

TERM OF REFERENCE (TOR)

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| Title | : | Developing MSMEs: The Role of Digitization, Social Capital, Green Economy and Demographics issues |
| Research Team | : | <i>External Researchers</i> |
| Output/outcome | : | <i>Research Grant Bank Indonesia 2021</i> |

I. Introduction

1.1 Background

Micro, small, and medium enterprises (MSMEs) in developing economies tend to have higher contribution to nation GDP compared to developed economies, as most developing countries have higher shares of informal-sector employment compared to developed countries. In 2018, 117 million people or 97% of the Indonesian workforce was absorbed by MSMEs. Contributing 61.1% of the Indonesian GDP reaching, MSMEs are vital to the development of our country.

In the mean time, our future will be increasingly digitalized. Digitalization has brought immense convenience and benefits for both consumers and producers by promoting market expansion, fostering product and innovation, bringing operational efficiency and cost reduction. Opportunities further arise for a more inclusive economy and finance, by setting the MSMEs as one of the sources of growth and promoting the digital transformation of MSMEs. Integrating the MSMEs with digital payment and financing platforms, as well as e-commerce, to allow for digitized end-to-end business operations will enhance productivity and therefore increase earnings.

Digital technology could potentially serve as a pillar to accelerate the economic growth towards a new normal, more inclusive and sustainable growth, as digital financial inclusion becomes ever-more paramount considering the digital divide and the risk of a K-shaped recovery. The use of digital technology of the MSMEs in the agriculture sector promotes smart farming (precision technology) and shorten the food supply chains and supports fair price for farmers, hence, more sustainable. Even so, the technology disruption, almost certainly lead to major displacements in the labor markets, which we all need to be mindful. Notably, the problems of aging population in agriculture MSMEs and the general problems of low-skilled labors that hinder MSMEs' productivity. MSMEs, which surely have much less networks with big businesses and access for business information, mostly find themselves struggling to compete, especially during the pandemic COVID19.

On top of that, forced by the accelerating consequences of physical climate risk and biodiversity loss with the strands of the global decarbonisation trend, climate change strategy implies a shift to a low-carbon economy which requires willingness to change, investments, government support and demand-push. With the uprising environmental challenges and the ongoing COVID19 pandemic, especially with the increasing global and domestic challenges, economic inclusivity and sustainability, are the prominent factors to go ahead. Digital technology allows us to take leaps and bounds in achieving the economic inclusivity and sustainability.

Plausibly, there is an increasing need to thoroughly study and understand on how to accelerate a more sustainable and inclusive economic recovery by trusting the role of digitalization including the MSMEs digital inter-connectedness, as well as the policy measures required for more unanticipated changes in the future including the depleting natural resources and climate change.

1.2. Research Objectives

The research proposed should address **at least one of the research objectives as follows:**

1. Identifying the extent of the **role of digitalization for MSMEs in the development of the green economy**, including the **policy implications** to accelerate a more sustainable and inclusive economic recovery;
2. Identifying the extent of the **role of social capital dan demographics for MSMEs in the digital era**, including the **policy implications** to accelerate a more sustainable and inclusive economic recovery;
3. Analyzing **appropriate economic policy measures required** for more unanticipated changes in the future **to improve economic sustainability and inclusivity amid an intensifying digitalization**.

1.3 Significance of Research

1. The findings of this study can be used as a reference for Bank Indonesia and other institutions in providing policy recommendations on how to accelerate the economic recovery post-COVID-19 era that is more sustainable and inclusive with digital technology serving as a pillar;
2. The findings of this study can be used as an additional reference source for academics, practitioners and regulators in economic sectors in understanding on how to improve economic sustainability and inclusivity amid an intensifying digitalization from the perspectives of MSME and green economy.

1.4. Final Research Product

The final product of this research is in the form of a Research Result Report/Laporan Hasil Penelitian (LHP) and a paper through the Research Grant scheme.

II. Research Data and Methodology

This study employs data and information sources in the form of secondary data and primary data from various publications in which the main sources. The Econometrics, mathematical approach, SEM, DELPHI, and ANP methods may be used as the main analysis tools in this study.