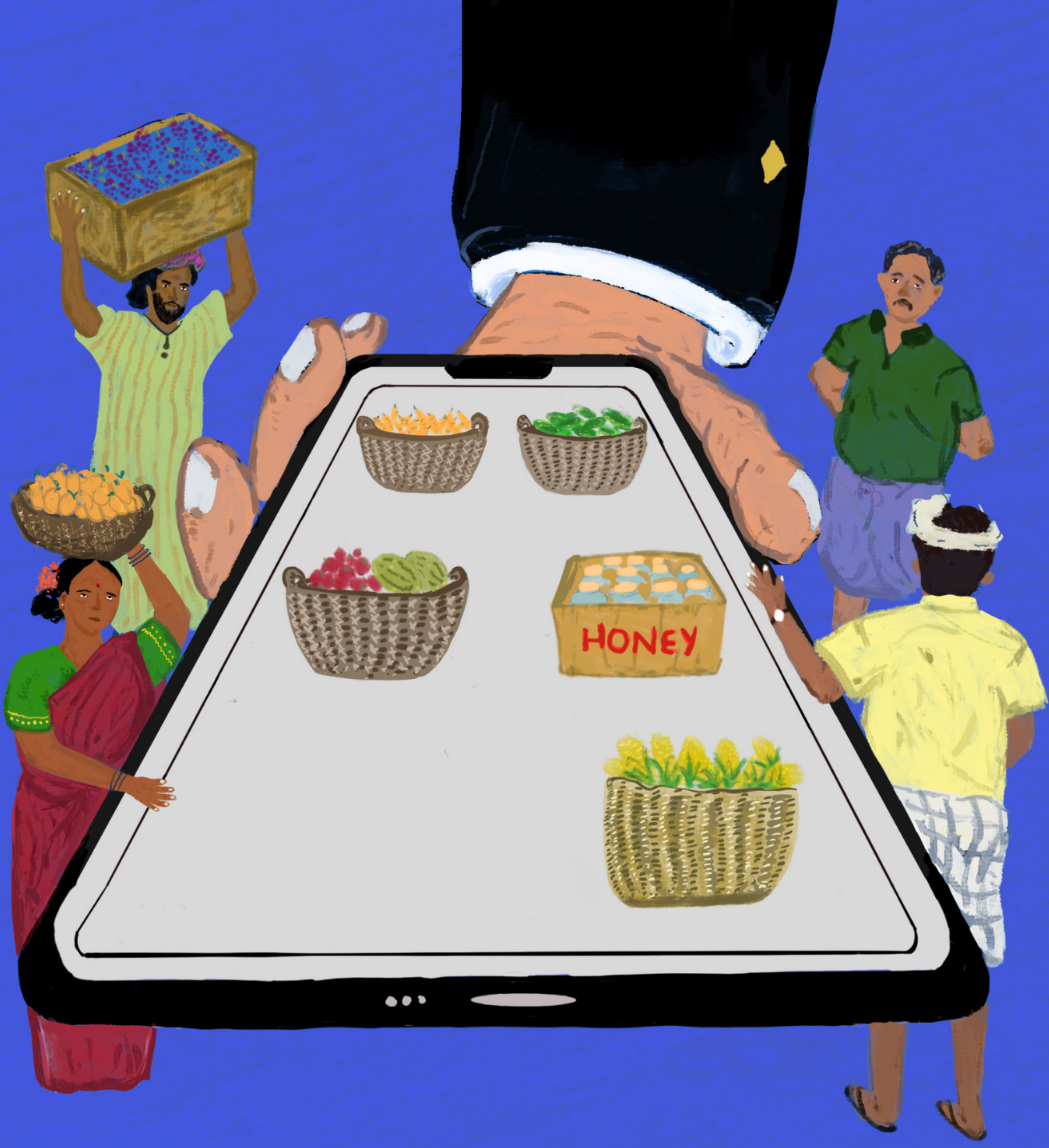
Beyond Magic Bullets: Reclaiming the Digital Promise for MSMEs

IT for Change

Deepti Bharthur



About IT for Change

Founded in 2000, IT for Change is a Southern, women-led NGO rooted in feminist principles and driven by a commitment to social justice. Recognized with Special Consultative Status by the Economic and Social Council of the United Nations. IT for Change is dedicated to democratizing digital technologies, enabling individuals and communities to harness their power for empowerment.

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1. Overview

Micro, small, and medium enterprises (MSMEs) are critical drivers of economic growth and development, especially in the Global South. MSMEs comprise close to 90% of the world's formal and informal firms, and on average contribute about 50% to the global Gross Domestic Product (United Nations, 2023). They are responsible for more than two-thirds of jobs worldwide and account for the majority of new job creation (Madgavkar et al., 2024). Importantly, MSMEs generate critical economic value in the upstream and midstream segments of the global value chain, servicing low- and middle-income populations, and afford decent work opportunities to segments of the workforce that have lowered employment prospects, such as younger and older workers, rural workers, and low-skilled workers (Verma, 2021).

While a vital cog in the global economic engine, MSMEs face a host of challenges. These include undue regulatory overheads, skill shortages, and lack of access to finance and infrastructure (International Labour Organization, 2019). MSMEs also struggle with sub-optimal working conditions and disadvantageous informalization. These long-standing legacy issues remain under-addressed, acquiring new contours in an era of unprecedented digitalization and corporate consolidation. 'Superstar' firms and mega corporations with advanced digital capabilities and a growing artificial intelligence (AI) edge now outcompete their smaller counterparts by a mile and more (Izumi et al., 2023). Recent research by McKinsey estimates that the MSME productivity gap—defined as the distance between MSME productivity and that of large companies—is glaring (Madgavkar et al., 2024). In the case of developing nations, this gap can be as high as 90%. The rise of Generative AI (GenAI) threatens to eliminate entire segments of the value chain, including those that employ MSME actors (Wilson, 2025). Notably, the sector's long-term financial health and overall resilience is still marred by the long shadow cast by the Covid-19 pandemic (OECD, 2021a; Adian et al., 2021; Sonobe et al., 2021; Izumi et al., 2023).

1.1 Problematizing the dominant frame of platform-based integration

In the quest to reinvigorate MSME growth and productivity, particularly in the post-Covid era, digitalization has often been strongly advocated by policy actors, almost as a 'magic bullet' strategy (Karr et al., 2020; OECD, 2021b). While digital technologies significantly enhance the value proposition and competitiveness of MSMEs, the dominant frame of these prescriptions, reinforced by research with a narrow focus, has been contained within limited ideas of access, connectivity, infrastructure, and skilling (Working Group on Connectivity for MSMEs, 2023; World Economic Forum, 2023). This pegs the discourse largely on statistics about the digital divide, national adoption rate of technologies, uptake of digital payments, transition to online sales, etc.

In particular, digital integration through large e-commerce channels has received wide attention. Media discourses abound with success stories of the archetypal artisan entrepreneur who was able to take their business to new heights through the simple act of 'getting on the platform.' Major platforms use such testimonials routinely in promotional materials. Studies focussing on MSME onboarding into online marketplaces often forecast an optimistic outlook with respect to downstream impacts such as sales, client base, and export abilities (Karr et al., 2020; Goyal et al., 2022). The upshot of this is that mere platform-based integration is somewhat simplistically conflated with substantive digital capacity development. Most narratives stemming from this mode of analysis also assume the centrality of Big Tech actors in key digital economy developments, including platformization, supply chain integration, automation, and datafication.[1]

Meanwhile, policy initiatives often focus on enabling the start-up ecosystem with ease-of-doing-business strategies, subsidies, incentives, etc. However, they often miss the beat for inclusion into digitalized value chains or marketplaces. Moreover, they frequently fail to fully consider the larger macro-economic and policy landscape within which such trends are likely to be playing out, including:

- **Big Tech capture of the market (place)**. The opportunity rhetoric, particularly in relation to e-commerce adoption, ignores an evident truth. Digitalized marketplaces are increasingly shaped through Big Tech-led platformization. These platforms control market outcomes and affect the co-option of smaller economic actors, often leading to the steady depletion of skill and knowledge capital from smaller and local firms and enterprises (Gurumurthy et al., 2019). Correspondingly, issues of Big Tech regulation, specifically in relation to how they limit or expand the ability of MSMEs to develop and establish market presence, have not received adequate attention (Gurumurthy & Chami, 2019).

- **Uneven terms of integration.** There is a lack of focus on the immense power differential between MSMEs and larger e-commerce platforms and tech corporations, as well as lead firms and suppliers. The governance structures that skew the benefits in favor of powerful corporations are often invisibilized. What this means for the ability of MSMEs to upgrade economically and socially, and how this may impact the bargaining power of developing economies is a question that remains unanswered. These uneven terms of integration also mean that women and women-led MSMEs might be 'adversely incorporated' into digital markets, or forced to digitalize and datafy their businesses without any economic advantage, and often at punishing costs, such as lock-ins and steep commissions.

1 Studies have acknowledged that the potential of digitalization for MSMEs has not been fully harnessed due to a combination of internal capacities as well as external factors such as availability and affordability of digital infrastructure, the overall diffusion of digital technologies in local environments, supply chain relations, digital platforms, policy programs, and cultural norms (International Labour Organization, 2021). The important question of who controls digitally mediated value chains and to what extent micro firms are able to capture value and upgrade through digital resources has received some focus, primarily through the lens of connectivity and within digital trade and e-commerce debates (Hill, 2017; Foster et al., 2017).

- **Lack of an ecosystem lens.** National policy approaches miss an ecosystem lens, obscuring the linkages between endogenous (infrastructure policy, start-up financing, innovation ecosystem development, etc.) and exogenous (Foreign Direct Investment (FDI), trade agreements, etc.) aspects. The linkages between macro policy conditions pertinent to data and AI; e-commerce and digital trade; investment and corporate regulation; Intellectual Property (IP) regimes; etc., and their prospects for MSMEs, and women-run enterprises in particular, remain under-explored.

- **Pandemic and labor impacts.** The thrust for economy-wide gigification and servification of labor, coupled with a sharp rise in contract work arrangements, has contributed to heightened precarity and labor atomization in the post-pandemic context. These trends present a complex outlook for labor participation and value creation in the Global South, warranting critical analysis. For instance, while the effects of the pandemic were disproportionately felt by women, the recovery seems to be skewed in favor of men (Bargotra et al., 2021). Similarly, while a significant rise in digital integration was triggered by the Covid-19 pandemic, these initiatives often imply formalization at scale, the costs of which require further attention.

1.2 Rationale

This study critically examines MSME participation in the global economy, which is being increasingly shaped and determined by the rapid deployment of digital technologies, with the objective of filling the aforementioned gaps. The study attempts to make connections between MSME digitalization and the political economy of the digital marketplace and global value chains, in order to frame opportunities and challenges in relation to development outcomes, with a particular focus on gendered consequences. In this regard, it aims to:

a. Understand the extent to which current pathways for digital integration[2] and the existing policy, regulatory, and governance frameworks support the equitable development of MSMEs in the Global South.

b. Grasp the gendered impact of these developments, with a specific focus on how women-led enterprises may be responding to the changing landscape, and the extent to which gender is mainstreamed in the policy discourse.

2 The term 'digital integration' in this study is interpreted as digital-led engagement of MSMEs with other firms (in local and global networks) or consumers for economic growth.

The major research questions that the study addresses include:

a. How is the digital integration of MSMEs in the Global South playing out?

   - How have digital capacities allowed MSMEs to integrate into the digitalized marketplace? What new business models have emerged?

   - What are the terms of this integration, especially for women-run enterprises? Does investment into digital capabilities reduce power asymmetries along the value chains or enable higher control by lead firms?

b. How do the larger logics of platformization, datafication, and automation within the digital ecosystem shape equitable outcomes for MSMEs?

   - Where are MSMEs based along the data value chain? Are they collecting and aggregating data or only serving as points of data collection for larger corporations? Or are they hiring data brokers?

   - How is the development narrative around the use of data different for women- versus men-owned enterprises?

c. How do key macro-economic trends and regional, national, and sub-national policies (such as in data governance, e-commerce, FDI, etc.) shape the digital capacities and models of integration of MSMEs?

   - To what extent has gender been mainstreamed into policy?

d. How can national and global policy frameworks enable the equitable digital integration of MSMEs?

2. Framework and Methodology

The study identifies five broad pegs of analysis:

a. Modes and models of digital integration
b. Drivers for digital integration
c. Challenges to digital integration
d. Policy opportunities and deficits
e. Gender dimensions to digital integration

The study examines country contexts in Asia, Africa, and Latin America, focusing on five countries—Argentina, Kenya, Indonesia, Cambodia, and India—across two key sectors:

a. **Agro-processing:** The digital upgrading of MSMEs in agro-processing value chains is significant to the larger workforce employed in the agricultural sector. Additionally, women workers and entrepreneurs are concentrated in the manufacturing of food products.

b. **Tourism:** Micro-, small-, and medium-sized tourism enterprises form the backbone of local tourism. As efforts to reboot tourism in the aftermath of the pandemic have accelerated worldwide, the ability of small tourism businesses to leverage digitalization and platformization trends in the sector will be important to their economic recovery.

An in-depth qualitative exploration based on the analytical parameters outlined above was carried out by partner research organizations, who were identified through an open call. Partner organizations worked in coordination with the lead research team to interpret and apply the framework at the country level, and develop a country-level research report.

Primary data collection for the study included field visits and interviews with various actors in the MSME ecosystem and was complemented by two case studies of select women-led MSMEs in each country. As many as 180 MSMEs were included in data collection across the five country studies, and nine case studies were developed for in-depth exploration. In addition to this, a range of stakeholders were also interviewed as part of the country studies. Secondary research comprised a review of select policy documents to analyze the linkages between policy choices and macro-economic trends at the country level with MSME capacities. Research ideation and review workshops and meetings were held at regular intervals throughout the duration of the study. Country-level reports finalized through this process were then analyzed by the research coordination team across the five analytical pegs. These were then deliberated and distilled at a final research workshop, which formed the basis of the drafting of this report.

In the following sections of the report, we delve into the study's findings, synthesized across the country-level research reports, followed by an analysis. The report concludes with a set of forward-looking policy pathways.

3. Key Modes and Drivers of MSME Digital Integration

Across all country studies, a few major modes of digital integration were observed among MSMEs. These included:

a. Use of physical digital infrastructure (laptops, CCTVs, telecom services, etc.)
b. Use of tech-enabled services (Microsoft Office, email, Google Workspace, etc.)
c. Use of platforms (social media and e-commerce)
d. Use of digital intelligence (for instance, digital-first users of frontier tech)

Furthermore, the following key drivers of digital integration were identified:

a. **Covid-19 pandemic boost.** The natural consequence of restricted access to physical spaces during the Covid-19 lockdown was an increased dependence on digital spaces. Regardless of their standing pre-pandemic, several MSMEs were forced to shut shop as a result of the "drop in productivity and profitability, largely due to their scarce digital capabilities" (Stubrin et al., 2023). The alternative to digital integration, in most cases, would have been obsolescence. Propelled by the Covid-19 pandemic, the impetus for digital integration took three distinct forms: regulatory support acting as the driving force of digital integration; the perception of increased value-generation; and the threat of obsolescence.

   State-led support for MSMEs played an important role in keeping businesses afloat during the pandemic. Increased digital dependency was viewed as an opportunity to "build resilience and digital capacity" (European Union, FGG Alliance, & IT for Change, 2023a). Another notable driver was that of perception: do business owners believe that digital integration is useful? How do they see the cost-benefit trade-off? For instance, the perception that digital integration (primarily, MSMEs as platform users) would lead to increased discoverability (reaching consumers and suppliers alike) was popular in agro-processing and tourism sectors in Argentina (Stubrin et al., 2023). In India, on the other hand, several MSMEs perceived digital integration as an "additional cost" to their business (MSME Desk, 2022; Ganapathy, 2024). The Covid-19 pandemic had a significant, though uneven and fragmented, impact across the global value chain, affecting both first-time digital adopters and digital-first firms that intensified their digital practices (Ganapathy, 2024). In addition to increased opportunities in export, shipping, and logistics, there was a perceived risk of obsolescence. In simple terms, businesses felt they had to digitalize or risk shutting down operations.

The nature of digital integration post-pandemic, however, shifted. Several viewed the adoption of digital technologies as a temporary solution to the problem of the pandemic. As businesses increasingly returned to physical operations with each passing year, MSMEs often minimized using digital solutions in their businesses and resumed a primarily analog mode of business. For instance, a tour operator from Cambodia reported, “Frankly speaking, I do not Zoom nowadays; even with Western customers/partners, we only call on WhatsApp” (European Union, FGG Alliance, & IT for Change, 2023a).

b. **State-led push towards digital integration.** Regulatory drivers for digital integration were focused on boosting the MSME sector, particularly following the Covid-19 pandemic. The objectives of state-led interventions were to first, “encourage and support MSMEs in the adoption and use of digital technologies” and “enable a focus on innovation” (Ganapathy, 2024).

State-led support primarily took the form of financial benefits. For instance, 15% of MSMEs in the tourism sector in Cambodia reported having received tax exemptions. A state-led scheme in Cambodia also granted loans without collateral to tourist establishments (European Union, FGG Alliance, & IT for Change, 2023a). In India, a series of challenges that tested the “potential to productize technologies” were launched and the winners were awarded USD 150,000. India also attempted to level the playing field by introducing a public platform marketplaces protocol called the Open Network for Digital Commerce that aims at boosting discoverability for MSMEs (Ganapathy, 2024). Kenya also created a stabilization and acceleration fund for sustainable tourism (European Union, FGG Alliance, & IT for Change, 2023c). Furthermore, infrastructure and capacity-building support was granted in Argentina under the Digital Agenda Argentina, 2030 (Stubrin et al., 2023).

c. **Increased discoverability.** Over the years, discoverability has been the primary driver of digital integration, with one notable exception during the Covid-19 pandemic. Social media, in particular, has enabled firms to expand their reach, providing access to a broader consumer base and new and alternative markets beyond geographical limitations by opening a direct channel of communication with consumers, allowing for highly targeted marketing. For example, firms can now share details about organic, farm-to-table products and build a niche consumer base. A case in point is Agrojusto, a local platform in Argentina that works to commercialize food products. Their goal is to connect with specific market segments, such as those interested in agroecological and organic farm-to-table products. The platform was created in 2018 by a start-up that sought to connect small farmers and cooperatives with consumers through an application that served as a link between fruit and vegetable producers and the market (Stubrin et al., 2023).

Additionally, the benefits of increased visibility on platforms are felt across the supply chain. Presence on a platform allows one to discover new suppliers and build newer relationships. Furthermore, last-mile service delivery is the primary objective of MSMEs as platform intermediaries.

d. **Trust and reduction of costs.** The ubiquity associated with platforms has led to them being dubbed as 'infrastructures of trust.' For MSMEs coping with a shift away from traditional business models, brick-and-mortar structures, and eroding trust, platforms can thus be an attractive alternative. Association with Big Tech platforms, in particular, enables MSMEs to leverage pre-existing or ascribed trust, as both consumers and suppliers are more willing to engage with sellers on these platforms. Firms also reported the ability to set higher prices for their products through these platforms. Furthermore, a positive knock-on effect of digital integration is the reduction of fixed and marketing costs, as the use of digital intelligence allows firms to provide more targeted advertising, potentially boosting profit margins (European Union, FGG Alliance, & IT for Change, 2023a, 2023b).

e. **Supply chain efficiencies.** Data-driven integration typically took place in MSMEs that were 'born-digital' or those using frontier technologies. The benefits of data-driven insights were threefold: first, they enabled upgrades and diversification at specific points in the value chain (Ganapathy, 2024); second, they enhanced monitoring across the supply chain; and finally, by supporting better compliance with international standards, they opened up greater access to export markets.

A few firms in Cambodia, for instance, reported increased productivity and efficiency as a result of reduction in human labor, particularly around administrative tasks (European Union, FGG Alliance, & IT for Change, 2023a). An MSME in the India study described how the use of demographic data allowed a fishing community to access financial instruments like group loans (Ganapathy, 2024). Dynamic feedback mechanisms, built using digital intelligence, can improve time management, enhance consumer trust, and enable rapid scaling.

4. Key Findings

4.1 Big Tech's infrastructural dominance entrenches MSMEs' dependency

A majority of MSMEs covered in our study rely on linkages with major platforms (either from the GAFAAMT[3] constellation or dominant platforms within their respective countries), which serve as the primary mode of digital integration. Overwhelmingly, we find that MSMEs navigate a skewed relationship of diminishing returns with large platforms, one that continues to entrench a pattern of deep dependency that most are unable to break out of.

a. **The entrenchment of digital dependence.** The core promise of digital integration today has been largely reduced to Big Tech-led e-commerce, whether by way of the limited choices available in the ecosystem or through the global policy and development apparatus, which all but force firms to adopt this route. With the pandemic's boost to digital integration, and aligned policies and support significantly tapered off, the impetus for digitalization among very small firms is now more driven by fear of obsolescence. Small firms feel the continued need to build and maintain linkages with dominant platforms, their dependence enhanced by the absence of viable alternative local platforms.

   MSMEs are therefore caught in a no-win situation while navigating the 'more eyes versus right eyes' dilemma of maintaining presence and engagement on large platforms. They are compelled to keep up with the fickle attention economy at considerable cost and effort, despite lacking any guarantee of tangible gains or, at the very least, transparency about what strategies are succeeding. The fear of obsolescence keeps them tethered to platforms, with opting out being a choice many feel they are unable to exercise.

   The design and functions of platforms entrench this power asymmetry as MSMEs have limited ability to approach platforms for clarifications, grievance redress, dispute resolution, etc. While MSMEs would like, in most cases, to exercise agency and explore options outside of these ecosystems, the lack of viable alternate market access pathways makes this holding pattern difficult to break out of. Even when viable, alternatives are seen only as supplemental (even if significant) avenues of revenue. Exit from large platforms is thus a Hobson's choice.

b. **The rise and fall of platforms as trust infrastructures in the market ecosystem.** Platforms have occupied and serve as key infrastructural nodes within the e-commerce and communicative landscape.

3 GAFAAMT is an acronym that stands for Google, Amazon, Facebook, Apple, Alibaba, Microsoft, and Tencent.

Their ability to serve as 'trust infrastructures' (Gurumurthy & Bharthur, 2020)—by brokering reliable transactions between and among smaller actors—attract smaller firms who value the 'seamlessness' and 'stickiness' that platforms have been able to offer. In theory, it is easier for a small firm with limited resources to enlist on platforms like Amazon or Instagram, and leverage the latter's large networks of consumers and users, without having to invest in their own software, payment system, and algorithmic capabilities.

However, the experiences of MSMEs interviewed for this study did not quite support this hypothesis. For one, their expectation of enhanced discoverability and ease of gaining business met the roadblock of invisibilization on account of algorithmic asymmetries. MSMEs continuously strove to be 'seen' and 'visibilized' by platform algorithms but reported facing high degrees of opacity in understanding how their searchability and visibility rankings were determined on large social media platforms, or how matching services with buyers and clients on B2B platforms were carried out (European Union, FGG Alliance, & IT for Change, 2023b, 2023c). As one MSME in the India study observed:

> "Digital advertising is unviable for micro enterprises like ours. In the last two years, we have spent about INR 3–3.5 lakhs (approx USD 3600–4200) in ad spend, and we have not seen a return of even one rupee (Ganapathy, 2024).

The seeping in of negative network effects or 'platform decay' exacerbates this issue as big platforms, bloated with features and massive, unmanageable user bases, have started to experience serious levels of service degradation (Fattal, 2023). This yields diminished returns for consumers and sellers alike and erodes the shored up trust within platform infrastructures and networks.

Additionally, firms also struggle to grasp the full scope of the terms and conditions set unilaterally by platforms. These notably include ambiguous fine print on issues such as registration and onboarding, cancellation, price changes, rejection of products, blacklisting, changes in policy, and more, deepening dissatisfaction and mistrust in the relationship.

4.2 The promise of digital inclusion remains unrealized for MSMEs

MSMEs face a range of barriers to meaningful digital inclusion and reaping the gains of the digital economy, including costs, connectivity, infrastructure, skills, and capabilities.

a. **Firm-level challenges.** High costs are a fundamental first-level challenge for firms. These often stem from steep capital investments in equipment, office space, payment and point of sale systems, everyday operations, etc. In Indonesia and Kenya, MSMEs reported struggling with prohibitively high internet and connectivity costs (INDEF, 2023; European Union, FGG Alliance, & IT for Change, 2023c). In other cases, such as in the Kenyan agro-processing sector, it was found that platform engagement often required additional in-app purchases and premiums to access input bundles which then drove up costs for small farmers (European Union, FGG Alliance, & IT for Change, 2023b). Similarly, steep commissions charged by e-commerce platforms like Mercado Libre ate into the margins of smaller firms in Argentina (Stubrin et al., 2023). In India, even digital-first firms such as Farm Didi had to account for resource-intensive initiatives such as a large on-ground staff to do extension work and complement their online modalities (Ganapathy, 2024). What compounds cost-based challenges is inadequate access to funding, credit, and finance. Where available, prohibitive lending terms become a challenge across different MSME actors. For instance, in Kenya, it was observed that farmer cooperatives and groups, restaurants, retailers, and others experienced high interest rates and a general lack of support through traditional banks (European Union, FGG Alliance, & IT for Change, 2023b). Loans provided by alternative lending platforms were available but only for small sums and came with similar high interest rates (which are not capped). These findings are mirrored in macro data, with the International Finance Corporation (2025) estimating that MSMEs experience a financing gap, with women-led enterprises accounting for 34% of this unmet credit demand.

   The research also surfaced additional financial challenges that operators of firms faced, such as the inability to secure financial support for non-commercial needs, e.g., for supporting a sick child. Such financial insecurity can exacerbate the constant state of economic precarity in which small firms often operate, denying them much-needed stability. The lack of robust banking support has meant that firms look to venture capital investments, grants, and philanthropy support. In India, a majority of MSMEs who received funding support reported that their inability to access long-term funding options, including credit or investor funding, was a challenge. While many acknowledged the leg-up support that the various grants, challenges, and awards had provided them, they believed it did not replace the need for sustainable long-term funding that was necessary for scaling (Ganapathy, 2024). Kenyan-owned firms in the study reported that they had access to substantially less funding than their foreign counterparts and were also unable to join several accelerator programs, unlike foreign-owned firms (European Union, FGG Alliance, & IT for Change, 2023b, 2023c).

Firms also struggled with basic infrastructural challenges such as limited internet connectivity, low levels of smartphone ownership among the consumer base, and high cost of gadgets and upgrades. Many companies that operate in remote areas found transportation and logistics deficits to be a critical issue. It is significant to note that while the Broadband Commission's (2017) Advocacy Target 6 focuses on improving the connectivity of MSMEs by 50% by 2025, progress on this remains unmapped. Anecdotal evidence from the study suggests that this target is significantly falling short.

Lastly, MSMEs work with significant digital literacy and technical skill deficits. The hypothesis of small businesses simply going online and becoming instantly digitally integrated is thoroughly debunked when we look at what it takes for a business to be online in an optimal way. Firms covered in the study, particularly those run by middle-aged and older owners with limited time and avenues to upgrade their skills, expressed a pronounced difficulty with effective digital integration. They lacked the content management skills geared towards the digital landscape, including addressing customer and client expectations of prompt customer service and real-time communications support; and maintaining effective digital feedback mechanisms through active engagement with online reviews (especially with respect to dispute resolution and assuaging negative experiences). As an interviewee from one women led-MSME in Argentina observed:

> “I don't manage either Facebook or Instagram. I look at it, but I don't know anything about it, or about posting things. I have zero experience in that, honestly. So, well, first I sought the help of my son. And then, three months ago, we hired a group of guys from Posadas, Misiones, who make posts for us on Instagram (Stubrin et al., 2023).

Challenges also extended to creating standout promotional content for social media and other digital marketplaces in the form of creative written content, high-quality pictures, and engaging data points on products which would give them a boost in the attention economy. While some were able to mitigate this issue through outsourcing assistance, an inability to delegate—either to in-house staff or external vendors—due to lack of trust or know-how often resulted in the centralization of certain kinds of digital integration, such as the management of social media handles.

Many firms were unable to afford the costs of hiring skilled professionals to fill these gaps, or even when they were willing to do so, they struggled with finding and retaining specialized local talent with their budgets and to communicate their needs, often leading to unsatisfactory outputs and results. These challenges deter digital integration or compel firms to persist with sub-optimal integration.

b. **A structural misfit.** The digital economy and the logics of network advantage have a tendency to privilege scale, thus always rendering it sub-optimal for smaller players. MSME operations find it hard to negotiate this structural mismatch, with the issue manifesting itself in various ways. For instance, small hoteliers interviewed in Indonesia and Argentina found it difficult to manage their online presence across multiple platforms as they lacked inventory and could not risk overbooking (INDEF, 2023; Stubrin et al., 2023). In other instances, the market opportunities afforded by the larger e-commerce platforms in India and Argentina proved non-viable for small or niche businesses on account of unaffordable commissions, gaps in logistics, and their geographical distance from main shipping hubs (Ganapathy, 2024; Stubrin et al., 2023). Sometimes the issue was as basic as the inability to engage with digital platforms owing to language barriers, as was highlighted in the research undertaken in Cambodia (European Union, FGG Alliance, & IT for Change, 2023a). MSMEs thus continue to rely on traditional channels, sometimes entirely by choice. For instance, firms often felt traditional outreach methods such as participation in neighborhood exhibitions, advertising in local language newspapers, or enlisting on local tourism information portals seemed to serve their needs in ways that larger platforms were unable to. These channels helped them reach their product/service to a local audience and client base with better retention and personalize customer experiences in ways that were otherwise not possible.

c. **An unremitted data dividend.** The study was able to glean limited and patchy insights about whether and how MSMEs are able to harness the value of data and digital intelligence in their efforts to digitally integrate. Only a few MSMEs, varying across different types of actors, recognized the benefits of adopting a data-driven strategy to grow their business. However, they often lacked the capacity, resources, or bandwidth to take meaningful action, even when provided with aggregate data insights from larger platforms.

   MSMEs interviewed in Cambodia, India, and Kenya also seemed to acknowledge the fact that current data practices were disadvantageous to them and favored incumbents. MSMEs were able to exercise little say in how their data was being used, while platforms themselves benefited from large volumes of personal and non-personal data (European Union, FGG Alliance, & IT for Change, 2023a, 2023b; Ganapathy, 2024). Indiscriminate data-sharing practices, particularly on sensitive financial information, also left many MSMEs vulnerable to exploitative lending practices of loan sharks, as was reported in Kenya (European Union, FGG Alliance, & IT for Change, 2023b, 2023c).

The data asymmetry and one-way sharing between platforms and small firms—where the former benefit immensely but MSMES rarely do—are a manifestation of broader power structures. These structures enable dominant platforms and other lead actors to control data unilaterally, a situation worsened by a public institutional void on public data resources.

d. **Policy-related challenges:** MSMEs reported a mixed outlook on the extent to which the policy landscape supported their efforts of digital integration. Whether in terms of subsidies, ease of business, technical training, or capacity building (with some exceptions), MSMEs shared a feeling of being on their own. Bureaucratic bottlenecks and hurdles such as paper-only administrative procedures (such as in Indonesia), lengthy approval times for public finance (such as in India), and lack of clarity and contradictory information on required compliance are some examples of how MSMEs navigate a challenging policy environment (INDEF, 2023; Ganapathy, 2024). While the policy landscape analysis in the country reports points to a fair number of policies and programs that seem to specifically target the MSME sector, the experiences of firms point to a gap in how such interventions meet the specific objective of the sector's digital integration.

4.3 Social power structures carry into the digital structures

We find many ways by which social power structures are replicated within the digital paradigm and attenuate the challenges for marginalized groups and communities that have been discussed in earlier sections. For instance, while women-led MSMEs in the study reported grappling with key issues such as insufficient market access pathways and financing avenues, poor bargaining power within the platform ecosystem, and algorithmic asymmetries, they also experienced specific gendered dimensions to these issues that their male counterparts in comparison did not.

a. **Differing drivers.** While both male- and female-led MSMEs used digital technologies as part of their enterprise development strategies, their drivers for doing so showed significant gender differences, often drawing on the social structures that shape labor force participation. Findings from across the studies indicate that women are more likely to see digital integration (particularly platform-based integration) as a pathway to new networks and alternate markets, quality inputs, flexible work and reduced time poverty (given higher care work commitments), whereas men are more likely to identify it as an opportunity for higher earnings and growth. This was elucidated by a women-owned retailer from Kenya:

> I used to go to multiple warehouses to look for products (chemicals, fertilizers, etc.) but now by ordering online I can save that time to spend with my children or run family errands...I am not sure I get the best deal but my time matters more (European Union, FGG Alliance, & IT for Change, 2023b).

This is corroborated by other research on e-commerce, which has demonstrated that women are more likely to report "flexibility," "reaching personal goals," and "meeting basic needs," as the top benefits of selling online, while men are more likely to report "ability to start a new business" as one of their top benefits (International Finance Corporation, 2021). This in turn leads to differential social and economic outcomes for women-led enterprises.

Multiple instances observed across country case studies point to a pattern of systemic mismatch between the everyday work norms of women enterprises and their expectations of digital integration vis-à-vis the requirements for successful outcomes. For instance, women entrepreneurs, grappling with time poverty and care work burdens, expect to gain flexibility and save time through platform integration. Conversely, platform algorithms incentivize constant and real-time presence and engagement.

b. **Gendered structures of participation.** Gendered norms in social, institutional, and marketplace contexts as well as gendered occupational segregation patterns continue to impact women entrepreneurs' experience of digital integration and pose barriers to realizing their entrepreneurship outcomes. In interviews, women expressed their struggles to access resources, community, and support as they found themselves gate-kept out of networks that are historically male-dominated. The gendering of markets or the emerging configurations in market organization may influence which activities in the value chain women can or cannot participate in.

   Women entrepreneurs also reported particular challenges in navigating highly gendered segments of the value chain such as logistics and warehousing. A respondent in the Cambodia study shared, "Because it is a small women-led business processing bananas, seeking cooperation can be difficult; we get rejected either when making requests or after negotiations" (European Union, FGG Alliance, & IT for Change, 2023a).

   Women entrepreneurs reported that even when they self-identified themselves as the head of their firm, they faced internal and external challenges to their decisional autonomy and authority. Additionally, some respondents, such as in the Kenya study, reported that they do not have the complete freedom to make key and strategic economic decisions (European Union, FGG Alliance, & IT for Change, 2023b, 2023c). This was in contrast to male respondents who expressed complete confidence about their leadership. This translated into self-doubt and hesitation amongst women with regard to trusting their expertise and consequently affected their negotiating ability with other actors.

c. **Thin levels of integration.** Women-led enterprises often opt in for thin levels of digital integration with primarily downstream linkages. Common forms of integration for micro enterprises include informal or social commerce channels (such as through the use of social media tools like Facebook, Instagram, and WhatsApp). Typically, under this model, sellers connect with buyers on these applications but conduct payments, delivery, and after-sales service off platforms. This finding is substantiated by secondary literature. For example, a study on the use of social commerce in Kenya found that while 27% of micro enterprises used marketplace platforms like Jumia, over 90% of them also relied on more personal social media tools such as Facebook, Instagram, and WhatsApp to conduct business (Schiff et al., 2019). As social media platforms require less tech familiarity and fluency with higher-end tools, they offer greater ease of use and appeal to novice digital entrepreneurs who are just entering the market. Most narratives tend to valorize informal e-commerce as a low-cost and low-code market access pathway for women-led enterprises, positing that presence on social commerce can serve as a gateway to formal e-commerce integration. However, this study finds significant skills, resources, and capabilities become crucial to turn informal e-commerce into a viable and lucrative formal economic value proposition, and the next-level upgrade does not always materialize. Here, the divide at the intersection of gender, age, and size makes it particularly disadvantageous for women-led enterprises to fully reap the benefits of being on such platforms.

d. **Higher instances of downgrades.** Women-led MSMEs experience significant social and economic 'downgrades' as compared to their male counterparts. This was observed in the case of Kenya, where uneven opportunities to use and access digital products translated into lower economic upgrading potential (measured by annual profits, product diversification, and ability to scale) for women entrepreneurs (European Union, FGG Alliance, & IT for Change, 2023b, 2023c). Trends in e-commerce point to this persistent profitability gap between women- and men-owned e-commerce businesses. Women-owned businesses are typically smaller in size and often run at subsistence levels (likely because of the low-resource contexts they are operating in and their need for flexibility). This has implications for their ability to move up the value chain, grow to scale, build export capabilities, and more. During the study, women also reported experiencing social downgrades, where they spent more time and resources making apps work for them and struggled to a greater degree with challenges like dispute management and getting competitive terms of engagement from platforms.

As a female restaurateur in Kenya observed:

> I thought joining an app meant most of the running around would be taken care of for me...but no...instead, I run behind the app to make sure I get the quality I need...I might as well run around myself...it will take less time (European Union, FGG Alliance, & IT for Change, 2023c).

e. **Gendered operational challenges and vulnerabilities.** Respondent MSMEs' perspectives point to the fact that women entrepreneurs confront specifically gendered dimensions to their interactions which leave them open and vulnerable to a heightened risk of discrimination, harassment, and violence compared to men entrepreneurs. Women entrepreneurs expressed that they could not take trust in interactions for granted and always had to be on their guard, especially in online spaces. In Argentina, women reported facing challenges interacting with actors on logistics, negotiating price points, and trading, where their opinions were not taken seriously, or there was a lack of trust and respect in the interaction. Thus, they ended up paying higher premiums on services and goods, and faced higher instances of fraud and business malfeasance (Stubrin et al., 2023). A respondent interviewed for the India country study recounted, "For one of our business meetings, an investor who is a big name in the industry actually came dressed in boxers, just because we were young women that he was meeting" (Ganapathy, 2024).

Vulnerability to harassment, abuse, and unwelcome advances from colleagues and clients manifest as a specifically gendered outcome that women-led MSMEs face in their experiences of digital integration. As a respondent from Argentina reported, "I get lots of abuse when trying to set prices...People feel they can sometimes change the prices from the app online and ask for refunds...it is very worrying and the app does not protect me" (Stubrin et al., 2023).

Given that most MSME firms lack clear human resource policies detailing occupational safety or sexual harassment policies, and platform policies do not prioritize women's safety and protection, the onus falls on women to find ways to protect themselves. A woman guide interviewed for the Kenya study explained:

> When we are showing tourists around, I get lots of looks from male tourists, who invite me to their home or want to take me out for a meal...this makes me feel fearful, but I have no place to report this where I feel safe...I confide with my friends...but what else can I do (European Union, FGG Alliance, & IT for Change, 2023c).

5. Analysis

The findings bring up multiple failures in policy and systemic responses that set up MSMEs to fail or underperform. From firm-level challenges that are reinforced by other research in the domain, to the most recent set of insights coming from this study, it is undeniable that MSMEs are struggling to obtain the full remit of digitalization. The following are some key observations that come up in this regard.

5.1 MSMEs are doomed to be 'running in place'

Any gains realized by the MSMEs in the study, through the process of digital integration, invariably came at the cost of significant resources, investments, and capacities—costs that are often underplayed in popular narratives and may not always be feasible for these firms.

Furthermore, while MSMEs identified perceived or actual benefits such as increased discoverability and visibility, new efficiencies, product diversification, and expansion of customer and market base, the consensus across the board was that for small firms the ultimate expectation of revenue increase did not materialize. When firms identified the primary drivers or decision-making factors for digital integration, they cited reasons such as the potential for increased discoverability, reduced costs, ease of use, lowered entry barriers, fear of obsolescence, and the need to keep up with competitors in the space, among others. However, when probed about the challenges and issues they faced in pursuing digital integration, a lot of them seemed to circle back to these very factors, holding them up as challenges.

The drivers for MSMEs' digital integration identified by respondents thus seem to be neutralized and in many instances, mirrored in the challenges. Respondents were deeply cognizant of both the drivers of digital adoption, as well as the structural challenges that yield low-to-mixed returns on integration. But they did not connect the two as being sides of the same coin, thus contributing to a problematic cyclicality in their strategy. And so, in the majority of cases (except where businesses are simply too small to integrate), firms persist as they feel an inevitability about the process.

MSMEs are thus 'running in place,' locked in a pattern of sub-optimal digital integration where they are reconciled to making inadequate, highly constrained choices that do not yield the full remit of digital integration but nurture the hope of improved gains, often with the knowledge that there may be no choice to opt out.

5.2 Policy imaginaries of 'plug and play = instant success' are missing the full picture

Policy imaginaries in economies currently take Big Tech dependency as a given for the most part and are often even framed around responding to the ecosystem, with few actions taken to actively challenge this standpoint or depart from it altogether.

The idea that digital trade, and especially e-commerce, can increase global value chain participation for MSMEs becomes more of an aspiration than reality, given that direct evidence of this playing out is limited and inconclusive.

From infrastructural control to a deeply anti-competitive marketplace, and a global trade and IP regime that works overtime to promote and enhance the interests of the very large players, current regulatory arrangements are aimed at pulling MSMEs into the system with great ease, but not really set up to allow them to thrive as such. This ends up curtailing prospects of domestic enterprises, or rather 'fixes' them in place.

Ultimately, in a globally servicified digital value chain, where value realization becomes limited on account of different kinds of barriers for different actors, there is no real way for MSMEs to fully optimize the current e-commerce landscape. The unwillingness and inability of policy actors to fully push back against this fundamental problem of market capture by Big Tech thus compromises policy responses even when these are well-intentioned.

Moreover, it forecloses the opportunity to explore alternative infrastructures and platforms, for which there is a very real appetite among MSMEs. Firms would ideally like to escape their dependencies and seek viable options that do not drown them out. New entrants or digital-first businesses would similarly like to do things differently and offer a meaningful experience for a smaller client base as many respondents in the country studies indicated. But the lack of enabling policy pathways makes this an unviable quest for both sides, thus resulting in a failed opportunity to not only affect marketplace reform but create new marketplace dynamics.

5.3 An imperfect market has created a situation of rights brokerage for women entrepreneurs

The structural dynamics of the digital marketplace are affecting a form of rights brokering for women. While women entrepreneurs cite flexibility and other kinds of non-economic motives (when compared to men) in their reasons to be digitally integrated, it is also true that income gains may not be possible for them to achieve, or seem unrealistic, because of the gendered realities of the platform marketplace. Entry and exit barriers unique to women entrepreneurs' social and economic locations are not adequately factored into policy measures targeted at fostering women's entrepreneurship, or more problematically, are created around assumptions of gender essentialism. This is reinforced in messaging that caters to solving problems of time poverty/flexibility, child care needs, adding to additional family revenue streams, mobility constraints, and more. To broaden choices for women-led MSMEs beyond such a form of 'bargaining for the best option possible,' the starting point about meaningful public support for women entrepreneurs needs to shift.

6. Policy Pathways

In a global economy where large monopolies continue to consolidate value and power, MSMEs remain a weakened but critical line of defense for preserving a pluralistic market system. In the face of worrying global trends such as capital evacuation, job market erosion, and climate and energy crises, MSMES, if allowed to thrive, can become localized and sustainable pathways for economic activity. But current policy pathways and structures, both at the macro level as well as those that target digital integration, exceedingly favor bigger players and view MSME revitalization in a vacuum. For smaller economic actors to stand a chance, the larger policy imaginary in Global South nations must rise to the challenge.

6.1 MSME growth challenges must be factored into macro-economic policy for the Global South

Today, the global trade order stands at a precipice. Unilateral moves by the US to raise tariffs and realign trade in terms more advantageous to its domestic industry have created upheavals in the economy. Developing countries that had placed their faith in barrier-free trade have been left grappling with the aftermath. Unsurprisingly, small firms within the global value chain have been the worst hit (Nguyen-Tien, 2025). This ensuing crisis, one whose remit is still to fully play out, demonstrates a valuable learning moment. The positions that countries take within free trade agreements henceforth towards e-commerce liberalization, IP, digital payments, taxation, labor protections, preferential contracting in public procurement, etc., need to be in greater alignment with the material interests of MSMEs rather than broad assumptions of ease of business and investment boons. These positions will likely differ from country to country and may not look the same for all. However, they should strive to go beyond the flimsy assumption of the automatic gains unlocked by e-commerce. They should, most importantly, interrogate the inevitable entrenched dependency ushered in by digital trade that this study has highlighted, and ensure policy environments do not lock MSMEs into this losing proposition. Additionally, national-level antitrust policies must strive to be more interventionist and safeguard against the market distortion we have come to expect from e-commerce activity.

The study has also demonstrated that the constraints of geography—whether in terms of unviable location, logistical disadvantages, or being unable to stand out in a very saturated marketplace—come into play in a very concrete sense, when actors cannot afford to play to scale. This debunks the ‘sell anywhere/everywhere’ reach that e-commerce often promises, and indicates that the way policymakers theorize around geography needs to change. On one hand, efforts to grow MSMEs must be situated within the local context and take a granular, fine-tuned approach that addresses challenges for firms. On the other hand, equipping MSMEs with the tools to scale must be a broader and necessary goal.

Finally, rapid advances in AI and a lagging regulatory environment spell doom for Southern MSMEs who are operating in the absence of clear guidelines or risk mitigation and a stark competitive disadvantage (Wilson, 2025). Many face a crisis of survival with their value propositions being phased out by automation altogether. In this regard, policy has a key role to play in aiding small businesses 'pivot' to newer and alternative AI value propositions, creating a compliance architecture that harnesses the innovation potential of AI for MSMEs' benefit.

6.2 National policy must restore the dignity of participation in the marketplace

The role of public support and infrastructure must go beyond facilitating ease of integration into a Big Tech-led system. Public policy that recognizes and addresses the structural biases of the marketplace is the real need of the hour. The aim must be to create a level playing field and a marketplace that ultimately does not invisibilize or crowd out small actors, rendering them irrelevant and devalued, and forcing them to simply 'carry on' in the face of enormous structural barriers. Towards this governments should:

a. **Expand access to public credit and finance mechanisms** for MSMEs and address the bottlenecks that create acute liquidity crunches for small businesses.

b. **Broaden reach of accelerators and incubators**, and affirmatively target groups that face the most difficulties in obtaining finances.[4]

c. **Build real-world infrastructure for rural e-commerce** by strengthening logistics networks with an emphasis on last-mile connectivity.

d. **Increase investments in cloud, connectivity**, and logistic infrastructure to incentivize local digital start-ups and online marketplaces and reduce Big Tech dependence.

e. **Create public/state-supported affordable and sustainable market access pathways,** including export subsidies, trust infrastructures for buyers and sellers, licensing and certification training, etc.

f. **Establish preferential buying and purchasing** clauses for local businesses within public procurement policies and embed them within broader national and international economic policy.

g. **Enact positive visibility measures for MSMEs** on mainstream platforms, based on principles of algorithmic justice.

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4 For instance, Kenya's Uwezo Fund, a flagship program for Vision 2030, is aimed at enabling women, youth, and persons with disabilities to access finances and promote entrepreneurship at the constituency level.

h. **Foster viable and local public goods platforms and services** that can serve as alternatives to the mainstream attention economy and be locally responsive to sellers and consumers alike.

i. **Offset high costs of regulatory compliance** by designing for ease of use, providing multi-language support, and enabling single window clearance within digital and documentation systems that are accompanied by robust technical support and investments in skill development for MSMEs.

> The study highlights effective examples of enhancing positive visibility for smaller firms, such as the local websites of public bodies, like the Municipality of Carlos Pellegrini and Mercedes in Argentina. These portals, which provide tourist information about the destination—including lists of local companies and enable users to send direct messages to providers—have allowed local tourism businesses to gain visibility and consumer traffic (Stubrin et al., 2023). At a bigger scale, India's Open Network for Digital Commerce (ONDC) platform and Unified Payments Interface (UPI) payments gateway show the way forward.

Indeed, in stating all of this one is cautious of the dangers of virtue-washing the local and the small as inherently good business actors who necessarily act in alignment with the above goals. To this effect, accountability measures and guardrails across the board are non-negotiable. It is crucial that MSMEs are held to high standards of employee protection and have in place policies for paid leave and time off, social security, maternity benefits, occupational safety, and other social policy measures. States must step in to bridge the investment deficits for small firms to act in compliance with these as needed.

6.3 Marketplace reform must consider gender justice in a broader way

The gendering of markets and the emergent properties of platform market organization are at odds with one another, with platform-based integration not accounting for these contradictions in any way. What is needed is an ecosystem approach. The role of sustained, ongoing policy and infrastructural support for functions like finance and liquidity, marketing and market expansion, and visibility barriers is one piece of this. The second, equally crucial component, is putting in place a gender-based social policy that addresses issues of disproportionate care burdens. Public policy must work to eliminate the gendered costs of participation, rather than working around them.

Only then can it allow women entrepreneurs to do more than glean the marginal positives of the platform economy and aim for concrete enhanced economic gains. Towards this, states must:

a. **Create targeted financing support mechanisms**, such as subsidies, tax breaks and incentives, and special funds/accelerators and incubators for women entrepreneurs. This can be complemented by capacity-building initiatives on entrepreneurship skills, including accessing market linkages, price setting, bookkeeping, bargaining and negotiation, and more.

b. **Evolve digital literacy programs designed for low-tech users,** including women entrepreneurs and seniors, with a focus on both basic digitalization, and specialized skill development for digitally aided and digitally led operations.

c. **Increase opportunities for networking** and community building through convening spaces such as business associations and networks.

d. **Maintain high-quality databases on women-led firms** that can be mobilized and targeted for beneficial schemes and programs, with an emphasis on rural constituencies.

e. **Enact social policies that address deficits for child care** and alleviate women's disproportionate care work burdens

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f. **Put in place gender-responsive platform policies and feedback measures** to address online and offline violence, and occupational safety issues for women workers and firms.

7. Conclusion

This study finds that effective digital integration for MSMEs is compromised at two ends: 1. the longstanding legacy issues consistently highlighted by past research and macro data, and 2. the structural dynamics of the digital economy shaped by Big Tech platforms and their machinations, which are not geared towards the success or resilience of smaller actors. While MSMEs are copping to market pressures that echo the 'digitalize or perish' line, for a majority of them, their experience as gleaned from this study, seems to indicate a scenario that can be best summed up as 'digitalize and still perish.' A highly skewed ratio of investment (either financial or other) to gains keeps them trapped in a cycle of underperformance and dependency.

And yet a policy and discursive environment, one that takes a priori the logic of digital capitalism as is, continues to push for digital integration in the persistent belief that it can 'solve' for scale, geography, gender, capital, and resources, holding up the thinnest platform-based linkages as evidence of successful digitalization.

The findings of this report advocate a different starting point—one that triangulates the onground experiences of MSME firms with digital integration; the macro-level structural disadvantages hardcoded into the political economy of the digital (that impact marginalized actors in more attenuated ways as evidenced here); and the significant unmet gaps in MSME support that predate the digital turn, so to speak. Ultimately, it calls for a greater complementarity within and amongst the levels of economic, social, and digital policy, so as to anchor targeted MSME policy measures in a larger system that is aligned with their goals.

Looking forward, as the digital economy turns decisively towards AI-based technologies, the future productivity, competitiveness, and indeed survival of MSMEs in the Global South needs to be examined and fortified. At the time of primary data collection and case study analysis for this study, the debates about GenAI were still gaining momentum. To that end, pertinent questions about the impact of AI for MSMEs in the Global South remains a relevant prong of inquiry but one that the study is limited in being able to address. Future research that considers this aspect in a more focussed way is much warranted.

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