



## **Reimagining support for small businesses:**

The path to creating stronger and more resilient small businesses through and beyond COVID-19



Policy Center for  
the Digital Economy

KEARNEY

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# Foreword

In virtually every country around the world, small businesses are the lifeblood of economic vitality. They represent 90 percent of all businesses and employ roughly 70 percent of all workers globally. Crucial to economic stability, small and medium-size enterprises (SMEs) run the gamut from sole proprietorships to enterprises with hundreds of employees, in every imaginable industry. The fact is that where small business goes, so goes the global economy.

Obviously, one of the biggest and most pressing challenges faced by SMEs is the impact of the COVID-19 pandemic. The crisis has not only introduced a host of new, existential challenges, but has also amplified many of the hurdles these businesses had already been facing prior to the crisis. These challenges and hurdles show us that it's not just about building back better, but also about identifying opportunities to build anew and think differently about how we support this important segment. The operative questions remain: What needs to be done, by whom and how best to do it?

We at Mastercard and Kearney developed this paper to advance a set of public policy recommendations and corresponding calls to action as a rallying point for the public and private sectors to join forces in enabling small businesses to not only survive, but thrive. The output draws from the latest data on how small businesses are faring and, more importantly, derives much of its insight from in-depth conversations we had with small business owners, government officials and multi-lateral organizations—the very individuals and organizations that are bound together by a common goal to survive and come back stronger. These recommendations are represented not as novel concepts, but rather as a curated, real-world list of best practices.

The focus of the recommendations is on the marriage of wise and sensible policymaking with private sector innovation and technology, matching strength with strength. They can be implemented individually or, better still, as part of a comprehensive strategy designed to create the conditions necessary for SMEs to survive and flourish. Finally, where possible we intentionally sharpened our focus to business-to-business (B2B) SMEs—the suppliers and buyers that drive a tremendous amount of economic activity, employing others, participating in the formal economy, yet so often finding themselves struggling to manage cash flow, secure capital, digitalize operations and extend their business outside their national borders.

Our purpose is to identify actions that complement existing recovery measures, stimulus injection or otherwise, to strengthen the long-term resiliency of SMEs in a manner that promotes self-sufficiency, strengthens inclusiveness and is sustainable for the public and private sector organizations that support them. While emphasizing the role of governments as the ultimate creators of policy and its effects on the changing operating environment, Mastercard and Kearney also wish to stress that strengthening the resiliency of SMEs requires extensive collaboration among governments, the private sector, civil society, trade groups, academia and others.

To be sure, the challenges we face today are far different than a year ago. But, the entrepreneurial spirit is constant in its ability to reimagine, refresh and reinvent. We believe in those who take risks, chase dreams and put it all on the line to create a business. So we've come together here to offer a framework to help unlock potential and keep SMEs moving forward. And when we work together it means we're a team, driving economic growth and equality, empowering every business, everywhere. We're dedicated to enabling businesses to survive and thrive, stronger than before.

We hope this paper is useful, insightful and inspiring. It is the beginning of the road to an inclusive and sustainable post-COVID recovery for SMEs.

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Notes: 'Digitalize' refers to the use of digital technology. It is often confused with 'digitize,' which is the act of converting information from analog to digital.

# Executive summary

Small businesses are the lifeblood of economic prosperity and are a key component in the engine that drives macroeconomic growth. Despite the vital role small businesses play and the entrepreneurial spirit that enables them to overcome a variety of daily obstacles, they are especially prone to economic disruption even under the best of circumstances. In this regard, 2020 was a year like no other. The global pandemic pushed small businesses to the brink, presented unprecedented challenges, laid bare systemic weaknesses across the sector and all but snuffed out the hope of recovery for far too many. Despite such widespread adversity, we all know that the crisis of today has defined the opportunity of tomorrow—and has shown us what is required to accelerate small businesses' journey to greater resiliency, stability and long-term prosperity.

For these and many other compelling reasons, small businesses must be at the center of strategies to jump-start national economies—and the livelihoods and prosperity of billions around the planet—in the emerging post-COVID-19 economy. We can only restore broader macroeconomic growth through specific strategies based on a deep understanding of the needs of small businesses.

Though the spectrum of challenges that small businesses face is vast, we believe that they have three primary needs. The first is the ability to receive and make payments more quickly and easily. Second, access funding that can support their longer-term growth. And third, they must have the necessary tools to be able to join the broader ecosystem of digital businesses.

To be sure, many ideas have already surfaced on how to address the aforementioned needs and support the revival of small businesses, including the pronounced need to find ways to help them strengthen their resilience and enable them to scale operations efficiently to achieve new growth. But there is another key dimension to unlocking their potential, which is looking very carefully not only at how they, as a segment, are alike, but also how they differ. We must ask the question of how we can better attune our strategies to be more targeted and effective across a diverse array of small businesses.

Toward achieving that goal, this paper focuses as much as possible on the needs of small businesses that operate in the business-to-business (B2B) sector. Globally, B2B payment volumes total almost three times consumer spending at an estimated USD 125 trillion.<sup>1</sup> Business-to-business small and medium-size enterprises, or "B2B SMEs," often employ large numbers of people and participate in global industrial and digital supply chains. Yet despite its size and importance, the B2B SME segment faces numerous and somewhat surprising challenges, including many we would expect of very small and micro enterprises, such as a lag in digitalization.

**How can we better attune our strategies to be more targeted and effective across a diverse array of small businesses?**



Notes: 'Digitalization' refers to the use of digital technology. It is often confused with 'digitization,' which is the act of converting information from analog to digital.



## Nearly half of all global B2B transactions are still in paper form.<sup>2</sup>

Other challenges abound, from maintaining steady flows of working capital, to cybersecurity, to availing themselves of government resources. These challenges are only exacerbated by the fact that many B2B SMEs operate at a larger scale, interact with more customers and suppliers and still perform many different complex tasks using manual processes. Given these challenges and the value of B2B SMEs to the global economy, it is surprising that as a sub-segment they are explored far less frequently than their business-to-consumer (B2C) counterparts.

As such, Mastercard and Kearney have developed this study to not only examine the broad spectrum of SMEs, but to also review and highlight ways in which we can more fully account for B2B SMEs in the various public policy debates and national stimulus strategies that are now in formation. All economies—developed and developing, large and small, fast-growing and lagging—are beginning to look beyond merely surviving the health and economic crisis to getting back on track, a challenge in which SMEs will play a major role. The pandemic has brought us to a crucial inflection point and given us an opportunity to rethink our strategies and embrace more targeted approaches. Economic recovery strategies must create an environment in which all small businesses can flourish.

By definition, creating such an enabling environment requires close and effective collaboration between government at all levels and the private sector. We believe that such collaboration must address both present and future challenges to SMEs, starting with cash flow management, access to financing and the spectrum of challenges relating to digitalization. We also recognize that what might work in one market may be unsuitable for others, and that different markets have different realities and resources at their disposal. It is, therefore, our hope that this paper provides guidance where it is needed and specific approaches and solutions where similar conditions apply.

Based on research and interviews with representatives of international development institutions, national governments, the private sector, non-governmental organizations (NGOs), B2B small business owners and academia, we believe that four overarching government roles emerge to promote the rebound of SMEs and change the ways in which we support them going forward:

- 1. Conduit for and enabler of working capital and funding**
- 2. Protector**
- 3. Educator**
- 4. Convener and connector**

Within these four roles, we have identified eight broad policy objectives supported by tangible, specific calls to action that governments can take in concert with the private sector to support the resiliency and growth of SMEs through and beyond COVID-19.

## Governments and the private sector must play a joint role in enabling a safe and secure operating environment.



<sup>1</sup> [Mastercard Track to Modernize \\$125 Trillion Global B2B Payments Market](#), Mastercard, 2019.

<sup>2</sup> [Welcome to the Frictionless Future](#), Mastercard, 2020.

Notes: 'Digitalization' refers to the use of digital technology. It is often confused with 'digitization,' which is the act of converting information from analog to digital.

## SME resiliency: Government roles, policy objectives and calls to action

(1/2)

### Government role

### Policy objectives

### Calls to action

#### Conduit for and enabler of working capital and funding

**1. Ensure ongoing working capital stability for SMEs** (by driving solutions that ease cash flow burdens).

**2. Remove barriers that hinder minority- and women-owned businesses' ability to receive capital** (making IDs more accessible, allowing different types of collateral).

**3. Make funding and resources available for B2B SMEs to build their digital capabilities** (develop tools that replace more traditional face-to-face sales methods, offer digitalization support for SMEs buying and selling internationally).

- **Design and implement a country-level framework to enable e-invoicing through SME solution providers**, thus enabling B2B SMEs to more easily borrow against them to fund working capital. Further, consider adopting international standards (for example, PEPPOL, X9, ISO) to both increase interoperability and facilitate cross-border trade.
- **Encourage traditional and non-traditional payment players** and financial institutions to create and drive adoption of solutions that can ease B2B SMEs' cash flow burdens (for example, supply chain financing).
- **Drive equitable access to and leverage digital payments infrastructure** (for example, through policy mechanisms that help SMEs get paid quickly and easily and facilitate reconciliation) to promote working capital stability and efficiency for small business.
- **Help establish norms for timely payments to B2B SMEs to reduce working capital strain** (for example, the Australian government's Payment Times Reporting Scheme to drive public/private transparency on payment terms).
- **Ease funding and access to capital constraints for minority- and women-owned businesses** by improving data collection on funding gaps. This will allow governments and other financing providers to better identify underserved segments, target funding accordingly and allow non-traditional collateral requirements (for example, movable property such as vehicles as opposed to homes).
- **Develop digital ID solutions** that take into account and address the unique challenges some women face in accessing capital and financial services.
- **Provide funding for the tools that are most necessary during the COVID-19 pandemic and beyond** (for example, e-commerce platforms and tools that enable SMEs to increase their back-office operational efficiency and integrate into online exchanges). B2B SMEs can benefit significantly from visible websites that allow them to connect to trading counterparties.
- **Target support to B2B SMEs at each stage of the digitalization process**, from efforts to move beyond paper operations to the use of basic digital infrastructure. Offering digitalization support to B2B businesses that seek to buy or sell internationally will be an especially important step in the process to ensure SMEs have access to the global supply chain.

#### Protector

**4. Ensure a safe and secure operating environment for SMEs**, in terms of cybersecurity, trust and transparency, as SMEs become increasingly digital.

- **Provide free or subsidized cybersecurity tools**, independently or in concert with the private sector, to SMEs to help them prevent economically damaging cyberattacks that affect the business directly and their buyers and suppliers indirectly.
- **Provide education and training on cyberthreats to SMEs** so they understand the areas in which they are most vulnerable.
- **Explore simplifying business identity**, for example by allowing SMEs to securely use tax IDs or similar unique identifier as a way to identify themselves for all financial transactions. This would enable mutual trust between trading counterparties while simplifying lending, invoicing and payment processes, such as KYC.

Notes: SME is small and medium-size enterprise. B2B is business-to-business. KYC is Know Your Customer.



## SME resiliency: Government roles, policy objectives and calls to action (2/2)

### Government role

### Policy objectives

### Calls to action

Government role	Policy objectives	Calls to action
<p><b>Educator</b></p>	<p><b>5. Build B2B SMEs' knowledge of the financial and digital tools</b> and resources available to them.</p>	<ul style="list-style-type: none"> <li>– <b>Increase awareness</b> of and access to the financial and digital tools and resources available to B2B SMEs.</li> <li>– <b>Create opportunities to connect B2B SMEs to each other</b> for knowledge sharing and business growth, keeping in mind that many small businesses are time poor.</li> <li>– <b>Ensure that policymakers who educate and legislate for B2B SMEs are well-versed on the full set of challenges they face</b>, ideally by holding focus groups with entrepreneurs on a regular basis.</li> </ul>
<p><b>Convener and connector of ecosystems</b></p>	<p><b>6. Facilitate partnerships</b> in which private entities, non-banking financial institutions (NBFIs), development finance institutions (DFIs) and non-governmental organizations (NGOs) are incentivized appropriately to provide cash flow management support, capital or digital services to B2B SMEs.</p> <p><b>7. Improve the collection, analysis and availability of B2B SME data</b> for use by governments and B2B SMEs (for example, to aid in counterparty discovery and the expansion of SMEs' client bases).</p> <p><b>8. Model best practices</b> by buying goods and services directly from SMEs, leading by example in adopting payment and invoice digitalization and increasing the credibility of emerging businesses.</p>	<ul style="list-style-type: none"> <li>– <b>Convene forums</b> (virtual or in person, when safe) to help connect B2B SMEs with buyers both domestically and internationally.</li> <li>– <b>Enable policies that support non-governmental financial institutions</b> (for example, microfinance institutions and development finance institutions) in offering funding and services to B2B SMEs.</li> <li>– <b>Create public-private partnerships at the local, regional and national level</b> to bring digital capabilities to SMEs swiftly and at scale (for example, assisting with payment disbursements and embarking on education campaigns).</li> <li>– <b>Explore innovative methods of data collection</b> in concert with the private sector and multilaterals that allow access to a more comprehensive set of B2B SMEs.</li> <li>– <b>Establish size or industry segmentation guidelines for all SMEs</b>, ensuring specific segmentation for B2B industries. This effort will allow governments to be able to better target aid based on various needs.</li> <li>– <b>Establish or expand efforts to measure the impact and efficacy of SME-targeted programs</b> in order to improve current programs and design or adapt future programs.</li> <li>– <b>Establish or expand SME public procurement contracts</b>, focusing particularly on women- or minority-owned businesses.</li> <li>– <b>Lead by example by digitalizing invoices and payments</b> from governments to their SME suppliers.</li> <li>– <b>Ensure that government's suppliers use diverse vendors themselves</b> in order to ensure inclusion.</li> </ul>

Notes: SME is small and medium-size enterprise. B2B is business-to-business.

## Conclusion

These recommended objectives and calls to action are certainly not exhaustive. What's more, the tremendous diversity of SMEs across the planet—and the differences in the marketplaces in which they operate—attest to the notion that there can be no silver-bullet set of solutions. Nevertheless, we believe that both government and the private sector have complementary roles to play and that through creative partnerships, many of the challenges faced by SMEs can be overcome, allowing them to build strength upon strength.

In the pages that follow we advance specific ideas and various calls to action on how governments and the private sector may wish to proceed in reinvigorating the vital B2B SME segment. There is no doubt that all SMEs are essential to restoring economic growth and prosperity worldwide, and they are essential to the recovery and renewed growth for which we are all striving.



**Through creative partnerships, many of the challenges faced by SMEs can be overcome, allowing them to build strength upon strength.**



# Reimagining support for small businesses: The path to creating stronger and more resilient small businesses through and beyond COVID-19

Governments throughout the world depend on SMEs to build labor forces and provide essential services to their populations. On a more macro level, SMEs serve as a tax base and fuel national economies. Small businesses comprise more than 90 percent of private sector companies and are responsible for 70 percent of all jobs in the global economy.<sup>1</sup> As of 2016, the World Trade Organization estimated that SMEs represented more than 55 percent of GDP in developed economies.<sup>2</sup> In the United States alone, firms with 1 to 499 employees account for 47.5 percent of the private sector workforce.<sup>3</sup> Moreover, SMEs make up more than 99 percent of the total number of businesses across the countries in which the European Bank for Reconstruction and Development (EBRD) works.<sup>4</sup> Small businesses are also a crucial driving force in Southeast Asian economies, accounting for an average of 97 percent of all enterprises and 69 percent of the national labor force from 2010 to 2019.<sup>5</sup> They also contributed an average of 41 percent of each country's GDP over the same period.

In turn, SMEs rely on governments to help them tackle some of their biggest challenges. Across industries and sub-segments of SMEs worldwide, there are profound similarities in the SMEs' needs. There is also, therefore, significant overlap in the strategies that could strengthen SMEs and power more general macroeconomic recovery, especially under the current circumstances. In fact, small business resilience, now under nearly unprecedented pressure from the pandemic, will be essential to a rapid and broad-based economic recovery when the crisis ends.

SMEs' principal challenges are making and receiving payments, accessing capital and becoming (more) digital (see figure 1 on page 8). For simplicity's sake, we refer to these challenges as, "getting paid, getting capital and getting digital." These undertakings loomed large even before COVID-19, but they have become more important—even vital—as the pandemic has played out over the past year. A recent World Bank report notes, "policy reach has been limited [through the COVID-19 pandemic]." The same report points to incompatibilities between government policies and the policies needed by businesses. It explains, for example, that "in lower-middle-income countries... access to credit is the most preferred policy, but tax support is the main mechanism of support offered."<sup>6</sup> These challenges will only become more significant in the future, and surmounting them will be vital to positioning SMEs in the post-COVID economy and to ensuring the resilience SMEs need to navigate the changes in the business environment that lie ahead. Finally, for reasons stated above, these challenges are particularly salient for business-to-business SMEs, which we explore in greater depth here.

<sup>1</sup> Agnes Dasewicz, Sundar R. Ramanujam, and John Simon, *Financing Small Business Is Critical for a Strong Post-Covid Recovery*, CSIS, 24 September 2020.

<sup>2</sup> *World Trade Report 2016: Levelling the trading field for SMEs*, World Trade Organization, 2016.

<sup>3</sup> *2020 Federal Reserve Small Business Credit Survey*, Federal Reserve Banks, 2020.

<sup>4</sup> The European Bank for Reconstruction and Development (EBRD) operates in countries spanning three continents, focusing mainly on central Europe, the Baltic states, and Central Asia. See *Why Small Businesses Matter*, European Bank for Reconstruction and Development.

<sup>5</sup> *MSMEs Key to Southeast Asia's Post-COVID-19 Recovery—ADB*, Asian Development Bank, 22 October 2020.

<sup>6</sup> *Policies to Support Businesses through the COVID-19 Shock: A Firm-Level Perspective*, World Bank Group, January 2021.



Figure 1

**Crucial business challenges for SMEs**

<b>1 Getting paid</b>	<b>Receiving payments</b> more quickly and easily and <b>making payments</b> through access to proper business credit and debit products and tools (most use personal products to pay)
<b>2 Getting capital</b>	Equitable <b>access to funding</b> that can support longer-term growth
<b>3 Getting digital</b>	The ability to <b>join the broader ecosystem of digital businesses</b>

Source: Kearney analysis

**Getting paid**

Paying and getting paid are vital to any business. Getting paid is especially important to SMEs, as they often have very limited cash reserves to cover business expenses during periods of decreased incoming cash flow. Getting paid, however, is often a struggle for most small businesses. One study finds that 77 percent of SMEs experience slow payments from large corporations. And 64 percent have unpaid invoices longer than 60 days.<sup>7</sup> The tumultuous COVID-19 period has only exacerbated this problem. A business owner in the construction industry in Brazil, for example, described his struggle with getting paid:

**"We basically 'prefinance' the construction for the client. We receive the money in little pieces. Sometimes the construction has already finished and the client hasn't even paid part of it. I need to pay my providers within the same month though."<sup>8</sup>**

SMEs' ability to pay other companies also presents challenges. According to a Kaiser Associates study, as of 2017, 82 percent of SMEs in developed markets and 99 percent in developing markets were still using personal card products for their small businesses.<sup>9</sup> This practice can blur the boundary between the financial health of the individual and the SME. Furthermore, there is evidence that 82 percent of SMEs that fail do so as a result of cash management issues.<sup>10</sup> In the United States specifically, the 2020 Federal Reserve Small Business Credit Survey found that in the prior 12 months, 66 percent of employer firms faced financial challenges, and the most common problem was paying operating expenses (43 percent). It also reported that 86 percent of firms would need to take some action to supplement funding or cut expenses if they were faced with a two-month revenue loss.<sup>11</sup>

<sup>7</sup> *Small business cash flow: The state of payments*, Intuit, April 2019.

<sup>8</sup> Small business interviews conducted by Mastercard in India, Brazil, and the United States, November – December 2020. <sup>9</sup> *Quantifying the Value of Small Business Products*, Kaiser Associates, January 2017.

<sup>10</sup> *Mastercard Spending Pulse*, June 2020.

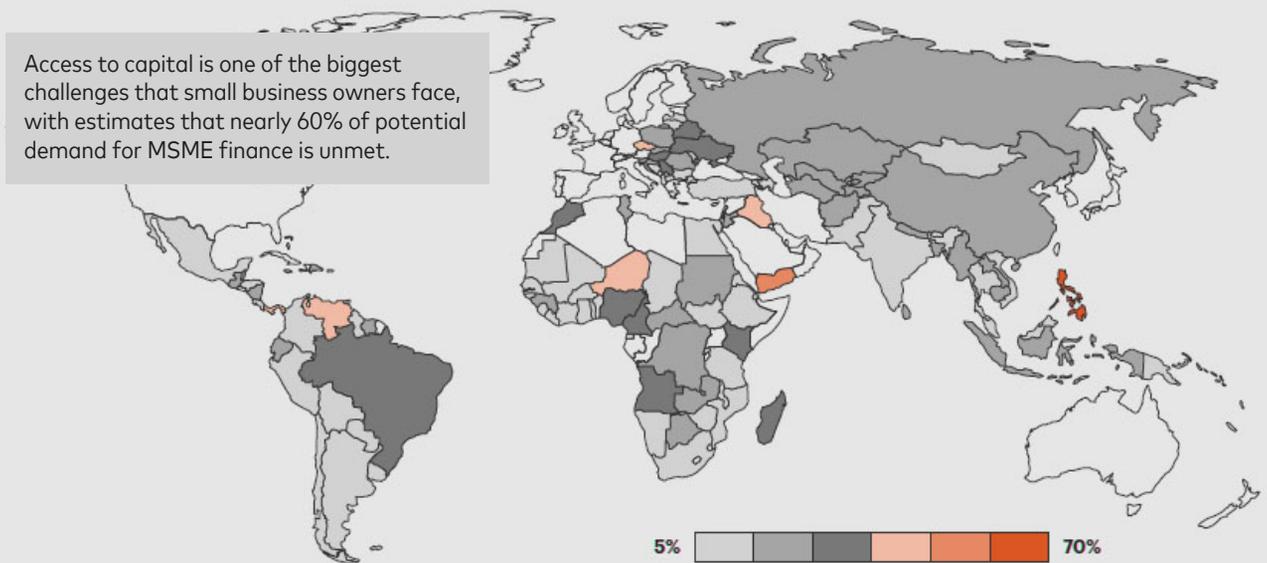
<sup>11</sup> *2020 Federal Reserve Small Business Credit Survey*, Federal Reserve Banks, 2020.

Figure 1

## The outbreak highlighted the need to bridge the financing gap

### Micro, small and medium enterprises (MSME)

Finance gap as a percent of GDP



Sources: International Finance Corporation, Mastercard Economics Institute

### Getting capital

The obstacles SMEs face in gaining access to capital prevent them from growing their businesses and recovering from business lost during the pandemic. Even before the pandemic, the SME financing gap was somewhere around USD 5 trillion, which has increased by another USD 3 trillion since the onset of the pandemic (see figure 1). These figures indicate that many SMEs are not getting access to the financing they need to sustain and grow their businesses—or simply to survive amidst this crisis. Indeed, the owner of a diesel engineering firm in the United States noted that bank financing is very difficult to attain for his business:

**"I was trying to do something cool...so I went into the bank that I had been using for some time ...They were not as enthusiastic...and when I asked for a certain amount, it was shot down right away... it wasn't great... they made me feel 'less than.'"**<sup>18</sup>

In the United States, 53 percent of SMEs that apply for financing receive either less than the amount they seek or no funding.<sup>13</sup> When SMEs outgrow microfinancing institutions, traditional banks are often not willing to lend to them as they see them as "risky" borrowers and because there tend to be higher returns in other segments. Minority- and women-owned SMEs are especially disadvantaged in terms of access to capital. Despite the fact that 33 percent of U.S. SMEs are women-owned, these businesses receive only 5 percent of bank funding. In the United States small, minority-owned businesses also struggle, in part due to their comparative lack of traditional banking relationships. A Federal Reserve study on U.S. small business credit found that firms with non-Hispanic Black ownership were only half as likely to have obtained bank funds (23 percent) as their white-owned counterparts. Rates were similarly low among those with Latinx ownership (34 percent).<sup>14</sup>

<sup>12</sup> Small business interviews conducted by Mastercard in India, Brazil, and the United States, November – December 2020.

<sup>13</sup> [2019 Federal Reserve Small Business Credit Survey](#), Federal Reserve Banks, 2019.

<sup>14</sup> [2020 Federal Reserve Small Business Credit Survey](#), Federal Reserve Banks, 2020.

The picture is no less daunting in Latin America and the Middle East, and it has become all the more severe during the pandemic. In June 2020, 522,700 small businesses in Brazil temporarily or permanently closed their doors, mainly due to lack of capital.<sup>15</sup> A recent survey by small business industry group Sebrae found that 86 percent of firms there that sought loans had not received them, with 28 percent still awaiting an answer. As of July 2020, in Mexico more than 150,000 primarily small businesses were forced to close.<sup>16</sup> And Middle Eastern SMEs are not faring much better. A Rand survey found that 85 percent of MENA-located SME participants were struggling.<sup>17</sup> They faced difficulties with securing financing, improving business processes, covering staff salaries and addressing a drop in domestic demand, among other challenges.

### Getting digital

While many SME owners understand the importance of going digital, this undertaking remains very difficult. "Getting digital" doesn't necessarily mean a major digitalization venture; it could be as simple as automating accounts receivable and accounts payable or enabling ways to move a business online and accept electronic payments.

**A business owner in Brazil emphasized the importance of the task: "We are bound to die if we do not keep up with developments."<sup>18</sup>**

According to a global TechRepublic survey conducted in mid-2020, 60 percent of SME respondents said that COVID-19 had forced them to alter their digital transformation plans.<sup>19</sup> More specifically, 65 percent said that since the pandemic began, they have started using technologies to enable communications and collaboration between remote employees. And 56 percent cited an increased focus on digital tools to facilitate digital training. A digitalized SME is also valuable to consumers. A Mastercard study found that amidst the pandemic, more than two-thirds of consumers would prefer digital experiences that allow them to limit physical interaction.<sup>20</sup>

Mastercard's Digital Acceleration Index research has further shown that digital enablement could be a factor in helping small businesses stay afloat, specifically looking at the impact of digital enablement on SME sales in pre- and post-pandemic time frames. While some cannibalization to other card payment types occurs, ~40 percent of the total e-commerce spend at SMEs is incremental. Despite the acknowledgement among businesses and consumers alike that digitalization is the path forward, 54 percent of the TechRepublic survey respondents cited funding as their organization's biggest digital transformation challenge.

Though COVID-19 is accelerating the digitalization of SMEs, challenges lie ahead. Only 36 percent of small merchants could offer card-not-present transactions in April 2020, compared to nearly 70 percent of large merchants.<sup>21</sup> Southeast Asian SMEs were facing difficulties in going digital even before the pandemic. According to the OECD, the first major obstacle for SMEs in digitalizing was connectivity, despite recent gains in mobile services.<sup>22</sup> In Malaysia specifically, about 50 percent of SMEs cite funding as a key hindrance to digitalization despite some government assistance, while 60 percent of SMEs are unaware of their financing options.<sup>23</sup>

Given these stark statistics, it is now more important than ever that governments understand the specific issues that SMEs face, implement policies to address them and build resilience for the future. The recovery of the global economy depends on it.

**It is now more important than ever that governments understand the specific issues that SMEs face, implement policies to address them and build resilience for the future.**

<sup>15</sup> Alberto Alerigi, [Coronavirus Lockdowns Shutter 522,700 Brazil Businesses in Two Weeks](#), U.S. News & World Report, 16 July 2020

<sup>16</sup> Christopher Sherman, [Mexican businesses struggling in pandemic with little help](#), The Washington Post, 28 July 2020

<sup>17</sup> Clement Fays, Lucy Hocking, and Stijn Hoorens, [How small businesses are coping with the impact of COVID-19: Results from a survey in Turkey and the Middle East](#), RAND Corporation, 2020.

<sup>18</sup> Small business interviews conducted by Mastercard in India, Brazil, and the United States, November – December 2020.

<sup>19</sup> Melanie Wolkoff Wachsmann, [Survey: 60% of Respondents Have Altered Digital Transformation Plans Due to COVID-19](#), ZD Net, 1 October 2020. <sup>20</sup> Mastercard [Spending Pulse: Shift to digitalization](#), June 2020.

<sup>21</sup> Mastercard Clearing Data, June 2020.

<sup>22</sup> [Southeast Asia Going Digital: Connecting SMEs](#), OECD, September 2019.

<sup>23</sup> Rachel Gong and Amos Tong, [The Impact of COVID-19 on SME Digitalisation in Malaysia](#), LSE, 20 October 2020.

## Focusing on B2B SMEs

SMEs represent only a segment of the world's business universe, but its vast size and rich diversity allow for many ways to sub-segment the group. Effectively segmenting SMEs allows us to understand and assess their challenges and needs at a more micro level. It ensures adequate and proportional assistance for all segments and is—therefore—paramount to effective support of their long-term resilience. Businesses are commonly grouped by their end customer: business-to-consumer, business-to-business, or business-to-government (B2G). The end customer often drives key commonalities in how payments are exchanged, and the types of challenges faced by those businesses. There is, however, significant variation in industry and business size within the B2B SME segment. This sub-segment encompasses a vast range, from restaurant supply businesses with only one or two employees to mid-size manufacturing companies.

For the purposes of this paper, we have chosen to narrow our focus to B2B SMEs for three key reasons:

**1. Size and opportunity for growth.** Globally, B2B payment volumes total almost three times consumer spending at an estimated USD 125 trillion.<sup>24</sup> Consumer- to-business (C2B) volumes, by contrast, total an estimated USD 55 trillion.<sup>25</sup> B2B receipts are also a significant contributor to GDP. B2B trade, for example, accounts for 30 percent of U.S. GDP. A significant portion of total B2B receipts, however, is carried on the balance sheet of B2B suppliers, making GDP contribution alone a deceptive representation of B2B businesses' contributions to the global economy.<sup>26</sup> Furthermore, approximately 20 percent of B2B volumes (USD 27 trillion and growing) are cross-border transactions, yet SMEs are responsible for only 1 percent of global exports.<sup>27</sup> This low percentage is highly disproportionate to their share of the global economy and represents a huge opportunity for growth.

**2. Unique challenges.** The challenges of getting paid, getting capital and getting digital are particularly pertinent for B2B SMEs. SMEs often lack the reputation or credibility of larger, more established businesses. As a result, it is more difficult for them to attract trading partners and to enforce payment terms. While this challenge is not entirely unique to B2B businesses, it is deeply pervasive within this segment. As many as 91 percent of U.S. B2B merchants report late payments by their customers, which makes cash flow extremely difficult to manage.<sup>28</sup> These difficulties affect a business's ability to get paid, as well as its ability to get capital and digital.

Cash flow challenges have a direct impact on B2B SMEs' ability to access capital, as most traditional lenders want to see steady accounts receivable turnover and consistent 30-day payment terms to ensure repayment ability. Unfortunately, both have become even more scarce during the pandemic. Without these traditional channels, many companies turn to alternate sources of capital (for example, business payday loans), often incurring extortionately high fees, or they use personal finances to keep the business afloat.

The B2B world, notably and somewhat surprisingly, lags in digitalization, with nearly half of all global B2B transactions—an estimated USD 58 trillion—still in paper form.<sup>29</sup> Historically, the B2B sector has lagged behind its B2C counterparts in areas of digitalization, including less usage and acceptance of digital payments, slower establishment and usage of e-commerce platforms and less digitalization of daily business operations such as invoicing. Beyond these challenges, the increased digitalization of B2B SMEs also represents an opportunity to capitalize on the downstream effects it can have on the SMEs that buy from and supply to those B2B businesses, further expanding the reach of digitalization efforts.

<sup>24</sup> Alyssa Rosenblatt, [Mastercard Track to Modernize \\$125 Trillion Global B2B Payments Market](#), Mastercard, 12 September 2019.

<sup>25</sup> Kelsey Wu and Max Thomasberger, [When Will the Global Consumer Class Recover?](#), Brookings, 25 November 2020.

<sup>26</sup> John Hayes, [Why GDP Measures the Tip, Not the Iceberg](#), NOW Corp, 22 October 2019.

<sup>27</sup> [Cutting Through Global Trade Friction at SMBs' Point of Need](#), PYMNTS.com, 11 January 2021.

<sup>28</sup> Jay Singer and Paulo Fernandes, [Crossing the Digital Border: Four Ways to Transform the SME Global Market](#), Mastercard, January 2018. <sup>28</sup> [The Americas: An Increase in Overdue B2B Receivables](#), Atradius, 2018.

<sup>29</sup> [Welcome to the Frictionless Future](#), Mastercard, 2020.



These challenges are exacerbated in instances in which B2B SMEs seek to sell their goods or services abroad, which adds the complexities of the cross-border exchange of goods, services, money and data. The pandemic has made these problems even more complex, as supply chains—especially those originating in China—have been upended. SMEs in the United States, for example, account for more than 12 percent of U.S. exports to the rest of the world, but they also depend extensively on foreign suppliers and partners. Many of them, in fact, rely more on Chinese suppliers than their large company counterparts (see figure 2). For cross-border payments in particular, there is little transparency as to the whereabouts of the funds in transit, which only amplifies B2B SMEs' cash flow challenges.

3. **Less charted territory.** While the plight of SMEs is well researched, B2B SMEs as a sub-segment are explored far less frequently. As a result, the great challenges they face and potential methods to address these challenges have not been studied extensively. While the pandemic has had a heavy impact on B2C SMEs collectively, B2B businesses will not emerge unscathed and there is a greater need for attention to this segment. In addition, many governmental and private sector programs focused on SMEs often index heavily on matters of financial inclusion. These efforts are crucial, but they naturally eliminate most B2B SMEs that would struggle to trade with other businesses without operating as formal members of their economies.

Figure 2  
**Small businesses are more reliant on imports from China**

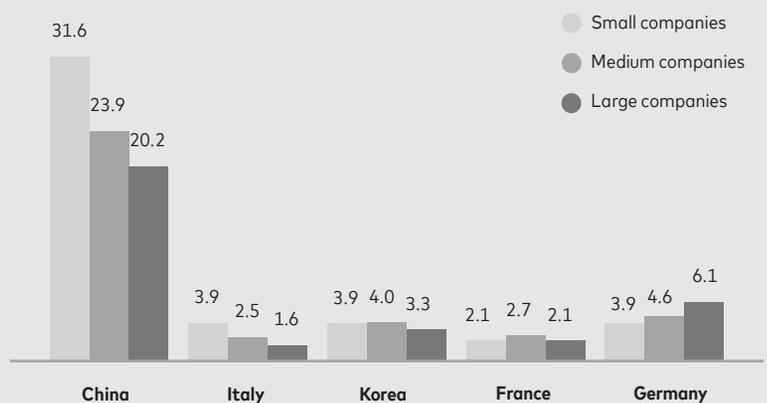
— Small businesses account for more than 12% of U.S. exports to the rest of the world, but they also rely heavily on foreign suppliers and partners. Unlike large firms, however, small businesses tend to have a less diversified supplier base with only a few key partners, which could be particularly detrimental during supply disruptions.

— In the context of the coronavirus outbreak, small businesses are more dependent on imports from China than medium and large companies.

Small business share of U.S. exports, %



Imports from a partner country as a share of total, %



Sources: US Census Bureau, Profile of U.S. Importing and Exporting Companies (2016), Mastercard Economics Institute

## Beyond stimulus: Key opportunities and roles for government in bolstering SME resilience for the long term

Across the globe, governments have established and continue to enact policies aimed at shoring up their small businesses. These efforts include disbursing millions to the segment in fiscal stimulus packages. While this support has been vital to SMEs and will continue to help them through the pandemic and beyond, we focus here on roles the government can take in partnership with the private sector and civil society that go beyond pure fiscal and monetary policy with regard to SMEs. Based on our exploration of various government efforts to support SMEs, and with the aim of bolstering post-COVID resilience and growth for B2B small businesses in particular, we propose a set of policy objectives and priority areas for public-private collaboration that encompass four potential roles that governments can play to support these enterprises. We outline these roles below.

**Conduit for and enabler of working capital and funding.** During the COVID-19 pandemic, it is vital for many SMEs to simply have enough cash to get through the month or even the week. Without further government cash flow and funding support through mechanisms such as lower-cost factoring and improved digital payments infrastructure, many more SMEs throughout the world will close their doors—especially women- and minority-owned businesses. Governments and private sector partners can provide much-needed working capital to SMEs through more traditional methods such as direct grants, as well as by targeting support to sub-segments such as women- and minority-owned businesses and B2B government suppliers.

**Protector.** Given the extensive connection points between B2B SMEs, suppliers, funders, and buyers, among others, there is often space in these vast digital webs for security vulnerabilities. And as the need for B2B SMEs to digitalize accelerates, businesses require more robust cyber protection. According to the FBI's Internet Crime Report, the cost of cybercrimes in the United States reached USD 2.7 billion in 2018 alone.<sup>30</sup> Throughout the world, small businesses often operate in environments that are not transparent and are vulnerable to cyberattacks. To bolster the safety and security of businesses and their employees, governments can work closely with the private sector by taking on a stronger role as a "protector"—not only of cross-border transactions for B2B businesses specifically, but also for consumers who place their trust, data and money in their care. This effort involves not only implementing cybersecurity policies (which are still nascent or sometimes non-existent among world governments), but also by enabling mechanisms to share information about cyber threats and mitigation measures.

**Educator.** Among the roles that governments can play to support SMEs, "educator" is arguably the most important—and also the area in which governments face the most challenges. Providing working capital, convening ecosystems, offering infrastructure and protecting SMEs are all good first steps. However, until SMEs are taught how to make the best use of the aid they receive, efforts to support them may fail to deliver desired outcomes—and could create unforeseen challenges such as wider digital divides or even greater disadvantages for women-owned or minority-owned businesses. In areas in which the government is not equipped to play an educator role, private sector support is vital.



<sup>30</sup>FBI 2018 Internet Crime Report, FBI, 2018.

**Convener and connector of ecosystems.** When governments themselves are capital-constrained, as many are, providing working capital to SMEs in a timely and targeted manner may not be a possibility. The effects of the pandemic, including large debt overhangs, will further limit these possibilities. Alternatively, then, governments can connect SMEs to other sources of funding and support. The B2B SME ecosystem of buyers and suppliers has myriad connection points, not only between direct counterparties but also with various third-party players, including, financial institutions and NGOs. For many B2B SMEs, limited data or a lack of establishment within their industries can make it difficult to create the necessary ecosystem connections for the businesses to survive and thrive. The COVID-19 pandemic has further amplified this challenge, as making new connections where they did not previously exist, both domestically and in the international supply chain, is even more difficult in an almost entirely virtual world. As a convener and connector of ecosystems, governments can help B2B SMEs in creating those connections, both directly (for example, as a buyer of SME goods and services) and indirectly (for example, by bringing together other organizations that support SMEs).

These four roles that governments can play in their policymaking for SMEs, and B2B SMEs more specifically, are interrelated and best pursued collectively. Serving as a conduit for working capital, for example, will often mean convening and connecting ecosystems to provide funding. Protecting the cybersecurity of businesses has an obvious educational dimension, as SME owners are often unaware of the threats their technologies face and the possibilities for mitigating them. In fact, the more of these roles that governments can fill, the better. SMEs require comprehensive support to build their resilience. And in areas in which the government is either not best equipped or not financially able to support these businesses, the private sector is a valuable resource to tap for supplemental assistance in the form of funding, education and protection, among other benefits.



**These four roles that government can play in their policymaking for SMEs are interrelated and best pursued collectively.**



## Policy objectives for governments in supporting B2B SMEs

At the intersection of the key needs of SMEs—getting paid, getting capital and getting digital—and the four roles government can play—facilitating capital flows, connecting and reinforcing ecosystems, protecting digital systems and educating SMEs—we have identified eight specific objectives for collaboration between governments and SMEs, and for the SME network as a whole. These objectives have been curated and refined based on our numerous interviews with policymakers, private sector stakeholders in the SME space, B2B SME owners across developed and developing economies, think tanks and multilateral organizations. Each objective and its corresponding calls to action are aimed at achieving an inclusive recovery and building the resilience of SMEs through COVID-19 and beyond. Our selection of these eight objectives was guided by five essential criteria:

- 1. A demonstrated need and proven track record of success.** Objectives are focused on the areas of need outlined above, and they use tactics that have a demonstrated record of success.<sup>31</sup>
- 2. Funding is not the only card to play.** With most governments already facing their own cash constraints during the pandemic, we focus on objectives that go beyond simply infusing more capital into economies (for example, direct stimulus).
- 3. Self-sufficiency and sustainability as end goals.** Objectives should seek to make SMEs self-sufficient and financially resilient in the long term; they should not start a cycle of perpetual need for government or private sector support. They should also be sustainable for governments and private sector players to maintain, such that the success of one group does not disadvantage another.
- 4. Ecosystem activation.** Objectives—particularly those that lend themselves to public-private partnerships—should engage various members of the ecosystem, with governments as key players.
- 5. The whole is greater than the sum of its parts.** Each objective and its corresponding calls to action can be embarked upon independently or in combination with the other objectives to maximize impact.

It is important to note that this list of policy objectives is not intended to be exhaustive. In fact, given the scope and purpose of this paper, we have intentionally excluded recommendations for specific regulations such as tax relief and other financial regulations, as well as policies designed to formalize B2C and B2B SMEs. There are a wealth of actions and policies that governments can implement that will help boost SME resilience. The eight objectives that follow have been proven to be effective at the local or national levels of government in diverse regions throughout the world. More specifically, they tackle some of the most systematic challenges that hinder B2B SMEs' ability to get paid, get capital and get digital in both pandemic and non-pandemic operating environments. We see them simply as a starting point.

For each of the policy objectives for government and private sector collaboration in support of B2B SMEs discussed below, we outline the rationale for the objective, provide examples of successful (or unsuccessful) implementation by governments or public-private partnerships throughout the world and end with specific calls to action for governments that seek to achieve these objectives, often with necessary support from the private sector. Once again, these calls to action are not intended to be exhaustive. We hope they serve as examples that governments and the private sector can pursue, implement and build upon through the COVID-19 pandemic and beyond.

To further inform both our rationale for the objectives and our ideas for their implementation, we conducted interviews with B2B SME owners throughout the world. We have pulled direct quotes from the discussions to help define not only these owners' pain points in getting paid, getting capital and getting digital, but also areas in which they have received—or would like more—government support.

It is important to note that most of the policy objectives are, quite purposefully, not solely relevant to B2B SMEs. We are aware that governments and private sector players have an interest in supporting all SMEs. However, given the significant size, challenges and opportunities this segment represents, we seek to highlight examples that are B2B-specific. In some cases, we have used examples that are focused on the broader SME segment, given that most governments do not typically sub-segment. For these, too, however, we have emphasized their B2B relevance.

<sup>31</sup> While there are fewer explicit examples of the "protector" and "educator" roles, these objectives were strongly supported by governments, multilaterals and SMEs alike. They were deemed to warrant inclusion even though best practice execution has yet to be achieved.

## B2B SME owner profiles

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**Craig, Africa, consulting/skills training industry**

**<\$1 million**

approximate annual revenue

**<25**

full-time employees

**Greatest challenge: Getting online amid COVID-19**

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**Adan, Latin America, construction finishing industry**

**>\$5 million**

approximate annual revenue

**76+**

full-time employees

**Greatest challenge: Expense of going digital**

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**Francisco, Latin America, industrial small parts supplier**

**<\$1 million**

approximate annual revenue

**<25**

full-time employees

**Greatest challenge: Making payments in foreign countries**

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**Sandra, North America, cosmetics industry**

**<\$1 million**

approximate annual revenue

**<25**

full-time employees

**Greatest challenge: Limited access to government funding**

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**Fred, North America, wholesaler of candy, bakery and restaurant supplies**

**<\$1 million**

approximate annual revenue

**<25**

full-time employees

**Greatest challenge: Vendors that are reluctant to accept cashless payments**

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**Tom, Australia, agricultural industry**

**<\$1 million**

approximate annual revenue

**<25**

full-time employees

**Greatest challenge: Matching supply with demand**

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**Nansalmaa, Asia, fashion industry**

**<\$1 million**

approximate annual revenue

**~30**

full-time employees

**Greatest challenge: Visibility to potential buyers**

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## Policy objective 1: Ensure ongoing working capital stability for SMEs

### Rationale

Even before the onset of COVID-19, many small businesses cited maintaining steady cash flow as their biggest operational challenge. When an SME has to wait a minimum of two weeks, although typically longer, to get a check from a buyer, it can run out of working capital. COVID-19 has generated unprecedented additional difficulties, leaving many small businesses throughout the world unable to pay their bills. In Thailand, as of May 2020, 90 percent of firms expected extreme revenue loss.<sup>32</sup> In June, Ireland reported that SMEs that remained closed until May 19 incurred an average loss of EUR 177,000 during the lockdown period. And by mid-June, 78 percent of Canadian SMEs reported a drop in sales, with 47 percent of them experiencing revenue losses of between 50 and 100 percent.

Given these striking figures, it is more important than ever that SMEs receive support in bolstering and maintaining consistency in their cash flow. Mechanisms governments can use to help SMEs boost their working capital stability include facilitation of lower-cost supply chain financing, policies to introduce flexible payment terms, government guarantees of bank loans and implementation of robust digital payments infrastructure such as real-time payments (RTP). These tools can help SMEs make and receive payments faster and alleviate reconciliation challenges. Supply chain finance has traditionally been a mechanism reserved for larger corporations, but there is also an opportunity to extend it to SMEs as an alternate source of working capital.

### Examples

Some governments have been able to respond effectively to these conditions with targeted fiscal support. The Netherlands, for example, introduced a EUR 10,517 low-interest loan for working capital. Similarly, the Business Development Bank of Canada (BDC) has provided B2B SMEs with a working capital loan to bridge cash flow gaps and support operations. It also provides purchase order financing with flexible terms to help these companies fulfill domestic and international orders.

What government actions or programs have you found most helpful in supporting your businesses?

**"We use [national bank factoring] a lot, especially when we're working with foreign firms like in Spain, Germany and the U.S. That has been good for us to receive payments earlier than expected."**

**Adan, owner of a B2B construction company, Mexico**

And in April 2020, the Colombian government announced that the National Guarantees Fund (FNG) would provide guarantees for loans held by all SMEs and micro-enterprises to cover working capital and payroll costs. Germany has also relied on public-private partnerships to support SME working capital. For instance, the country's development bank, KfW, has provided working capital loans through commercial banks, encouraging them to offer the loans by increasing risk coverage by up to 80 percent for working capital loans that are for less than EUR 200 million.

Invoice factoring is another mechanism through which governments can support working capital stability for B2B SMEs. To that end, the Indian Ministry of Micro, Small and Medium Enterprises (MSME) has implemented the Trade Receivable Discounting System (TReDS), which facilitates the financing of MSMEs' trade receivables from corporate and other buyers, including government departments, through multiple financiers.<sup>33</sup> This program is particularly advantageous, as it supports both SMEs and big corporations. Corporate buyers can enable early payment to the SME supplier on TReDS by invoice factoring or reverse factoring. The supplier then receives the payment before the due date, and the buyer is able to further extend its days payable as per its agreement with the bank.<sup>34</sup> The program is also helpful for corporates because it optimizes their working capital availability and regularizes their cash flow.

E-invoicing is also growing in sophistication in many countries, led by governments and public and private sector efforts. For example, in Europe, through the cross-border framework, PEPPOL, public sector entities are encouraged to adopt e-invoicing. Countries such as Singapore, Australia and New Zealand are also taking stock of the efficiency gains that can be achieved in both the private and public sector through

<sup>32</sup> [Coronavirus \(COVID-19\): SME policy responses](#), OECD, 15 July 2020.

<sup>33</sup> [About TReDS](#), Receivables Exchange of India Limited.

<sup>34</sup> Agnes Dasewicz, Sundar R. Ramanujam, and John Simon, September 2020. [Financing Small Business is Critical for a Strong Post-Covid Recovery](#), CSIS 24.

use of an e-invoicing exchange framework, viewing it as an important component to modernize business processes in this digital age. In the United States, 75 percent of the more than 25 billion invoices exchanged annually still require manual processing, costing businesses approximately USD 200 billion every year. An e-invoicing exchange framework is also being coordinated in the U.S. through a public-private partnership effort, led by the Federal Reserve Bank and Business Payments Coalition (BPC), a volunteer-based industry group of 650 U.S. payments professionals.

The Chilean government, before the pandemic, implemented a law stating that bigger players must pay small suppliers in 30 days, down from the previous 60. Similarly, the United Kingdom implemented a directive in January 2021 mandating that 95 percent of invoices for small suppliers must be paid within 30 days, starting July 1.<sup>35</sup> This policy is intended to crack down on large companies that take too long to pay small suppliers. Adan (see profile on page 16) pointed out that the national bank in Mexico also does factoring. He says, "We use that a lot, especially when we're working with foreign firms like in Spain, Germany and the U.S. That has been good for us to receive payments earlier than expected."

Government support for cash flow does not only come in the form of supply chain financing or factoring assistance. The Indian government, for example, has implemented mechanisms to support timely payments of B2B SMEs in the form of heavy fines for delaying payments to SME suppliers beyond a 45-day period.<sup>36</sup> This policy is especially important in a post-COVID world, as data shows that an increasing number of small businesses are not being paid on time. And as a senior policy leader for SMEs in Latin America pointed out, small businesses can decrease their reliance on invoice factoring when payment times are diminished.

Assisting B2B SMEs in accepting and processing digital payments can also help them maintain cash flow stability. Digital infrastructure throughout the world varies extensively by country, however, and there is no one-size-fits-all government policy to provide digital payment infrastructure. In some countries, simply providing entrepreneurs with mobile phones can help them get paid and make payments. This practice was particularly effective in Kenya, as the mobile money transfer service M-Pesa has revolutionized how entrepreneurs there do business.

Amidst the COVID-19 pandemic, the Kenyan government has worked to support all SMEs through this platform, with the Central Bank of Kenya (CBK) approving the increase of daily M-Pesa transaction limits from KShs 70,000 (USD 700) to KShs 150,000 (USD 1,500).<sup>37</sup> Egypt and Ghana have also reduced transaction limits on digital payments during the pandemic. And in Pakistan, the State Bank has waived all fees for electronic fund transfers through its Inter Bank Fund Transfer System. It has also made large-value payments through the real-time gross settlement system (RTGS) free of charge for banks.<sup>38</sup> While the establishment of digital payments infrastructure does not strictly benefit B2B SMEs, its potential impact on this segment is large as it enables and promotes a decrease in the usage of paper invoices and physical payment methods (cash and checks), which remain particularly challenging in B2B operations.

## Calls to action

- **Design and implement a country-level framework to enable e-invoicing through SME solution providers**, thus enabling B2B SMEs to more easily borrow against them to fund working capital. Further, consider adopting international standards (for example, PEPPOL, X9, ISO) to both increase interoperability and facilitate cross-border trade.
- **Encourage traditional and non-traditional payment players** and financial institutions to create and drive adoption for solutions that can ease B2B SMEs' cash flow burdens (for example, supply chain financing).
- **Drive equitable access to and leverage digital payments infrastructure** (for example, through policy mechanisms that help SMEs get paid quickly and easily and facilitate reconciliation) to promote working capital stability and efficiency for small business.
- **Help establish norms for timely payments to B2B SMEs to reduce working capital strain** (for example, the Australian government's Payment Times Reporting Scheme to drive public/private transparency on payment terms).

<sup>35</sup> Daniel Thomas, [UK Prompt-Payment Code to Be Strengthened to Help Small Businesses](#), 18 January 2021.

<sup>36</sup> [Buyers to Face Heavy Penalty for Delaying Payment to MSMEs: MSEFC Chairperson](#), IndiaTV, 16 May 2020.

<sup>37</sup> Juliet Mburu, [How COVID-19 Has Affected Digital Payments to Merchants in Kenya](#), fsd Kenya, 29 May 2020.

<sup>38</sup> Nana Yaa Boakye-Adjei, [Covid-19: Boon and Bane for Digital Payments and Financial Inclusion](#), Financial Stability Institute of the Bank for International Settlements, July 2020.



## Policy objective 2:

### Remove barriers that hinder minority- and women-owned businesses' ability to receive capital

#### Rationale

Throughout the COVID-19 crisis, minority-owned businesses have been hit disproportionately hard because of their historically lower rate of connection to banks and access to government aid. A National Bureau of Economic Research (NBER) study finds that businesses owned by African Americans in the United States experienced a 41 percent drop in business activity during the first three months of lockdowns.<sup>39</sup> Latinx business owner activity fell by 32 percent, and Asian business owner activity dropped by 26 percent. And regardless of an economy's wealth, level of development, size and geographic location, women are disproportionately more vulnerable to the wholesale disruption caused by the pandemic. Data demonstrates that there are two broad factors at work here: firstly the over-representation of women in the jobs and sectors that have been hit the hardest (such as tourism, travel and transport, retail, food services, accommodation, entertainment & recreation and manufacturing); secondly, the pre-existing gender disparity in business (spanning financial marginalization, lack of access to education and disproportionate domestic duties, to name only some of the most salient factors).<sup>40</sup> Governments and the private sector are increasingly aiming to ease the challenges that minority-owned businesses face by removing barriers, such as a lack of connection to banks and the formal economy, or the conscious and unconscious bias that often prevents them from accessing capital. By instituting special funding programs targeted at minorities, offering women formal identification and easing collateral requirements, among other initiatives, governments can support these entrepreneurs in growing their businesses.

#### Examples

Women- and minority-owned SMEs throughout the world face different but pressing challenges. A senior fellow at the Mastercard Center for Inclusive Growth

noted that structural issues as profound as the absence of government-recognized identification prevent women entrepreneurs in many countries from accessing capital. And in countries such as India, women's lack of participation in the formal banking system has provided them with few avenues to get capital. This problem exists even when women SME owners have formal bank accounts, as they often conduct most of their business in cash. As such, when they go to a bank for a loan, they do not have any digital records or proof of their business to show that they are credit-worthy. In other countries such as the U.S., women SME owners receive a disproportionately small amount of funding compared to their male counterparts. While most efforts to equalize the SME segment are not specifically geared toward B2B businesses (or other sub-segments), the need for policy actions in the B2B space is crucial. According to Fast Company, the market opportunity is significant. Women-owned businesses capture 35.9 percent of B2B sales in the United States, amounting to around USD 432 billion in revenue. And when government contracts are factored in, that figure soars to USD 754 billion out of a total USD 1.2 trillion.<sup>41</sup>

Senegal is one of the countries that has eased the process of getting digital ID for women. The government's 2016 national identity card law introduced smart cards which combined voter and civil IDs using biometric information. The new law also reformed previous regulations imposing additional requirements on married women when they applied for ID cards. A married woman is no longer required to have her husband's name on her ID card, which allows women to access capital without involving their husbands in the process.<sup>42</sup>

In another mechanism to support women SME owners, the Indian government established its first all-women public sector bank, the Bharatiya Mahila Bank, in 2013. By 2016, it had grown to more than 100 branches across the country.<sup>43</sup> The bank has developed a range of women-centric loan products to support sectors of preference for women entrepreneurs, including special loans to assist women in establishing catering and food businesses; running beauty parlors, salons and spas; and starting day care centers. It also offers women entrepreneurs a 1 percent reduction in the interest rate on SME Easy Loan for traders, manu-

<sup>39</sup>Robert W. Fairlie, *The Impact of COVID-19 on Small Business Owners: The First Three Months after Social-Distancing Restrictions*, NBER, July 2020.

<sup>40</sup>*The Mastercard Index of Women Entrepreneurs*, Mastercard, 2020.

<sup>41</sup>Marsha Firestone, *The State of Women Entrepreneurs in the B2B Space*, Fast Company, 30 October 2015.

<sup>42</sup>Lucia Hanmer and Marina Elefante, *Achieving Universal Access to ID: Gender-Based Legal Barriers Against Women and Good Practice Reforms*, World Bank, 2019.

<sup>43</sup>*Strengthening Women's Entrepreneurship in ASEAN: Towards Increasing Women's Participation in Economic Activity*, OECD, September 2017.



facturers and services. Finally, the bank holds financial literacy camps every Saturday at which it makes women more aware of banking products, facilities and services.

Another fundamental financing hurdle for women entrepreneurs, especially in the developing world, is a lack of collateral. To help remedy this problem, governments can specifically target aid to this sub-segment. The Malaysian Credit Guarantee Corporation (MGC), for instance, launched a direct financing product in 2015, the BizWanita Financing for Women Entrepreneurs Scheme. This product sets aside a total of MYR 30 million (around USD 7 million) to reduce the gap in access to traditional bank financing for women entrepreneurs without credit histories or collateral. The scheme provides collateral-free Sharia-compliant loans of between MYR 20,000 and MYR 300,000 to women-owned SMEs to start or expand a business. The financing also comes with training and capacity building. Although these loans do not require any collateral, a senior vice president at a private sector think tank pointed out that governments can help financial institutions rethink collateral by encouraging them to accept non-traditional collateral assets such as jewelry and gold.

These constraints on entrepreneurs when it comes to capital access are certainly not limited to developing countries. In Canada, a senior government official who deals extensively with SMEs informed us that a government study has shown systemic bias in institutions there, including in the federal government. Indeed, Black entrepreneurs in the country do not generally have access to family and friends for initial investments, unlike their white counterparts. During the COVID-19 pandemic, the government has therefore launched the Black Entrepreneurship program, which will distribute CAD 93 million over four years, including CAD 53 million for a new National Ecosystem Fund to help Black business owners access funding, mentorship and business training. This program will include a Black Entrepreneurship Knowledge Hub, which will collect data on the current state of Black entrepreneurship in Canada, and help identify the resources necessary to change the status quo.<sup>44</sup>

As a small business owner, what guidance would you provide to governments seeking to support businesses such as yours?

**"My first point would be to invest in women 40+ who have a lot of experience. I'm a mom, I run a business, I run a household—we're the queens of systems. Women need access to programs and education that can help them manage their lives and also really use their expertise. We should develop a program for SME owners to climb up the ladder. There needs to be a system in place for businesses that don't fit into a 'category' or 'industry.' We forget about so many industries that could boost our economy but don't fall into any categories [that receive government support]."**

**Sandra, owner of a B2B cosmetics company, Canada**

### **Calls to action**

- **Ease funding and access to capital constraints for minority- and women-owned businesses** by improving data collection on funding gaps. This will allow governments and other financing providers to better identify underserved segments, target funding accordingly and allow non-traditional collateral requirements (for example, movable property such as vehicles as opposed to homes).
- **Develop digital ID solutions** that take into account and address the unique challenges some women face in accessing capital and financial services.

<sup>44</sup>Sadaf Ahsan, [6 Canadians on How They'd Elevate Their Businesses Through the Black Entrepreneurship Program](#), Flare, 16 October 2020.

<sup>45</sup>Allison Nafziger, [Experiences in Gender-Sensitive Solutions to Collateral Constraints](#), January 2020.

### Policy objective 3: **Make funding and resources available for B2B SMEs to build their digital capabilities**

#### **Rationale**

COVID-19 has accelerated digitalization across many industries and geographies, but SMEs often have not had the resources or necessary knowledge to keep up. As previously noted, B2B SMEs are lagging in this transition—and they continue to rely heavily on paper-based processes and physical payment methods.

SMEs' participation in the electronic payments system is an important part of economies across the world. It is estimated that in Southeast Asia alone the digitalization of SMEs could add USD 1.1 trillion of GDP value across the region by 2025.<sup>46</sup> By focusing on the digitalization of payments, in particular, governments can help modernize the operations of paper-based SMEs, while also plugging many B2B SMEs into the global value chain. B2B business owner Nansalmaa (see profile on page 16) is acutely aware of the challenges facing her and her suppliers amidst the COVID-19 pandemic. She informed us that it is not enough just to go digital. Governments can help support her in making her website and products more visible to foreign buyers as well.

#### **Examples**

In recent years, governments have emphasized the potential of digitalized SMEs. The Singapore government, for example, has had an effective program for SME digitalization for the past couple of years called the SMEs GO Digital program.<sup>47</sup> It has mapped out the needs of SMEs of different sizes and industries in order to determine where and how they can adopt and develop digital technologies. The program is multifaceted and seeks to aid SMEs at all stages of the digitalization process. Its Start Digital program funds and promotes digitalization in five key areas: accounting, HR and payroll, digital marketing, digital transactions and cybersecurity. For SMEs further along in the process, their Grow Digital program offers B2B and B2C e-commerce platforms that businesses can use to connect to the global supply chain. Similarly, the Chilean government established a Digitize Your SME program, which helps connect SME suppliers with buyers, provides a tool co-created with the Inter-American Development Bank (IADB) that helps business owners assess their level of digital maturity and offers webinars on making the best use of technology, among other initiatives.<sup>48</sup>

In the United States, the city government of New York is working with Mastercard to fund and foster the Digital Doors program, which provides a digital readiness diagnostic tool to support small businesses in the city. With this tool, businesses can assess specific areas of their work, such as management and operations, payment capabilities and cybersecurity, to determine their preparedness to operate in a post-COVID, more digital world.<sup>49</sup>

In Ireland, eligible SMEs can receive grants of up to EUR 2,500 (USD 2,827) to develop an e-commerce platform or online trading platform that can help them expand into international markets. The Trading Online Voucher is available to SMEs with up to 10 employees and annual revenue of less than EUR 2 million. Firms are required to co-fund 10 percent of the cost of the new technology. So far, more than 2,000 SMEs have benefited from the program, with participants reporting an average sales increase of 20 percent and an 80 percent jump in sales leads.



<sup>46</sup>Matthew Gamser, Leora Klapper, Margaret Miller, and Ghada Teima, [How Can Digital Financial Services Help a World Coping with COVID-19?](#), World Bank Blogs, 3 August 2020.

<sup>47</sup>[SMEs Go Digital](#), Infocomm Media Development Authority.

<sup>48</sup>[Digitaliza Tu Pyme](#), Ministerio de Economía, Fomento y Turismo, Gobierno de Chile.

<sup>49</sup>[Is Your Business Ready for the Digital Future? Mastercard Launches Small Business Digital Readiness Diagnostic to Help Businesses Go Digital](#), Mastercard, 1 October 2020.

<sup>50</sup>[Online Trading Vouchers](#), Local Enterprise Office, Kildare.

<sup>51</sup>Mallory Dreyer and Kaleb Nygaard, [Governments Encourage SMEs to Adopt New Technology](#), Yale School of Management, 15 June 2020.

<sup>52</sup>[Ministry of Development announces tax relief for robotization](#), ICT, 14 September 2020.

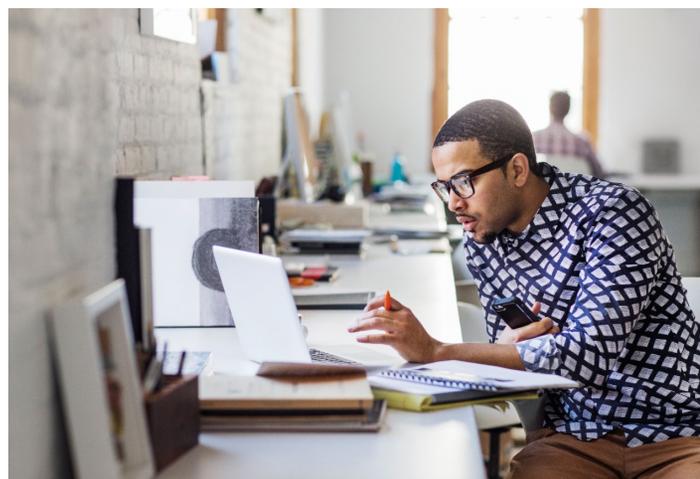


Moreover, three in five SMEs involved in the program began to export for the first time, and 35 percent reported an increase in employment.<sup>50</sup> South Korea is also encouraging small businesses to go online. Under the government's proposed Digital New Deal package, it will provide 160,000 SMEs with KRW 4 million won (USD 3,315) vouchers for accessing remote work platforms such as videoconferencing—a necessity during the COVID-19 pandemic and beyond.<sup>51</sup>

Poland has taken even more targeted measures to increase the digital knowledge and capabilities of SMEs. In September 2020, the Ministry of Development and Finance announced plans to allocate more than one billion zlotys (around USD 270 million) in tax relief to assist businesses in building automation through robotization.<sup>52</sup> Half of the tax base of qualified costs will assist with the purchase of robots, and remaining parts of the effort will include the purchase of software, hardware, health and safety equipment and training for employees.

### Calls to action

- **Provide funding for the tools that are most necessary during the COVID-19 pandemic and beyond** (for example, e-commerce platforms and tools that enable SMEs to increase their back-office operational efficiency and integrate into online exchanges). B2B SMEs can benefit significantly from visible websites that allow them to connect to trading counterparties.
- **Target support to B2B SMEs at each stage of the digitalization process**, from efforts to move beyond paper operations to the use of basic digital infrastructure. Offering digitalization support to B2B businesses that seek to buy or sell internationally will be an especially important step in the process, to ensure SMEs have access to the global supply chain.



<sup>50</sup>[Online Trading Vouchers](#), Local Enterprise Office, Kildare.

<sup>51</sup>Mallory Dreyer and Kaleb Nygaard, [Governments Encourage SMEs to Adopt New Technology](#), Yale School of Management, 15 June 2020.

<sup>52</sup>[Ministry of Development announces tax relief for robotization](#), ICT, 14 September 2020.



## Policy objective 4:

### Ensure a safe and secure operating environment for SMEs, in terms of cybersecurity, trust and transparency as SMEs become increasingly digital

#### Rationale

Cyberattacks against SMEs have grown substantially during the COVID-19 pandemic. Even before the pandemic hit, roughly 70 percent of small businesses were at risk because they had no protection against cyber threats. According to a survey conducted in the United States, though nearly half of cyberattacks have been aimed at small businesses, only 37 percent of small business owners believe that they are at risk of cyberattack. Around one-third, however, also said that they are not confident they could recover if their businesses were attacked.<sup>53</sup> The risk for B2B SMEs is particularly high, as a cyberattack on these businesses can compromise the sensitive data of other businesses as well, creating a dangerous domino effect. These findings demonstrate that despite the very real threat of cyberattacks to small businesses, more action needs to be taken by governments and the private sector alike to educate SMEs regarding the dangers they face in the cyber realm and the steps they may take to mitigate them.

In addition to providing cybersecurity tools and funding, it is vital that governments show SMEs that they can be entrusted to protect the businesses' data and information. A cybersecurity expert in the payments space noted that there is so much intelligence on the timing of the next attack that there should be a way to share this data about vulnerabilities to prevent future attacks. Private industry can help monitor these trends, but local governments need to house the data locally and make it accessible to SMEs on a timely basis.

#### Examples

The COVID-19 pandemic has accelerated government efforts to strengthen and enforce cybersecurity—and, in turn, to promote trust—among all SMEs. Australia recently announced its cyberstrategy that specifically focuses on small and medium-size businesses. The Australian government noted that it will work with large businesses to assist Australian SMEs in upgrading their cybersecurity and educating them through tools that are part of bundles of secure services, such as threat blocking, antivirus and cybersecurity awareness training.<sup>54</sup>

The United Kingdom has also paved the way for cybersecurity support among its own SMEs in the healthcare supplier field, many of which are B2B businesses. In September 2020, the UK government announced a GBP 500,000 fund to boost businesses' ability to prevent cyberattacks. Small and medium-size businesses, such as medical suppliers and primary care providers, are being invited to apply for funding, which will cover all consultancy and certification costs. More specifically, participants can receive guidance and support to receive the government's Cyber Essentials certification. It includes training to ensure that all phones, tablets, laptops and computers are kept up to date, proper firewalls secure devices' Internet connections and user access controls manage employee access to services.<sup>55</sup>

#### Calls to action

- **Provide free or subsidized cybersecurity tools**, independently or in partnership with the private sector, to SMEs to help them prevent economically damaging cyberattacks that affect the business directly and their buyers and suppliers indirectly.
- **Provide education and training on cyberthreats to SMEs** so they understand the areas in which they are most vulnerable.
- **Explore simplifying business identity**, for example by allowing SMEs to securely use tax IDs or similar unique identifier as a way to identify themselves for all financial transactions. This would enable mutual trust between trading counterparties while simplifying lending, invoicing and payment processes, such as KYC.

<sup>53</sup> [Top Targets for Cybercriminals Do Not Recognize They Are at Risk](#), Security Magazine, 1 October 2020.

<sup>54</sup> Sarah Sloan, [Australia's 2020 Cyber Security Strategy](#), paloalto networks, 5 August 2020.

<sup>55</sup> [Funding Boost to Help Healthcare Suppliers Improve Cyber Security](#), Department for Digital, Culture, Media & Sport, National Cyber Security Centre, and Matt Warman MP, 10 September 2020.



## Policy objective 5: **Build B2B SMEs' knowledge of the financial and digital tools and resources available to them**

### Rationale

Conversations with key government stakeholders and B2B SME owners indicated that they are sometimes overwhelmed by the sheer number of products, services and funding options available to the broader SME segment. Daily operations are their primary priority, and they often do not have time to identify the tools, of which there are many, that best suit their businesses. Whether they need website development applications, bookkeeping software and services, cybersecurity tools to protect online businesses and customer data, inventory and fulfillment applications, supply chain management software, digital payments acceptance systems or any or all of these, the choices can be overwhelming. In addition, while there are programs to help them go digital or receive grants, there is a dearth of information on how to access such support and determine the kind of targeted aid that would be best for the entrepreneur and their industry.

Given these struggles, governments can support B2B SMEs by educating them regarding the most pertinent and targeted aid and programs available to them through webinars, universities or private sector partners. Business owner Sandra spoke of this need: "I would love education on how to run export projects and definitely connect to trading counterparties. If this could be facilitated by the government, this would be great. If the funding and education could connect... this could be a really great opportunity for export and digital sales." It is vital that the education provided for B2B SMEs acknowledges and addresses the unique challenges faced by this sub-segment in order to maximize its effectiveness and usefulness for the business owners and operators.

**Which government role do you think is most useful to small businesses such as yours?**

**"I think the government can be most useful in digitalizing. There are so many products available now for advertising, social media, etc. It would be helpful to understand the landscape better and how to use them effectively... I need help sifting through on what's best and what is at the best price."**

**Tom, owner of a B2B agricultural company, Australia**

### Examples

It became clear in our interviews with B2B SME stakeholders across multiple industries and governments that there are few existing government initiatives to educate SMEs regarding the resources available to them. We did, however, hear of a few examples of governments playing educator roles. A Canadian government official, for example, stressed the necessity of having a supportive educational ecosystem for all SMEs. She indicated that although SMEs need financing now more than ever, the Business Development Bank of Canada (BDC) has found that small business clients grow significantly faster when they request financing in combination with business advisory services than when they receive only financing or only advisory services. An Indian trade association executive also provided an example of initiatives that the Indian government has taken to support SME digital education. He informed us that the government has set up 18 active technology centers and is working to establish 15 additional centers that will act as manufacturing technology support hubs. These hubs will promote digital ideas and Industry 4.0 that can assist SMEs.<sup>56</sup> Furthermore, the government in Hyderabad is helping the trade association to design programs in digital literacy outreach.

<sup>56</sup> [Training Institutes](#), Ministry of Micro, Small & Medium Enterprises, Government of India.

Entrepreneurs in our focus groups also pointed to ways that governments can be useful in connecting them to other SME owners so that they can learn from one another. Business owner Craig (see profile on page 16) in South Africa stressed the importance of these efforts. He emphasized that it is counterproductive for policymakers who haven't been entrepreneurs themselves to try to educate SME owners. MicroMentor is a good example of a public-private partnership to facilitate SME mentorship. This multilingual digital mentoring platform was launched by Mastercard in collaboration with Mercy Corps and the government of Jordan. It enables entrepreneurs and mentors to create connections, solve problems and build successful businesses together. With the pilot launch in Jordan, MicroMentor will be available for the first time in Arabic and aims to connect more than 3,500 entrepreneurs across the region to mentors, teaching them the soft skills and operational tools to manage and grow their businesses.<sup>57</sup>



Educating SMEs on the best approach to going digital could also be a very useful service provided by government, as there are businesses at each stage of the digitalization process and a wide range of products available to them. According to a senior executive in the payments industry, governments often expect or rely on banks and payments companies to drive the digital literacy and awareness process for small businesses. There is therefore a need for centralized education portals which could be developed with the help of the private sector: "We find that SMEs struggle to be financially educated at some level. What we have to understand is that it is a gap. However, we see a lot of platforms and issuers having centralized sites where they can consume this education. But how do we make this more accessible? We can work with government on developing centralized education portals because they're very scattered at this time and not advertised." The government can provide further guidance to SMEs on educational resources available through the private sector that can support them in digitalizing and growing their businesses.



### Calls to action

- **Increase awareness** and access of the financial and digital tools and resources available to B2B SMEs.
- **Create opportunities to connect B2B SMEs to each other** for knowledge sharing and business growth, keeping in mind that many small businesses are time poor.
- **Ensure that policymakers who educate and legislate for B2B SMEs are well-versed on the full set of challenges they face**, ideally by holding focus groups with entrepreneurs on a regular basis.

<sup>57</sup> *Under the Patronage of the Minister of Planning and International Cooperation at Government of Jordan: Mastercard and Mercy Corps Collaborate to Boost Entrepreneurship in the Middle East*, Mastercard, 12 February 2020.



Policy objective 6:  
**Facilitate partnerships in which private entities, non-banking financial institutions (NBFIs), development finance institutions (DFIs) and non-governmental organizations (NGOs) are incentivized appropriately to provide cash flow management support, capital or digital services to B2B SMEs**

**Rationale**

Given that governments' budgets are increasingly stretched, they can make use of public, private, multilateral and NGO sector partners to fill in the financial gaps that will inevitably grow as COVID-induced economic hardships persist. These types of partnerships have already proven to be effective. We have seen improved supply chain financing for B2B SMEs as well as increased representation of minorities in terms of funding. Ecosystem partners can also be deployed in more innovative ways, such as in assisting with payment disbursements and embarking on education campaigns. As facilitators and enablers of a supportive ecosystem, governments can ensure that they not only fill in B2B SME funding gaps, but also connect businesses to appropriate suppliers and buyers in the global supply chain by convening the appropriate private, public and NGO sector partners.

**Examples**

The recent partnership between the Polish government, Mastercard and other payment networks to digitalize the payment infrastructure of all SMEs in the country is a compelling example of a government's successful effort to create a supportive ecosystem through a public-private partnership. The program's aim was to address the lack of use of digital payments in the shadow economy and help drive cashless acceptance for SMEs. Initially, participating SMEs were reluctant to enable cashless acceptance. They did not perceive sufficient demand from customers, and they were concerned the program would be costly to implement. However, Mastercard embarked on an industry-funded program to help the SMEs enact the cashless terminals cheaply and efficiently. Even some government-owned institutions became beneficiaries of the program.

In this example, the Polish government filled the function of convener, recognizing that the private sector had the resources and know-how to generate positive change in areas in which the public sector might be less well-equipped. And given the end-use of cashless terminals and their ability to drive digital payments, the private sector partners and funders felt incentivized to help make the program a success. Since the onset of the program, more than 200,000 cashless terminals have been disseminated to SMEs, and the Polish government plans to extend the program through the COVID-19 pandemic and beyond.

Governments can also work with DFIs and microfinance institutions to offer capital to SMEs and build their resilience post-pandemic. For example, during the pandemic, the World Bank is working with governments through its USD 750 million MSME emergency response program to improve the funding capacity of key market-oriented channels of credit, such as the NBFCs and small finance banks (SFBs) in India, so that they can bolster their SME support. This effort includes supporting the government's refinance facility for NBFCs. In parallel, the International Finance Corporation (IFC) is also providing direct support to SFBs through loans and equity.<sup>58</sup> In Ireland, the government is funneling financial support to SMEs through NGO MicroFinance Ireland and the Local Enterprise Measures, a package of liquidity and enterprise investment measures worth EUR 55 million to reduce the lending rate for micro and small businesses. In addition, the Future Growth Loan Scheme (worth EUR 500 million) with the European Investment Bank Group is deploying capital to businesses with up to 499 employees so they can invest for the longer term and build future resilience at competitive rates.<sup>59</sup>



<sup>58</sup> [World Bank Approves \\$750 Million Emergency Response Program for Micro, Small, and Medium Enterprises in India](#), World Bank, 30 June 2020.

<sup>59</sup> [Policy Responses to COVID-19](#), International Monetary Fund.

For B2B SMEs in particular, governments can also generate a supportive global marketplace by helping them engage in cross-border trade to expand their universe of potential trading partners. The Indonesian government serves as an innovative example. It has mobilized its Ministry of Trade throughout the spring and summer to help connect SMEs in industries including food and beverage, furniture and fashion to potential buyers in the United States.<sup>60</sup> One such event held in May helped Indonesian brown sugar producer Gula Merah Lombok in West Nusa Tenggara to secure an AUD 37,000 purchase agreement with Australia's Bakso Rawit Ani Pty. Ltd., which specializes in meatball and sambal products. A trade industry representative who works extensively with SMEs informed us that the Ministry of Commerce in India meets frequently with SMEs that would like to export abroad to brainstorm ideas for easing cross-border commerce.

With the right mix of initiatives, governments throughout the world can encourage private sector support in facilitating B2B SME growth. Beyond simply providing incentives to larger businesses to provide grants and pay bills on time—which both have their merits as policies—thinking outside the box can help small businesses in the developed and developing world alike plug into the global value chain. The Indonesian trade ministry's matchmaking event exemplifies this type of innovative work.

**Ecosystem partners can be deployed in more innovative ways, such as in assisting with payment disbursements and embarking on education campaigns.**



### **Calls to action**

- **Convene forums** (virtual or in person, when safe) to help connect B2B SMEs with buyers both domestically and internationally.
- **Enable policies that support non-governmental financial institutions** (for example, microfinance institutions or development finance institutions) in offering funding and services to B2B SMEs.
- **Create public-private partnerships at the local, regional and national level** to bring digital capabilities to SMEs swiftly and at scale (for example, assisting with payment disbursements and embarking on education campaigns).

<sup>60</sup>Dzulfiqar Fathur Rahman, [Ministry Turns Virtual Matchmaker to Tout SMEs in U.S. market](#), The Jakarta Post, 17 July 2020.



## Policy objective 7: **Improve the collection, analysis and availability of B2B SME data for use by governments and B2B SMEs**

### **Rationale**

Given the wide range of B2B SME sizes, revenues, industries and customer segmentation, it is a given that no two B2B SMEs are alike. Policies to help them get paid, get capital or get digital, however, are often designed and implemented as one-size-fits-all solutions, in part because many governments lack an understanding of the segments' varying needs. Current B2B SME data collection efforts are often disjointed or do not exist at all. To better serve and support B2B SMEs, governments can work to improve data collection methods for this segment, to use the data effectively to support counterparty discovery (for example, connecting buyers and suppliers) and to apply the data to targeted policies to support the various sub-segments within the SME universe. Governments can also enable safe, secure mechanisms to track an SME's business digitally (for example, using digital payments for a micro-merchant, or using a digital agricultural marketplace to sell crops and demonstrate volumes or sales). These digital records do a better job of capturing the true health and credit-worthiness of a company, making the loan process less risky for banks or fintechs. Finally, governments can seek to use data garnered from any specific public-private partnerships or solo programs that bolster B2B SMEs to measure the impact and success of such initiatives.

### **Examples**

The benefits of enhanced data collection for policy-making regarding SMEs have been highlighted during the COVID-19 crisis. Multiple city governments in the United States—from Providence, Rhode Island to Eugene, Oregon—have created surveys to help them measure the impact of the pandemic on small businesses. Survey responses have been used to plan future budgets and cities' approaches to state and federal governments for cooperation and support.<sup>61</sup> Salt Lake City's survey, for example, included questions such as, "Please estimate the decrease in revenue you have experienced due to COVID-19 since March 1, 2020," and "If you are facing [layoffs], or have already needed to lay off, how many employees will that affect?"<sup>62</sup> Answers to these questions and others have allowed city governments to better understand SMEs' pandemic experiences and to break the data down by firm size and industry. This understanding will help them to craft better, more targeted policies.

Without actionable, segmented data on SMEs, making policy decisions and disbursing aid are especially challenging. Lack of data hinders a government's ability to identify the SMEs that operate in the B2B space (or any other sub-segment). Many governments are struggling with this challenge during the pandemic, and Italy serves as a particularly interesting case study. According to an executive familiar with the SME space in Italy, the Italian government did not have access to financial data segmented by industry. This then paved the way for regional governments to make claims such as, as a hypothetical, "tourism is down 35 percent," yet with no consistent means of benchmarking and segmenting of the data that would enable better validation. The central government, therefore, chose to support all SMEs, regardless of sector or size. This example highlights the importance of updated data for governments to be able to make more informed and targeted disbursement decisions, and to provide aid quickly and in a way that supports the sectors that need it most.



<sup>61</sup>Phil Berkaw, *Five Ways Local Governments are Supporting Small Businesses During COVID-19*, National League of Cities, 14 April 2020.

<sup>62</sup>[Salt Lake City Small Business Survey](#).

Data collection is particularly important in the B2B SME space, both domestically and within the context of the global value chain. Bangladeshi local governments, for example, have been able to collect and make use of data in the agricultural sector during the COVID-19 pandemic to combat food insecurity in the country and to aid in counterparty discovery.<sup>63</sup> Local authorities worked with producer organizations supervised by the World Food Program to establish 57 virtual call centers in eight high-poverty districts to gather data on farmers and create a database to facilitate the purchase of agricultural inputs and services, as well as the sale of produce. Through the virtual call centers and database, farmers have sold products worth more than 34.4 million Taka (around USD 400,000) to various buyers—including private companies. As of August 2020, of the 300,000 small-scale farmers who benefited from the program, 46 percent were women. Furthermore, the participants were able to move away from cash, using mobile transfers such as bKash, Rocket and Nagad for their transactions. The producer organizations have also used Facebook and Messenger to share information and transaction records daily, and they have used Zoom to organize regular virtual meetings. This example shows that data collection does not have to be sophisticated and centralized; it can be as simple as using call centers to collect and disseminate timely and relevant information.

India's data collection effort during the COVID pandemic has been especially innovative. They offered SMEs the opportunity to receive a 10,000 crore loan (around USD 125) in 59 minutes or less by applying through a government website. This practice has allowed all SMEs to receive quick and efficient funding, and it has enabled the government to collect a vast amount of financial data.<sup>64</sup> The private sector can also help mine the transactional data to infer the impact of the pandemic on SME operating expense spending. Governments could then use this data to gain a better understanding of the impact of the pandemic on SMEs and their ability to run their businesses, as their capacity to pay operating expenses is directly correlated with their capability to sell and generate revenues.

The United States, Italy, Bangladesh and India cases all underscore that government data collection and usage is crucial to improving SMEs' resilience. The sophistication of the data collection effort—phone calls, surveys or targeted digital campaigns—depends, of course, on each government's funding and technological capabilities. It is also important to note that each government has different regulations regarding data privacy, which must be taken into account when making policy for SMEs.

What is notably lacking in current data collection processes is measurement of the impact and efficacy of various programs. While we can point to examples of government or public-private sector programs, it is difficult to find evidence of their impact (or lack thereof). This deficit points to a clear opportunity for improved data collection going forward.

### Calls to action

- **Explore innovative methods of data collection** in concert with the private sector and multilaterals that allow access to a more comprehensive set of B2B SMEs.
- **Establish size and/or industry segmentation guidelines for all SMEs**, ensuring specific segmentation for B2B industries. This effort will allow governments to be able to better target aid based on various needs.
- **Establish or expand efforts to measure the impact and efficacy of SME-targeted programs** in order to improve current programs and design or adapt future programs.



<sup>63</sup>Iftikhar Mostafa, *Digital Technology Ensures Food Supply in Rural Bangladesh During COVID-19*, World Bank Blogs, 19 August 2020.

<sup>64</sup>Rounak Jain, [How to Apply for an MSME Loan Online and Get Approval in 59 Minutes](#), Business Insider India, 21 December 2020.

## Policy objective 8: **Model best practices by buying goods and services directly from SMEs, leading by example in adopting payment and invoice digitalization and increasing the credibility of emerging businesses**

### Rationale

Given that small and large businesses alike are struggling with cash flow issues, governments can assist SME suppliers by engaging in procurement of their goods and services. SMEs often are not adequately contracted by governments because of their capacity issues in supplying large projects, their lack of information on how to contract with the government and their limited experience in bidding, among other challenges.<sup>65</sup> As the World Bank estimates that public procurement accounts for approximately 12 percent of global output, there is a real opportunity for SMEs to have a bigger piece of the pie.<sup>66</sup> Furthermore, they project that if governments paid all receipts due to their contractors within 45 days, between USD 1 trillion and USD 4.65 trillion in fresh liquidity would be injected into the private sector, supporting firms' cash flow needs. There is, therefore, an important role for government procurement not only in supporting B2B SMEs and educating them on the best methods to supply to governments, but also in determining how quickly they are paid.

### Examples

Governments are already taking action to promote and prioritize procurement from SMEs. Israel, for example, has advanced payments to small and medium-size government suppliers. At the direction of the accountant general of the Ministry of Finance, the government must pay its suppliers within a few days, and the maximum amount of time to pay businesses has been reduced from 45 to 30 days.<sup>67</sup> The Belgian government has removed punitive measures by suspending penalties for suppliers that fail to fulfill government contracts. And in Slovenia, the government has declared that suppliers should be paid within eight days instead of the previous 30 days. Income tax payment had also been deferred for the 2020 income tax assessment.

Another example of government policy to support SMEs is the procurement quota. These quotas were common even before the COVID-19 pandemic. The state government of Uttar Pradesh in India, for example, announced a 25 percent procurement quota from local SMEs in 2019.<sup>68</sup> Similarly, the Peruvian government has adopted a new decree that includes a public procurement quota for SMEs to help them weather the economic crisis. Specifically, PEN 736.5 million (approximately USD 208.7 million) in additional funds will be used to finance manufactured goods produced by SMEs.<sup>69</sup> According to the Ministry of Production of Peru, the measure will benefit more than 10,000 SMEs and will contribute to the creation of 100,000 direct employment positions.



<sup>65</sup> *Public Procurement: Is Open Competition Good for Small and Medium-sized Enterprises?* European Bank for Reconstruction and Development (EBRD), 2017.

<sup>66</sup> Erica Bosio, Emilia Galiano, and Nathalie Reyes, *Efficient Public Procurement Comes to the Rescue*, World Bank Blogs, 20 May 2020.

<sup>67</sup> *Coronavirus (COVID-19): SME Policy Responses*, OECD, 15 July 2020.

<sup>68</sup> Virendra Singh Rawat, *UP Government to Mandate 25% Procurement from Local Small Businesses*, Business Standard, 16 April 2019.

<sup>69</sup> *Peru: USD 209 Million Funds in Public Procurement from National SMEs (COVID-19)*, Global Trade Alert, 27 June 2020.

<sup>70</sup> Federico Cianiato, Antonella Moretto, and James B. Rice, Jr., *A Financial Crisis Is Looming for Smaller Suppliers*, Harvard Business Review, 6 August 2020.

<sup>71</sup> Beth Reece, *Defense Logistics Agency Helps Small Businesses During COVID-19 Response*, U.S. Department of Defense, 22 July 2020.



E-invoicing adoption is also growing among certain governments. For example, the European Union required all public sector entities to be able to receive a standardized core invoice by 2019 for larger public contracting entities and by 2020 for smaller contracting entities.

Other governments are getting more creative with their treatment of SME suppliers. The UK and Italy, for instance, are both aiming to support supply chain transactions by providing governmental guarantees in place of the trade credit insurance that has become too expensive.<sup>69</sup> And the U.S. Department of Defense's Defense Logistics Agency has intensified its procurement of personal protective equipment (PPE) from small businesses. It has spent 40 percent of its procurement on small businesses, surpassing its assigned goal of more than 32 percent.<sup>70</sup> Small businesses are often more agile and flexible than larger suppliers, as they can change their smaller-scale manufacturing processes more quickly.

As the COVID-19 crisis continues, governments can help the sector by continuing to procure protective equipment and medical supplies, establishing quotas, financing their trade insurance and strengthening their payment terms, among other strategies. It will also be important for them to consider buying more from women- and minority-owned businesses to ensure that their procurement processes are as inclusive as possible. This consideration should be part of their decision-making when looking at SME supplier vendors as well.

### Calls to action

- **Establish or expand SME public procurement contracts**, focusing particularly on women- or minority-owned businesses.
- **Lead by example by digitizing invoices and payments** from governments to their SME suppliers.
- **Ensure that government's suppliers use diverse vendors themselves** in order to ensure inclusion.



**Governments are already taking action to promote and prioritize procurement from SMEs.**

## Next steps for momentum

B2B SMEs are vital contributors to communities, cross-border trade flows and the global economy. Our extensive interviews across the public and private sectors with key stakeholders in the B2B SME space and our in-depth research regarding the SME policy environment during the COVID-19 pandemic gave us new insight into this important segment. This research led us to the eight policy objectives outlined above. We believe these objectives will allow governments and the private sector to partner to help B2B SMEs in combating their ongoing challenges in making and receiving payments, accessing capital and digitalizing. And ultimately, these collaborations will build B2B SME resilience.

We also identified and defined four specific roles for governments to play in bolstering B2B SMEs: conduit for working capital, connector and convener of ecosystems, protector and educator. While these roles are targeted at governments, private sector players must support governments in their efforts to fulfill them. It is the duty of the private sector, in fact, to ensure that it works to proactively advance policy and acts responsibly within the regulatory frameworks developed.

Regulations that are supportive of fintechs and innovation more broadly and can help SMEs, especially in developing their cross-border operations, also fall in this category. Beyond these foundational regulations, Mastercard and Kearney propose the following strategies for governments, in partnership with the private sector, to begin mobilizing their support for SME resilience and to achieve the policy objectives outlined here.

**Build connections and dialogue with trade associations to understand B2B SME pain points on a deeper level.** Given the struggles that many B2B SMEs face in digitalizing and entering global value chains, it is vital that governments become acquainted with the challenges these businesses face. By convening small groups of B2B SME owners and hearing their operational and financing difficulties directly, governments will be better equipped to design policies to support them.

**Partner with the private sector to carry out funding, educational and digitalization support for SMEs.**

If governments have not already convened the private sector in talks with trade associations, the next step is to look to potential corporate partners that could ease the struggles of B2B SMEs and the broader SME ecosystem. This work could take place through joint innovation and, where pertinent, by using relevant solutions that private sector players already offer to bolster B2B SME resilience. As described in the many examples above, joint initiatives could involve supporting funding for POS systems, offering digitalization webinars and disseminating cybersecurity-related data.

**Build a broader ecosystem of support within the multilateral community and with other governments.**

Multilaterals such as the World Bank and the International Monetary Fund work with governments to provide the funding and education to SMEs that governments have and should continue to access. To further harmonize policy with regard to B2B SMEs, it will be vital for governments to participate in intergovernmental discussions of the best ways to support cross-border SME data sharing and payments, especially as supply chains continue to shift amidst the COVID-19 pandemic and beyond.

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- National MSME Council, Confederation of Indian Industry
- Polish Economic Institute
- Small Business and Marketplace Services, Innovation, Science and Economic Development, Government of Canada
- Union of Entrepreneurs and Employers, Poland



## About Mastercard

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## About Kearney

As a global consulting partnership in more than 40 countries, our people make us who we are. We're individuals who take as much joy from those we work with as the work itself. Driven to be the difference between a big idea and making it happen, we help our clients break through.

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