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TRADE AND DEVELOPMENT BOARD  
Commission on Enterprise, Business  
Facilitation and Development  
Expert Meeting on Sustainable Financial and  
Non-Financial Services for SME Development  
Geneva, 2-4 June 1999  
Agenda item 3

Development of sustainable local services and national and international support measures including financial and non-financial services, human resources development, access to information and an assessment of access to technologies, to improve and promote the role and capacity of small and medium-sized enterprises in developing countries within the framework of a dialogue between the private and the public sector

Agreed conclusions and recommendations

**A. FINANCIAL SERVICES**

The Expert Meeting,

1. Recognizing that financial institutions find it difficult to serve small and medium-sized enterprises (SMEs) because of high risk and high transaction costs, lack of experienced personnel and a preference for larger, more profitable clients;
2. Acknowledging that the provision of financial services must be closely linked to the delivery of business development services that can improve both the viability of SMEs and their ability to repay loans, as well as reduce the transaction costs of providing such loans;

3. Realizing that, without access to finance, SMEs will not be able to start up, grow or engage in the continuous innovations that are necessary to compete in the national and global economy;

4. Noting that SMEs' financial needs must be matched with appropriate financial instruments and programmes;

5. Further noting the absence of standardized tools to permit the identification and assessment of SMEs' performance by both banks and equity markets,

Calls upon

**Governments and the international community:**

1. To strengthen the ability of their financial institutions to serve all creditworthy clients, including SMEs. They should consider using flexibility in adjusting the regulatory requirements where necessary to allow banks to better service SMEs. They should also encourage the use of innovative practices where feasible, such as group lending and such mechanisms as peer pressure, linking savings with credit, and the possibility of continued credit.

2. To consider other innovative mechanisms, such as credit guarantee schemes, credit rating systems, and credit scoring systems, which could reduce the transaction costs involved, and leasing, which could lessen the demands for capital outlays for SMEs. Where capital markets permit, the possibility of securitization of SME loan portfolios should be explored, which would have the benefit of increasing the volume of funds available for further SME lending;

3. To avoid non-sustainable subsidized interventions which could distort financial markets;

4. To encourage lending institutions to establish a prudent balance between the equity contributed by the SME and the loan capital provided to cover the cost of the business project in order both to increase the personal stake and commitment of the entrepreneur in the business and to reduce the debt-servicing burden;

5. To encourage and facilitate the modernization and diversification of the local financial sector with a view to promoting the creation, mobilization and efficient use of national savings in favour of SMEs;

**UNCTAD:**

6. To identify and promote innovative approaches, including those used by microcredit institutions, which could be used by mainstream financial institutions to reduce the risks and transaction costs of lending to SMEs, and to report back to the Commission as soon as possible;

7. To continue its work on recommendations for an accounting system that will allow SMEs to produce transparent, reliable and standardized financial and business information that can be used for credit evaluation, credit ratings and credit scoring, as well as for internal management purposes, and to report back to the Commission as soon as possible;

8. To identify and test ways of linking credit, leasing, equity and venture capital funds with creditworthy SMEs which have been through a pre-screening and capacity-building system such as the EMPRETEC programme or which have been identified by microfinance institutions, extrabudgetary resources permitting;

9. To identify and test innovative services that can be adapted and applied to SMEs, working jointly with microfinance and other institutions and in close cooperation with local business development services, extrabudgetary resources permitting. UNCTAD should document and report its findings to the Commission.

**B. NON-FINANCIAL SERVICES**

The Expert Meeting,

1. Recognizing that SMEs have an essential role to play in the generation and distribution of income, job creation, poverty alleviation, community development; and the efficient integration of developing countries, in particular least developed countries (LDCs), into the global economy;

2. Realizing that many SMEs are unable to make their full potential contribution because they lack access to markets, finance, technology and business skills;

3. Noting that effective and efficient business development services can help SMEs solve these access problems, and that the development of such services can be promoted through public-private sector dialogue and cooperation agreements, based on transparent and businesslike approaches;

Calls upon

**Governments and the international community:**

1. To adopt, disseminate and adapt to the local context the following principles of good practice when promoting the delivery of business development services for entrepreneurship, productivity improvement, mobilization and efficient use of local savings.

2. Business development services should be:

- (a) Demand-driven and provided in a decentralized manner when possible by those who can relate closely to the client's needs; they should also be designed specifically for the target groups and the local context;
- (b) Focused, strategic and delivered where feasible on a collective basis and on an individual basis when business environment, size and local conditions permit;
- (c) Market-oriented and businesslike;
- (d) Aimed at gradual cost recovery;
- (e) Delivered within the context of a clear strategy for attaining sustainability within a reasonable period.

3. Governments in the process of shifting from a supply-driven approach to a demand-driven approach are invited to consider:

- (a) Focusing on core functions of the State (e.g. health, education, law and order, basic training, infrastructure and information networks) in order to create a favourable business environment for SMEs;
- (b) Facilitating business services, rather than providing them directly, and widening the market for local capacities;
- (c) Avoiding the distortion of the market for local business services;
- (d) Ensuring that quality and ethical standards are set for the business service providers;

- (e) Creating an environment where incentives are given for capacity-building among entrepreneurs for the use, adaptation and development of technology and supporting research and development and technical services.

4. Governments and the international community should encourage business service providers to consider such strategies as cross-subsidization, diversification of products and clients, and the undertaking of various revenue-generating activities in order to minimize the possibility of priority being given to the better-paying clients, to the neglect of SMEs run by entrepreneurs often regarded as "disadvantaged" (e.g. women entrepreneurs, young entrepreneurs and rural entrepreneurs).

**UNCTAD:**

5. To contribute to the effectiveness and efficiency of business service providers by developing indicators that would measure the performance of their activities in terms of scope, outreach, impact, cost recovery and sustainability, and to report back to the Commission at the earliest opportunity.

6. To identify, on the basis of case studies, ways in which technology services could become an effective tool for SME development, and to identify business development services that could be provided for the industrial upgrading of clusters.