online learning applications for entrepreneurs established by innovation hubs, and business support networks. In particular, the need for support networks to help women entrepreneurs more effectively use technology, respond to security concerns, gain financial literacy, and take advantage of opportunities for the sharing of best practices were notably mentioned.

For youth, government programs that seek to benefit MSMEs are not being disseminated properly. They are the most disadvantaged in terms of resources, access to the internet and other factors. Therefore, it is necessary to have targeted policies so that government programs help to close the social gaps and contribute effectively to sustainable economic development.

One avenue for growth is to strengthen cross-Pacific bonds between women and youth entrepreneurs by actively perusing partnerships between governments, business communities, and universities. To do this, policymakers must create the conditions to build more active ties between

accelerators and incubators in Canada and in other Asia Pacific economies, such as Indonesia, Peru, the Philippines, and Vietnam. Within existing education systems, there are further opportunities to tap into youth talent pools by enhancing global internships and/or exchanges for entrepreneurially focused youth, including those that are outside of traditional college and university education systems. As another Partnership research paper suggests, further coordination between ecosystem players, such as university entrepreneurship programs and accelerators/incubators can be used as existing building blocks to further support youth entrepreneurs in Canada. In this process, it is vital to cultivate and foster more active ties between accelerators and incubators on both sides of the Pacific.³³

Finally, a vital part of inclusive growth and effective support networks relies on building the capacity of all members of the MSME ecosystem to advance gender equality. In the Partnership's previous training sessions, workshops were tailored to provide gender-sensitive capacity building and knowledge-exchange open spaces for women researchers and entrepreneurs to address issues and contribute solutions. This gender-inclusive sensitivity training is led by feminist practitioners for entrepreneurs and other local partners. The Partnership has learned that gender-inclusive sensitivity training is an effective and sustainable way to tackle the issues that women entrepreneurs face, by directly confronting entrepreneurs' gender biases and incorporating gender-inclusive strategies into their MSMEs' business models. Following entrepreneurs' positive feedback of this session, among others, we recommend for similar training sessions to be conducted in conjunction with gender-inclusive policies and projects.

POLICY AREA 3: STRENGTHENING DISAGGREGATED DATA COLLECTION

Through surveys, research, and stakeholder engagement, the Partnership found that women and youth entrepreneurs were the most engaged yet underserved. In an attempt to close this gap, the Partnership targets and addresses the barriers specific to women entrepreneurs through the compilation and analysis of gender-disaggregated data in our surveys. In doing so, the Partnership provides evidence-based recommendations, and information that then informs the platforms it endeavours to create for feminist entrepreneurial researchers and trainers, consultation with government ministries focused on women and youth, and the active involvement of women in business networks.

The Partnership follows Canada's Gender-Based Analysis Plus (GBA+) approach, which ensures that the information it collects is gender-disaggregated, in order to capture and reflect the specific experiences of women entrepreneurs in APEC economies. Prior research suggests women are typically marginalized in entrepreneurship. The Partnership sought to better understand the specific challenges that these MSMEs and entrepreneurs face, as well as the opportunities they receive and create for

³³ Ibid, 50.

themselves in their respective economy. In this effort, it is crucial to collect gender-disaggregated information, feedback, and testimonies from women entrepreneurs.

Beyond connecting with these partners, the Partnership strongly suggests that the input and feedback of these stakeholders are directly included in outputs. Where possible, the Partnership sought consultation with policymakers in ministries that are directly involved in women’s economic empowerment. For example, in Peru, the Ministry of Women and Vulnerable Populations provided key assistance on the national survey content and questions in order to ensure capturing issues that are pertinent to women entrepreneurs. These types of collaborations are essential in working towards gender equality and the advance consultation with in-country government representatives and ministries focused specifically on women’s empowerment.

Collaborations played an important role in two main aspects based on the Partnership’s implementation experience by:

1. Ensuring a full landscape of national gender issues was understood before planning and undertaking activities, such as using the focus theme of human capital to draw attention to efforts to eliminate violence and issues of sexual harassment in the workplace.
2. Fostering discussions that are guided by and for women entrepreneurs about the existing resources and support networks available for women entrepreneurs, and how they can be expanded on and complemented by project activities.

Overall, collecting disaggregated data serves an important need for both women and youth entrepreneurs in identifying what types of support are required in areas such as funding acquisitions, human capital improvement, and business development. In order to assist MSMEs to expand out of their early-stage phase, a comprehensive understanding of their needs and goals is required. The Partnership recommends that such disaggregated data is then used by municipal level or subnational governments for further investigation into existing social enterprise legislation – with the aim of further co-ordinating policies and legislation between different levels of government for women and youth.

As new initiatives continue to adapt and prioritize gender and youth issues, it is important to target support and resources according to these demographic groups’ specific entrepreneurship needs. Overarching frameworks such as Canada’s FIAP, or APEC’s Policy Partnership on Women and the Economy (PPWE) and the La Serena Roadmap for Women and Inclusive Growth can also inform disaggregated data and research that places gender, long-term trends and challenges to gender equality and diversity as key points of examination when considering social, economic, and cultural conditions and norms.

PROMOTING INCLUSIVE GROWTH

The Partnership's research has provided important context on the opportunities and challenges that MSMEs and entrepreneurs face, including digitalization, financing, support services and market expansion. Governments around the world have so far responded by creating fiscal and monetary policies to provide resources for MSMEs. Moving forward, as the COVID-19 pandemic continues to affect the region, dialogue between government and business actors will play a crucial role in achieving an inclusive crisis response and sustainable routes to recovery that involve MSMEs.

The effects of the pandemic among MSMEs, however, have also been extremely uneven. Women and youth entrepreneurs have particularly been impacted, deepening the gap that already existed for them in entrepreneurship. MSMEs in certain sectors, such as tourism, textiles and construction, came to a halt as lockdowns stopped their operations and interrupted global value chains. Lastly, micro- and small enterprises have especially been challenged, as they have less resources to withstand economic hardship compared with medium enterprises.

Main recommendation: Dialogue between governments, MSMEs and other key stakeholders is critical for achieving an inclusive crisis response and sustainable routes to recovery. Governments must ensure that the needs of small businesses are addressed through action plans that work toward long-term economic recovery.

Policy actions for supporting inclusive and sustainable growth of MSMEs include the following:

1. Disaggregated data must be maintained and expanded to better understand the nuanced impacts on MSMEs, including the varying impact according to differing industries, enterprise sizes, and the formal or informal nature of enterprises.
2. To ensure a level playing field, all MSMEs must have access to physical infrastructures and support services, including those in rural or remote geographical areas, and in informal or unregulated industries.
3. Create inclusive business models which allow MSMEs to transition to a post-pandemic economy through innovation, adaptation and entrepreneurship. As the main drivers of the APEC region's growth, sustainable long-term practices (e.g.: gender- and youth-inclusive strategies) in MSME business strategies are crucial.

POLICY AREA 1: CREATING MORE TARGETED GROWTH SOLUTIONS

It is vital to have sustained collection, analysis and reporting of disaggregated data, in order to create more targeted policies that promote inclusive growth. This data must particularly capture women and

youth, and others who are disadvantaged in entrepreneurship, and have also been particularly impacted by the pandemic.

Collecting disaggregated data sheds light on the distinct needs of different entrepreneurs. As previously mentioned, gender disaggregated data was collected by the Partnership to identify what types of support women, youth, and other groups require in areas such as funding acquisitions, human capital improvement, and business.³⁴

Disaggregated data also helps make sense of the differences among MSMEs, according to their size, scale, sector and industry. For instance, differences exist among enterprises according to their size, not only in the technical definitions created by each respective economy, but also in the ability of these enterprises to access capital, formalize and absorb fluctuations in the economy. For example, the Partnership's work in Peru found that just five per cent of micro-enterprises can access the regulated financial system, compared to 46 per cent and 62 per cent of small and medium enterprises respectively. In turn, entrepreneurs in micro-enterprises also have less resources compared to those in small and medium enterprises.

Further surveys and documentation of MSMEs can provide important areas of consideration when providing support services and training. For example, government and business actors should survey opportunities for MSMEs to seek professional development, training on mobile applications, and use government support services. Together with disaggregated data, these indicators can provide more tailored training and feedback based on the needs of each of these subgroups.

The Partnership recommends that such disaggregated data is securely kept and effectively utilized by all levels of government, with the aim of making inclusive policies and legislation regarding MSMEs. As the road to recovery from the pandemic is expected to take place over the coming years, such data will be useful for governments and policymakers to better focus on sectors and areas of the population which are most vulnerable and drastically affected by the pandemic.

POLICY AREA 2: EXPANDING INFRASTRUCTURE AND CAPACITY BUILDING

In order to address disparities in entrepreneurship, for women, youth, micro-enterprises and others, and place inclusive ecosystems as part of a solution, crucial foundations such as infrastructure and capacity-building activities must be expanded to meet their distinct needs.

Access to infrastructure is a persistent issue, and the availability and quality of infrastructure have been widely regarded as the key determinants of development for MSMEs. As digitalization

³⁴ Asia Pacific Foundation of Canada, *2017 Survey of Entrepreneurs and MSMEs in Vietnam: Building the Capacity of MSMEs Through Technology and Innovation*, (Vancouver: Asia Pacific Foundation of Canada, 2017), 26.



Photo by Afif Kusuma on Unsplash

of MSMEs will likely become a new norm in a post-pandemic world, this raises questions regarding access to the internet, technology and software that are required to conduct online businesses. Weak digital infrastructure can not only weaken connectivity, but can also cause greater divides between urban centres, which are typically well equipped with the resources to digitalize compared to rural or remote areas. Geography, logistical considerations as well as time and resources to equip rural areas for digitalization remains a much larger issue. For instance, in Peru, the Partnership's work highlighted the resource difference between urban centres and rural areas. To counter increasing regional disparities that may emerge, policymakers must ensure the equitable distribution of resources to areas outside of urban centres, by investing in upgrades in public services.

Such access to infrastructure and related MSME support must also ensure equitable access for different groups. Previous surveys conducted by the Partnership indicated that a significant proportion of the survey population reported that their business does not have access to any support services, with further results suggesting that women entrepreneurs may have a harder time accessing such services than their male counterparts.

Additionally, for capacity building including MSME support programs and training platforms, governments need to give further consideration to include MSMEs in rural or remote communities.

This in particular also highlights another important group that must be acknowledged, that the inclusion of indigenous peoples and ensuring the growth of indigenous MSMEs and entrepreneurs as a dynamic sector of growth.

There are opportunities for governments to centralize information on available infrastructure and support programs through existing platforms that are already utilized by entrepreneurs, such as the Negosyo Centres in the Philippines and Emprededor Peruano in Peru. Moreover, governments must consider the clarity and accessibility of regulations to better foster a more inclusive and participatory regulatory environment that MSMEs can more easily navigate.

POLICY AREA 3: ACHIEVING SUSTAINABLE GROWTH AT THE GRASS-ROOTS LEVEL

A necessary component of inclusive growth is the intentional partnerships and collaboration between government and local entrepreneurial actors dedicated to MSME economic empowerment.

This collaboration is crucial, as it ensures that policies, research, programming and other work is informed by local actors and is sustainable in the long-term.

This collaboration can help governments adopt forward-looking policies that support MSMEs. This can include promoting sustainable business practices that provide MSMEs with the tools and training to achieve sustainable growth at a grassroots level. These practises can include funding and grants based on sustainability benchmarks and best-practices, sustainability training programs, collaborative ecosystems, and crowd-sourcing of apps and platforms that facilitate sustainable practice

Environmental sustainability is an important component of inclusive growth. MSMEs must organize their logistics, distribution, and other business operations accordingly. The Partnership’s survey data shows that women and youth entrepreneurs are more inclined to incorporate environmentally sustainable business practises. Across the four focus economies, these groups consistently say that environmental sustainability is among the top three priorities for their MSME, compared to their counterparts. This finding suggests that increased resources, through investment, networking, knowledge sharing and others, would increase MSMEs’ incentive and capacity to form sustainable business practises.

FIGURE 11. Environmental Sustainability as a Top 3 Priority, by Gender

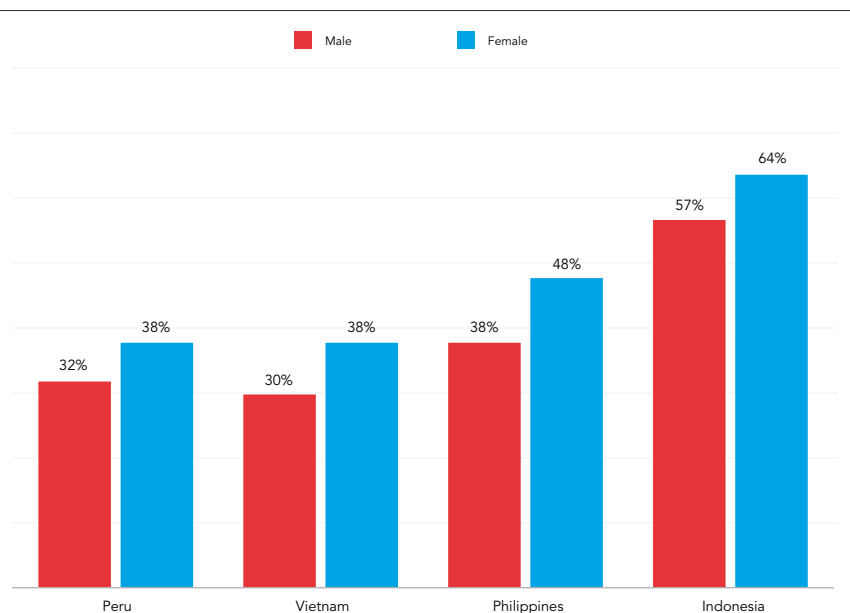
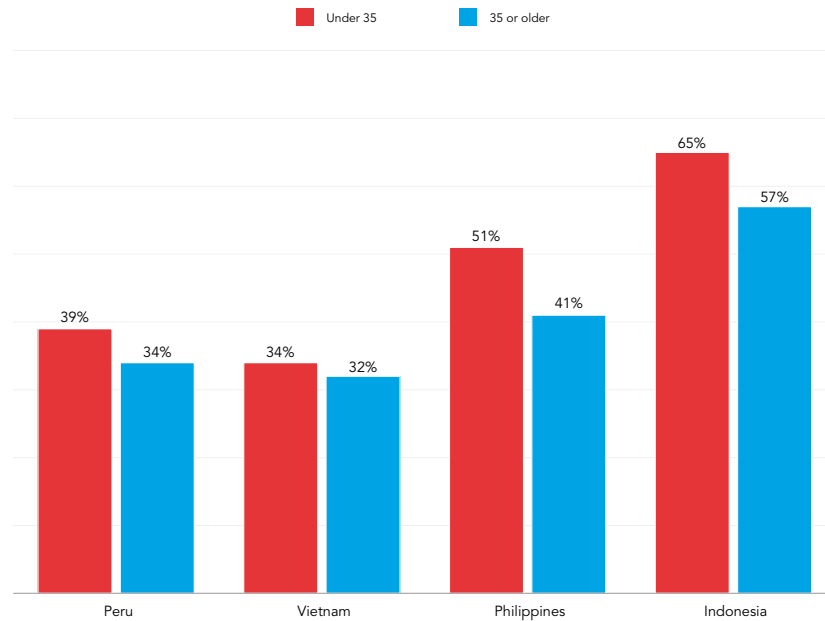


FIGURE 12. Environmental Sustainability as a Top 3 Priority, by Age



Thus, creating networks and hubs of knowledge sharing and resource mobilization to engender sustainable growth must be further highlighted. For example, governments and business actors can invest in sustainability-focused start-ups, with the aim of generating interest and ideas for innovative and sustainable growth in the region. In Indonesia, the Partnership profiled Evoware, a startup focused on developing alternative plastic materials from seaweed. The Partnership recommends that similar examples are used to inform entrepreneurs of various possibilities of incorporating environmental sustainability into business practices. Moreover, startups like Evoware can act as mentors to newer MSMEs, particularly social enterprises, that want to engage in similar work. This mentorship can point similarly-minded entrepreneurs toward crucial contacts, funding, and other resources that they need.

In the long term, governments should focus on recovery and expansion of business operations. In this process, governments should also consider policies that facilitate build-back-better. Rather than focusing on bringing the economy to pre-pandemic growth, policies should be geared towards incentivizing the greening of business operations and products. Thus, the action agenda should frame equitable recovery as a joint search for solutions between governments, civil society actors and MSMEs.

FUTURE RESEARCH AND AREAS OF CONSIDERATION

The APEC-Canada Growing Business Partnership's research in Indonesia, Peru, the Philippines and Vietnam has highlighted the barriers that MSME and entrepreneurs face, as well as the distinct challenges for women and youth entrepreneurs. As the APEC region continues on the road to recovery from the effects of COVID-19, one of the priorities moving forward must be to alleviate the extraordinary burden placed upon MSMEs, which continue to navigate uncharted territory as the global health crisis continues to impact economic stability and job security.

The Partnership's work has identified areas of MSME capacity building that should be addressed through both short-term actions and long-term strategies. The recommendations from this report are also guided by existing recommendations from APEC and other international bodies, such as the SMEWG Strategic Plan for 2021-2024.

As this report has emphasized, the long-term implementation plans must promote inclusive post-pandemic growth and supporting women and youth entrepreneurs with the technical assistance for MSMEs and entrepreneurs taking the form of providing assistance in digital transformation, ensuring opportunities to access financing and support services, while ultimately encouraging MSMEs to shift from being domestically-oriented to becoming more internationally oriented by increasing their global market access.

This research has already cited a number of regional SME policy visions and frameworks, particularly the APEC SMEWG Strategic Plan for 2021-2024 and Putrajaya Vision 2040. Aligned with these action plans, further research is warranted in a number of emerging areas in order to expand knowledge about the particular strategic needs and desires of MSMEs. Such areas include the following:

1. **Digital Entrepreneurship:** As COVID-19 continues to catalyze digital transformation, the acceleration of new technological systems will give rise to digital entrepreneurs who will have new market opportunities, due to the expanded ability to access international markets. If the digital economy can enhance the ability of traditionally marginalized groups to participate in these borderless digital markets, this greater economic participation not only has the potential to drive inclusive growth, but can allow entrepreneurs to access new talent and opportunities beyond their traditional physical borders.³⁵ However, in addition to new opportunities, new concerns will also emerge, including consumer protection and data

³⁵ Brian A. Wong, "How Digital Entrepreneurs Will Help Shape the World after the COVID-19 Pandemic," Accessed April 3, 2021, <https://www.weforum.org/agenda/2020/06/entrepreneurs-must-embrace-digital-during-pandemic-for-society>.

privacy. Further research will be required to better understand how digital technologies may impact entrepreneurship and how the effects of the pandemic may create new digital markets for MSMEs. Based on previous research conducted by the Partnership on technology and innovation, it recommends that future research specifically focus on digital entrepreneurship, and the technologies, software, platforms and other components that enable MSMEs to expand their markets, consumer base and business through digital business spaces.

2. **SME Growth and Inclusive Ecosystems:** According to the United Nations Conference on Trade and Development (UNCTAD), the pandemic poses a risk of losing the gains made in the areas of gender equality and equal participation of marginalized groups in the workforce.³⁶ In thinking about post-pandemic recovery, governments should continue to support the diversification of the MSME workforce, especially through gender-diversity, access and opportunities for rural-based MSMEs where technological infrastructure may be more difficult to access, as well as policies that ensure that the digital divide does not exclude women, youth, and other groups from receiving adequate training and education on tech and digital literacy. Building on the Partnerships' previous research on gender equality and sustainability, it is crucial that economies heed the recommendations of initiatives such as the APEC Putrajaya Vision 2040. They make explicit references to ensuring “strong, balanced, secure, sustainable and inclusive growth” through “inclusive human resource development as well as economic and technical cooperation” and comprehensive policies that will address “climate change, extreme weather and natural disasters.” Policy responses will need to be studied further to assess their effectiveness.
3. **MSME Competitiveness and Access to International Markets:** As new opportunities in digital borderless markets continue to open up for MSMEs, it is vital that these enterprises are given the necessary support to not only expand into these markets, but to be competitive with other MSMEs and larger corporations. As such, policies and discussions of market expansion must place a large emphasis on digital markets, and the accompanying requirements and barriers to entry for MSMEs in these markets. This includes digital upskilling, such as the effective usage of digital business strategies on social media, and education on the distinct regulations and requirements in these digital markets. In addition to this support, governments, business associations and local ecosystem actors must assist MSMEs to move from domestic to internally-focused enterprises, and encourage a change in mindset to see their potential in expanding to international markets. This change in mindset can be

³⁶ United Nations Conference on Trade and Development, “Global Initiative towards post-Covid-19 resurgence of the MSME sector,” Accessed March 20, 2021, <https://unctad.org/project/global-initiative-towards-post-covid-19-resurgence-msme-sector>.

reinforced through mentorship with MSMEs that have successfully expanded abroad, and training courses on market expansion. Lastly, it is vital that there is effective government to business interaction, particularly in the area of exports. Governments must provide MSMEs with accessible and clear information on regulations and requirements to expand markets abroad. Moreover, governments can assist MSMEs in market expansion through procurement practices, and inclusion in international trade missions. Overall, work in this area further complements the Partnership’s research on market access and further recommends, given the context of COVID-19, revisiting initiatives such as the Boracay Action Agenda to Globalize MSMEs, which emphasizes that “by fostering cultures of regulatory transparency in [APEC] economies, [APEC] will provide greater opportunities for MSMEs to comment on new regulations, regulatory reviews, and regulatory impact assessments, regardless of their geographic location.”

- 4. Innovation for Micro-enterprises and Start-ups:** One of the priority areas in the APEC SMEWG Strategic Plan 2021-2024 is “entrepreneurship, innovation, and start-ups.” It focuses on improving the business environment for start-ups, fostering innovation, developing opportunities for women and youth, and promoting social entrepreneurship. In line with this priority area, the Partnership recommends that governments address the distinct needs of MSMEs according to their level of maturity and size. While the Partnership’s work has so far analyzed general trends for MSMEs as an overall group, especially in the area of technology and innovation, it is clear that specific types of enterprises require targeted solutions. Micro-enterprises, early-stage MSMEs and start-ups have distinct needs compared to established enterprises, typically involving a lack of access to capital, lack of entrepreneurial networks and contacts, and lack of investor confidence. First, due to their size, micro-enterprises typically need more support to access funds, upskilling and human capital, and markets, compared to small and medium enterprises.³⁷ It is important that governments give specific support to entrepreneurs in micro-enterprises. Second, start-ups require a supportive local innovation ecosystem, to foster their potential for growth, as well as contribute to national economic recovery. There is an opportunity to build on APEC’s existing work, such as the APEC Initiative on Promoting Innovative Start-Ups, which emphasizes that governments should provide institutional support and invest resources in the local innovation system, such as through financing and grants, facilitating partnerships between the public sector and SME sector with competitive opportunities, and support for digitalization.

³⁷ Giulia Ajmone Marsan and Lina Maulidina Sabrina, *ASEAN MSMEs in a COVID-19 World: Innovation and Skills for the Post-Pandemic Recovery – Lessons from ERIA MSMEs Talks 6–10*, (Jakarta: Economic Research Institute for ASEAN and East Asia, 2021): 13.



Photo by Peter Hammer on Unsplash

5. **Informal Markets, Urban vs. Rural vs. Remote Communities:** The Partnership's work has also revealed that MSMEs' needs and capacity are determined according to their formal or informal status, and their geographic location in their economy. These two factors can act as defining aspects of MSME experiences, and act as structural barriers to enterprises' success. Moreover, these two factors determine the opportunities and challenges that MSMEs face, such as accessing support services and having robust digital infrastructure. Considering the issue of MSME support, informal or unregistered MSMEs often fall between the cracks in economies' COVID-19 support measures, due to their ineligibility to receive such benefits. As a result, many enterprises who may desperately need support are unable to access it. The informality of MSMEs must be addressed through streamlined ways to register businesses, and demonstrating the benefits of formalization. On the latter issue of robust digital infrastructure, geography can determine the resources and networks that MSMEs have access to, creating a structural barrier to their successful entry into the digital economy, and more generally barring rural-based entrepreneurs from market expansion. Policymakers must ensure the equitable distribution of resources to areas outside of urban centres, by investing in upgrades in public services, in order to ensure that all MSMEs can benefit from digitalization and the digital economy.

In the long-term, APEC's Putrajaya Vision 2040 has stated a regional commitment towards (1) trade and investment, (2) innovation and digitalization, and (3) strong, balanced, secure, sustainable and inclusive growth at the forefront of the agenda for APEC's 21 member economies. As planning and development of post-pandemic growth priorities is underway, APEC economies will benefit from further coordination of action agendas and implementation timelines, in order to ensure timely deliverables. Collaboration, cooperation and communication between APEC members, and more broadly, all Asia Pacific economies, will be needed to share best practices, and translating on-the-ground research into MSME and entrepreneurial-friendly policies across the APEC region. It is vital that APEC members learn from one another's successes, as economies strive to emerge from the pandemic with equitable outcomes for all populations.

Moreover, APEC members must continue to base their work on existing frameworks and recommendations provided by the organization, including the La Serena Roadmap for Women and Inclusive Growth and the Boracay Action Agenda to Globalize MSMEs. Meanwhile, other regional frameworks exist, such as the ASEAN Strategic Action Plan for SME Development 2016-2025, which provide views complementary to the initiatives addressed in this report. Adhering to these existing frameworks will assist in implementation and tracking progress, by providing a common basis and guidelines for all economies in the region. Research and programming from initiatives like the APEC-Canada Growing Business Partnership also play a critical role, by working with existing on-the-ground partners and facilitating direct relationships with MSMEs through the training events and mentorship program. In the short term, such initiatives are a commitment towards a path of inclusive, sustainable, and quick economic recovery from the COVID-19 pandemic. In the long term, they will also help sustain long-term growth in the region by minimizing barriers to employment, providing assistance to local communities, and building the capacity of MSMEs that ultimately strengthen economies.

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APPENDICES

APPENDIX A: CONCEPTUAL FRAMEWORK AND METHODOLOGY

CONCEPTUAL FRAMEWORK

Aligned with the literature that has sought to improve the implementation results of development projects, the Partnership has emphasized client and stakeholder participation in the design and implementation of policy recommendations and the implementation of local activities. For instance, the implementation literature on international development projects highlights various road maps that incorporate various stakeholders into the policy decision-making process. Such literature has emphasized broad public participation from a range of stakeholders and actors, from the beginning to end implementation of international development projects.³⁸

In response to this literature, the Partnership has endeavoured to assess and tackle these issues through on-the-ground research, data collection, and capacity-building activities including training sessions, policy workshops, and a mentorship program for women entrepreneurs. In doing so, the Partnership aims to provide additional empirical information on the challenges that MSMEs and entrepreneurs face, including disaggregated findings by gender and age.

As other studies have emphasized, broad public participation and the coordination of policy development and implementation are required, especially when “changes are involved” and “people must be given opportunities to develop share meanings and appreciations that will further the implementation of policy goals.”³⁹ Acting as a knowledge mobilization hub, the Partnership has disseminated its work through a two-pronged approach. On one hand, the Partnership provides local policy and training workshops with the goal of localization and translating the recommendations for the local day-to-day context in which these MSMEs operate. On the other, it also provides these recommendations to larger multilateral organizations, such as APEC’s Small, Medium Enterprise Working Group (SMEWG). Together, this collaborative stakeholder process has included cross-collaboration and dialogue through the different aspects of the project, including stakeholders and participants early on in the design process and feeding into a “research-action-dialogue” model which has streamlined stakeholder participation as well as the formulation of gender-inclusive policies.

³⁸ Monteze Snyder, Fran Berry and Paul Mavima, “Gender policy in development assistance: Improving implementation results,” *World Development*, Vol. 24(9), (1996): 1489.

³⁹ *Ibid.*

GUIDING FRAMEWORKS FOR THE PARTNERSHIP

The Partnership in aligns itself with the vision and priorities of the APEC Small and Medium Enterprises Working Group (SMEWG), which provides a regional forum for policymakers to convene and discuss the challenges and policy interventions toward helping entrepreneurs. In October 2020, having hosted its first entirely virtual meeting, the APEC SMEWG passed its new strategic plan for 2021-2024, to highlight and tackle the challenges that MSMEs are facing during the pandemic. The priority areas in this plan include the following:

- Entrepreneurship, innovation, and start-ups;
- SME access to international markets and global value chains (GVCs);
- Inclusive capability development towards digitalization;
- Access to finance and alternative financial solutions; and
- Government to business interaction.

In line with these priorities, the results of the Partnership do provide indicators of alignment with many of the existing initiatives, but also add rich experiences from MSMEs as well as survey data which further illuminate the on-the-ground realities that MSMEs face.

Over the course of the Partnership's implementation, the Partnership has also aligned its values with other existing APEC initiatives. In particular, the Partnership has sought to lead a gender-inclusive agenda, tapping into the economic potential of women and youth. APEC's Policy Partnership on Women and the Economy (PPWE) has emphasized the importance of women's economic empowerment in five core areas including: access to capital, access to market, skills and capacity building, women's leadership and agency, and innovation and technology. More recently, in 2019, through the initiative and leadership of Chile, The La Serena Roadmap for Women and Inclusive Growth (2019-2030) has also provided a forum for information sharing and capacity building.

These approaches are further reinforced by Canada's own Feminist International Assistance Policy, which also echoes the importance of women and girls to reach their full potential so that their full economic participation is possible. Guided by Gender-based Analysis Plus (GBA+) has also worked closely to collect gender-disaggregated data. This approach further reinforces the importance of disaggregated data and research in examining various social, economic, and cultural conditions and norms. All of these initiatives mentioned above are a further complement to overarching international frameworks, including the United Nations Sustainable Development Goal 5 on gender equality, which emphasizes that the economic empowerment of women and girls is not only crucial for a sustainable future, but that large inequalities between men and women still exist, especially in the labour market.

In addition to knowledge and data collected from the Partnership's four years of implementation, the recommendations featured in the following sections are particularly guided by a number of international roadmaps, including the APEC SMEWG Strategic Plan for 2020-2025, Policy Partnership on Women and the Economy, the La Serena Roadmap for Women and Inclusive Growth (2019-2030) and Putrajaya Vision 2040.

METHODOLOGY AND AREAS OF ANALYTICAL FOCUS

This capstone paper will explore six thematic areas that comprise its main areas of analytical focus. These themes are based upon research conducted by the partnership (elaborated further upon below) as well as additional secondary research conducted to provide an overall context to MSME capacity building during the COVID-19 pandemic.

ON-THE-GROUND RESEARCH:

This paper was conducted through the Partnership's on-the-ground capacity-building activities, research, and programming with entrepreneurs and MSMEs. This will include a review of the Partnership's research studies, annual national survey reports, on-the-ground event programming, and outcomes from the mentorship program for women entrepreneurs.

NATIONAL SURVEY DATA:

Survey data of entrepreneurs and MSMEs was collected through national surveys conducted in each focus economy. From 2017 to 2019, the Partnership surveyed over 1,800 MSME founders and employees on a number of issues and policies related to MSMEs and their growth. Each dataset was collected in separate years, coinciding with the Partnership's on-the-ground activities in each economy.

CAVEATS:

Notably, the Partnership's programming and survey work was conducted prior to the COVID-19 pandemic. As a result, the Partnership's current research and data is unable to directly comment on the state of affairs for MSMEs during the pandemic. Recognizing this limitation, this paper utilizes the Partnership's research and survey data to illustrate the pre-pandemic landscape and challenges in each of the thematic areas, to identify important policy areas in MSME capacity building moving forward.

It is also important to note that the Partnership's survey data reflects particular demographics of entrepreneurs and MSMEs in the four focus economies. The survey data largely features the views of entrepreneurs who are in a micro-sized enterprise, who founded their own MSME, and who are located in the urban centres of their respective economies.

Moreover, the survey data was collected in each economy in different years.⁴⁰ As a result, there are substantial differences in individual and company demographics between the four datasets. The data comparison in this paper takes these caveats into account, and primarily compares descriptive findings in the four datasets to provide context in each thematic area.

⁴⁰ The Partnership conducted its national survey in Vietnam in 2017, in Indonesia and the Philippines in 2018, and in Peru in 2019.

APPENDIX B: LIST OF ACTIVITIES OF THE APEC-CANADA GROWING BUSINESS PARTNERSHIP

VIETNAM – TECHNOLOGY & INNOVATION

RESEARCH & POLICY

- 2017 Survey of Entrepreneurs and MSMEs in Vietnam: Building the Capacity of MSMEs Through Technology and Innovation
- Micro, Small, and Medium Enterprises in Agri-Food: A Study of the Philippines, Vietnam and Peru
- Innovation Policy to Promote MSME Growth: Best Practices and Implications for Vietnam and Other APEC Developing Economies
- Fueling High-Tech Startups: Building the Capacity of MSMEs through Technology and Innovation
- ABACx: The APEC-Canada Growing Business Partnership Symposium on Technology and Innovation - July 25, 2017, Toronto, Ontario
- Symposium on Innovative and Dynamic Startups and MSMEs – September 11, 2017, Ho Chi Minh City, Vietnam

MSME TOOLKIT & TRAINING

- Vietnam Toolkit for Entrepreneurs and MSMEs: Technology and Innovation
- Technology and Innovation Training Session - November 10, 2017, Da Nang, Vietnam

PHILIPPINES – MARKET ACCESS

RESEARCH & POLICY

- 2018 Survey of Entrepreneurs and MSMEs in the Philippines: Building the Capacity of MSMEs Through Market Access
- The Case of Using Blockchain Transactional Technology to Provide Democratization and Transparency for Philippine Coffee Growers
- The Role of Business Associations and Chambers of Commerce on SME Development and Market Access

- Entrepreneurial Drivers of AgTech in Southeast Asia: Development Implications for Regional SMEs and Pathways for Canada
- Breaking Through: Market Access Potential for MSMEs in the Philippines - July 3, 2018, Manila, Philippines

MSME TOOLKIT & TRAINING

- Philippines Toolkit for Entrepreneurs and MSMEs: Market Access
- Angat Negosyo: Growing Local and International Filipino MSMEs - November 17, 2018, Manila, Philippines

INDONESIA – HUMAN CAPITAL

RESEARCH & POLICY

- 2018 Survey of Entrepreneurs and MSMEs in Indonesia: Building the Capacity of MSMEs Through Human Capital
- Gender Roles in Small and Micro Business Development in Indonesia: A Firm-level Analysis
- Micro and Small Businesses in Indonesia's Digital Economy
- Human Capital for Micro, Small, and Medium-sized Enterprises (MSMEs) in Indonesia: Interactive Effects of Individual-Level Factors and Institutional Conditions
- Skilling Up: Fostering a Robust MSME Workforce in Indonesia – July 5, 2018, Jakarta, Indonesia

MSME TOOLKIT & TRAINING

- Indonesia Toolkit for Entrepreneurs and MSMEs: Human Capital
- #TRAININGDAY Helping Your Small Business Grow in Indonesia – November 21, 2018, Jakarta, Indonesia

PERU – SOCIAL ENTREPRENEURSHIP

RESEARCH & POLICY

- 2020 Survey of Entrepreneurs and MSMEs in Peru: Social Entrepreneurship
- The Existing Landscape of Social Entrepreneurship in Peru
- Micro, Small, and Medium Enterprises and Social Entrepreneurship in the Context of Peru:

Considerations for APEC Mining Economies

- Financing for Social Entrepreneurship in Peru
- Change Makers: Supporting Social Enterprises in Peru – May 15, 2019, Lima, Peru

MSME TOOLKIT & TRAINING

- Peru Toolkit for Entrepreneurs and MSMEs: Social Entrepreneurship
- MSME, Competitiveness, and Social Innovation Training Day in Peru – September 14, 2019, Lima, Peru
- MSME, Competitiveness, and Social Innovation Training Day in Peru – September 14, 2019, Lima, Peru
- Scaling up MSMEs and Social Entrepreneurship in Peru: A Virtual Roundtable – October 14, 2020, Virtual Event.

APPENDIX C: DEFINITIONS OF MSMES BY ECONOMY

Economy	Micro enterprise	Small enterprise	Medium enterprise
Canada	Businesses with 1-5 employees	Businesses with 1-99 employees (cut off may vary by sector, e.g.: for goods-producing firms, less than 100 employees, and for service-producing firms, up to 50 employees)	Businesses with 100-499 employees
Vietnam	Fewer than or equal to 10 employees	Between 11 and 50 employees for trade and services industries or between 11 and 100 employees for any other industry	Between 51 and 100 employees for trade and services industries or between 101 and 200 employees for any other industry
Indonesia	Annual revenue less than IDR300M	Annual revenue between IDR300M to IDR2.5B	Annual revenue more than IDR2.5B
The Philippines	Fewer than 10 employees	Between 10 and 99 employees	Between 100 and 199 employees
Peru	Fewer than or equal to 10 employees with annual sales limit of 150 UIT	Between one and 100 employees with annual sales limit of 1700 UIT	Annual sales limit of 2300 UIT

APPENDIX D: POLICY RECOMMENDATION MATRIX EXCERPT

Policy Recommendation	Audience	Source
Aiding Digital Transformation		
Reliable and future-ready ICT infrastructure can be a foundation for MSME innovation and market expansion	Government	Innovation Policy to Promote MSME Growth: Best Practices and Implications for Vietnam and Other APEC Developing Economies
Invest in information and communications technology (ICT) infrastructure to support MSMEs to reach online resources and tools, as well as potential employees outside of their personal networks	Government	2018 Survey of Entrepreneurs and MSMEs in Indonesia: Building the Capacity of MSMEs through Human Capital
Improve online learning applications (ranging from mentor matching to platforms about accessing markets) to be more accessible to aspiring women and older entrepreneurs	Business Community	2018 Survey of Entrepreneurs and MSMEs in the Philippines: Building the Capacity of MSMEs through Market Access
Business associations can provide information and support to help SMEs engage in online sales. For newer SMEs, this support includes introducing them to online sites where retailers can sell their products. For more established businesses, this includes providing training for online marketing and running an online sales platform. If operating a website is too expensive for one SME, business organizations can pool similar SMEs together and help them establish a common online platform where everyone can sell their products. This may also not only be done by business associations but by the government as well.	Government, Business Community	The Challenges to SME Market Access in the Philippines and the Role of Business Associations

Policy Recommendation	Audience	Source
Policy-makers are encouraged to focus on increasing mobile device penetration and infrastructure, supporting existing and nascent e-commerce platforms with the rollout of digital wallets, engaging outside subject-matter expertise and professional services firms around capacity-building efforts, and building trust by increasing dispute resolution and enforcement mechanisms	Government	Micro and Small Businesses in Indonesia's Digital Economy
Indonesia's national, regional, and local governmental institutions need to increase the amount of access to online educational resources regarding business management and digital skills	Government	Micro and Small Businesses in Indonesia's Digital Economy
International experience can be further encouraged through online courses on platforms like Peruvian Entrepreneur that would highlight the advantages of going abroad.	Government	2020 Survey of Entrepreneurs and MSMEs in Peru: Building the Capacity of MSMEs Through Social Entrepreneurship
Securing MSMEs' Access to Financing		
Financing challenges for social enterprises are most acute for early-stage companies that are no longer startups but are not yet ready to scale with debt. Bank financing is risk averse and profitability is an important consideration. In this regard, consideration could be given to corporate income tax exemptions or other incentives for social enterprises (a term that would also need to be legally defined). The case for differentiated tax treatment is compelling in cases where social enterprises are filling public service provision gaps. In addition, rules could be established to mitigate the exacerbating impact on working capital needs of payment of value-added tax in advance of receipt of payment by clients.	Government, Business Community	Financing for Social Entrepreneurship in Peru

Policy Recommendation	Audience	Source
<p>Social enterprises in Peru receive public sector support during the startup phase and have started to attract international impact debt during the growth phase. However, there is a “missing middle” of early-stage companies that lack financing options. Angel investor networks in Peru are not focused on social enterprises to meet this need. The public sector could consider new funding mechanisms to meet this need, including direct financing of social enterprises and indirect financing through investment in funds or fund managers in Peru. Blended finance investment structures that include first-loss capital or pay-for-performance could be incorporated into the new instruments.</p>	<p>Government, Business Community</p>	<p>Financing for Social Entrepreneurship in Peru</p>
<p>Ensuring MSMEs’ Access to Support Services</p>		
<p>Improve public accessibility and awareness of existing government led support services (such as Go Negosyo Centers) in order to reach entrepreneurs trying to grow their MSMEs</p>	<p>Government</p>	<p>2018 Survey of Entrepreneurs and MSMEs in the Philippines: Building the Capacity of MSMEs Through Market Access</p>



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