Small and medium enterprises (SMEs) are the backbone of many economies in the Global South. However, COVID-19 caused a rapid shift towards a more digitalised economy, putting many at high risk of exclusion.

To accelerate and support the digital transition of Global South SMEs, national governments and multilateral organisations should design a 'digitalisation roadmap'. It would address the key structural and infrastructural challenges these enterprises face.

Countries need to invest in the development of tailored training programmes focusing on digital skills for SMEs, and adapting business models to the digital world.

As Southern economies recover from the pandemic shock, governments need to support the business continuity and job security of SMEs. Incentives, financial stimulation programmes, and credit accessibility initiatives are vital.
Introduction

The COVID-19 pandemic had adverse effects on economies across the Global South, impacting small and large businesses alike. During this period, digitised solutions were touted as the panacea for businesses to adopt. However, small and medium enterprises (SMEs), in particular, found it difficult to integrate digitisation into their businesses. To address this challenge, this brief proposes the development and implementation of a digital roadmap which would guide economies in the Global South to help facilitate the digitalisation of SMEs in order to advance their recovery from the effects of the COVID-19 pandemic.

SMEs are crucial to economies in the Global South (Kalidas et al., 2020). According to the World Bank (n.d.), “formal SMEs contribute up to 40% of national income in emerging economies”, and this percentage is assumed to be much higher when informal SMEs are included. SMEs are key in reducing poverty and unemployment, and generally fortifying the economies of developing countries. Women-led SMEs also make up a large part of the workforce in the Global South, with women constituting 58% of the self-employed population in Africa (Copley et al., 2020).

In the midst of global economic recovery efforts in response to COVID-19, building the resilience of SMEs for future emergencies is a key consideration. SMEs in the Global South were among the hardest hit by COVID-19 as they lacked the capacity to endure the impact of various lockdowns on sales and revenues. In the ensuing financial hardship, many were forced to shut down, lay off staff, and find ways of coping with the constraints on the economy. The demand drop coupled with the burden of fixed costs (such as rent, utilities, and salaries), led to reduced wages and shutdowns. Even after lockdown restrictions were lifted difficulties continued. In Bangladesh for example, SMEs saw a 52% drop in their sales compared to pre-pandemic levels, and a resulting 50% drop in wages due to widespread financial difficulties (Islam et al., 2021).

Many SMEs in the Global South are part of the informal economy, meaning they are neither regulated nor protected by the government. This meant that many SMEs were unable to access government loans and grants, as well as other forms of financial support. In some instances where SMEs were able to apply for loans and stimulus packages, many received delayed or negative responses from their governments (Odularu, 2021). Those who did manage to procure loans from government agencies often found that the money received was insufficient to adequately support their businesses in the financial crisis (Odularu, 2021). SMEs also struggled to access governmental financial support because they lacked knowledge about the programs governments had put in place. In Bangladesh, for instance, many SMEs did not access government support packages because they were unaware of their existence, as well
as the details of eligibility criteria (Islam et al., 2020). A study in Tanzania also found that factors around affordability prevented SMEs from connecting to the internet or acquiring the devices needed to access the government’s digital support initiatives during the pandemic (Mwighusa et al., 2022).

To effectively help SMEs still recovering from the economic impacts of the pandemic, we propose that countries and regions across the Global South should develop and enact a comprehensive digital policy roadmap to support them with the rapid digitalisation of their industries. This brief presents digital roadmaps as a tool that will enable SMEs in the Global South to avoid being left behind in the global recovery from the pandemic by reaping the full economic benefits offered by digitalisation. It discusses the effects of COVID-19 and rapid digitalisation on these SMEs, and the necessary components for an effective roadmap to address their problems.

Why is a roadmap important?

Roadmaps are a common tool used in general project planning and are described as plans or strategies developed to achieve a goal. Roadmaps are particularly popular in technology and are commonly used in developing and deploying new digital technologies for commercial uses (Heim et al., 2017). In policy and development, roadmaps are also employed as strategic plans that lay out the steps and processes needed to achieve a set goal or development objective. They have been a popular medium for mapping out interventions and policy responses in multilateral and regional agencies (USAID1; African Union2). As countries have become increasingly digitised across different sectors, roadmaps are also utilised as a strategic tool for incorporating digitisation.

The roadmap presented in this brief proposes four components which are essential for supporting SMEs in the early stages of their transition to digitisation:

1. Building digital skills: critical for enabling SMEs to utilise the internet and digital tools effectively.
2. Encouraging business model innovation: to help SMEs compete globally and adjust to differences as a result of digitisation.
3. Providing supplementary infrastructure: amenities such as good roads and electricity must be present so that SMEs can perform the digitally-enabled business operations on the ground.

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1 See https://www.usaid.gov/environmental-policy-roadmap
4. Providing financial support to SMEs: as many SMEs in the Global South are both small and informal, financial assistance is needed, so they cope with the costs of transitioning to a digital or hybrid business model.

**Understanding the context: The digital response and its implications for Global South SMEs**

Countries worldwide have been reaffirming their commitment towards digitalisation and automation as part of post-pandemic recovery measures. This reflects the acceleration of digital growth as a result of the pandemic and the widespread adoption of digital technologies in response to restrictions placed on movement worldwide. The Indonesia G20 presidency raised digital transformation as one of three priority agendas for COVID-19 recovery, and the Digital Economy Working Group of the G20 is prioritising digital-based transformation, including the digital economy (Kenny, 2022). However, while digital technology has enormous potential for bringing post-pandemic recovery, it can also reinforce and magnify existing fault lines and worsen economic and other inequalities (United Nations [UN], 2020a). A United Nations Conference on Trade and Development (UNCTAD) study in 2022, for instance, notes that the data-driven digital economy is characterised by major power imbalances and inequalities which were reinforced during the COVID-19 crisis. Amidst this situation, the Secretary-General of the UN has released a report on digital cooperation (2020a), which emphasises the need for digital inclusion and digital capacity building to ensure that no one is excluded from the apparent benefits of digitalisation.

In recent years the Global South has also seen a shift towards the adoption of digital tools in business. A paper by the African Development Bank calls for strategic investments in the digitalisation of key sectors of national economies, indicating that the digital economy is becoming the new normal (Urama, 2020). However, the region remains on the disadvantaged side of the digital divide, with its countries having considerably less internet access than those in the Global North (90% in developed countries vs 27% in the least developed countries) (International Telecommunication Union [ITU], 2021). According to the ITU (2021), some 2.9 billion people around the world still remain offline, and 96% of this group live in developing countries which are concentrated in the Global South.

In this context, SMEs in the Global South were among the hardest hit by COVID-19 as they lacked the capacity to endure the impact of various lockdowns on sales and revenues.
into their activities than larger ones. Indeed, although the pandemic led to an upsurge in the e-commerce sector around the world, many small businesses, especially those from developing countries, struggled to digitise. This can be attributed to their limited capacity (having a lack of digital skills), limited resources (being unable to afford costly broadband services), and inadequate attention from their governments (Fleet, 2012; Sharafizad, 2016; UNCTAD, 2022). Uneven digital access in the Global South presents a major barrier to SMEs enjoying the same benefits from digitisation as their counterparts in the Global North. However, beyond access, there are a number of considerations that need to be addressed to ensure that SMEs in the Global South are able to take advantage of the digital recovery in a way that benefits them and their communities. To do this, the region must coordinate efforts to develop and implement a comprehensive roadmap that will guide the incorporation of digitisation for SMEs.

### Developing a digital roadmap to COVID-19 recovery for SMEs in the Global South

SMEs in the Global South operate in a unique and context-specific way. As such, roadmaps aimed at helping SMEs incorporate digital tools and resources into their businesses must have targeted policies and practices from national governments and multilaterals. To effectively chart their paths to the adoption of digital solutions in small businesses, countries must develop national-level digital policy roadmaps that govern the digitalisation of the economy as it pertains to SMEs. These roadmaps will need to be adopted across various levels and departments of government and should inform the country’s interaction with SMEs on all things related to digitisation.

Implementing a comprehensive and effective digital roadmap will be integral to helping SMEs in the Global South bridge the digital divide and gain access to the opportunities available in the Global North via digitisation. The roadmap will further serve as a guide for multilateral organisations to implement interventions targeted at strengthening SMEs within the Global South. The components of the roadmap will highlight the importance of recognising that digital solutions cannot be implemented in a vacuum, and will outline other supporting factors that need to be addressed for digitisation to function as an effective tool for SMEs. The key elements that must be included in a digital roadmap for SMEs include digital skills training, business model innovation, infrastructural amenities, and financial support from governments.
Digital skills training

One major obstacle preventing SMEs from making the most of increased internet access is the inadequacy of users' digital skills. This is particularly prominent in the Global South, where many lack the basic information technology (IT) skills needed to use the internet effectively. Digital literacy is defined by UNESCO as “the ability to access, manage, understand, integrate, communicate, evaluate and create information through digital technologies, encompassing competencies that are variously referred to as computer literacy, information communication technology (ICT) literacy, information literacy and media literacy” (Law et al., 2022, p. 6). In the UN secretary-general’s report from 2020, the roadmap for digital cooperation stipulates that digital capacity building is one of the main considerations involved in ensuring an equitably digitised world. Digital capacity building is also identified as a key factor for enabling learning opportunities for employment and entrepreneurship in UNESCO’s framework for the implementation of Sustainable Development Goal 4 (quality education). Digital literacy and proficiency in digital skills are directly linked to levels of internet usage and quality of education, both of which are noticeably inadequate in the Global South (DO4Africa, n.d.). This is reflected in SMEs as small and micro business owners in many Global South states do not have access to quality education and, by extension, do not have developed digital skills and literacy. In Tanzania, for example, a lack of digital skills was found to be a major barrier to the adoption of digital business tools and solutions for online registration and other activities, with women especially impacted in this regard (Mwighusa et al., 2022).

The range of skills that SMEs need as they transition to digital business models or simply incorporate more digital tools into their existing businesses varies based on their contexts. In addition to knowing how to get online and access websites, businesses need to know how to create digital content for their consumers, use digital technologies to streamline both internal and external communications, and optimise the digital presence of their businesses. SMEs in the Global South will need specialised skills, in addition to general ones, to effectively adapt their businesses to maintain value in their local contexts as well as on the world wide web.

To address this, national governments and multilateral organisations need to implement interventions that provide training programmes for existing and potential small business owners that focus on useful digital skills for SMEs. These programmes should be geared towards business owners in rural as well as urban areas, and can involve hybrid (physical/online) training sessions. They can be tailored to the specific needs of SMEs by industry, in addition to general skills training on how to use the
internet and digital tools effectively in the context of their businesses. It is also imperative that the initiatives implement sensitisation efforts in order to get women and girls participating. In addition to short-term training programmes, governments must provide strong ecosystems of support for digital skills. Business owners must have sources to continually refer to for the sustained development of their digital capabilities.

**Encourage business model innovation**

Business models are another key factor that impacts how businesses could use the internet and digital tools to improve their operations. To ensure businesses can use digital technologies to access opportunities and recover from the economic effects of COVID-19, many small businesses in the Global South will need to make changes and adaptations to their existing business models.

A business model is defined simply as the plans for the operation of a business and includes many components and elements. It is described as being based on the creation and capture of value for the customer, including elements that address the customer, value proposition, organisational architecture and economic dimensions (Fielt, 2013). Many SMEs in the Global South use simple business models which have been developed based on traditional offline operations. Sole proprietorships and largely informal businesses feature heavily in the fabric of the SME economy in the Global South. While the needs and dynamics of small businesses will vary in many ways depending on the sectors of the economy within which they operate, there are lessons which can be learnt from SMEs delivering different products and services across the Global South. One such lesson in this new digital age will be the capacity to adapt.

To compete on a global scale, local SMEs will need to internationalise their business models by incorporating digital tools and services. This may include adopting features such as online advertising and e-commerce technologies which will help their businesses recover from the economic setbacks of COVID-19. As an entry point, this shift will require that SMEs consider integrating digitalisation into their general administration and/or marketing functions as part of their new business models (Organisation for Economic Co-operation and Development [OECD], 2021). In the midst of effecting needed changes and adjustments, SMEs in the Global South will need to ensure that their adaptive models are able to continue to create and deliver value to their stakeholders while maintaining relevance and viability within their local communities.
Government policies can provide a supportive ecosystem for traditional SMEs seeking to evolve their business models. Undoubtedly, the advent of digitalisation into businesses has the potential to bring an overall positive effect by changing the traditional ways of conducting businesses. However, public policy could act as a much-needed precursor to achieving investments such as telemedicine, online sales and mobile banking by SMEs (Stephenson & Sen, 2020). Governments can provide dedicated business skills training and workshops to educate small business owners on adapting their business models for the digital world. A conducive digital and regulatory environment for business model adaptation will see governments also using digital tools within their business agencies, and encouraging online business activities such as the digital registration of new businesses.

Provide supplementary infrastructural amenities

The pandemic has had far-reaching effects on global supply chains, affecting the businesses of many SMEs across the Global South. Yet, digitalisation has provided a way for many businesses across the globe to cope with this impact. Digital communication tools can help optimise supply chain logistics involving the acquisition, transportation, and storage of goods (Alicke et al., 2016). SMEs can employ the use of automation and digital collaborative software to track internal supply chains, manage data and people, and reduce waste and error in the logistics process (Marmolejo-Saucedo & Hartmann, 2018). As such, it is vital that SMEs in the Global South are provided with the infrastructure necessary to replicate this approach. For SMEs in the Global South to reap the benefits of digitalisation, local and national governments, as well as multilateral institutions, must recognise the importance of providing appropriate infrastructural support. The proper functioning of an efficient logistics network for physical goods, and even services, hinges on the presence of good road networks with serviceable roads.

Unfortunately, this is not guaranteed in many countries in the Global South, making the transportation of goods challenging. This issue is especially present in rural areas, with some towns largely inaccessible by traditional motor vehicles. SMEs also need the presence of a stable and consistent power supply to benefit from seamless digital operations. A number of countries in the Global South have low levels of permeation of electricity to rural areas. Even urban areas experience unreliable and inconsistent electricity supply. Sub-Saharan Africa, for instance, accounts for 75% of the world’s population without access to electricity (Blankenship & Golubski, 2021). Electricity is needed to properly store
perishable goods, and use digital communication tools that could help small business owners optimise their supply chain processes.

The quality of formal education is integral to the development of the digital skills necessary for growing businesses in the path of a digital COVID-19 recovery. Governments must invest heavily in improving basic and adult education systems to avoid more people being left out of the current wave of digitalisation. Government-based channels of information and communication will also need to be improved. Governments need to ensure that they are communicating with businesses through the right channels to keep them up to date with important information, such as how to access financial support and channels for formalising informal businesses.

**Provide financial support to aid SMEs’ transition to digitisation**

Providing financial support and incentives to SMEs will ensure better integration into the national and global digital economy. Governments need to support business continuity while also preserving job security for the workers employed in the sector through tax incentives, financial stimulation programmes for COVID-19 recovery, and measures to make credit accessible and readily available to SMEs. Addressing knowledge gaps around the unique needs of SMEs is crucial for protecting already vulnerable enterprises from economic shocks and ensuring they move towards an equitable recovery (UN, 2020b). Some governments have already been supporting small and medium enterprises through financial packages and loan waivers. For example, Germany announced additional loans and support for SMEs (Policy Links Unit, 2020), and the Bangladesh government instituted a refinance package for the country’s SMEs (Moazzem & Shibly, 2022). Yet more specific help in terms of financial support, especially for the digital upgrade of the industry, could prove to be helpful. Countries will need to utilise local government and civil society resources to disburse financial support at the local level.

**Conclusion**

SMEs are the backbone of economies in the Global South. As such, national governments must prioritise their well-being in the path to recovery from the effects of the COVID-19 pandemic. Strengthening SMEs will bring many benefits to countries, such as reducing poverty, financially empowering women, and fortifying the economies against future shocks. In current times, technology and the internet permeate every aspect of life and society, and it is essential that small businesses in the Global South are not excluded from the benefits of digitalisation. Implementing the proposed roadmap will help SMEs recover from the
effects of the pandemic and prepare them for similar scenarios in the future. Support from national governments will enable and encourage more SMEs in the Global South to transition to digital modes of working, as well as enhance their overall capabilities. A digital roadmap for SMEs will give countries a clear plan for the present and the immediate future, and can provide information on what governments need to do in making long-term plans that will build on present progress.

References


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