

LACIGF11

Buenos Aires, Argentina

31 July to 2 August 2018

Report: Session 8 Smart Industry and the Industrial Internet: SMEs and the Digitalization of Productive Processes in Latin America

Date: Wednesday, August 1st 4.30 pm - 6.00 pm

Moderator: Lía Hernández, IPANDETEC

Remote participation moderator: Gaspar Pisanu, Access Now

Rapporteur: Alejandra Erramuspe, Agesic

Panelists:

- Sebastián Cadenas, CEO IncreaseCard
- Flavia Alves, Head of International Institutions – Facebook
- Magdalena Urdampilleta, National Secretariat of Entrepreneurs and SMEs, Government of Argentina
- Fernando Callorda, Project Director at Telecom Advisory Services
- Nicolo Gligo, Economic Affairs Officer at the United Nations Economic Commission for Latin America and the Caribbean (ECLAC)

The goal of this panel was to understand how different actors provide and seek services and tools for innovation to promote the digitization of productive processes.

First, the ECLAC representative provided interesting data about SMEs' relevance for the regional economy: they generate 60% of employment, 30% of GDP and 8% of exports. The productivity of SMEs is lower than that of medium and large enterprises. At a global level, small companies are less productive than large ones. Likewise, they are less productive than companies in the rest of the world.

The Argentine government representative noted that 99% of the companies in the country are mainly SMEs from the private sector and generate 65% of jobs. This is why SMEs must be key players in this transformation to strengthen local development. The scenario is ambiguous now that we are going through the transition process: although there are companies with greater digital development, many are lagging behind in incorporating technology to their processes. Very few SMEs have incorporated disruptive technologies into their productive processes.

When asked about the challenges that entrepreneurs face in digitizing, Sebastián Cadenas explained the product they have developed, which consists of informing each store when they are going to receive credit card payments. Before this development, the only way to control sales flows was manually, and this has a high margin of error. This technology allows micro enterprises to have the same control as large ones.

The challenge faced by companies for increasing their productivity is to incorporate technology and education.

The Facebook representative noted that SMEs are improving their productivity. There is research in the region indicating that 30% of companies started their business from a Facebook page and that 55% grew after using digital tools. These companies use digital tools and other platforms to grow and look for staff with digital abilities. To respond to this need, Facebook provides digital literacy courses and supports training in digital technologies for SMEs in the region in order to create business and opportunities within the community and internationally.

When asked about the relationship between the impact of digitization on employment levels and competitiveness of SMEs, the Telecom representative stated that the challenge for LAC (Latin America and the Caribbean) is to increase the GDP per capita, which is achieved by improving productivity. There is not enough data about the digital economy in LAC (except in Colombia). However, existing data shows that companies have technology (computers) but do not use them much in productive processes. There is technology but it is not used productively.

The ECLAC representative explained how digitization affects company employment and productivity levels. On mature technologies (previously the new ICTs: the Internet, the web, e-commerce, information), there is no information on emerging technologies (Artificial Intelligence, robotics, 3D, etc.). Therefore, in order to approach this data, the numbers of developed countries are used to show that the new ICTs increase productivity by 15 or 20% in these countries, we do not know in LAC.

The incorporation of ICT brings risks and opportunities: it is like a wave that can drag and prepare you, and then you either sink, jump or surf. Everything should be prepared so that the wave does not drag you. You have to be careful not to be dragged by the wave.

In terms of employment, the incorporation of these new technologies has intensified two trends. On the one hand, automation (developed countries estimate that there will be substitution of jobs with a negative balance). On the other hand, many of the jobs will become freelance, which brings precarization of labor.

There is a difference between those who understand technology and those who do not.

When asked about the risks of informality in SMEs, the answer was that in some countries, for example in Chile, the government and entrepreneur associations have worked to reduce the differences in the creation of a company. For instance, by reducing fees, government services, matching funds, and support programs.

Companies are faced with challenges in relation to capital rounds because there is little knowledge about how to implement these rounds and about the framework needed for such investments.

In terms of opportunities, it is argued that technology empowers people by allowing them to create new jobs, and as gender 'equalizer' because women who were previously unable to work can do so today. Forty percent of Facebook pages are by women entrepreneurs. And when women progress, economies also progress.

Likewise, an important part of these companies is located in strategic sectors. They are based on knowledge, require highly qualified labour, and export their products or services.

In Argentina, the sectors with the greatest potential for digitalization are: automotive, food, biotechnology, pharmaceuticals.

There are different digitization strategies, depending on the productive sector. Today, Argentina prioritizes the following areas: industry, agriculture and tourism.

What public policies does LAC need to develop competitiveness and productivity?

First, training people in the use of new ICTs. Companies tend to be resistant to change, which is why it is necessary to work on this. In the region, there are different (and many) public and private programs that offer such training opportunities. Things are being done, we are on the right track. This solves the issue in the long term, not in the short term. Therefore, in the short term, there are several solutions for improving human capital in order to facilitate the adoption of technology.

The Argentine government representative stated that it is necessary to include and disseminate ICTs. It is not only about the adoption of ICTs; there are other factors as well: there is still a lack of knowledge of digital transformation. We seek to bring it down to earth and explain it with concrete tools and links to each particular business, while carrying out training events.

Another strategy has to do with digital talent. This requires skills at different levels: 111 thousand programming courses are planned to increase supply, for IT managers of SMEs. Generate talent within SMEs: a program to recover investment in training with credits.

The digital ecosystem is relatively weak: different tools, a platform to offer information on existing tools. It is necessary for all actors to work together.

In Giglo's words, the SME policy starts from a broader system: many actors; however, sometimes the problem is not in the SMEs, but in the ecosystem.

Sometimes we do not implement the right measures: electronic invoicing, tax payment, Internet access, etc.

We have to ask ourselves what are the triggering and relevant elements in each country?

And there must be a sense of urgency: we are all learning through the process. For them, it is necessary to facilitate the dissemination of technology, as all developments take place outside LAC. And this is not about technology per se, but about providing solutions and solving problems. To achieve this, the key element is training.

Each country has a different reality. SMEs must be protected, and the work of social enterprises must be valued.

Looking towards the jobs of the future, countries are faced with two challenges. A long term challenge, which is to train engineers and encourage people to study these technical careers; and a short term challenge, which is to improve the productivity of companies by training people who already work in SMEs so they can adopt technology.

SMEs find it difficult to formulate policies, they face recurring problems because of their economic urgencies. They are consumed by their financing. We do not have our own or specific data, but over the next 3 years, we are going to need people trained in information technology, with analytical and social skills, to complete those spaces that are not affected by automation.

In turn, Cadena added that each sector has different administrative obstacles in government procedures and barriers in terms of recruiting trained personnel that entrepreneurs must face. Each sector faces different situations. For example, for retail clothing companies, the problem is being able to sell online; for gastronomy businesses, the experience they offer their clients; for service companies, attracting clients.

Each faces a different challenge. It is part of the strategy to be able to digitize each SME. All SMEs must create value. If no value is created, machines will do everything better: automation, decision-making, etc. "Create value so that people want to buy what we are selling."

A challenge for the region in developing the SME digital ecosystem and something we are doing well.

The Facebook representative stressed that it is important to think about the workforce in the future. It is necessary to work on formal education at all levels to adapt curricula to the digital economy, include more research in digital technology, as well as courses on digital skills for children and adults. Companies and governments must support this to offer more opportunities to the market.

In the short term, 30% of the jobs are not going to be filled because people will not have the necessary skills.

What can be improved? Think about ways to train people. Invest in training at all levels. And adapt the regulatory frameworks.

There is a certain awareness that it is necessary to do something, this is very positive. But we have to give it a sense of urgency, said the ECLAC representative.

The representative of the entrepreneurs said that thinking about national borders was not a luxury that SMEs can afford, that they cannot think about geographic boundaries.

The Argentine government representative explained the need to differentiate development from technological tools. Simplifying bureaucratic obstacles is a path to development. And the incorporation of tools, although it is not just about adopting the tools, but also about the changes that can be generated by using them, which requires more instances of analysis and action.

The TELECOM representative pointed out that they have incorporated technology, but that technology is not being used throughout the value chain.

Questions from the audience

- What can be done to increase the innovation context in the region considering that the life cycle of an SME is very short (5 years)?

This is very difficult to answer. The most difficult years are the first two, that's when things start to fall. Another important thing is whether they generate and capture value.

- Bearing in mind that anecdotes are not the same as evidence and that correlation is not the same as causation, we know that inequality (as measured by the Gini coefficient) is increasing in the region. What is the effect of digitization on income equality?

There is a difference in the distribution of income and the creation of value in digital economies. It matters how income is distributed and how it is generated. Technology allows us to do certain things that will also affect the way we receive income.

It was also pointed out that studies indicate the product is increasing. A study in Ecuador shows that broadband deployment has an interesting spill-over effect across the economy and the most vulnerable sectors.

- How many SMEs are driven by young people?

The panel answered that they do not have statistics on the topic, but that, based on their experience, the arrival of new generations quite evident. It is also noted that digital entrepreneurs are usually young people.