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TRADE AND DEVELOPMENT BOARD
Commission on Enterprise, Business Facilitation
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**DRAFT REPORT OF THE COMMISSION ON ENTERPRISE, BUSINESS
FACILITATION AND DEVELOPMENT ON ITS SIXTH SESSION**

18-21 February 2002

Rapporteur: Mr. Paul Frix (Belgium)

Speakers:

Representative of the UNCTAD secretariat
Egypt for the G77 and China
European Community
Uganda for the African Group
Sri Lanka for the Asian Group and China
Sri Lanka
Belgium as Chairperson of the Expert
Meeting on Improving the
Competitiveness of SMEs in Developing
Countries: Role of Finance, including
E-Finance, to Enhance Enterprise
Development

Philippines as Co-Chairperson of the
Expert Meeting
Spain for the EU
Paraguay for the Latin American and
Caribbean Group
Zimbabwe for the African Group
Sri Lanka for the Asian Group and China
Bangladesh

Note for delegations

This draft report is a provisional text circulated for clearance by delegations.

Requests for amendments to statements by individual delegations should be communicated by **Wednesday, 27 February 2002** at the latest, to:

UNCTAD Editorial Section, Room E.8108, fax no. 907 0056, tel. no. 907 5656/1066.

IMPLICATIONS FOR THE WORK OF THE COMMISSION FOLLOWING THE DOHA MINISTERIAL CONFERENCE

(Agenda item 7)

1. The **representative of the UNCTAD secretariat** drew attention to two items clearly mentioned in the Doha Declaration, namely trade facilitation and electronic commerce, that would call for UNCTAD's attention in its post-Doha work. Trade facilitation was referred to in paragraph 27 of the Declaration, and he reminded delegates that some of the GATT 1994 articles (such as articles V and VII) had proved difficult to implement. UNCTAD had accumulated considerable experience in trade facilitation through the introduction of information technology tools in the areas of cargo tracking (ACIS) and Customs automation (ASYCUDA). Furthermore, since 1975, UNCTAD had carried out a wide range of analytical work and technical assistance activities that took into account the specificities of developing countries. In the context of its post-Doha work, UNCTAD could assist developing countries in identifying their trade facilitation needs and priorities and in formulating their negotiating positions.

2. The second item, electronic commerce, was referred to in paragraph 34 of the Doha Ministerial Declaration. UNCTAD had already undertaken work on some of the issues under discussion in the WTO, such as the customs moratorium on electronic transmissions and the fiscal implications of electronic commerce. Some results of these studies had been included in the *E-Commerce and Development Report 2001*. UNCTAD would continue to provide important inputs into the analysis of e-commerce and development.

3. He also recalled that, in the context of the GATS, transport negotiations were expected to resume shortly. UNCTAD had been actively involved in the Uruguay Round and NGMTS negotiations on this topic. He expressed the secretariat's readiness to continue assistance to developing countries in upcoming negotiations.

4. Referring to the technical assistance plan prepared by the UNCTAD secretariat for "Capacity Building and Technical Cooperation for Developing Countries, especially LDCs, and Economies in Transition in Support of their Participation in the WTO Doha Work Programme" (UNCTAD/RMS/TCS/1), he said that both trade facilitation and electronic commerce had been included in the plan and that a number of activities were foreseen to help developing countries in the areas of awareness creation, improving the business environment, and assistance in the negotiation process. UNCTAD was a leader in the field of electronic commerce, and, for example, the *E-Commerce and Development Report 2001* had already been downloaded over 70,000 times from the UNCTAD web site since December 2001 by users all over the world, including many users from developing countries.

5. The representative of **Egypt**, speaking on behalf of the **Group of 77 and China**, noted that, as a result of the Doha Meeting, UNCTAD would have to face the

additional task of providing technical assistance to developing countries in the area of trade negotiations. He welcomed the technical assistance plan proposed by the Secretary-General of UNCTAD and encouraged the continuation of consultations on this plan. The activities listed in the proposal should be considered as additional activities, and appropriate resources must be provided to UNCTAD to implement the plan. He therefore asked the secretariat and donor countries to take this into consideration and not divert resources from ongoing activities, as UNCTAD was involved not only in WTO-related activities but in other important activities as well.

6. The representative of the **European Community** agreed that trade facilitation was of vital importance to all countries and hoped that new negotiations on this issue would lead to increased trade for all members, as well as reduced costs and delays in goods traded. In particular, it was important for the secretariat to continue work on GATT 1994 Articles V and VII. She also stressed the importance for all developing countries to become more involved in the discussions on trade facilitation, given possible complications in changing local Customs practices and introducing increased transparency.

7. In the area of electronic commerce, she commended UNCTAD on its work, in particular the *E-Commerce and Development Report 2001*, which would be taken into account in the WTO work programme. She encouraged UNCTAD to continue building awareness of the importance of electronic commerce and to assist developing countries to become more involved in e-commerce. E-commerce could improve the business environment, increase the participation of developing countries in trade, and combat difficulties related to distance, transport etc. She called on members to continue to participate actively in these discussions. With regard to a WTO seminar to be held in April 2002 on the fiscal implications of e-commerce, the UNCTAD report had addressed that issue and found that the cost of the moratorium was not a major problem per se. Apart from the moratorium, other issues such as telecommunication, financial, advertising and transport services were also important for both e-commerce and trade facilitation. Hence, this was not a new mandate for UNCTAD but rather the continuation of its existing work.

8. The representative of **Uganda**, speaking on behalf of the **African Group**, welcomed UNCTAD's proposed post-Doha capacity building technical assistance plan and pointed out its usefulness for the African countries. The core issue was the financing of the plan, which would only be viable if appropriate funding was provided. In this respect, he shared the view that the plan should be considered as involving additional activities, which would require additional resources.

9. The representative of **Sri Lanka**, speaking on behalf of the **Asian Group and China**, expressed her satisfaction with the post-Doha project proposal and pointed to the importance of making finance available to implement the plan.

10. The representative of **Sri Lanka** said she was pleased to note that a considerable share of the trade facilitation budget in the post-Doha project was

earmarked for analytical work. As far as electronic commerce was concerned, she would welcome further analytical work in this area, including on issues relevant to the WTO discussions and making reference to the planned WTO seminar on revenue implications of electronic commerce. She also stressed the importance for UNCTAD of addressing the development dimension of electronic commerce, as this was where the comparative advantage of UNCTAD lay when building synergies with other institutions.

**IMPROVING THE COMPETITIVENESS OF SMES IN DEVELOPING
COUNTRIES: ROLE OF FINANCE, INCLUDING E-FINANCE, TO
ENHANCE ENTERPRISE DEVELOPMENT**

(Agenda item 4)

11. For its consideration of this item, the Commission had before it the following documentation:

“Report of the Expert Meeting on Improving the Competitiveness of SMEs in Developing Countries: The Role of Finance, including E-Finance, to Enhance Enterprise Development” (TD/B/COM.3/39).

“Improving SME competitiveness: Access to finance and e-finance - Note by the UNCTAD secretariat” (TD/B/COM.3/43)

12. The **representative of the secretariat** summarized the main issues with regard to SME finance and e-finance. The need to work at both the macro and micro levels in order to achieve development goals was emphasized. Macro policy issues, such as the capital adequacy ratios of the Basle Committee, had a direct impact on SMEs’ ability to access long-term finance. An appropriate mix of flexibility of financial regulations that allowed for SME financing at a reasonable cost and at the same time prudential supervision that ensured financial stability in order to avoid systemic risk was vital for an enabling environment. Also, Governments were encouraged to avoid extensive borrowing from commercial banks so as not to crowd out the private sector, especially SMEs.

13. Many of the obstacles that SMEs faced in accessing finance had been overcome in developed countries, and there was a need to find ways to transfer these lessons to developing countries. First, banks should strike partnerships with business service providers in order to provide business services to SMEs that improved their creditworthiness. Second, financial information provided by SMEs could be improved by user-friendly accounting systems. Third, international financial institutions were encouraged to undertake comprehensive and consistent capacity building efforts to train commercial bankers in developing countries to deal with SMEs, and UNCTAD, through regional seminars, could raise awareness of the measures that could be used in SME lending, such as credit scoring, external credit ratings, and risk self assessment. UNCTAD technical cooperation programmes also needed to be made gender-sensitive.

14. With regard to e-finance, the operational environment for e-finance was important, including telecommunications services, Internet connectivity and an adequate legal framework with technology-neutral monetary and financial regulations. At the initial stages of e-finance, the most important issues for SMEs were access to local, regional and global Internet-based payments systems, use of other Internet banking services, entering the emerging Internet-based credit

information and rating databases on enterprises to become eligible for e-trade finance, e-credit insurance, and other forms of short-term enterprise e-financing. Overcoming information asymmetry on SME risks due to less costly modern e-data mining techniques might open up for SMEs the opportunity of getting e-finance from foreign sources on more competitive terms. That in turn might put competitive pressures on local financial service providers and push downwards the otherwise excessively high costs of commercial credit in many developing and transition economies. Better information on SMEs' performance and financial health should eventually improve their commercial risk profile and also have a beneficial impact on the political risk indicators of their home countries. As a result, SMEs might eventually start getting more risk capital and other longer-term finance and investment.

15. The representative of **Belgium**, speaking in his capacity as **Chairperson of the Expert Meeting on Improving Competitiveness of SMEs in Developing Countries: Role of Finance, including E-Finance, to Enhance Enterprise Development**, presented an overview of the SME finance issues discussed at the Expert Meeting. SMEs were a key sector for achieving sustainable economic development, as they accounted for two-thirds of all jobs, and access to finance was a crucial determinant of the success of the sector. The choice of the topic had been very timely, as there are very few other forums in which to directly address the problems of SME finance and e-finance, as compared to either international finance or micro finance. The focus had been on finding practical solutions to the obstacles that SMEs faced in gaining access to finance, namely high perceived risk, information asymmetry, high transaction costs and the lack of the appropriate bank corporate structures or bank personnel experienced in working with SMEs. Many of the financial innovations considered by the Expert Meeting dealt with reducing the costs and risks of lending to SMEs. Examples of successful local financial institutions in developed countries had demonstrated that, with the correct strategy and appropriate use of information technology, lending to SMEs could be made into a highly profitable business. The relevant measures, suitably adapted, could also be transferred to developing countries to some extent. The Expert Meeting had also considered alternative sources of finance such as venture capital that were relevant in some developed countries but marginal in developing countries. In the case of LDCs, there was a special need for public-private sector investment funds. The Expert Meeting had also considered complements to finance, such as leasing and loan and mutual guarantee schemes. These provided useful ways for risk sharing but contained the risk of moral hazard and adverse selection. He had transmitted the outcome of the Expert Meeting to the secretariat of the International Conference on Financing for Development to be held in March in Monterrey, Mexico.

16. The representative of the **Philippines**, speaking in his capacity as **Co-Chairperson of the Expert Meeting**, presented an overview of the e-finance issues discussed at the Expert Meeting. E-finance had gone beyond online payments and smart cards and had become an instrument for economic development. While e-finance was at an early stage in many developing countries, it had the potential to

dominate world finance and thus eventually affect the business conduct of SMEs globally. SMEs needed to quickly overcome any obstacles to using e-finance in order not to be marginalized in international business and commerce. The use of new Internet-based technologies could help SMEs to overcome the problems of information asymmetry as one of the main steps in getting access to both finance and e-finance. E-finance would not bring any new finance for SMEs if their credit risk remained the same. They had to change their business culture, improve their management and enter credit information databases. Financial service providers needed to upgrade both their human and physical capital in order to provide services online, focus their efforts on developing business-to-business lines of e-finance, and in particular focus on developing e-financing for SMEs.

17. The representative of **Spain**, speaking on behalf of the **European Union**, said that obtaining finance was a major obstacle for SMEs, in particular for newly established companies and those managed by women entrepreneurs. As SMEs were important for job creation, it was important that Governments and financial institutions take up the issue of SMEs' access to finance and e-finance. Training and familiarization with e-finance were basic activities that were necessary to boost the overall use of finance, decrease transaction costs and promote efficiency. The main tasks in this area were strengthening the institutional capabilities of financial intermediaries and other relevant players, exchanging information on innovative mechanisms and strengthening the financial regulatory framework so as to avoid systemic risks

18. The representative of **Paraguay**, speaking on behalf of the **Latin American and Caribbean Group**, said that encouraging local financial institutions to service SMEs at a reasonable cost was a major problem. He noted that while sound financial regulations were important for financial stability, much more work had to be done by Governments and international financial institutions to encourage local banks to service SMEs at a reasonable cost. E-finance was taking root in many Latin American countries, but much work was needed to develop local e-payments, e-credit insurance and e-trade finance services for SMEs. Moreover, the local financial service providers were facing global challenges. Local enterprises could be included in global databases, thus improving transparency and reducing the cost of borrowing despite unfavourable political risk ratings at the national level. The usefulness of the Conference in Mexico would depend on the efforts of those countries that could ensure that meaningful action took place at all levels – both macro and micro.

19. The representative of **Zimbabwe**, speaking on behalf of the **African Group**, said that financial access depended on macroeconomic stability and a well regulated financial sector. The financial services sector needed to be encouraged to take a serious look at SMEs; it needed to work closely with SMEs, to adapt modern credit techniques to improve SME risk management and at the same time to provide finance to them at reasonable cost. This was the only way to achieve sustainable results and reduce costs. SMEs also needed support in this connection. Many of them had no experience of working with banks and found it difficult to approach them. Technical

assistance through programmes such as EMPRETEC would be highly valuable in helping SMEs obtain formal credit. E-finance was beyond the reach of most African SMEs, and in order to change this, it was necessary first to address the issues of the so-called “digital divide” and access to ICT and Internet services. Nevertheless, there were several examples of microcredit schemes in Africa that had successfully taken advantage of the Internet. The online availability of credit risk and financial information about SMEs was a key to access to e-finance and e-payment facilities. International technical support for both African financial intermediaries and SMEs was important. With regard to the Conference in Monterrey, the African Group was expecting practical results from the Conference.

20. The representative of **Sri Lanka**, speaking on behalf of the **Asian Group and China**, spoke of the need to raise awareness of e-finance technologies. It was important that SMEs actively participate in e-commerce, and for this training and advisory services were needed, as well as investment in ICT physical infrastructure. Instruments such as online payment and online credit rating and risk information databases would have to be made available by local financial institutions. Much work needed to be done with Asian banks to make them more sensitive to SME needs. UNCTAD and other development organizations needed to provide information on the most recent innovations and best practices to local financial institutions in developing countries. The areas that needed special attention included raising awareness of and the use of financial innovations targeted at SMEs and combining business and financial services through public-private partnerships. She also noted the importance of promoting the collection and dissemination of e-finance and e-commerce related data.

21. The representative of **Bangladesh** said that SMEs were very important for the diffusion of new technologies and were often very efficient users of capital. The inefficiency of financial intermediaries was often the main problem for SMEs’ access to finance and e-finance, and alternative and innovative financing schemes therefore needed to be explored, in particular those that used the Internet, which was an excellent media to easily convey financial and risk information about SMEs and thus facilitate their access to finance. Given the very low level of telecommunications and Internet penetration in LDCs, one should be cautious about the immediate prospects of e-finance in those countries. Finally, he noted that capital markets played a marginal role in LDCs in providing finance.