



Digital enablement of small and medium-sized businesses

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Executive summary

Small and medium-sized businesses (SMBs) are the foundation **of the modern economy**. They represent about 90 percent of all businesses and more than 50 percent of employment worldwide.

Digitalization can help SMBs to **increase their reach, enhance competitiveness, and improve operational efficiency**. SMB digital enablement helps to improve the sector's resilience, promote innovation, enable new job creation, and increase the economic prosperity both of local communities and society.

Digital payments are a key enabler of SMB digitalization, helping to level the playing field versus their larger peers. For the small businesses, digital payments can drive an increase in the number of clients and revenue, improvement in customer convenience and satisfaction, reduction of operational risks, and easier access to lending.

Governments have a vested interest in the adoption of digital payments within the SMB sector. Cash often makes informal activities invisible to authorities: as digital payments begin to displace cash, it becomes harder for SMBs to remain outside of government purview and reach. As these businesses become more visible—and more accountable from a tax perspective—the reach of the informal economy is reduced. A 5 percent increase in digital payments per year for five consecutive years could reduce the informal economy by 11–13 percent and boost tax revenue, according to a [Visa-Kearney study](#).

Governments aiming to **remove barriers facing SMBs in the digitalization of their business models can tap into a spectrum of possible actions**:

- Demonstrate commitment to digital payments through **legislation**, for example, by mandating acceptance of digital payments or electronic government-to-business (G2B) and business-to-business (B2B) invoicing. Work proactively with the payments ecosystem to develop complementary policies that set the conditions for innovation and open access
- Bring together different players from the private sector—banks, payment networks, and technology providers—to drive critical **industry initiatives**. Set the aspiration, align interests, and help establish common rules of engagement
- Tap into **technology advancements** developed by the private sector to improve security, financial literacy and inclusion, competition, innovation, and open access to the payment system
- Spearhead better **access to finance**, especially for smaller businesses, through government disbursement (grants, subsidized loans, etc.) and by endorsing innovation by the private sector (i.e., credit risk assessment using point-of-sale (PoS) data)
- Increase **tax compliance** and **tax revenue** by creating financial incentives for adoption of digital payments. Tax rebates, discounts on digital transactions, and tax lotteries increase the transparency of payment streams and **boost tax revenue in a single-digit range** for most countries, as demonstrated by recent experience in South Korea and Greece

Targeted government-led programs can help **equip the SMB sector and the entire economy for a more prosperous digital future**, provided they are backed by a clear strategy, grounded in appropriate legislation, and complemented by concerted campaigns to educate SMBs about specific digital tools and benefits for their operations.

About the study

This study has been commissioned and developed in collaboration between Visa—a global payments organization—and Kearney—a global management consulting firm. Our mutual goal is to engage with government officials and policymakers—inspiring them to collaborate and leverage the opportunities provided by digital payments to enhance public-sector services and maximize value for society and the economy.

The study was conducted between June and September 2022. All insights, recommendations, and conclusions featured in this study are based on data and information sourced both before the COVID-19 pandemic and during the last two years of the pandemic.

Primary research

20+

government officials and leaders of public-private partnerships

10+

Kearney Financial Services experts, with experience at the intersection of payments and public sector

8

Visa subject matter experts across different geographies and functions

Secondary research

120+

data sources referenced in the white paper

35+

research and content pieces by international organizations, e.g., the World Bank, the OECD, the European Commission, the IFC, and the International Labour Organization

30+

reports of programs and studies published by public sector entities

Global examples

30+

programs deploying SMB digital enablement initiatives, including focus area, description, and results

2

in-depth case studies of flagship digital enablement solutions across different geographies

The case studies span several themes – digital payment acceptance, financial incentives for adoption of digital payments, technology advancements to improve open access to the payment system and access to finance

1. Introduction

SMBs are the foundation of the modern economy. At a global level, SMBs represent a staggering 90 percent of all businesses and more than 50 percent of employment. Formal SMBs (registered companies) constitute 45 percent of employment and 33 percent of gross domestic product (GDP) in emerging markets and developing economies. But these numbers are significantly higher when including informal SMBs—those operating without a formal registration and outside of government reach.

Yet SMBs are more prone than larger firms to disruption during periods of economic turmoil. They have fewer financial resources, lower access to capital due to higher liquidity risks, and more volatile performance when economic conditions turn negative. Even in non-crisis times, SMBs face significant challenges in bringing products to market or purchasing inventory, such as access to financing, adoption of technology, and logistics.

The COVID-19 pandemic (referred to as “the pandemic”, the “COVID-19 crisis”, or “COVID-19” hereafter) highlighted the urgent imperative for the sector to build resilience. Over a third of active SMBs reported that they had to reduce their workforce as a result of the COVID-19 pandemic, while 62 percent of companies cited lower sales than before the pandemic. Without government support, the rate of SMB failures would have almost doubled during the pandemic.

Evidence suggests that businesses that are more digital are also more resilient during times of economic downturn—for example, those using e-commerce, digital tools such as digital payments, social media, or collaborative cloud-based solutions. In a 2021 policy paper, the OECD states that SMBs “that were already engaging with digital tools, or accelerated uptake, had the capabilities to respond more efficiently to the pandemic business conditions”.

Digital solutions are also important outside of times of crisis. SMBs can derive greater benefit from digital technology than their larger peers—increasing sales revenue by reaching a larger customer base through online sales and reducing costs by automating processes and payments. Digitalization can help level the playing field for SMBs as compared to their larger peers—increasing customer reach and correcting the cost disadvantage inherent to small-scale operations. By facilitating SMB access to—and adoption of—digital technologies, governments have the opportunity not only to support and strengthen the sector, but also to increase innovation and prosperity for the entire economy.

This paper explores the power of public policy actions to propel SMB digitalization—enhancing the resilience of the segment and building long-term economic prosperity. It focuses on the adoption of digital payments as a prerequisite for digitalizing the product and service delivery for SMBs and automating their invoicing, inventory management, and accounting. In this paper, we discuss four types of policy tools and their important contributions to SMB digitalization: (i) creating conditions for a robust, open payments infrastructure, (ii) utilizing fiscal incentives to encourage digital payment adoption, (iii) democratizing SMB access to lending, and (iv) facilitating SMB access to public procurement and digitalizing SMB-initiated payments.

Using detailed case studies, this paper also demonstrates how governments around the world can foster digital payment adoption among SMBs, the barriers they need to overcome, and the benefits they can expect to reap.



What are SMBs?

Governments base their definition of SMBs on a range of factors including the number of people employed, total annual revenue (also referred to as turnover or receipts below), book value, or investments. These indicators differ depending on the size and level of development of the country (both in terms of population and GDP), cultural values, and historical background. For example:

In the EU, SMBs are defined as companies with headcount of below 250 employees fulfilling one of two additional factors—either turnover of maximum USD51mn (EUR50mn), or a maximum balance sheet of USD44mn (EUR43mn).



In the U.K., an SMB needs to meet two out of three criteria: turnover of less than USD30mn (GBP25mn), fewer than 250 employees, or gross assets of less than USD15mn (GBP12.5mn).



In Singapore, SMBs are defined as enterprises with operating receipts not more than USD72mn (SGD100mn) or employing not more than 200 workers.



In Canada, the cutoff is at 499 employees, while **in the U.S.,** SMB size standards are based on average annual receipts or the average employment of a firm but could vary by industry.



Despite these differences, SMBs have one common characteristic across countries—they tend to be smaller companies. For example, in [Poland, France, and the U.K.](#), 99 percent of companies have under 50 employees. In [Germany and Luxembourg](#), the same figure stands at 97 percent, and in the [OECD countries](#), at 94.4 percent of known firms.

In addition, the policies aimed at developing SMBs are often similar. In this paper, we therefore focus on discussing how governments can develop and strengthen this vital segment of the economy.

2. Importance of digital enablement of SMBs

2.1. Importance of SMBs for the economy

A fundamental segment in terms of size and scope

SMBs are a fundamental part of economies around the world. On a global scale, they represent the majority of businesses and are the largest global employer. Their importance is especially evident at a country level. For example, in the U.K. there were 5.5mn SMBs at the beginning of 2022; these businesses employed 60.7 percent of the workforce and contributed 51.1 percent of corporate sales revenue. In Singapore in 2021, SMBs employed over 70 percent of the workforce and produced 44 percent of the nominal value added to the economy. In Malaysia, small businesses employed 47.8 percent of the workforce in the country in 2021 and accounted for 37.4 percent of the country's GDP.

Creation of new workplaces

SMBs are the main source of job creation in the global economy and account for two-thirds of formal jobs in countries in Asia and Latin America and up to 80 percent in Africa. The majority of job creation in the EU is done by SMBs, with the lowest shares of approximately 80 percent in France and Slovakia and the largest shares of above 92 percent in Latvia and Austria. SMBs also have a higher employment growth rate compared to large businesses. The same study shows that the young SMBs—those between one and five years old—are the largest contributor to net job creation, with contribution to job creation amounting to 40 percent.

A powerful driver of innovation

Large companies—by virtue of their size—have the resources to invest in research and development and to bring innovation and new ideas to market. However, SMBs have a clear advantage when it comes to implementing a “fail fast, learn faster, execute smarter” approach. Smaller teams and less hierarchical organizations help SMBs pivot to new opportunities with greater speed and agility than larger firms, but not with less diligence.

For example, Airbnb began in 2007 as a small startup and went on to revolutionize the global tourism industry, growing from two hosts in San Francisco to a community of over 4mn hosts all over the world. Also, such SMB startups leverage new technology from the start, whereas large companies often need to deploy or upgrade existing systems, making them less nimble as a result.

Investing in local community well-being

SMBs are commonly important for the local communities from which they originate as their owners have an active and personal interest in the well-being of the community:

- **SMB owners frequently have a vested interest in the community's well-being.** The often-symbiotic relationship between the residents of a community and owners of smaller companies gives SMBs a stronger motivation to help local populations. Local SMBs often produce locally, hire locally, pay taxes locally, and fund local charities and community programs, thus contributing to a more vibrant local community.
- **SMBs provide higher tax revenue for local governments.** Evidence suggests that mixed-use development—pedestrian-friendly development that blends residential, commercial, cultural, institutional, and/or industrial uses—typically features a high share of SMBs. What's more, it can realize 8x more tax revenue per acre compared to a Walmart store, as illustrated by the example of the city of Asheville.
- **SMBs have a significant local multiplier effect.** An additional economic benefit is generated by money being spent in the local economy. A study by Civic Economics found that on average 48 percent of each purchase at local independent businesses was recirculated in the local area, compared to less than 14 percent of purchases made at chain stores.

2.2. The importance of SMB digitalization

Digitalization can help SMBs reduce costs, automate business processes, and reduce reliance on manual processing. It can enhance their competitiveness and helps them understand consumer behaviors. The benefits of digitalization for SMBs fall into two main areas:

Increased reach and competitiveness

SMBs generally have a smaller reach than large companies—often just one location or shop. Digital solutions give them the power to expand their customer and supplier base beyond their own street or community. In the EU, 46 percent of small firms that sell online used an e-commerce platform in 2021, such as Amazon, eBay, or local online marketplaces. In the countries of the Gulf Cooperation Council, SMBs doubled their use of the global online marketplaces during the pandemic. Female-led businesses with above average revenue growth are 25 percent more active on online marketplaces than their less successful peers. And with e-commerce accounting for more than a fifth of global retail sales in 2022 for the first time, SMBs face a tangible opportunity to capitalize on this growing momentum.

Other digital services—such as data analytics, online advertising, and digital consumer surveys—allow SMBs to better understand their customers at lower prices than those of traditional market research or advertising. The Connected Commerce Council and Google estimate that in Europe digitally advanced businesses are both 1.4x better at obtaining new customers and 1.4x more successful at retaining existing customers. At the same time, 64 percent of European startups founded in the past five years agree that the costs of starting a business have been significantly reduced through the use of digital tools. It therefore comes as no surprise that over 70 percent of SMBs in developing nations prioritized digital marketing and e-commerce as 2021's top investments.

Optimizing operational efficiency

By digitalizing, SMBs can reduce operational costs. An OECD study indicates that SMBs tend to digitalize general administration and marketing functions first. The same study highlights that SMBs prefer to outsource digital solutions—partly to compensate for weak internal capabilities, but also because this represents a more cost-effective option.

Collaborative solutions—such as cloud-stored spreadsheets and word processors, video conferencing, and file sharing—have enabled SMBs to boost the efficiency of their day-to-day operations. According to a 2021 Kearney survey of 2,535 SMBs in Europe commissioned by Facebook, the most prevalent digital tools used by small businesses were communication, IT security, and accounting tools (used by 84 percent of SMBs), followed by collaboration (75 percent), customer relationship management (75 percent), analytics (65 percent), human resource management (63 percent), and supply chain productivity (61 percent). A 2022 study by Meta Platforms, capturing the responses of 22,054 SMB leaders across 30 countries and territories, shows that a global average of 15 percent of SMBs report using digital tools to reduce operations costs or costs of sourcing goods and services.

2.3. The impact of the COVID-19 pandemic

During the downturn due to the pandemic, many SMBs struggled with reduced demand. The impact on revenue was particularly severe, with SMBs experiencing a greater drop than large firms in the same sector and location by nearly 9 percentage points¹. The Digitally Driven study of SMBs and their use of digital tools during the COVID-19 pandemic highlights that 90 percent of SMBs that are still in business reported significant disruption during the pandemic, with 44 percent changing their products, services, and/or business model as a result.

Female- and minority-led businesses were particularly affected. Data suggests that female-led businesses in low- and middle-income countries resumed operations at a slower pace relative to men-led businesses six weeks after the peak of the first pandemic wave in the spring of 2020. Female-led firms also reported on average having significantly less cash to cover their running costs. What's more, over 40 percent of female-led companies experienced a drop in their domestic sales and client bases.

Businesses led by racial, religious, or indigenous minorities were also severely affected. In the United States the number of active business owners plummeted by 22 percent between February and April 2020, with African-American businesses hit especially hard, experiencing a 41 percent drop. A study conducted in Finland highlights that support grants announced by the state appeared not to be particularly useful for minority-owned small restaurants due to restrictive eligibility criteria that many potentially fail to meet.

However, SMBs in Europe that use digital tools were able to build a digital safety net during the pandemic, resulting in 60 percent better revenue and three times more hired employees. Businesses that sold products through third-party online marketplaces fared better during the pandemic according to a UNCTAD survey about the COVID-19 impact. A study by the Visa Economic Empowerment Institute highlighted that while micro and small enterprises experienced greater negative pandemic effects in 2020 than medium and large firms, the degree of digitalization of these companies was a significant differentiating factor in their resilience.

The COVID-19 crisis accelerated SMB digitalization, with firms moving operations online and implementing targeted working solutions to stay in business during lockdowns and overcome disruptions in supply chains. As we move beyond the pandemic, increased digitalization will likely play an increasingly important role for the sector competitiveness.

“Through the Resilient Cities Shaping a Digital World program, the Metropolitan District of Quito, together with Resilient Cities Network and Visa, is strengthening commerce in the city by facilitating the buying and selling of produce, prioritizing small-scale producers and small and medium-sized businesses, as well as local production. This is preparing the urban economy to handle future acute shocks through digital strategies.”

David Jácome
former Chief Resilience Officer,
Metropolitan District of Quito

¹ Percentage point is the unit for the arithmetic difference of two percentages. This definition applies to the remainder of this whitepaper where the term “percentage point(s)” is used.

Visa – Resilient Cities Network Partnership – SMB digitalization during COVID-19

Resilient Cities Network [is the world's leading urban resilience network](#) to support global collaboration for a safe and equitable world for all. Since the onset of the pandemic, the network has been working with Visa to provide resilient solutions to SMBs. The partnership gave rise to [Resilient Cities Shaping a Digital World](#)—a program designed to advance digital transformation in Latin America and the Caribbean (LAC). The program helps member cities across LAC to design digital solutions in pursuit of a more resilient future, including the two examples below:



Quito, Ecuador – In Quito, 30 percent of employment is generated by firms focused on food, lodging, and non-specialized products. Simultaneously, 89 percent of businesses are microbusinesses, making them especially vulnerable to crisis due to factors such as limited connectivity, disruptions in the value chains, and inability to accept digital payments. To ensure businesses would thrive in the face of the pandemic, the municipality of Quito, represented by CONQUITO, partnered up with Resilient Cities Network and Visa to deploy digital payments and connect small producers and small local retailers, helping them better source and distribute local agricultural production and manage finances. To date, the initiative is helping to develop small-scale agriculture centers and bio-markets by connecting 100 individual and group ventures in a joint effort to promote sustainability by selling production surpluses from urban agriculture locally.



Salvador, Brazil – With a big informal labor market, Salvador was heavily hit by the COVID-19 pandemic, putting many small business owners and workers on the brink of survival. In response, Resilient Cities Network, Visa, and the local government of Salvador launched two initiatives: Digital School for entrepreneurs and Talent Booster for new talents. The Digital School aimed to equip small firms with digital knowledge necessary to succeed in the new reality and narrow down the digital gap. In the Talent Booster program, individuals could complete trainings courses for programmers and market agents—acquiring new skills that came in handy for the increasingly digitalized SMBs in the city. Digitalization initiatives were not limited to distribution of equipment only, but also enacted through capacity building and education.





3. Digital payments: a key enabler of SMB digitalization

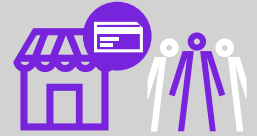
The ability to accept, process, and make digital payment is a key element of SMB digitalization—giving companies and customers quick, secure, and easy ways of completing financial transactions. By adopting digital payments, companies can increase revenues and reduce costs at the same time. In addition, they can capitalize on a real-time overview into daily sales to better manage inventories and reduce administration through e-filing and e-payment of taxes. New technologies give customers new payment methods such as contactless payments (i.e., “tap-to-pay”), mobile wallets, and QR codes. The convenience of these modern ways to pay quickly translate into wider adoption by consumers.

3.1. Benefits for businesses

The benefits of digital payments are clear. A [Moody's study analyzing the impact of payment cards on economic growth in 70 countries](#) accounting for 95 percent of global GDP found that card usage alone added USD245bn to real GDP between 2015 and 2019. In absolute terms, this translates into the [creation of about 10.5mn jobs](#) for the same period. Digital payments offer also multiple direct benefits for SMBs.

"SMBs in Europe that use digital tools were able to build a digital safety net during the pandemic, resulting in 60 percent better revenue and three times more hired employees"

MORE CLIENTS AND HIGHER REVENUE



SMBs that accept card payments at their physical point of sale can serve an increasingly large segment of the population who prefer to pay with card. Studies in different geographies show that adoption of digital payments increases the revenues for small merchants.



For example, the Cashless **Poland** program (Case study #1: Cashless Poland: accelerating digital payment acceptance) showed that 49 percent of participating small business owners saw a positive impact on the number of acquired clients and revenue after installing a PoS device in their store.



A study carried out in **Singapore** shows that when small merchants introduced payments through a mobile wallet they experienced a monthly increase in debit and credit card spend (3.5 percent) and

number of transactions (3.4 percent) relative to large merchants.

These findings are especially relevant in retail traffic—e.g., small shops and restaurants—where convenience of payment is critical, and for new small businesses that do not yet have a strong repeat customer base. Research conducted at Télécom ParisTech in **France** found that accepting contactless payment drives an increase of about 1.3 percent in card spend. The availability of digital payment options also influenced consumers' purchase decisions and thus increased consumer spend in Nigeria, which implemented its Cashless Nigeria policy in 2014.

Businesses that do not accept digital payments risk losing the growing proportion of customers who prefer a cashless option. This can create a vicious cycle for small merchants: cash-only businesses might see lower revenues, making them more reluctant to invest in PoS adoption.

REDUCED RISK RELATIVE TO CASH MANAGEMENT



The real costs of cash are significant, including those incurred through human error, lack of public safety, and forgery. Digital payments carry a lower risk of human error due to the potential for automation, better traceability, and easier ex-post analysis and reporting. They also eliminate the risk of accepting counterfeit notes. The risk of theft and robbery falls as the use of digital payments rises and less money is kept on premises.



A **U.S.** case study highlights how electronic payments can increase public safety: due to the reduction in burglary, assault, and larceny following the U.S. government's switch to electronic distribution of social aid and benefits, the overall crime rate is estimated to have decreased by 9.8 percent in direct response to the electronic benefit transfer program. Meanwhile, first-hand accounts in Ghana anticipate higher crime rates as a result of citizens opting for cash rather than digital payments in response to the introduction of taxes on mobile money.

GREATER CONVENIENCE FOR CUSTOMERS



Studies show that the key drivers for adopting new payment methods are convenience, ease of use, and widespread acceptance. While cash is still prevalent in day-to-day transactions in the Euro area² (73 percent in terms of number of transactions), the ECB highlights that consumers' self-reported preference is for digital payments with only 27 percent favoring cash. According to Visa's Global Back to Business 2022 study, the failure to offer digital payment at a physical store is frequently a dealbreaker—41 percent of consumers surveyed said they have abandoned a purchase because digital payments were not accepted, and younger shoppers are even more likely to do so. Digital payments were also among the top five areas for growth according to SMBs and among the top five factors influencing store purchasing choice for consumers. Going forward, 41 percent of consumers surveyed said they plan to shift to using only digital payments within the next two years, or are already cashless.



In regions with limited payment acceptance infrastructure, such as sub-Saharan Africa, mobile money offers the same convenience as cards do in Europe or the U.S. It gives people the ability to securely receive, withdraw and send money, pay for bills, and receive funds from family abroad—all without being connected to the formal banking system. In **Senegal**, 45 percent of the population aged above 15 years has a mobile money account and 77 percent uses it two or more times a month—even though only slightly more than half of the population is able to read and write. Due to the convenience of digital payments, their importance in the lives of people around the world is growing, regardless of their location.

² The “Euro area” refers to the area consisting of countries where the currency is the euro. The euro (€) is the official currency of 19 out of 27 EU member countries.



3.2. Challenges for businesses

PERCEPTION OF HIGH COSTS AMONG MERCHANTS



The costs associated with digital payment infrastructure could be perceived as a barrier to adoption for SMBs. Merchants that operate a PoS device make monthly payments to the acquiring bank and are often charged a fixed fee, regardless of their level of use. What's more, business owners might be tied into contracts for several years. These findings were echoed by the Polish government before the launch of its Cashless Poland program in 2017, with the fixed fee for a PoS device representing the main obstacle for adoption by small merchants.

Regulation has contributed to a reduction in the merchant fees for card payments during the last decade, as noted by both national banks and private organizations, such as the Payment System Board of the Reserve Bank of Australia. A report about the EU Interchange Fee Regulation from 2015–2016 conducted by Copenhagen Economics and EY for the European Commission estimates a decline in annual interchange fees of around EUR2.7bn between 2015 and 2017 and reduced costs of accepting card payments for merchants in the range of EUR1.2bn per year.

As technology evolves, mobile PoS devices are becoming lighter, cheaper, and more popular. SMBs can now turn their smartphones into PoS devices via dedicated apps.



In **Ukraine**, multiple banks—including Oschadbank—partnered with Visa to launch apps that turn merchants' smartphones or tablets into fully fledged PoS terminals based on Visa's Tap-to-Phone solution. In addition, fintechs have started to introduce free compact and mobile PoS terminals for small merchants at affordable prices. According to a recent market review into the supply of card-acquiring services conducted by the Payment Systems Regulator in the **U.K.**, nearly 90 percent of small and medium-sized merchants who tried to switch to a lower cost option or negotiate with their provider were successful in securing a better deal. However, the perceptions of merchants themselves have been slower to change despite this drop in costs.

THE HIDDEN COST OF CASH



The adoption of digital payments has been hindered by the misconception that cash is free. Unlike PoS devices, cash does not require an initial investment, monthly fee, or transaction commissions. This is a reason why merchants occasionally offer clients a small discount if purchases are paid in cash. But cash comes with several "hidden" costs: paper money has to be securely managed and transported, which takes time and money.



Back in 2013, the cost of cash to the various stakeholders, consumers, businesses, and the government amounted to at least USD200bn in the U.S. Given that the aggregate costs have an impact on all U.S. citizens, this amounts to approximately USD1,739 in annual cost imposed per U.S. household. Cash transactions may have fallen recently, but cash management requirements have stayed the same, making an already inefficient process even more costly. At the same time, awareness of these costs among SMBs remains low.

LIMITED ONLINE NETWORK ACCESS



PoS devices rely on a stable internet connection in order to settle transactions between merchants and issuing banks. Without internet access, the merchant is unable to verify if the transaction has been accepted by the customer's bank until the PoS goes online. This can be a significant issue for SMBs in remote rural areas, where telecommunication providers may not yet offer coverage. In recent years, new commercial solutions are starting to address this challenge.



In **India**, Visa launched a product that gives users access to offline payments technology. The initiative, announced in 2021, enables customers to hold a stored value of a daily spend limit of USD25 (INR2,000) and a single transaction limit of USD2.5 (INR200) on a chip-based Visa debit, credit, or prepaid card. If the balance is insufficient, the transaction will be declined—similarly to how it would operate in the case of physical tender.

LACK OF AWARENESS AND LOW DIGITAL LITERACY



Another barrier to adopting digital payments is the lack of awareness about their benefits and perceived lack of technical proficiency.



A survey of SMBs in **Thailand** found that a key barrier to adopting digital payments identified by most respondents involved a lack of skill and expertise to identify and use resources properly.



In **Singapore**, the government targeted a traditional part of the local food culture—hawker centers (including cooked food and market stalls), coffee shops, and industrial canteens—helping stall-holders reduce physical contact with customers during the pandemic and encouraging the adoption of contactless digital payments. The Hawkers Go Digital program saw more than half of all stall-owners on government-owned premises adopt digital payments in less than a year.



4. Governments' vested interest in SMB digital payment adoption

Governments frequently aim to protect their citizens and stimulate fair competition in the private sector. Reducing the informal economy is an essential part of this drive. A study by Visa and Kearney identified a strong inverse relationship between digital payments and the informal economy. Cash makes informal activities often invisible to authorities: as digital payments begin to displace cash, the reach of the informal economy is reduced. The study projected that even a 5 percent increase in digital payments per year for five consecutive years could reduce the informal economy by 11–13 percent. This could also have a significant impact on tax revenue, increasing it by up to 1.7 percent in the U.S., or 3.5 percent in Italy. A faster pace of digital payments adoption, such as by 20 percent per year, could reduce the informal economy by 16–22 percent. This would have an even more pronounced effect on tax revenue—for example, increasing it by up to 56 percent in Nigeria.

SMBs operate in the informal economy for a variety of reasons. Some perceive company administrative requirements—such as company registration or taxation filing—as being too onerous and too complex. In sectors like manufacturing, wholesale and retail trade, and agriculture, a number of companies operate in the informal economy and use cash in a deliberate attempt to remain invisible and outside of government reach. No corporate tax or income tax, and no social contributions, are generated by the government from these “shadow” companies.

Other SMBs are registered entities that use cash to underreport revenue and to pay wages to their employees—avoiding taxes in the process. This phenomenon is more prevalent in countries with high rates of corporate and personal income tax. In the U.K., HMRC³ estimates that small and medium businesses accounted for 60 percent of the tax gap in 2021—the difference between what taxpayers owe on legal source income and what they pay. At times of economic downturn, the informal economy may become especially attractive as individuals and businesses attempt to make up for loss of income from the official economy.

Greater adoption of digital payments is an important lever to combat the informal economy. In 2017, 65 percent of government policies to combat the informal economy focused on digital payments instead of punitive enforcement measures. These are motivated by success stories such as India's, where demonetization contributed to an increase in electronic payments. While in March 2014, the number of income tax returns filed was 38mn, this figure has grown to 68.6mn in 2017–2018. In a press release, the Indian Ministry of Finance states that the demonetization brought more formalization of the economy, more money in the system, higher tax revenue, higher expenditure, and higher growth.

³ Her Majesty's Revenue and Customs, the U.K. government department that is responsible for calculating and collecting taxes.



The informal economy

The informal economy—or “shadow economy”—accounts for between 10 and 50+ percent of GDP. More than 60 percent of the world’s employed population—about 2bn workers—operate in the informal economy. Despite being largely invisible, the informal economy does damage in a variety of ways.

For **governments**, it distorts the view of actual economic activity, lowers tax revenue, and leaves less money to be invested in public programs.

For **businesses**, it creates unfair competition and penalizes companies operating in the formal economy for adhering to the rules.

For **employees**, it creates unfavorable working conditions, including lower wages, exploitation, and unfair treatment with little to no recourse.

Consumers who use goods and services from the informal economy are at risk because of the lack of adherence to quality and safety standards.

"A 5 percent increase in digital payments per year for five consecutive years could reduce the informal economy by 11–13 percent"

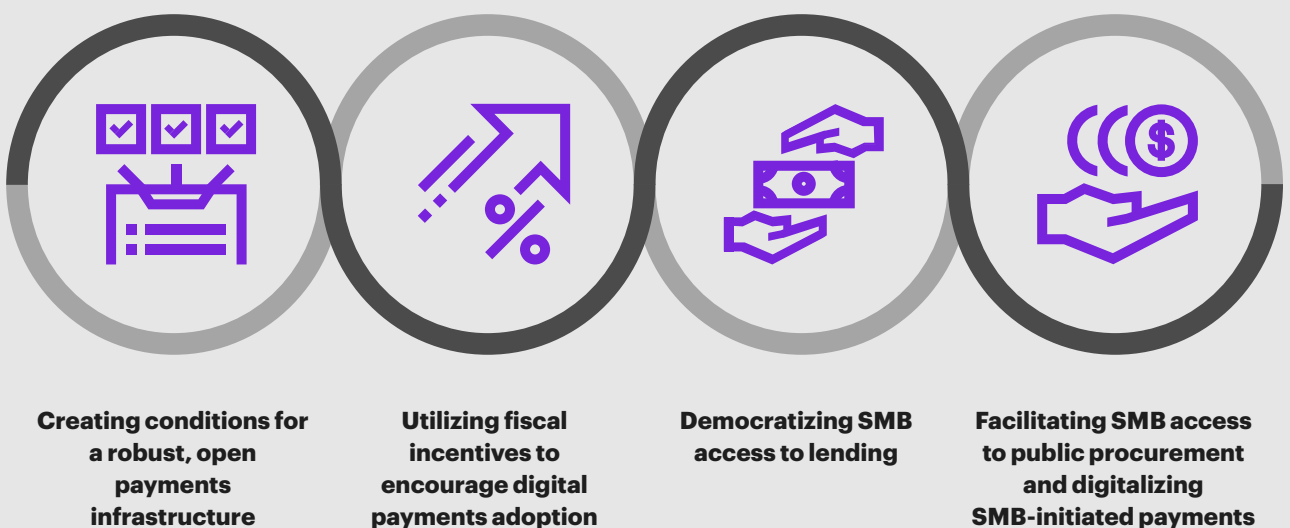
5. Public policy tools to support digitalization of SMB payments

While the benefits from digitalization are compelling, the path to get there is rocky. A 2021 SMB survey of micro, small, and medium businesses put government assistance in a form of better digital payments in the top three forms of aid received as a response to the COVID-19 pandemic. The group of small companies with 11–50 employees indicated that they prefer it over loans.

SMB digitalization can stimulate innovation, reduce poverty, induce economic growth, and boost employment. As such, several countries have made this topic part of their national strategy. Saudi Arabia’s Vision 2030 is an economic blueprint designed to curtail the country’s dependence on oil. It promotes SMB digitalization with the goal to increase SMB contributions to the economy from 20 to 35 percent. Similarly, in Oman’s Vision 2040 and e.Oman 2030, the state promotes digitalization and innovation, as well as digital startups, including through leveraging disruptive technologies.

An important initial step toward SMB digitalization is the build-up of digital payment infrastructure. Some countries have taken bold action to support the adoption of cashless payments among SMBs by stimulating both vendors and consumers.

Figure 1
Public policy tools to support digitalization of SMB payments



5.1. Creating conditions for a robust, open payments infrastructure

For many countries, digitalization of SMB payments begins with a PoS terminal—essential for accepting and processing digital payments. But the success of payments digitalization must be underpinned by government support to set the conditions that foster robust competition, improved security, innovation, and open access to the payment system.



There are compelling examples of this approach all over the world. **Poland** launched an initiative to cover both the fixed and transaction fees of PoS terminals for SMBs and public entities with large success: in four years, more than 500,000 devices were installed (for detailed results see Case study #1 – Cashless Poland: accelerating digital payment acceptance). In **Serbia**, the National Cashless Payments Initiative was set to equip 4,000 SMBs with PoS terminals in 2022 after subsidizing the merchant service charge⁴ (MSC). And in **Malaysia**, with the establishment of the Market Development Fund to fund the deployment of PoS terminals, the number of terminals more than doubled from 233,248 terminals (eight terminals per 1,000 inhabitants) in 2014 to 514,818 terminals in 2018 (16 terminals per 1,000 inhabitants)⁵. The number of merchants that accept mobile payments also saw an increase over this period with over 65,000 registrations recorded at the end of 2018.



As modern acceptance solutions emerge, governments are incorporating them into their initiatives. In **Vietnam**, the Ministry of Industry and Trade partnered with Visa to provide farmers with Tap to Phone technology that transformed their mobile phones into payment machines. This development is crucial for two reasons: first, the smartphone penetration among the population in Vietnam was over 68 percent in 2021; second, through Visa Rapid Seller Onboarding, the new merchant onboarding is much faster than for traditional PoS devices—reducing setup time from weeks to minutes.



Legislative changes could also create the foundation for nationwide acceptance and adoption, depending on the local culture and stage of digital payment adoption. **Saudi Arabia** passed a law in 2020 that obliges retail outlets to provide an option for digital payments: non-compliant business-owners face immediate and severe financial penalties, which increase if the violation is repeated. As a result, in May 2022, only 92 violations were found among the 6,500 businesses investigated. In **Belgium**, legislation requires that all consumer-facing companies offer their customers at least one way to pay for their purchases electronically from July 1, 2022 onwards. Businesses that fail to comply face a fine of up to USD80,800 (EUR80,000) or 4 percent of the infringer's total annual turnover⁶ if this amount exceeds USD80,800 (EUR80,000).

To help develop the acceptance infrastructure, it is important that governments launch supporting initiatives. Educational programs not only increase awareness of the benefits of digital payments, but also reassure small and rural business owners that the required level of technical proficiency is within their reach.


⁴ Merchant Service Charge is a fee paid by the merchant to the acquiring financial institution (e.g., the institution providing the PoS terminal and processing the credit and debit card transactions on behalf of the card issuers).

⁵ The number of terminals in Malaysia as of August 2022 equaled 803,251, which is equivalent to 25 PoS terminals per 1,000 inhabitants.

⁶ Sales revenue.

Case study #1

Cashless Poland: accelerating digital payment acceptance

Country Poland 	Initiative timeline Launched: <u>2017 (functionally, began to operate in 2018)</u> Status: <u>Ongoing</u>	Key information: Scope: <u>500,000 PoS terminals disbursed as of February 2022</u> Impact: <u>Number of PoS terminals growing from 625,000 in 2017 to 1.12mn in 2021, with around 67 percent of all merchants utilizing PoS terminals in Poland doing so through technology distributed through the initiative</u>
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Despite advances, digital payments constituted a minority of all transactions in Poland in 2015. At the time, the share of digital transactions in the value of all card payments was around 38 percent—a result of low penetration of PoS terminals among merchants who forced consumers to pay in cash for goods and services in many locations.

The Polish Ministry of Finance and the Polish Bank Association found that two major factors were holding back adoption of PoS terminals among merchants: transaction fees and the cost of the terminals themselves. In a bid to overcome these barriers, the Cashless Poland initiative was born. Cashless Poland brought together the government, issuers, acquirers, Visa, and Mastercard to offer merchants a free-of-charge time-limited PoS trial—an opportunity that was later extended to public entities. Issuers and card companies covered part of the costs of the initiative based on the number of debit card transactions, while acquirers contributed based on the value of debit card transactions at PoS terminals. The government helped establish the rules of the program and supported it through a clear commitment to a cashless economy.

In its first year alone, Cashless Poland surpassed expectations, distributing more than 100,000 devices—two-thirds of all terminals added to the market in 2018. After four years, around 350,000 participants had joined the cashless economy through the program. To date, according to an industry expert, 60–80 percent of new machines on the market were installed through the initiative.

With approximately 500,000 devices installed through the end of 2021, the program has almost doubled the number of PoS terminals in Poland, going from 625,000 in 2017 to 1.12mn in 2021. The program's great success led to extending it to the public sector.

The simplicity of the program is a key factor in its success: since March 1, 2022, any business with no payment terminals installed in the previous 12 months is eligible to receive one PoS machine at no MSC for a cumulative amount of up to USD8,670 (PLN42,000). To participate, merchants and public entities alike must contact their preferred terminal supplier from the list of leads available on the Cashless Poland website. Upon clearance, they can operate a PoS terminal for five months⁷ at no transaction costs. Once the free period ends, merchants can continue using the equipment according to the fees set by the acquirer—an option that is currently taken up by more than 90 percent of participating companies.

The program offers benefits for businesses and the government alike. PoS terminals allow businesses to remain competitive—reaching customers that increasingly prefer to pay without cash. During the COVID-19 pandemic, the value of cashless transactions⁸ in Poland increased from 48 percent of all card transactions in 2019 to 54 percent in 2021. Given the growing popularity of digital payments, their acceptance by SMBs is quickly becoming a necessity, rather than an optional extra. Due to its success, the Cashless Poland program has been extended until 2025, and may continue beyond this date.

⁷ Originally PoS terminals were offered free of charge for 12 months, but the timeframe was decreased to five months so that a larger number of SMBs could be addressed with the same amount of funds.

⁸ Card transactions that exclude cash withdrawals from ATM/banks and cashback.



Challenges overcome



Cost efficiency



Convenience



Reduction of the shadow economy



Competitiveness



Reach

5.2. Utilizing fiscal incentives to encourage digital payment adoption

Economies that already have solid acceptance infrastructure—but a comparatively low number of digital payments—can use tax rebates, discounts on transactions, and tax lotteries to encourage the use of digital payments.

Tax rebates for individuals

By lowering taxes for individuals who use digital payments, governments can incentivize more frequent and more extensive use of cashless payments as a proportion of personal spend. The government gives up part of its tax revenue, but the use of digital payments increases the transparency of transactions and improves tax compliance in the process.



For example, studies conducted in **Greece** show that a 1 percentage point increase in the share of card payments in private consumption results in approximately 1 percent higher revenue through increased compliance (see: Case study #2 – Tax rebates drive adoption of digital payments among citizens).



Other countries have also used tax rebates to positive effect. The Tax Incentive for Electronically Traceable Payments was introduced by the South Korean tax authorities in 1999⁹ to promote payments made using credit cards, debit cards, and electronic cash receipts in business to consumer transactions. The program offered tax deductions from taxable labor income. Through an automated process, wage earners can claim their tax deductions by confirming prefilled credit card transactions data forms provided by tax authorities. The incentive generated total gross effect of USD2.7bn (KRW3.4tn) for the Korean government. Overall, the net gain equates to USD1.3bn (KRW1.4tn), generating a 4.2 percent increase in personal income tax collected.

Discounts on transaction values

Besides offering an income tax refund—typically just once a year—governments may also use more immediate measures, such as deducting value-added tax (VAT) from transactions made using digital payments. Many governments in Latin America offered such discounts both for credit and debit card transactions at the moment of purchase in the last two decades.



In **Argentina**, the government rewarded its citizens for using debit cards with a discount of 5 percentage points¹⁰ up to a maximum USD108 (ARS1,000) on every transaction between 2001 and 2017. In Colombia, the government ran a program between 2004 and 2014 granting a VAT rebate of two percentage points for card purchases.



The measure can also apply to non-residents—an increasingly important benefit in the post-COVID world when countries are focusing on rebuilding their tourism sectors. To speed up the return of Argentinian tourists to **Uruguay**, authorities offered a 22 percent VAT discount on transactions made on foreign cards in the hospitality sector in 2022. Although impact estimates are not yet available, previous initiatives have shown positive results. A study based on data from Uruguay about the effect of financial incentives on the adoption of electronic payment technology shows that the introduction of VAT rebates is associated with a 50 percent increase in the number of card transactions and an almost 30 percent increase in the volume of card transactions.

"To speed up the return of Argentinian tourists to Uruguay, authorities offered a 22 percent VAT discount on transactions made on foreign cards in the hospitality sector in 2022"

⁹ The program launched in 1999 and, with several changes, is still operational today.

Tax lotteries

Fiscal lotteries offer governments another way to accelerate the adoption of digital payments. Citizens enter by supplying proof of digital payment for their purchases and winners receive financial rewards. Lotteries were utilized in several European countries, attracting high levels of participation.



The Government of **Serbia** launched a public lottery as part of a campaign to strengthen the tax culture and raise awareness of the informal economy, encouraging citizens to take fiscal slips with every purchase made by card payment. More than 100mn receipts were delivered to tax authorities as a result, with an estimated 41 percent of the population participating. In the same period, the number of card transactions increased by almost 19 percent.



In **Romania**, the government invited people to take part in a monthly raffle as part of a drive to improve VAT compliance. After its first iterations in 2015, the Ministry of Public Finance reported a VAT increase of 5.85 percent. The lottery's success saw it extended by five years.



In **Brazil**, the state has been running a tax lottery since 2007 and studies estimate that it allowed authorities to raise collected tax revenue net of rewards by 9.3 percent¹⁰.


While these measures have an indirect impact on SMBs, they offer an important direct benefit: they can motivate small merchants to install PoS terminals and accept digital payments.

¹⁰ Calculations without including the additional administrative (advertisings, salaries, etc.) and welfare costs on final consumers (time needed to enroll, get the tickets, etc.).



Case study #2

Tax rebates drive adoption of digital payments among citizens

Country	Initiative timeline	Key information:
Greece 	Launched: <u>2017</u> Status: Ongoing	Scope: All Greek residents (-10.7mn) Impact: # digital transactions <u>grew from 1,067mn in 2017 to 2,146mn in 2021</u> (e.g., from 99 transactions per person in 2015 to 201 in 2021 ¹¹) # PoS terminals <u>grew from 544,091 in 2017 to 836,619 in 2021</u> (e.g., from 51 PoS devices per 1,000 persons in 2017 to 78 in 2021 ¹¹)

Greece has long been known as a cash economy due to its aging population, large number of people without internet access, and limited incentives to use digital payments. In 2016, 75 percent of total transaction value in Greece was in cash—compared to an EU average of 54 percent—allowing the informal economy to thrive. With roughly between 1.9 percent and 4.7 percent of annual GDP revenue estimated to be lost to personal income tax evasion and an additional 3.5 percent of GDP to VAT fraud, the government was prompted to accelerate the use of digital payments.

Tax rebates—also known as Electronic Consumption Tax Discount (ECTD)—were offered to citizens whose share of electronic payments as percentage of their taxable income passed a certain threshold. Under the ECTD, part of citizens' income would be tax free, provided it was spent through digital payments including cards and online banking. The discount could be applied to nearly any category of everyday spending, except loan installments, purchase of real estate and vehicles, or investment in stocks.

The value to be spent through digital payments is determined based on the individuals' income. A resident earning up to USD10,500 (EUR10,000) per year needs to spend 10 percent digitally, while those earning USD31,500 (EUR30,000) and above must spend 20 percent¹². If this amount is not reached, individuals face a penalty: a 22 percent tax on the difference between the minimum qualifying value and the value actually spent through cashless methods.

To track the spend of each taxpayer, the Greek government uses data collected through financial institutions. Greek banks send aggregate data on digital payments to the tax authority, which match individual tax IDs with account holders' IBANs¹³.

These are then used to return an annual use of digital payments for consumption. The value appears directly in the tax returns of the following year, with taxpayers able either to accept or modify the pre-filled amounts.

The simplicity of this approach gave people a strong incentive to use the tax rebate: out of the 50,000 taxpayers selected randomly in a study, 73 percent passed the threshold for a full tax discount based on actual electronic spending (as reported by the banks to the tax authorities). The number of qualifying individuals increased to 92 percent when taking into account those who made changes to their tax returns in order to fulfill qualification requirements. This ECTD translated into a widespread use of digital payments throughout the nation, with the number of digital payments growing from 1.07bn in 2017 to 2.15bn in 2021—effectively doubling in this four-year period. Close to 70 percent of these transactions were conducted through cards in 2021¹⁴. This shift also saw businesses adjust—increasing the number of PoS terminals from 544,091 in 2017 to 836,619 in 2021.

The shift toward cashless payments has benefited citizens and the government alike. Between 2016 and 2019, the Greek citizens expressing preference for cash over alternative methods of payments fell by 18 percentage points. The government boosted its ability to monitor the flow of funds in the economy and, in turn, increased its tax revenues. VAT revenues rose from USD16.8bn (EUR12.7bn) to USD17.2bn (EUR15.4bn) from 2014 to 2019—an increase of over 21 percent.

¹¹ Kearney calculation based on ECB data.

¹² Minimum spend rate with electronic transaction and card-based payment instruments (progressive application): for amounts between EUR 1-10,000 = 10%; between EUR 10,000,01-30,000 = 15%; EUR 30,000,01 and above = 20%; and up to a maximum amount of EUR 30,000.

¹³ International Bank Account Number.

¹⁴ Kearney calculation based on ECB data about number of digital transactions (2,146mn) and number of card payments (1,492.8) in Greece in 2021.



Challenges overcome



Cost efficiency



Competitiveness



Convenience



Reach



Reduction of the shadow economy

5.3. Democratizing SMB access to lending

Government loans and grants to SMBs is not a new development. But the COVID-19 pandemic and slowing economic growth heightened SMBs' exposure to a variety of risks making rapid access to funding more critical than ever. Yet, many SMBs do not meet the minimum criteria to secure funding through the banking system, leaving them in a precarious situation.



Studies estimate that without government support, the failure rate of SMBs during the COVID-19 pandemic would have increased by an estimated 9.1 percentage points. In the **U.K.**, SMBs in the retail, hospitality, and leisure sectors received cash grants of between USD12,800 (GBP10,000) and USD32,000 (GBP25,000) during the first few months of the pandemic. **Canada** eased the accessibility of loan schemes through expansion of the group of potential beneficiaries, simplification and acceleration of loan procedures, and offer of more favorable terms and reduced interest rates. In addition, some nations provided SMBs with grants and loans specifically designed to be spent on digitalization measures: **Germany** provided funds of up to USD58,500 (EUR50,000) for SMBs willing to digitalize, covering up to 40–70 percent of the amount.



Despite governments' best intentions, the financing gap for SMBs is often too large to be tackled through public help alone. For example, in the **U.K.**, the total value of loans needed to support small firms is estimated to be as high as USD29.2bn (GBP22bn). In the **EU**, among those SMBs that judged bank loans to be relevant for their funding, 8 percent faced obstacles to obtain a loan, compared to slightly more than 4 percent of large enterprises. The credit gap is even larger in emerging markets and developing economies, where it is estimated at USD4.5tn as of 2017 and represents the unmet financing needs of 21mn SMBs.

There are a number of reasons for the large SMB financing gap, especially relevant for emerging markets and developing economies. On the company side, there are often discrepancies between the financial data reported by SMBs and the actual state of financial affairs. Prevalence of cash transactions means that the reported data is often different from the true sales and profitability. Lack of formalized bookkeeping systems results in companies qualifying for much lower loan amounts than what is needed. Collateral requirements are too high for many micro and small enterprises. According to an OECD study, SMBs are usually charged higher interest rates compared to large enterprises due to their inherently riskier profiles as borrowers.

To address the financing gap for SMBs, fintechs have started to analyze companies' credit risk in innovative ways. They leverage digital payments data often obtained from PoS transactions in order to gain insights into the operational performance and technology sophistication of SMBs and as a result, they become more efficient in screening high- versus lower-quality borrowers. Fintech lenders screen borrowers more efficiently when borrowers use more cashless payments that produce transferable and verifiable information. Mobile banking, (international) mobile payments, and the use of alternative data for credit risk assessment can significantly reduce information asymmetries and transaction costs, reducing SMB structural barriers in accessing finance. Knowing that a higher use of cashless payments leads to a higher likelihood of obtaining a loan can create a virtuous cycle in which SMBs adopt digital payments, creating demand-side pressure. Larger use of verifiable cashless payments (relative to cash) predicts a higher chance of loan approval, a lower interest rate, and lower default.

This demonstrates the tangible value of payment infrastructure and digital payment adoption. By supporting digital payment adoption and penetration, the public sector can also create indirect benefits for the SMB sector—for example, by spearheading better access to finance, especially for smaller companies, as a means to support economic growth and sector resilience.

5.4. Facilitating SMB access to public procurement and digitalizing SMB-initiated payments

The acceptance of digital payments by SMBs gives consumers a more efficient and convenient way to pay for goods and services. But the use of digital payments by SMBs to make payments to the public sector, suppliers, and other business partners is key too. It also empowers SMBs to optimize and automate their internal operations—from e-invoicing of suppliers and business partners through more efficient accounting and inventory holding to easier filing and reconciliation of taxes and social security for employees.

According to a Visa study, 83 percent of SMBs agree that digital payments help them manage their business more effectively. In this context, there are three key measures that governments can use to incentivize and support the digitalization of SMB-initiated payments:

Government as a role model for adoption of digital payments

Given the magnitude of public sector payments, governments have the opportunity to influence through their own practice the way in which others pay. Mandatory acceptance of digital payments or adoption of e-invoicing are measures that permeate through the entire economy and foster adoption by companies working with the public sector such as suppliers or subcontractors.



In **Mexico**, the mandatory e-invoicing implementation brought an estimated 4.2mn micro-enterprises into the formal economy and **Australia** expects that e-invoicing could result in benefits to the Australian economy of USD20bn (AUD28bn) over 10 years.

Simpler and less costly access to public procurement

As the largest buyer in each country, governments have the opportunity to improve SMB access to public tenders—for example, by breaking up large contracts into smaller lots; by ensuring bid eligibility requirements (such as company sales revenue, years in business, or previous references with the public sector) do not automatically disqualify SMBs; and primarily, by reducing the administrative burden for SMBs to qualify and bid for public tenders.



Especially government procurement e-marketplaces can make a significant difference, such as the **Indian Government e-Marketplace (GeM):** 57 percent of the total business on GeM has come through SMBs and over 6 percent has been contributed by women entrepreneurs. E-procurement and a 2014 change of the EU regulatory framework to foster SMB involvement in public tenders have contributed to the over 60 percent share of public contracts awarded to SMBs in 15 out of 27 EU member states, even more than 90 percent in **Latvia** and **Malta.** What's more, the public sector can support SMBs once they become public sector vendors. Many SMBs—particularly those for whom cashflow is a critical factor—benefit from being paid faster—for example, by card—with funds received in as few as two or three days.

Grants, tax rebates, and subsidized loans for digitalization

The cost of technology is one of the key factors deterring SMBs with small budgets and limited resources from adopting new digital tools¹⁵. To help eliminate this obstacle, governments have set up specialized programs to support SMB digital enablement.



The government of **Malaysia** provides a 50 percent matching grant of up to USD1,160 (MYR5,000) per company to SMBs interested in digitalizing their operations in one of seven areas, including e-commerce, e-PoS, and ERP¹⁶ for accounting and tax. Likewise, **Australia's Technology Investment Boost** program allows small businesses to claim a 20 percent tax deduction for expenses on digital technology with an annual cap of USD71,000 (AUD100,000), as part of budget measures expected to cost the government USD1.14bn (AUD1.6bn) in tax revenue.

¹⁵ Along with technical skills and efficiency, adoption challenges, and lack of organizational and governmental support.

¹⁶ Enterprise resource planning.



6. Takeaways

SMBs that digitalize their businesses and their payments stand to reap some significant benefits. Yet, a sizable number pay their suppliers with checks, provide discounts to clients for cash payments, and spend hours trying to organize hundreds of paper payment slips and invoices. The COVID-19 pandemic highlighted the importance and benefits of SMB digitalization in reducing sector vulnerability and improving resilience. Going forward, the lessons learned from the pandemic can be translated into clear actions for national governments:

01

Create a supportive environment for SMB growth and prosperity

Governments can play a central role in driving the digital transformation of SMBs. A selective, concerted, and widely communicated nationwide strategy for promoting SMB digitalization is the intuitive starting point. But governments must consider basing their strategies on clearly defined goals, bold yet realistic commitments from the public sector to support SMBs, and regularly tracked success measures. This means creating an environment where entrepreneurship is encouraged and supported, and where small businesses can not only survive, but thrive. Clear commitment to the SMB sector—for example, through more efficient public services, supportive regulation and tax regimes, and lower cost to participate in public procurement—not only can strengthen the sector, but also improve the prosperity of all stakeholders in the economy.

02

Be proactive advocates for the adoption of digital payments

Governments are responsible for supporting the adoption of digital tools and reducing the barriers to their adoption—and they have the power to make it happen. Governments oversee the development of digital infrastructure needed to enable the digitalization of SMBs. They can also create incentives for SMBs to try digital tools without risks to their business, using subsidized credit, tax incentives, or grants to generate renewed momentum for business digitalization. They can use legislation and their influential position in the economy to drive digitalization—such as mandatory electronic invoicing for G2B and B2B transactions or prohibiting cash transactions above a certain limit—creating legal certainty over the digitalization course and leading good practices in the economy by example. And governments need to work proactively with the payments ecosystem to develop complimentary policy that sets the conditions for innovation, open access, high security, and resilience for all participants. Public and private sector collaboration is critical to a well-formed policy platform. Through such measures, governments can implement a two-way push-pull approach—carrot and stick—to drive the digitalization of the SMB sector.

03

Design ongoing education and training programs on the benefits of digitalization

Initiatives that educate SMBs on the advantages of digitalizing their business play a crucial role in driving digital engagement. Educational and training opportunities for SMBs about sector-relevant digital tools and skills can help them identify the best digital technologies for their business, while understanding the requirements and costs of implementation. Supporting SMBs on the digitalization journey—from the adoption of their first digital tool to a holistic digital transformation of their business—represents a significant opportunity for improving productivity and growth in the SMB sector and in the entire economy.

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About Visa

Visa Inc. is a global payments technology company that connects consumers, businesses, financial institutions, and governments in more than 200 countries and territories to fast, secure, and reliable digital payments.

At Visa Government Solutions, our mission is to help governments as they seek to advance their economies. We seek to make public disbursement programs more inclusive and impactful; help government employees execute payments in their daily roles more conveniently and with greater transparency; simplify government revenue collection for payers through better customer experience and provide payment data insight and measurement to governments to help inform and shape their policies.

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