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# DRIVING DIGITAL COMMERCE FOR SMALL AND MEDIUM-SIZED BUSINESSES MIDDLE EAST AND NORTH AFRICA

On 30 September 2020, the Financial Times held a Digital Dialogue in partnership with Visa on the theme of Driving Digital Commerce for Small and Medium-Sized Businesses in the Middle East and North Africa. Hosted by Barney Jopson, Executive News Editor at the Financial Times, the event featured insights from a panel of experts and industry leaders in the region. It examined the challenges and support systems for small and medium-sized businesses operating in the Middle East and North Africa as they adopt new digital tools and resources to a post-pandemic era.

## MODERATOR

**Barney Jopson**, Executive News Editor, *Financial Times*

## PANELLISTS

**Marcello Baricordi**, General Manager for Middle East and North Africa (MENA), *Visa*

**Ibrahim bin Hamad Al Rashid**, Executive Director, Social Development Bank, *Saudi Arabia*

**Barbara Rambousek**, Director of Gender & Economic Inclusion, *European Bank for Reconstruction and Development (EBRD)*

**Natalia Sycheva**, Entrepreneurship Head, *Dubai Chamber of Commerce & Industry*

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## **SUPERCHARGED DIGITISATION: THE COVID-19 EFFECT**

Digital technology has been transforming businesses in the MENA region for decades. E-commerce and e-services have long been recognised as important engines for growth across all sectors. The arrival of Covid-19 in the region, however, has led to a ‘supercharging’ of these trends, with digital tools increasingly being adopted by consumers seeking to shop online and to maintain social distancing in brick-and-mortar stores. Unfortunately, the rapid increase in consumer trust in digital services has created serious challenges for many SMEs. As noted by Marcello Baricordi, General Manager for the MENA region at Visa, “more than 50% of the people in the UAE and in Saudi Arabia made their first e-commerce grocery shop during Covid-19. At the same time, 66% of the people [...] dropped the usage of cash because either they were afraid of using it or because they didn't have a place to use it.” Although merchants quickly realised that e-commerce channels were critical to survival within this new ‘digital’ normal, the speed of the paradigm shift meant that “in a matter of a few weeks, entire businesses were not in a position of earning the revenues that they’re used to”.

## **A COMPLEX PICTURE: OPPORTUNITIES, DISPARITY AND RISK**

Despite these challenges, the impact of Covid-19 for SMEs in the region has not been uniform. Certain market shifts have benefitted SMEs, such as increased consumer focus on supporting local businesses and stores that share customers’ values. These benefits have been enhanced by the disruption of global supply chains, which has meant that consumers have sometimes been unable to procure services and products from their preferred merchants and, thus, have turned to local suppliers. As highlighted by Natalia Sycheva, Manager of Entrepreneurship at the Dubai Chamber of Commerce and Industry, this has generated “many more opportunities to the new entrants in the market, when locally based smaller companies were able to provide and offer new products to the consumers”.

There are, however, significant disparities in the degree to which different SMEs have been able to adapt to and capitalise upon shifts in consumer habits and disrupted supply chains. Unsurprisingly, the greatest difficulties have been faced by SMEs operating in hard-hit sectors, such as retail and tourism. In addition to this, there exist significant trans-national variations in the digital ecosystem, infrastructures and support packages available to SMEs within different nations. This has reduced the capacity for SMEs in certain nations to create integrated digital systems for marketing, selling and delivering products.

As outlined by Barbara Rambousek, Director of Gender & Economic Inclusion at the European Bank for Reconstruction and Development, women have also been disproportionately affected by the pandemic. In large part, this is due to the fact that they tend to hold job roles that are 1.8 times more likely to be directly vulnerable to the crisis and are more heavily employed in sectors that have been hardest hit by the pandemic. This is compounded by the fact that women are more likely to shoulder the bulk of family care responsibilities and tend to be more averse to taking risks on loans and financing.

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Alongside these factors, SMEs face a fundamental challenge competing against eCommerce giants such as Noon and Amazon, particularly given increasing consumer focus on ‘value for money’. Competition in this new digital landscape requires significant investment in IT infrastructures and the recruitment of staff who are capable of creating targeted digital marketing and sales campaigns. Affording such outlays is challenging for many SMEs, especially start-ups that haven’t yet reached their break-even point. As argued by Ibrahim bin Hamad Al Rashid, Executive Director of the Social Development Bank in Saudi Arabia, despite the theoretical capacity of SMEs to adapt to and disrupt markets, these contexts may still mean that “the number of enterprises that will go out of business will increase dramatically”.

### LEVERAGING FINANCIAL SERVICES SUPPORT

Given these contexts, financial services providers across the region have sought to increase their support mechanisms for SMEs. As noted by multiple panellists, a key component of this support is helping SMEs to reach new regions and new markets, as well as engaging with existing consumers in new ways. Banks such as the EBRD, for example, are providing online advisory support as well as access to local mentors and consultants, in order to help clients across the entire digital value chain; from creating online brand identities and customer journeys, to digitising their inventories and accessing delivery and freight services. Similarly, as highlighted by Marcello Baricordi, alongside their expansion of contactless payment systems to attract customers back to brick-and-mortar stores, Visa has been able to use its big data capacity to drive awareness and support for local businesses across Visa cardholders (through its ‘Where You Shop Matters’ campaign), as well as creating tailored marketing campaigns for SMEs.

Alongside these personalised services, banks and financial services providers have sought to rapidly develop online resources for SMEs, such as the EBRD’s ‘Know How Academy’ or Visa’s ‘SME Business Hub’. These online portals bring together data such as guidance on starting a business, information about country-specific resources, videos from experts across different sectors, and interactive training on pivoting towards digital technologies. As noted by Ibrahim bin Hamad Al Rashid, another option available to SMEs seeking to better navigate local markets in this new context is to partner with local FinTechs with pre-existing links to the digital ecosystems within a country. Gaining such partnerships and understanding local dynamics and supply and demand equations is particularly important for SMEs seeking to gain funding from local banks and financiers.

### THE ROLE OF GOVERNMENT

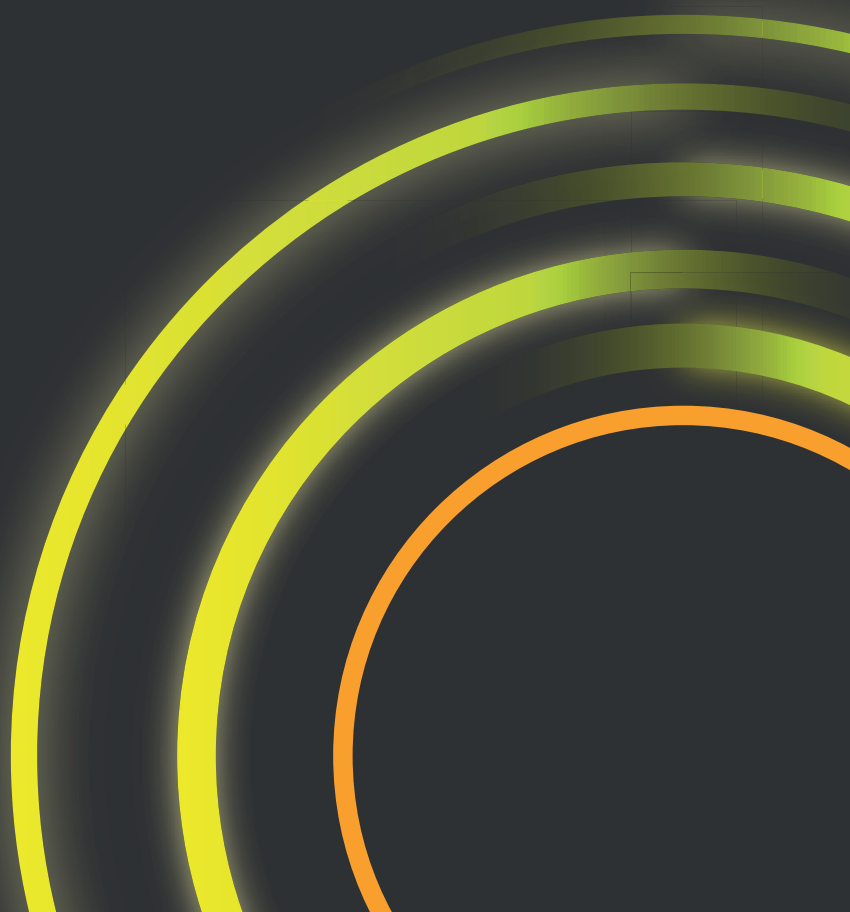
Similar to financial services providers, governments have also been seeking to increase investment programmes and support mechanisms for SMEs during the pandemic. The most obvious examples of this have been in the allocation of government loans for small and medium businesses, such as Saudi Arabia’s dedicated 6bn Riyal (USD\$ 1.6bn) SME stimulus package, which led to a 500% increase in delivery volumes in Q3 of 2020 (in comparison to Q1). As noted by Natalia Sycheva, however, in addition to enabling SMEs to enhance their digital marketing and payment systems, governments must also invest across the whole complex value chain that underpins e-commerce, from original manufacturers, suppliers and warehousing, through to the transport and logistics infrastructures required for last-mile distribution and delivery.

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This necessity has resulted in a renewed focus across governments and the business community on solving potential inhibitors to digitisation, through activities such as investing in better broadband infrastructures, e-authentication and e-signature systems; building the regulatory capacity to reduce transaction costs and increase e-payment options at the point of sale; and providing business clinics and programmes to connect start-ups to corporations, government agencies, venture capital and angel investors suited to their product or services.

Perhaps above all, however, as argued by multiple panellists, governments must enhance public awareness of the benefits of digitisation and the support systems already available for digitisation. Options to achieve this include increasing digital literacy training in schools and creating public campaigns to enhance trust in digital payments. At the same time, governments must also enhance regulations, financial inclusion strategies, advisory support and market access programmes to mitigate the specific challenges faced by entrepreneurs from different backgrounds (e.g. gender, credit history, access to finance) as well as SMEs at different stages of maturity.

Most importantly, governments need to invest in better communications to counteract the broad lack of awareness that many SMEs have regarding the government support services and mechanisms that already exist, as well as providing better guidance to SMEs to help them navigate the significant volume of information about these services and mechanisms. As summarised by Barbara Rambosek, “governments actually want to help, but they don't go about it in a way that actually reaches SMEs directly [...], and where they are aware there are huge transaction costs for the businesses to actually tap into those services”.



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## KEY TAKEAWAYS FROM THE EVENT

**CONSUMER TRENDS:** Covid-19 resulted in significant changes in customer habits across the region, with increasing focus on value for money, household essentials and supporting local businesses, as well as a greater uptake of and comfort with online services.

**Opportunities for SMEs:** In a number of instances, the disruption of global supply chains and shifting customer values, resulted in increased community support and growth for local SMEs.

**CHALLENGES FOR SMES:** Unfortunately, there is significant disparity in the degree to which SMEs in individual sectors and countries have been able to adapt to these changes. SMEs still face challenges competing with larger businesses and raising capital to invest in digital services and digitally literate staff.

**GENDER DISPARITY:** Women have been disproportionately affected by job losses due to their placement in job roles and industry sectors that have been hardest hit by the pandemic. Regulatory responses and financial inclusion strategies need to account for this disparity.

**FINANCIAL SERVICES SUPPORT:** There exist a range of private sector services to help support SMEs, including campaigns to drive cardholders to local businesses, cyber-security support, digital training, access to big data for targeted marketing campaigns, and contactless payment systems for brick-and-mortar stores.

**GOVERNMENT SUPPORT:** Many governments are already seeking to remove bottlenecks for digitisation, such as investing in broadband infrastructures and providing business clinics and market access programmes. Unfortunately, there is a significant lack of awareness about these offerings across many SMEs.

## AUDIENCE POLL RESULTS

Two polls were carried out during the interview to gauge the audience's perspectives on the readiness of countries in the region to support the growth of start-ups, as well as the level to which there has been a noticeable shift towards digital payments over the past decade.

How ready is your country to support the growth of start-ups as compared to the past 10 years?



How would you describe the shift in the type of payments in your country today as compared to the past 10 years?

