



THE DIGITAL SME

How are small and medium enterprises in the Middle East and Africa embracing a digital future?



INTRODUCTION

Digitalization is central to sustainable SME growth

A building materials store in Sub-Saharan Africa wants to expand into another city, while an aggregator of grocery stores in one of the Gulf Cooperation Council (GCC) countries and a tailoring boutique in Egypt are seeking affordable e-commerce solutions. These represent the small and medium enterprise (SME) sector, which encompasses 90% of businesses¹, creates 7 out of 10 jobs in emerging markets² and 10% to 40% of all formal employment in the Middle East and North Africa (MENA) region³.

Keenly aware of the enabling role that SMEs across sectors play in economic growth, governments, policymakers, and businesses are developing ecosystems that empower them to succeed.

Globally, as in the Middle East and Africa (MEA) region, the dependence on cash and the lack of access to credit are some of the key factors holding back small businesses from growing to their full potential. How to pay, and get paid, while having enough credit to grow the business – these are universal concerns.

Empowering an SME starts with understanding the challenges it faces, in each region, country, and sector. To understand regional SMEs better, Mastercard conducted a wide-ranging survey to gauge the business confidence as well as the needs of these companies. The Mastercard MEA SME Confidence Index 2021 reveals that while SMEs in MEA are generally confident about business growth in the post-COVID recovery period, digitalization is one of the biggest opportunities as well as a challenge.

For SME digitalization to reach full potential, the nature of doing business needs to be understood. SMEs are late entrants in adopting digitalization for many reasons. The key one is a preference for trading in cash in SMEs, particularly those that are part of the informal sector. Absence of technology solutions applicable to the specific business / sector is also a hindrance.

This is broadly in line with global findings. According to the Organization for Economic Cooperation and Development (OECD), up to 70% of SMEs globally have intensified their use of digital technologies in the wake of COVID-19. However, the gaps in SME digital adoption have not been filled. The challenges include access to infrastructure, lack of a data culture and digital awareness, and financing gaps for transformation costs, among others⁴. The International Finance Corporation (IFC) estimates the SME financing gap at USD 5.2 trillion every year in developing countries².



The diversity of needs – as is evident in the Index – mandates a diversity of solutions, whether they are based on QR codes or on building in credit card capabilities for a natural migration to electronic payments.

A digitalized SME has the capability of reaching a large universe of customers and suppliers quickly, safely, and efficiently. Never was this more evident than it is now, when consumers have made clear their preference for contactless digital payments and traditional supply chains have been disrupted.

To support SME growth, in April 2020, Mastercard announced its USD 250 million pledge to micro and small businesses across the globe in financial, technology, product, and services support over the next five years. Mastercard has made a global commitment to bring 50 million MSMEs (micro, small, and medium enterprises) , including 25 million women entrepreneurs, into the digital economy by 2025. Of these, as many as 10 million businesses are in MEA.

Facets of these initiatives include partnerships with key stakeholders – including governments, Mobile Network Operators (MNOs), Payment Service Providers (PSPs), financial institutions, and social enterprises – to enable greater financial inclusion. Also, it is important to view micro and small businesses as companies rather than individual consumers.

Digitalization of SME operations also brings the benefit of generating data that institutions need to view an SME as a ‘real business’ with potential and make more informed credit decisions. This helps bring small businesses into the financial mainstream.

An empowered SME sector is a growth engine for the economic development of a country. A multi-stakeholder approach to strengthening small businesses is the most powerful way forward to achieve this goal.

Globally, as in the Middle East and Africa (MEA) region, the dependence on cash and the lack of access to credit are key factors holding back micro, small and medium enterprises from growing to their full potential



KEY FINDINGS



Digitalization has progressed globally since 2018, but has seen higher traction among larger corporations and financial institutions than among SMEs.



It accelerated in 2020-21 to enable continuity of business, with 70% of SMEs globally intensifying their use of digital technologies due to COVID-19 restrictions.



Online market platforms are now increasingly in demand as SMEs seek new sales and sourcing channels to replace disrupted supply chains.



Despite proven productivity gains and a keenness to embrace solutions, SME uptake of digitalization is slower in comparison with larger companies.



Access to financing remains a key concern for SMEs worldwide, with the IFC estimating an unmet need of USD 5.2 trillion per year.

THE MASTERCARD MEA SME CONFIDENCE INDEX 2021



In the Middle East and Africa (MEA), business confidence among SMEs is high in the post-COVID recovery period, but access to financing to take the business online is a concern.



74% of SMEs in MEA are optimistic about future growth guided by potential for digitalization, better data, access to credit and upskilling.



67% of MEA SMEs say they believe e-commerce will have a positive impact, ranging from 89% in Kenya and 81% in Nigeria to 50% in the UAE and 56% in Egypt.



Just over half (55%) of MEA SMEs have a company website and less than half (46%) say they have a social media presence, lower than the global average of 70%.



50% of respondents across MEA agree that faster access to revenues and the ease of not handling cash are the biggest benefits of a cash-free economy.



Digital payment methods used by MEA SMEs include mobile (59%), online (49%), and cards (48%).





Digital business in a globalized ecosystem

In a world grappling with the impact of the COVID-19 pandemic in 2020 and 2021, far-reaching business digitalization has been the bridge between the old and the new normal. As countries implemented measures to contain the pandemic, meetings went online, more transactions became contactless, experiences became virtual, and shopping morphed into e-commerce, enabling the world to maintain a business trajectory while also setting the foundation for the future. It is difficult to imagine how a pre-digital world would have coped with the extreme level of mandated physical distancing, without the option to digitalize.

Globally, digitalization has been in the works for some time now, with larger corporations, financial institutions and healthcare majors pledging digital-first strategies even as far back as 2018. Research shows that 89% of organizations had plans to adopt a digital-first business strategy, even though only 44% had fully adopted it in 2018¹. In 2019, it was projected that 40% of all technology spending would go towards digital transformation².

These investments paid off in 2020. Digital adoption took a quantum leap at customer, organization, and industry levels, in some cases cramming a decade's worth of growth into a single year.

Highlights

- Companies recognize that digitalization is essential to stay competitive in a transformed business and economic environment.
- 2020 saw global online retail increase by 22%.
- Consumer preference for contactless has resulted in accelerated availability of such solutions.



Biggest benefits of a cashless economy for small businesses in MEA



50%
Ease of not handling
or processing cash



50%
Faster access
to revenues



50%
More convenient
way of paying
suppliers/employees



48%
More efficient
transactions and
payments across
multiple channels



47%
Less potential
for fraud



45%
Access to new
business growth
opportunities



40%
Credibility with
government
and banks

Source: Mastercard MEA SME Confidence Index 2021

Companies, both large and small, recognize that digitalization is essential to stay competitive in a transformed business environment³.

The largest of these changes – including migration of assets to the cloud, spending on data security, customer demand for online services, and the use of advanced technology in operations – saw accelerated adoption during 2020-21. These are not stop-gap measures. They are likely to stay with us in the long term due to the efficiency gains they bring. E-commerce, for instance, is likely to remain a preference for more than 20%-30% consumers after 2020. Use of digital payments is also expected to stay, in a region historically dominated by cash payments⁴.

It stands to reason that the SME sector, estimated to represent about 80% to 90% of businesses and 10% to 40% of all formal employment in the MENA region⁵, will benefit from embracing digitalization. There are 44 million SMEs in Sub-Saharan Africa, the majority of which (97%) are microenterprises⁶. SMEs across South Africa represent more than 98% of businesses and employ between 50% and 60% of the workforce across sectors⁷.

Businesses have moved operations online, implemented smart working solutions to ensure continuity of business, and overcome disruptions in supply chains.

73%

MEA consumers are shopping more online than they did before the pandemic, according to a Mastercard e-commerce report



Online platforms have played a key role in connecting users to new markets, suppliers or resources. Globally, up to 70% of SMEs have intensified their use of digital technologies due to COVID-19, according to the Organization for Economic Cooperation and Development (OECD)⁸.

70%
of SMEs globally have intensified their use of digital technologies due to COVID-19

The Mastercard MEA SME Confidence Index 2021 shows the impact of the COVID-19 pandemic on SMEs across sectors, products, and services in MEA. Digitalization is a key focus area of the Index, with a spotlight on payments and the continuing evolution of a cashless economy. Many small businesses recognize the benefits of a cashless economy. The ease of not handling or processing cash, faster access to revenues, and more convenient ways of paying suppliers and employees emerge as the biggest benefits of a cashless economy for SMEs, as stated by 50% of respondents across the region.

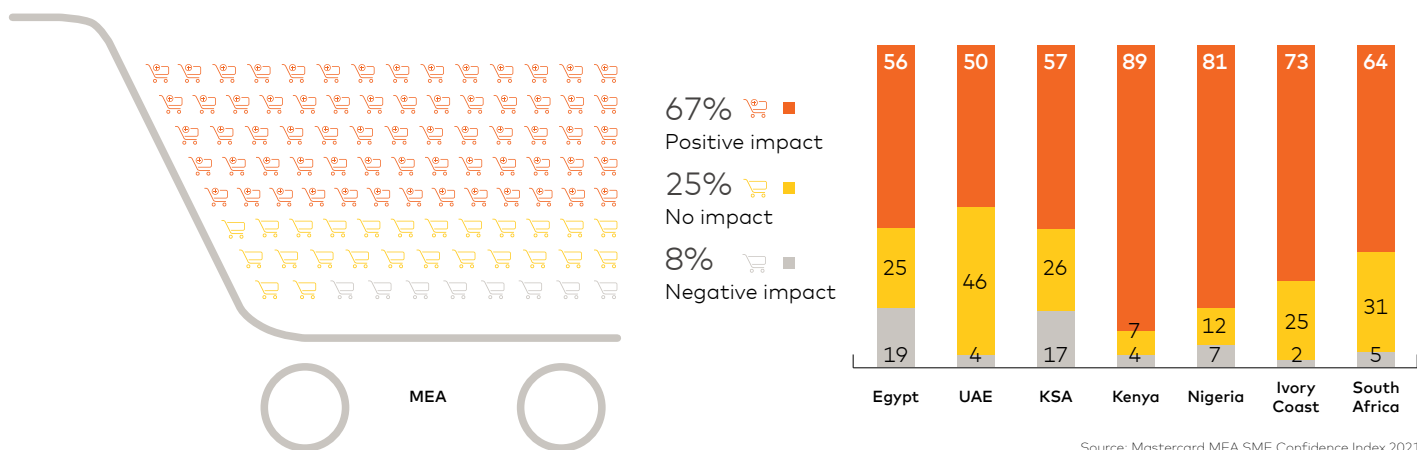
However, despite accelerated digitalization and clear benefits, SMEs face many challenges in digital adoption. Globally, these include lack of access to infrastructure, low interoperability of systems, lack of data culture and digital awareness, internal skill gaps, financing gaps for transformation costs, uncertainty about liabilities and responsibilities when engaging in new digital activities, and the risk of reputation damage, among others⁸.

E-commerce emerges as a preferred channel

E-commerce witnessed unprecedented growth and emerged as the preferred option during 2020-2021 to ensure continuity of lifestyles and livelihoods. Consumers and businesses together fueled an increase in e-commerce's share of global retail trade from 14% in 2019 to about 19% in 2020.



Impact of e-commerce on (future) business



According to an assessment by the United Nations Conference on Trade and Development (UNCTAD), 2020 saw online retail grow by 22%⁹, even though there was a reduction in overall retail sales.

The Mastercard SME Confidence Index 2021 shows that a sizeable 67% of MEA SMEs believe e-commerce will have a positive impact. Depending on the region, this varies between 89% in Kenya and 50% in the UAE. E-commerce channels have emerged a preferred way of doing business for SMEs, who see the value in digitalizing sales via these channels.

1bn

more contactless transactions were completed on the Mastercard network in the first quarter of 2021 compared to the same period of 2020

Businesses sell online via their own website/app, or via online marketplace/platforms, or both. Online platforms - examples of which include Google, Uber, Deliveroo, Amazon, and Whatsapp - connecting two or more independent sets of users, are central to the digital transition of economies and societies. For SMEs globally, these enable access to new sales and sourcing channels, enabling e-commerce sales, among other things.

However, despite proven productivity gains, SME uptake of these aspects of digitalization is less than half in comparison to larger companies. The reasons include lack of digital wherewithal, the cost of listing and selling products and services on aggregator platforms, limited access to shared data, and changing business models⁸.

Contactless grows on customer demand

Early in 2020, more and more consumers adopted contactless payments for everyday purchases as many countries imposed lockdowns to promote physical distancing. About 8 in 10 respondents to the Mastercard Global Consumer Sentiment Survey released in April 2020 said they use contactless payments.

Between February and March 2020, contactless transactions grew twice as fast as non-contactless transactions in the grocery and drug store categories. Mastercard's polling on changing consumer behavior in 19 countries revealed an accelerated and sustained contactless adoption¹⁰. In the first quarter of 2021, Mastercard saw 1 billion more contactless transactions as compared to the same period of 2020¹¹.





Consumer preference for contactless has resulted in accelerated availability of such solutions, including cashless payments for deliveries made to a customer's doorstep.

Bridging the finance gap

Whether it is a small store graduating from taking orders on WhatsApp to selling via their own app, or a micro-merchant using online platforms to find new sourcing channels when the traditional ones are disrupted, digitalization of SMEs is also one of the drivers of job creation.

\$5.2t

is the estimated financing gap facing SMEs worldwide, according to the International Finance Corporation

At the policy level, the potential for private-sector led economic growth has prompted many governments to institute reforms. Countries such as Bahrain, Egypt, Lebanon, and Morocco have dedicated SME strategies. The UAE has laws, while many others including Algeria, Djibouti, Jordan, Qatar, Saudi Arabia, Sudan, and Tunisia have incorporated SMEs into broader strategies such as financial inclusion or national development plans¹².

Currently, SMEs are hampered in their growth efforts due to a finance gap. The International Finance Corporation (IFC) estimates that 65 million firms, or 40% of formal SMEs in developing countries have an unmet financing need of USD 5.2 trillion every year. In the Middle East and North Africa region, this includes 88% of SMEs, with a financing gap of USD 195 billion. In Sub-Saharan Africa, the gap is estimated at USD 331 billion¹³. Providing SMEs with access to formal finance could potentially create up to 8 million jobs in the Arab World by 2025¹².

Depth of credit information and data makes SMEs a more attractive credit proposition for lenders who are traditionally more likely to cater to them as individuals rather than businesses.

In this scenario, digitalization is the pathway for SMEs to realize their full potential in alignment with national developmental priorities, paving the way for better access to credit and enhanced market reach.





Are MEA SMEs ready?

Digitalization of business is a global trend and rewards adopters by enhanced productivity and opportunity. Among MEA SMEs, the extent of digitalization varies by sector and size of business. Digitalization is multi-faceted and can range from having a company website to accepting online payments or taking operations to the cloud.

Highlights

- The top concerns for MEA's SMEs related to operating the business online are lack of financial resources and not having access to the right technology solutions to enable e-commerce.
- Perspectives on digitalization - the barriers, challenges, and opportunities - are divergent across MEA.
- But SMEs across MEA pick faster access to revenue as the biggest benefit of a cashless economy.

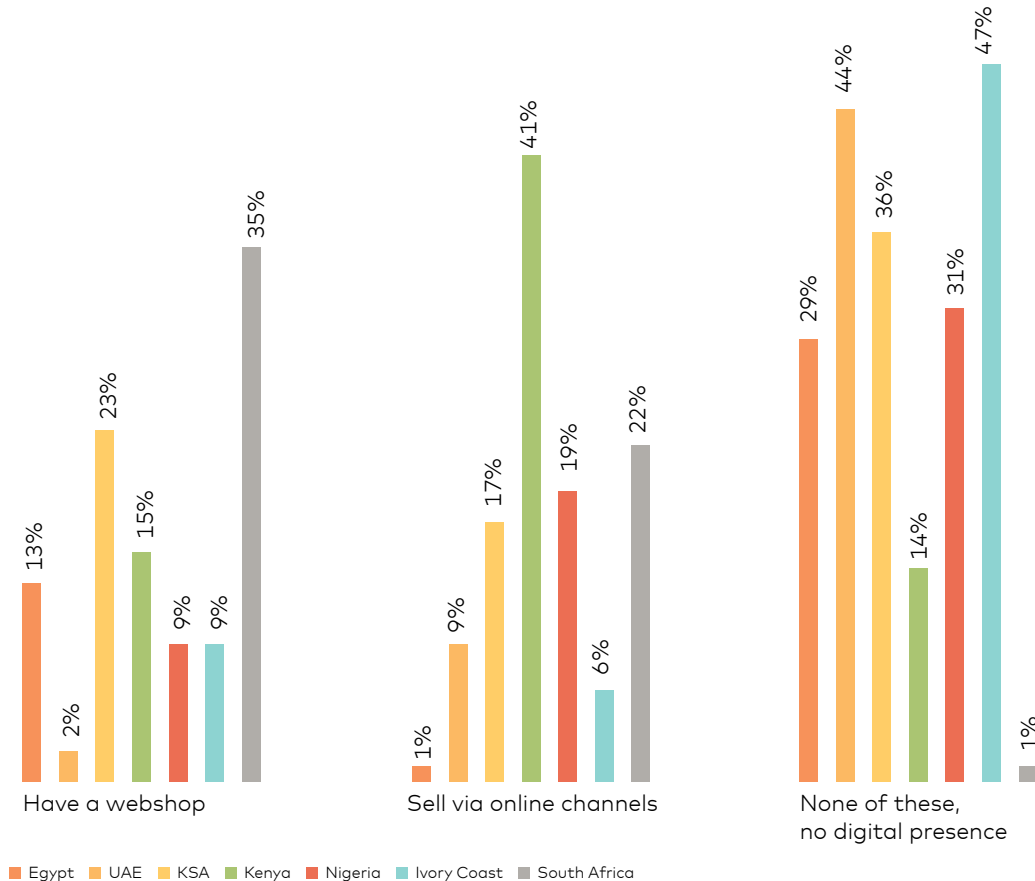
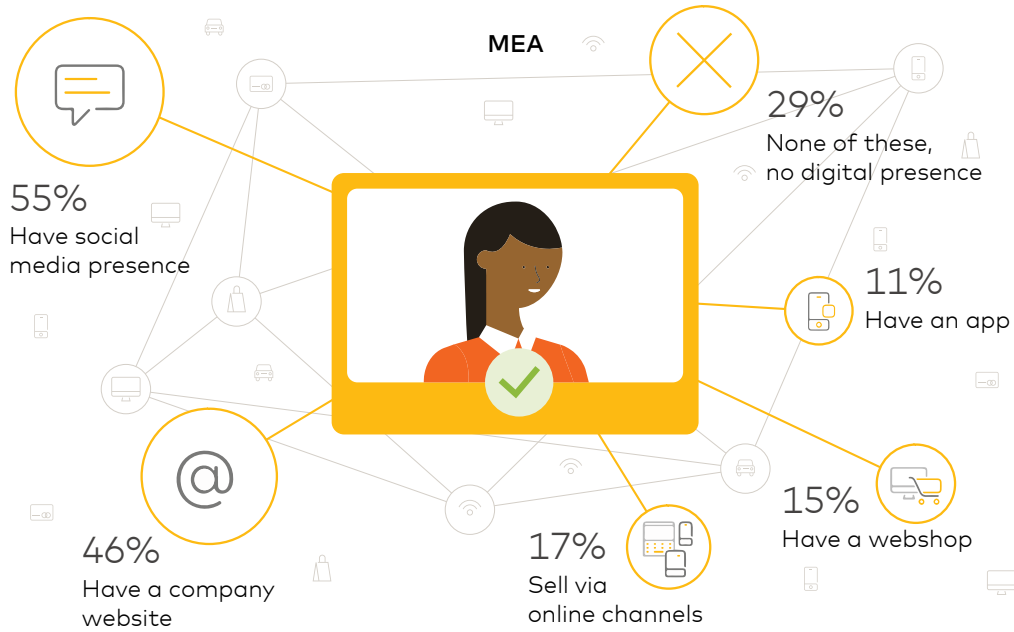
While larger companies have the advantage in digital adoption globally in all technology areas, SMEs tend to digitalize some functions before others. General administration and marketing operations are on this list. SMEs also come close to their larger counterparts when it comes to business-to-government interaction, in using electronic invoicing or social media, or in selling online¹.

According to the Mastercard MEA SME Confidence Index 2021, just over half (55%) of MEA SMEs have a company website and less than half (46%) have a social media presence – considerably lower than the global average of 70%².

In a region where there is high penetration of mobile, smartphone, and digital devices this represents a significant opportunity in providing cost-effective and precise solutions. Absence of technology solutions applicable to the specific business/sector is a hindrance for 15% of SMEs.



Through which digital channels do you conduct business?



Key reasons for the slow adoption of digitalization among MEA SMEs are a traditional preference for trading in cash (26%) and perceived investment costs being too high (25%)

29%
of SMEs in the MEA region say they have no digital presence at all

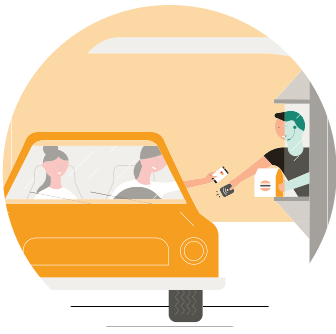
South African SMEs have the highest average number of digital payment methods, followed by those in Ivory Coast and Saudi Arabia



Which digital payment methods do you currently accept?

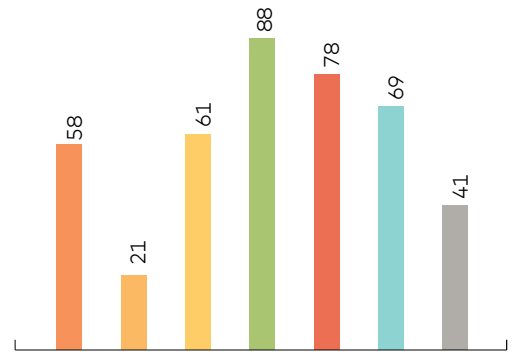
MEA

Select countries



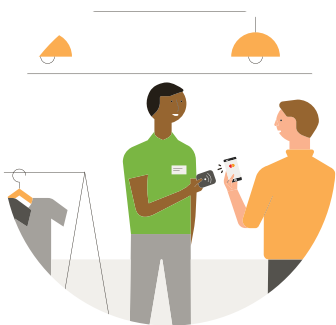
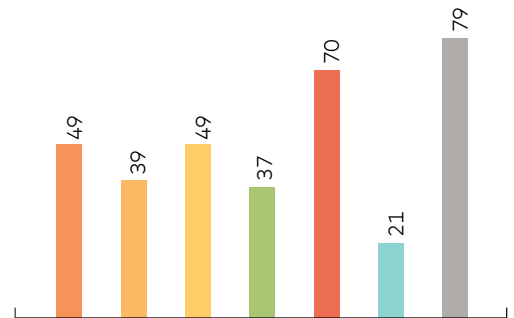
59%

Mobile payments



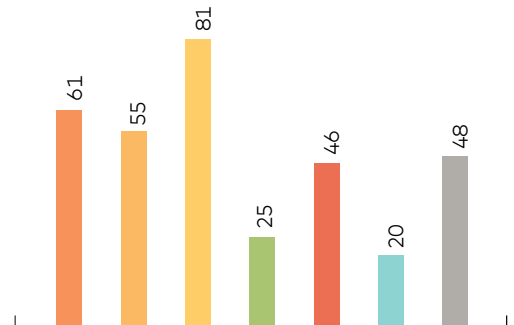
49%

Online payments



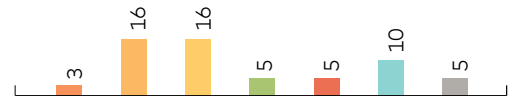
48%

Card payments



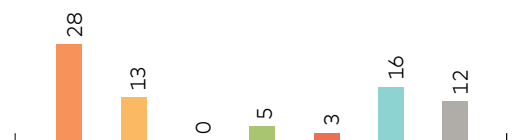
9%

None, but planning to do so within the next 12 months



11%

None, and no concrete plans to do so within the next 12 months



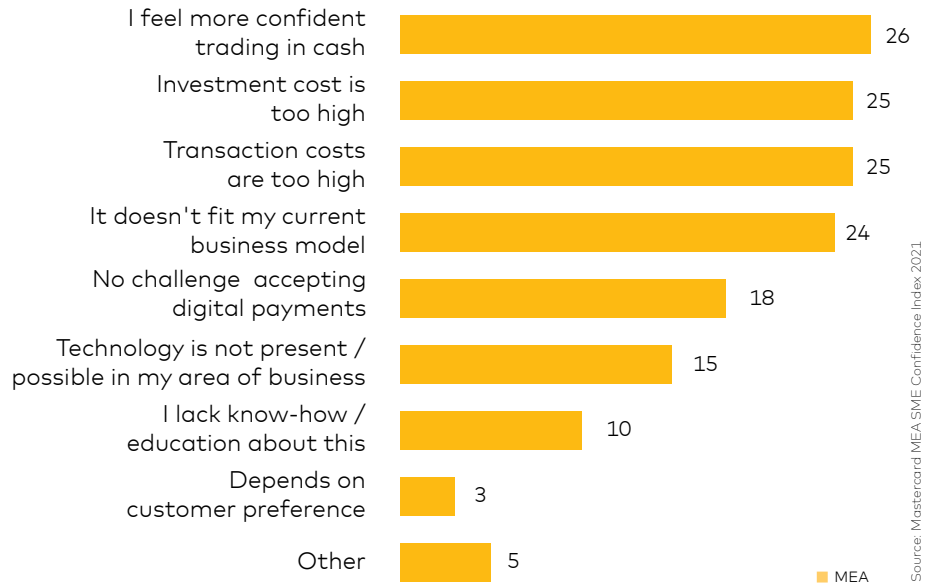
Legend: Egypt (orange), UAE (light orange), KSA (yellow), Kenya (green), Nigeria (red), Ivory Coast (teal), South Africa (grey)



45%

of SMEs in the MEA region say access to capital or funding is a key business concern

Why don't you collect digital payments (MEA)?



Relevant business and payment solutions

Globally, including in MEA, SMEs are quick to digitalize when the right solution is presented to them with clear cost benefits. A combination of finance and SME-friendly tech solutions that answer their specific needs has been proven to work in many markets.

Standout MEA countries in digital adoption

South Africa, by far, is the leader in digitalization in the MEA region. More than 9 in 10 companies have a social media presence and/or a company website. Over three-fourths (79%) accept online payments, 48% accept payments via cards and 41% accept mobile payments.

In Kenya and Egypt, almost 7 of 10 companies have a presence online. In Kenya, this is via social media, whereas a company website is the chosen method in Egypt.

Kenya also leads mobile payments with 88% the SMEs accepting these, compared to 69% on the Ivory Coast and 78% in Nigeria. On the other hand, 81% SMEs in KSA accept card payments, compared to 55% in the UAE, and 61% in Egypt.

A farmer's cooperative in Sub-Saharan Africa (SSA), for instance, would be quick to adopt digital solutions such as the Mastercard Farmer Network (MFN), a mobile platform that connects small-scale farmers with potential buyers and integrates their businesses with digital payment systems. MFN already counts 200,000 farmers in the SSA countries of Kenya, Tanzania and Uganda among its users³.

In Kenya, 20,000 micro-merchants signed up for the digital credit ecosystem Jaza Duka [see interview on page 15]. The product is part of the Mastercard Track Micro Credit Program, an inclusive credit ecosystem that connects small retailers and micro businesses and fast-moving consumer goods (FMCG) companies – all of which sell everyday items such as soap and packaged foods – to banks and enables access to short-term credit utilizing sales data. It works by giving small stores digital credit accounts so they can purchase products from key suppliers⁴.

Using digital payments as the foundation of growth in credit and business operations, there are many routes to taking sales online. SMEs can build their own e-commerce enabled website or opt to use low-cost integrated online e-commerce platforms (or marketplaces), to tap into indirect markets and offer additional services.

Variations within markets

The Mastercard MEA SME Confidence Index 2021 reveals that about half of SMEs in most markets are active on social media. In South Africa, this number is as high as 94%, the Index shows.





Women-run SMEs in MEA high on digital adoption

Entrepreneurial women in the MEA region are increasingly tapping into the digital economy, according to the Mastercard MEA SME Confidence Index.

Among the MEA's women entrepreneurs, 81% say they have a digital presence for their businesses, compared to 68% of their male counterparts.

Their confidence levels around digital transactions is high with 30% saying they experience no challenges in accepting payments digitally, including mobile payments (62%), online payments (57%), and card payments (45%).

According to them, increased efficiency of transactions across multiple channels (60%) and the ease of not handling or processing cash (60%) are the biggest benefits of a cashless economy to their business.

They also appreciate having a more convenient way of paying suppliers and employees (59%), faster access to revenues (55%), less potential for fraud (53%), and access to new business growth opportunities (50%).

However, this does not always translate into selling via online channels, especially in countries such as Nigeria (1%), Ivory Coast (6%), UAE (9%), KSA (17%), and Egypt (19%). SMEs are even less invested in having an app for their business, with 22% of KSA SMEs – the highest among those surveyed – saying they use these.

This represents the need to create solutions that take into account existing digital infrastructure and adoption, based on systems that SMEs are comfortable using. For any solution to be viable, a deep understanding of the market is a prerequisite.

Digital payment methods include cards, mobile, and online payments. Mobile payments enjoy an edge (59%) compared to online payments (49%) and card payments (48%) in MEA. SSA is way ahead in mobile payments, with 78% SMEs saying they accept these, compared to 47% in MENA.

Solutions that take into account the uniqueness of each market find quick acceptance. A market with high smartphone penetration is likely to respond positively to migrating to a QR solution such as Masterpass, which provides an affordable way to accept digital payments that reduces costs associated with installing and maintaining infrastructure, such as physical card terminals.

The experience of applying this solution in select markets shows that it is an effective alternative for SMEs, traders, and service providers who were earlier entirely reliant on cash transactions⁵.

The economies in question – UAE, KSA, Egypt, Kenya, Nigeria, Ivory Coast, and South Africa – are at different way points in their digitalization journey. In some cases, particularly in markets such as Kenya and Nigeria, mobile money has leapfrogged to skip traditional payment systems. On the other hand, economies such as the UAE and KSA are known for high rates of technology adoption and migration to smart government systems.

The perspectives on digitalization, barriers, challenges, and opportunities are divergent too. However, they all agree on one thing: 45% of MENA SMEs and 43% of SSA SMEs picked faster access to revenue as the biggest benefit of a cashless economy to business.

Clearly, businesses everywhere prefer solutions that don't involve a waiting period to access and make use of their revenue. At a structural level, this also results in building a more valuable business and providing credit data for institutions and governments.



PERSPECTIVE | Amnah Ajmal

Executive Vice President, Market Development, MEA
Mastercard

Partnerships power prosperity in the digital age

A stable, growing, connected small business can be the key to financial inclusion for the whole community. As a technology company, Mastercard has leveraged the power of partnerships to deliver inclusion by providing financial, technology, product, and services support to MSMEs across the world.

We have learnt to start at the beginning, so small businesses can start selling online in a secure, seamless manner. The next step is connecting businesses to others in the ecosystem, to help them grow and survive. For a neighborhood vendor or store, simple solutions such as account-to-account and gateway transfers reduce the risks and costs of cash and open up sales to channels other than the immediate neighborhood or basket of customers.

Through innovative partnerships, Mastercard is leveraging the power of governments, Mobile Network Operators (MNOs), Payment Service Providers (PSPs), financial institutions, and social enterprises to help SMEs fulfil their potential and become a part of the value chain. Innovation, in this case, lies in re-imagining connections.

Digital strides

A street vendor, or a small store selling fruit, for instance, is likely to be connected to a distributor, a cooperative, a wholesaler, or a market aggregator, which, in turn, works with other partners at various levels.

As partners, we can work together to address pain points at multiple levels. For example, when we realized that the most urgent need of SMEs in South Africa was to start selling

online using e-commerce without having access to tools or knowledge, our partnership with Google and Standard Bank resulted in a solution that helps businesses move online, accept digital payments, and attract more customers.

A small business producing the now-ubiquitous face masks cannot gather traction until it finds a way to reach customers. The online solution involves having a dedicated website in a matter of minutes, marketing it using online tools, receiving orders, accepting payments, and finding a delivery partner.

The partnership between Delivery Hero and Mastercard works across the whole value chain, starting with enabling digital payments for 20 million consumers, riders, and restaurants in MENA. For 100,000 restaurant partners, it also means making possible instant payments to suppliers and employees.

Similarly, Uber's long-term partnership with Mastercard now includes cashless payments and advancing financial inclusion across MEA for drivers who rely on gig work.

In Kenya, a partnership with consumer goods company Unilever and KCB Bank helped resolve the need for financing. Called Jaza Duka, Swahili for 'fill up your store', the program connects the dots between the small retailer, which has been procuring and selling little shampoo sachets for years, and the bank. The distributor who sells to the storeowner becomes the data intermediary, making it possible for the storeowner to get credit from the formal rather than the informal system at one-tenth the cost.



In Egypt, a partnership-based solution aims to provide loans and savings products to low-income micro entrepreneurs.

In Nigeria, NetPlus became the first African startup to be selected as part of the Mastercard Start Path program, and works with Mastercard to introduce a secure e-commerce solution that removes the need for consumers to use cash for online purchases.

Digital transactions have become useful for small farmers to tap into the formal credit system of banks and other financial institutions, even as they are empowered to make and receive real-time payments with vendors and suppliers.

Play to your strengths

Innovation is possible when each stakeholder brings their best effort to the table. A mobile device in most hands, for instance, can be the starting point for delivering change. Digital inclusion can be a powerful driver of financial inclusion and broad-based prosperity.

We find that technology and digital innovation are driving change in consumer behavior and expectations, making it possible for organizations such as Mastercard to accelerate financial technology innovation and adoption, thereby enhancing financial inclusion.

The COVID-19 pandemic has brought to the fore the idea that "no one is safe until everyone is safe". Community-centric action at global, regional, and local levels is central to any solution that is inclusive and pervasive.





Unleashing the digital potential of MEA SMEs

Digitalization can help SMEs integrate with global markets, as it reduces the costs of transport and border operations, increases the tradability of services, and reduces costs of logistics and operations.

Highlights

- 41% of SMEs that implemented digitalization initiatives had stronger revenue growth in 2020 than non-adopters.
- Even though 89% of MEA's small businesses see potential in digitalization, access to financial products and services to digitize business is seen as a challenge.
- The rapid adoption of fintech has resulted in a range of innovative financial services for businesses that traditionally had trouble raising finance.

At the same time, adoption of technology is transforming the institutional framework for SMEs. E-government and online platforms are facilitating consultations and public service delivery to SMEs.

Digital applications are already spreading across a broad range of areas such as business development services, licensing systems, tax compliance, and courts.

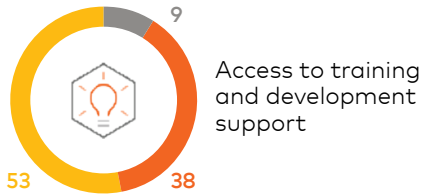
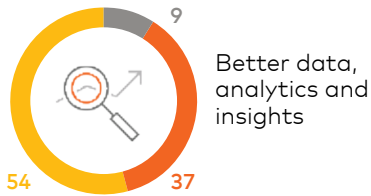
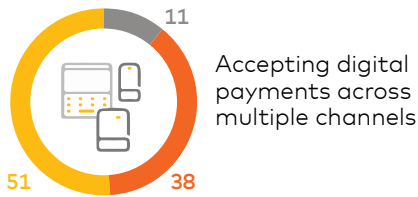
However, SMEs need to think beyond the traditional ways of doing business. The rise and rapid adoption of fintech worldwide has resulted in developing a range of innovative financial services - such as peer-to-peer lending and blended credit models - for businesses that traditionally had trouble raising finance.

Digitalization also eases SME access to skills through job recruitment platforms, outsourcing, and online task-based hiring, or by connecting them with knowledge partners.





What will give your business the most impetus in the next 12 months?



■ High potential ■ Some potential ■ No (further) potential

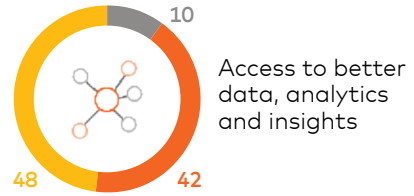
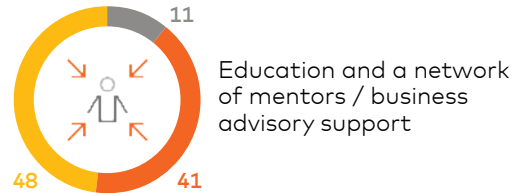
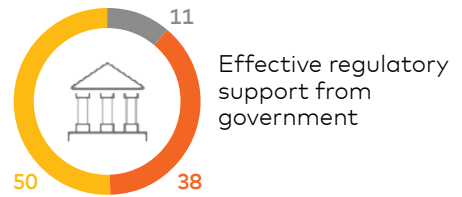
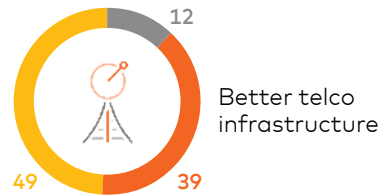
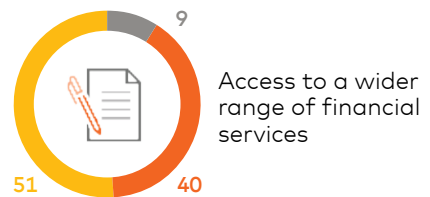
52%

of MEA SMEs believe easier access to finance would provide the most potential to grow business

54%

say they need the most support in managing or upskilling staff

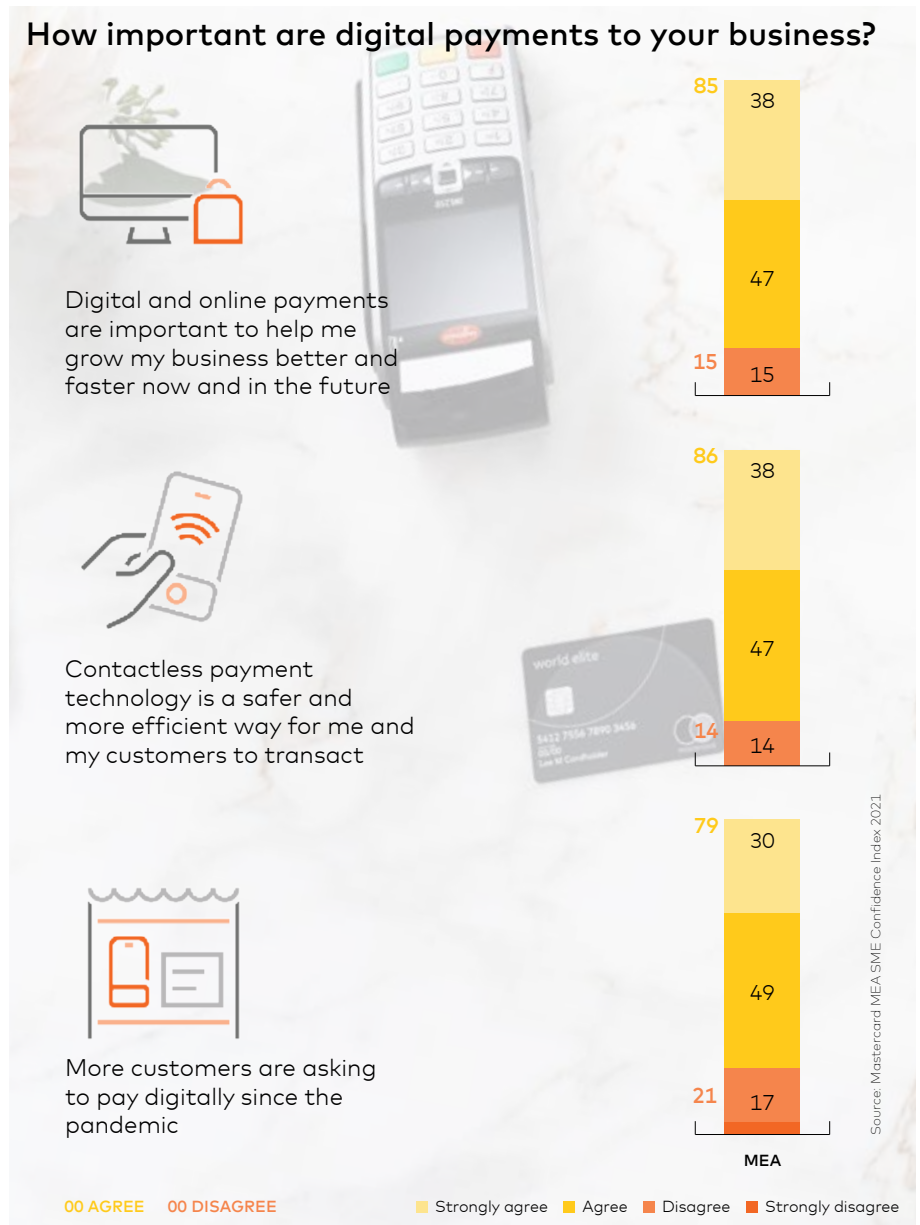
In which areas does your business need most help or support?



■ Must have ■ Nice to have ■ Not necessary



How important are digital payments to your business?



The core idea of transformation goes beyond simply moving an existing product, service, or solution online. OECD recommends that SMEs reinvent their business models in ways that can leverage technological advancements to deliver superior customer engagement and generate new sources of income.

67%

of SMEs in the MEA region consider the rapid rise of e-commerce as a positive factor

Digitalization is directly tied to business profitability. A study has found that 2 in 5 SMEs (41%) in Singapore that implemented digitalization initiatives in 2020 experienced stronger revenue growth than non-adopters. Those that digitalized their entire business or multiple areas reported better revenue growth than those that digitalized only one area. In contrast, 6 in 10 SMEs that did not adopt any digital tools saw a decline in their 2020 net revenue as compared with 2019¹.

Growing and maintaining the business has emerged as a key concern for 51% SMEs in MEA, with 67% considering the rapid rise of e-commerce as a positive factor, according to the Mastercard MEA SME Confidence Index 2021.

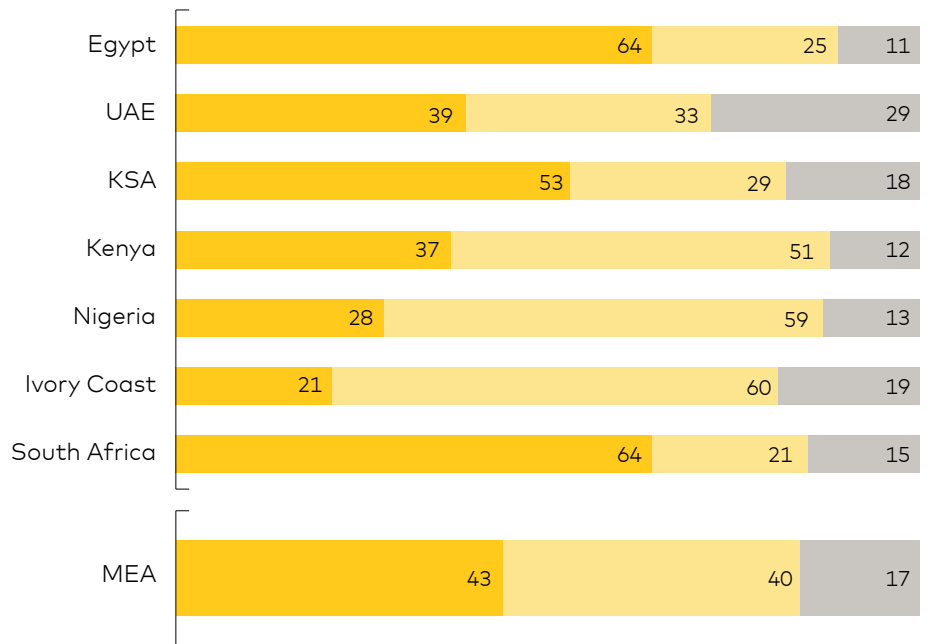


How good is your access to financial products and services to digitalize your business?



89%

of SMEs in the MEA region say they see potential in digitalizing their business



Source: Mastercard MEA SME Confidence Index 2021

■ Sufficient access ■ Lacking access ■ No, don't need this

Partnerships align policy and innovation

For a large number of MEA SMEs, however, having the financial resources to take and operate a business online, coupled with a perceived absence of the right technology or solution to enable an effective entry into the e-commerce ecosystem, have emerged as top concerns across the region as well as across sectors.

Even though 89% of MEA SMEs see potential in digitalizing their operations and accepting digital payments across multiple channels, SMEs in most countries, especially those in SSA, say that sufficient access to financial products and services to digitalize their business is a challenge.





According to the Mastercard MEA SME Confidence Index 2021, some of the key standout areas where SMEs say they need support are:

1. Digitalizing the business to respond to changing customer needs (43%)
2. Access to better data, analytics and insights (42%)
3. Education and a network of mentors / business advisory support (41%)
4. Access to a wider range of financial services (40%)

42%

of SMEs in MEA say they need access to better data, analytics, and insight

The success of initiatives such as Mastercard's StartPath, which works as an industry-wide collaboration that brings together banks, merchants, and startups to scale new-technology solutions for the financial services and payments industries, demonstrates that a partnership-based approach works. Selected startups help bridge the digital divide by providing SME digital banking platforms, payment and secure e-commerce solutions to foster financial inclusion.

Relevant solutions are often developed by government and industry partnerships that combine the benefits of forward-thinking policy, innovation, and sectoral initiatives.





"Access to funding and digitalization are huge needs"

What are the key obstacles to SME growth?

For hundreds of years, SMEs have operated in a particular way. One, they have traditionally operated in cash, except for large payments, where they may use checks. Two, they service the community around them, with some larger ones having a broader reach. They often struggle to scale operations. And three, they are not always comfortable with technology platforms.

In the wake of the COVID-19 pandemic, SMEs have come under pressure. They are unable to serve the customer, who cannot come to the outlet. Access to funding and digitalization have emerged as huge needs.

For small traders, supply chains have also become critical. Their regular supplies may be disrupted, and they urgently need to contact suppliers in other countries and make payments to them.

These challenges make us think: How do we make it easier for them to access the market? How do we get them digitized across the operations and payments value chain and ensure they get paid digitally, without using cash?

And how do we introduce them to the right partners to implement Enterprise Resource Planning (ERP) systems and online sales platforms?

Overall, digitalization of the value chain, along with access to information and to a broader community of consumers and vendors, is an underlying need.

How do these needs change in the diversity of regions within the MEA?

The broad categories of needs are the same. What differs is the infrastructure and scale of operations in various markets. A micro SME in Nigeria, for instance, may have one-tenth of the business of a micro SME, in, say, the UAE. An SME in the GCC may comprise a network of 400,000 'bakala' convenience stores, whereas in Nigeria there are probably 30 million street vendors, each one a micro SME.

Availability of a bank per 1,000 customers may be different across markets, while informal credit systems may have precedence in some markets.

Across the spectrum, however, the SME wants to reach more consumers, it wants to get paid, and the consumer wants digital payments. Businesses want money immediately. They don't like systems that are promissory in nature and settlement is delayed.

How has Mastercard's approach changed in response to these needs?

SMEs are more likely to face a challenge in sustaining operations in the absence of cash flow, compared to large corporates which can survive longer. For us, an important piece is to help SMEs collect payments. Our Simplify e-commerce platform is the solution we offer.

We have partnered with payment service providers and banks to roll out payment solutions for each context. In one example, if you have a mobile device in Africa, you can

get a QR code. In a market like the UAE, tapping a card or tapping your phone – which converts it into a credit card – are easy to implement. In some cases, we work with partners when visibility of cash flow has a knock-on effect on the ability to raise finance.

Which sectors are the trendsetters in embracing digital opportunities?

Many businesses are already on some digital channels. This also works differently depending on the size of the business. For example, it's difficult for a micro SME vendor of fruits and vegetables to go digital. When the ticket sizes are smaller than a dollar, regular payment solutions cannot be implemented, and Know Your Customer (KYC) requirements become difficult to manage.

The services sector adapts more easily to digitalization because delivery is already digital in most cases, in, say, a small insurance or travel agency.

In the past 18 months, we've seen the fastest digitalization in some sectors, starting with essential goods and then encompassing grocery, food, and healthcare. Delivery aggregators are helping SMEs reach a wider consumer base and become more digital in their operations. At the other end, the restaurant doesn't want cash because they are purchasing in bulk.

In addition, many of these places are looking for some kind of small financing. Digitalization gives the SME as well as the lender a clear view of revenues and receivables, making it easier to come to credit decisions.



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Authorship

The findings and recommendations presented in this paper are based on the results of the Mastercard MEA SME Confidence Index 2021 survey conducted by IPSOS. These were put into perspective with contextual research and interviews of Mastercard executives by White Paper Media Consulting.

Infographic and report design is by White Paper Media Consulting.

Stock images used in this publication are for representational purposes only.

Survey methodology

The Mastercard MEA SME Confidence Index 2021 was compiled from a survey conducted using telephone and face-to-face interviews of 1,533 SME decision-makers in 7 countries.

- Up to 300 respondents per country: Kenya, Nigeria, Ivory Coast, and South Africa.
- Up to 100 respondents per country: Egypt, United Arab Emirates, and Kingdom of Saudi Arabia.

The surveys were conducted in South Africa between the end of March and mid-May 2021; all other markets were surveyed between the end of March to the end of April 2021.

The survey samples were categorized by:

- Regional clusters
- Country-level findings
- SME size
- Years in business
- Gender of decision-maker
- Age of decision-maker





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