Working Party on Small and Medium-Sized Enterprises

ICT AND ELECTRONIC COMMERCE FOR SMEs: PROPOSED STRUCTURE OF THE REPORT

The present revised outline for the report on “ICT and Electronic Commerce for SMEs” takes account of the discussion at the 17th Session of the Working Party in December 2001 and subsequent written comments received from Delegates. The revision also includes an outline of a specific report on Alternative Dispute Resolution Mechanisms (ADR) for SME-related cross-border disputes, which is an issue of growing interest for SMEs.

A first draft of the reports on ICT and Electronic Commerce for SMEs and on ADR will be submitted to the Working Party at its 18th Session in June 2002.

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ICT AND ELECTRONIC COMMERCE FOR SMEs: PROPOSED STRUCTURE OF THE REPORT TO “BOLOGNA+4”

Background

1. For the past two years, the Working Party on SMEs has carried out a series of studies on SMEs and electronic commerce for the Bologna Ministerial Conference on SMEs in June 2000, and as a follow up to the conference. These studies have also been conducted as part of the framework of the OECD Action Plan for Electronic Commerce (SG/EC(98)9/FINAL), which was endorsed by Ministers at the Ottawa Ministerial Conference on Electronic Commerce in 1998.1

2. The studies of the WP on SMEs on e-commerce have been developed in close co-operation with other OECD bodies, especially with those of the ICCP, such as the Working Party on the Information Economy. There are three main objectives: i) to investigate the level of adoption and use of information and communication technologies (ICT) and Internet-based electronic commerce by SMEs; ii) to analyse the impact of the development of electronic commerce on SMEs; and iii) to draw policy recommendations to promote the diffusion and use of ICT and electronic commerce among SMEs. A background report for the Bologna Conference in 2000 (DSTI/IND/PME(2000)1/FINAL) highlighted new opportunities through Internet-based e-commerce, major barriers to greater adoption of ICT (e.g. lack of awareness of the potential of e-commerce among SMEs and high initial IT installation costs) and the importance for SMEs of having effective e-commerce strategies.

3. The Bologna Charter on SME Policies recognises that e-commerce provides both opportunities and challenges for SMEs and recommends that:

   − Full account be taken of SME perspectives in the drafting of guidelines, rules and regulatory initiatives and instruments related to information and communication technologies (ICTs) and electronic commerce, taking into particular consideration the conclusions of the OECD Ministerial Conference on Electronic Commerce held in Ottawa in October 1998.

   − Greater awareness among SMEs of the benefits of the Information Society and of integrating Internet use and electronic commerce in their business strategies be fostered by: i) encouraging the dissemination of information on opportunities and obstacles related to electronic commerce; ii) removing paper-based legal barriers to commercial electronic transactions and administrative impediments to the creation and development of new firms; iii) fostering a competitive market for high-quality network infrastructure; and iv) making use of the Internet in public administrations’ interactions with SMEs and promoting electronic public procurement initiatives that provide equal access to SMEs.

SMEs’ participation in electronic commerce be enhanced by: *i*) fostering an environment conducive to business-led initiatives to promote the use of ICTs and electronic commerce (e.g. resource and demonstration centres, training initiatives, pilot projects); *ii*) encouraging the development of effective and user-friendly frameworks for certification, authentication, transaction security systems, privacy, and consumer protection and, more generally, providing an attractive business environment for electronic commerce in areas such as trade, competition, intellectual property rights (IPRs), standards, and taxation; and *iii*) enabling SMEs to work within a clear, consistent and predictable legal framework for electronic commerce, which allows access to “out-of-court” dispute resolution mechanisms, without imposing undue costs or burdens.

The proposed study below is part of a follow-up to the Bologna conference. It aims to identify best practice policies for promoting ICT use and e-commerce by SMEs and to provide policy recommendations for a possible second OECD Ministerial Conference on SMEs (“Bologna+4”).

Objective and methodology

5. The study assesses SME-specific policy issues, which have significant impacts on the adoption of ICT and e-commerce by small firms (e.g. government support to the employee and management training for enhancing their IT skills, availability of various financing options for ICT adoption and e-commerce, affordable and effective dispute settlement mechanisms (ADR: Alternative Dispute Resolution), as well as general framework conditions (e.g. open and competitive telecommunication markets which provide the right, i.e. broader, bandwidth and Internet access at lower price, security of online transactions, online authentication and certification). It examines remaining obstacles to greater uptake of e-commerce by small firms and policies addressing them to identify best practice policies and draw policy recommendations.

6. While the main focus of the study is on policy issues in the OECD countries, each proposed chapter below would include an analysis relating to selected non-OECD countries in the adoption of e-commerce by SMEs and related policy issues. The analysis may include case studies on specific aspects in the e-commerce developments in the non-OECD area.

Co-operation with other OECD committees and working parties

7. The Secretariat of the Working Party on SMEs will carry out the study in close co-operation with the four WPs of ICCP: WP on Telecommunications and Information Services Policies (TISP), WP on the Information Economy (WPIE), WP on Indicators for the Information Society (WPIIS) and on Information Security and Privacy (WPISP). Collaboration with WPISP would focus on ADR mechanisms as well as online authentication and certification. The work of the Statistical Working Party of the CIBE (SWIC) will also be used. Delegates to relevant working parties, especially WPIE, would have an opportunity to comment on the draft report.

8. Relevant work of other Directorates, including DAFFE Competition Committee and FEED (Forum for Entrepreneurship and Enterprise Development) and TDS LEED (Local Economic and Employment Development) programme, would be incorporated.
Co-operation with the European Commission and other international bodies

9. The Secretariat of the WP would also develop a co-operative relationship with D.G. Enterprise of the European Commission and enhance synergy with their eEurope initiative. The E-Business Policy Group (EBPG), a group of experts of EU Member States, is now conducting a benchmarking project to draw up a list of national and regional policies in Member States which aim to improve the e-business environment for SMEs. The Secretariat has participated in the EBPG meetings from the outset and expressed to the group our expectation to share the results of their project and our study. The EBPG project would provide complementary inputs to the WP’s study especially in terms of the e-business policy development in EU Member States. Representatives of D.G. Enterprise were invited and presented an overview and development of the project to the December 2001 meeting of the WP.

10. Relevant work on e-commerce and SMEs undertaken by other international bodies, such as APEC, would be utilised especially in the context of e-commerce developments in the emerging economies, including non-OECD countries, when appropriate.\(^2\)

Resources

11. This study is intended to be an important input into the Bologna Process and preparations of a possible Bologna+4 Ministerial Meeting. Taking into account the limited resources of the Secretariat of the Working Party on SMEs and OECD budgetary constraints, voluntary contributions on the part of Member countries are a prerequisite for carrying out this activity. The resources needed, beyond established Part I resources available to be allocated to this project, are estimated to be the following:

- 5 person/months at A4 level (senior economist).
- 6 person/months at A2/A3 level (junior economist).
- 1 person/months at B5 level (statistical assistant).
- Associated costs such as travel and some operational costs (e.g. translation).

12. This is estimated to be of the order of EUR 141 000. Some voluntary country contributions have been received or being discussed, which would cover a significant part of this estimate.

Output and timeline

13. The final report will provide guidance on best practice policies for promoting ICT use and e-commerce adoption by SMEs and draw policy recommendations, which would be submitted to a possible second OECD Ministerial Conference on SMEs (“Bologna+4”) in 2004 for adoption.

- 18\(^{th}\) and 19\(^{th}\) Session of the WP (June and December 2002): reviews of draft reports.

\(^2\) For example, the APEC Telecommunications and Information Working Group has conducted several studies on e-commerce and SMEs. These provide complementary views on the cross-border B2B e-commerce involving small firms in Asia, where some economies are still in the catching-up phase in terms of communications network infrastructure.
The report would be finalised during 2003 taking into account on-going developments and focusing on deliverables to a possible second Ministerial Conference on SMEs (“Bologna+4”), i.e. policy recommendations. The final report would be reviewed by the WP at the 21st Session (December 2003).

A possible second Ministerial Conference on SMEs (“Bologna+4”) in 2004: discussion and adoption of policy recommendations.

Structure of report

Introduction (Background and summary of the report)

Chapter 1. Challenge and impact of ICT use and electronic commerce by SMEs

The section first presents available data on SMEs' adoption of personal computers (PCs), the rate of penetration of the Internet, and level of involvement in Business-to-Business (B2B) and Business-to-Consumer (B2C) e-commerce by SMEs. The diffusion of ICT and Internet usage among SMEs in OECD countries for marketing and Internet sales/purchases will be presented to highlight gaps between large and small firms and the catching-up of SMEs. In addition to the available country data, the work on measuring ICT usage and e-commerce in enterprises of WPIIS of ICCP and other relevant works of SWIC and STD will be incorporated.3

The chapter also identifies remaining obstacles (e.g. new IT system installation and upgrading cost, a lack of internal human resources with ICT expertise, financing challenges, concerns over security of online transactions) as well as emerging hindrance to greater uptake of ICT and e-commerce by SMEs. As for the impact of ICT use and e-commerce, changes in the structure of value chains involving small firms will be assessed based on firm-level data and sectoral studies of the Electronic Commerce Business Impacts Projects (EBIP) of WPIE and other relevant country studies. Success (and failure) cases of small firm's e-commerce will be analysed.

Chapter 2. Policy issues for improving the business environment to encourage greater uptake of e-commerce

This chapter assesses general framework policies for improving the e-commerce environment in general as well as SME-specific issues, i.e. policy measures which are designed to apply to businesses broadly, but have significant impacts on the adoption of e-commerce by small firms.

i) General framework policies

Policy areas in which e-commerce is creating new challenges for governments cover a range of issues affecting the business environment (e.g. competition, taxation, trade, intellectual property rights) and include, in particular, enabling issues (e.g. network infrastructure, secure online settlement and payment,

3. WPIIS has developed a model questionnaire for measuring the use of ICT in the business sector. It includes a module on the measurement of electronic commerce transactions (see DSTI/ICCP/IIIS(2001)I/REV1). Results from its implementation, including those from the Eurostat 2002 survey that is based on the OECD model, will also be incorporated into the report.
consumer and privacy protection, online authentication and certification). Open and competitive telecommunication markets which provide the broader bandwidth and Internet access at lower price are beneficial for firms of all sizes and contribute to further development of e-commerce in general. Security of online financial transactions and consumer and privacy protection are needed for building general trust and confidence in B2C e-commerce in particular. Authentication and certification mechanisms to establish an online identity of individual customers and businesses are also important, where small firms may put more emphasis on their lower cost and reliability.

**ii) Policies focus on SMEs**

Policy issues also relate to developing means of promoting e-commerce diffusion among SMEs. In particular, government support to employee and management training for enhancing their IT skills, which compensates for a lack of human resources with advanced IT skills among them, is an example of SME-specific policy measure. In some cases, aspects of the general business environment can have a significant impact on small players in online markets and should be examined with a view to evaluating this impact and assessing whether compensating measures are warranted. For instance, B2B markets, many of which are led by large firms, may increase barriers to entry and exclude small firms from supply chains. Affordable and effective out-of-court dispute settlement mechanisms (ADR) are another example of the business environment, which is crucial for protection of small businesses in B2B and B2C transactions. The analysis on ADR will be carried out in close co-operation with WPISP (a detailed outline of work being carried out on ADR is contained in the Annex).

**Chapter 3. Policy recommendations**

The section identifies best practice policies for promoting ICT use and e-commerce among SMEs and derives policy recommendations to Ministers at a possible second OECD Ministerial Conference on SMEs (“Bologna+4”). The chapter reflects policy discussions of the WP on SMEs and of the Working Parties of ICCP. Relevant country studies will also be used.

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ANNEX

ALTERNATIVE DISPUTE RESOLUTION MECHANISMS (ADR) ON-LINE FOR SME-RELATED CROSS-BORDER DISPUTES

Background

14. In relation with the study on Electronic Commerce and SMEs, a specific report will be prepared on “Alternative Dispute Resolution Mechanisms (ADR) On-line for SME-Related Cross-border Disputes”. ADR is an issue of growing interest for SMEs. Indeed, a significant hindrance to expanding international business has been the lack of suitable dispute resolution mechanisms for SMEs that may face cross-border disputes, particularly with consumers. Small businesses are not able to afford the cost of pursuing dispute resolution through foreign court systems, nor are they able to utilise most international arbitration services because of the time and cost involved. Fostering the development of faster and more cost-effective alternative dispute resolution (ADR) mechanisms for SMEs should facilitate the conduct of cross-border business by SMEs.

Objective and methodology

15. Ensuring users’ redress for cross-border on-line interactions by providing access to effective ADR is part of the OECD programme to build trust in E-commerce. The focus of the OECD work has been on business-to-consumer (B-to-C) flexible mechanisms offered on line, with an emphasis on consumer protection. The proposed report is intended to put the emphasis on the specific needs of SMEs for dispute resolution in their interactions with consumers (B-to-C). The report will in particular develop an educational instrument for SMEs which would: i) explain why SMEs should offer online ADR to consumers; and ii) provide guidance in choosing an ADR mechanism that best suits their needs.5

16. It would also be helpful to examine, to the extent possible, the area of business-to-business (B-to-B) relations on-line, and at a later stage, if the necessary resources are available, to address business-to-government (B-to-G) relations online in this context.

5. Internet research repeatedly shows that many consumers are reluctant to engage in electronic transactions because they are concerned as to lack of opportunities for redress. By offering ADR, businesses will allay these concerns and encourage openness and trust in e-commerce.
17. The proposed report will also explore ways to strengthen co-operation between governments and the private sector to address these issues effectively at a global level. Finally, it will aim at identifying best practices for SMEs’ dispute resolution in their interactions with consumers (B-to-C).

Co-operation with other OECD committees and working parties

18. Work will be carried out in close co-operation with the ICCP Working Party on Information Security and Privacy (WPISP) and the Committee for Consumer Policy (CCP). Delegates to the other relevant working parties [WPs of ICCP: WP on Telecommunications and Information Services Policies (TISP), WP on the Information Economy (WPIE), WP on Indicators for the Information Society (WPIIS)], especially WPIE, will also have an opportunity to comment on the draft report, if necessary.

Co-operation with the International Chamber of Commerce, the European Commission and other international bodies

19. Co-operation will also be carried out with the International Chamber of Commerce (ICC), the European Commission and other international bodies, such as APEC, when appropriate.

Output and timeline


21. The report will be prepared according to the following timeline:


22. A summary of the report and its main recommendations will be part of the material submitted to the OECD Council Meeting at Ministerial level in 2003.

23. The report will then be finalised during 2003 taking into account on-going developments and focusing on deliverables to a possible second Ministerial Conference on SMEs (“Bologna+4”). The final report would be reviewed by the Working party on SMEs at its 21st Session (December 2003).
Structure of report

Introduction (Background and summary of the report)

Chapter 1. ADR & SMEs: Identifying specific needs of SMEs

This chapter will review the situation of SMEs engaged in international transactions and will aim to assess their specific needs with regard cross-border dispute resolutions with consumers (and at a later stage, if possible, with other businesses and with governments). It will analyse the challenges and opportunities related to the access to and use of effective ADR on-line by SMEs. This analysis will be carried out for OECD countries and selected non-OECD economies (which adopted the Bologna Charter).

Chapter 2. Identifying ADR mechanisms

This chapter will be based on a survey of ADR on-line mechanisms related to B-to-C (and, when possible, B-to-B) in the countries reviewed. It will aim at identifying the characteristics of such mechanisms that are best suited to SMEs.

Chapter 3. Fostering on-line ADR best practices for SMEs

This chapter will present concrete best practices related to SMEs and an “educational tool to foster the use of B-to-C ADR by SMEs”.