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

Draft agreed recommendations

1. In its deliberations on finance and e-finance for SMEs, the Commission took note of the secretariat documents available for consideration under this item¹.
2. The Commission recognized that sustainable economic growth is strongly related to the rate of enterprise creation, which in turn depends on a nation's entrepreneurial culture and the ease with which SMEs can be started and financed. Although SMEs provide at least 60-70 per cent of all jobs, financial institutions often find it difficult to lend to SMEs for reasons such as perceived high risk and high transaction costs. Appropriate policy measures could play an important role in improving SMEs' access to financing.

¹ Report of the secretariat entitled "Improving SME competitiveness: Access to finance and e-finance" (TD/B/COM.3/43); 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-TD/B/COM.3/EM.13/3); and background papers entitled "Best practices in financial innovations for SMEs (UNCTAD/DITE/TEB/Misc.1), and "E-Finance and small and medium-size enterprises in developing countries and transition economies" (UNCTAD/SITE/Misc.48).

3. The emerging global, regional and local e-finance services open, for enterprises from developing and transition economies, new opportunities to pay and get paid online, enter the Internet-based credit risk databases, and obtain e-trade finance, e-credit insurance and eventually longer-term capital more rapidly and at less cost. However, to achieve that stage, the overwhelming majority of SMEs in developing countries should greatly improve their capacity to use ICT and especially the Internet, as well as to resolve the related issues of trust and knowledge necessary to practice e-commerce and e-finance.

4. The Commission accordingly made the following recommendations and invites the international community, including UNCTAD, to take into account the special needs of LDCs when implementing them.

Recommendations at the national level

5. Governments are encouraged to put in place the legal and regulatory framework that facilitates development of finance and e-finance for SMEs, as well as infrastructure such as credit bureaus and other relevant information services.

6. Governments, and where appropriate central banks, are urged to encourage commercial banks to disclose the composition of their loan portfolios by size of enterprise and gender of the client.

7. Governments are encouraged to improve the reliability of financial information provided by SMEs by adopting user-friendly accounting and reporting requirements.

8. Governments are encouraged to support public/private sector partnerships for SME venture capital funds and investment funds ensuring a level playing field for all market participants. In the case of LDCs, these investment funds should accept longer time horizons and payback periods because of the better risk-sharing within the partnership.

9. Governments are further encouraged to ensure that domestic financial institutions reach the underserved segment of women entrepreneurs by *inter alia* offering special credit lines to women entrepreneurs.

10. Both the public and the private sector are encouraged to promote e-finance for SMEs by ensuring that financial regulations are technology-neutral and by creating a supportive institutional environment that facilitates e-payments, Internet banking, e-credit information, e-trade finance and e-credit insurance and other on-line finance for enterprises.

Recommendations to the international community

11. The international community is urged to consider debt swaps, within existing aid budgets, as a means of strengthening local financial institutions by providing them with medium and long-term finance for SMEs in local currency. Debt swaps could also be used to provide business development services, including enhancement of human resources. Thus debt swaps could significantly contribute to the development of local financial markets and business development services.

12. Relevant international organizations are encouraged to disseminate information on financial innovations and undertake capacity-building in developing countries and transition economies to train commercial bank staff to better serve SMEs by improving credit policy-making, risk management, credit information and management systems, and efficient marketing and distribution.

13. The international community is encouraged to support efforts of developing countries in the development of e-finance infrastructure, including for SMEs, and to promote the introduction of e-finance through training, co-financing and various partnerships between local and international financial service providers.

14. In light of EMPRETEC's important role in helping SMEs increase their access to financing, the international community is encouraged to consider providing funding in order to strengthen the EMPRETEC programme and fully implement the recommendations made by the Trade and Development Board.

Recommendations to UNCTAD

15. UNCTAD should:

- (a) Through its Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting, complete its work on a user-friendly accounting framework for SMEs that will allow them to produce transparent, reliable and uniform financial and business information, and report back to the Commission as soon as possible;
- (b) Strengthen its technical cooperation programmes for entrepreneurship, including where appropriate in cooperation with ITC, in order to improve meaningfully the creditworthiness of SMEs by linking its business development services to financial services through partnerships between national programmes such as EMPRETEC and banks;

- (c) Monitor the development of new products and innovative financial mechanisms pertinent to the EMPRETEC programme so that participants can more easily access them, including environmentally and socially responsible investment funds;
- (d) Continue its work on business linkages, including interfirm cooperation and partnerships, as one of the most efficient ways to access finance, technology, skills and markets;
- (e) Incorporate the aspects of e-finance and e-commerce that are more relevant to the needs of SMEs into UNCTAD technical cooperation activities and ensure coordination and synergies with other international organizations active in this field;
- (f) Organize regular fora, including regional seminars and group training, to sensitize Governments, central banks, financial service providers and the corporate sector in developing and transition countries to the advantages of electronic finance at the local, regional and global levels;
- (g) Encourage Governments, central banks and financial institutions to provide information on e-finance for the purposes of analysis, intergovernmental deliberations and technical cooperation.