Accounting and financial reporting needs of SMEs

Workshop material:

Capacity building needs of Micro, Small and Medium Sized enterprises (MSMEs) in accounting and reporting

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Capacity building needs of Micro, Small and Medium Sized enterprises (MSMEs) in accounting and reporting

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UNCTAD

• Focal point in the UN system for the integral treatment of topics related to trade, investment and development.

• Promotes world economic integration and sustainable development for developing countries.

• 3 main functions:
  1) Forum for intergovernmental dialogue and consensus building
  2) Conduct research, policy analysis and collection of data
  3) Provide capacity building (technical assistance) to developing countries
Importance of MSMEs in the global economy

• In most countries they account for more than 95% of all companies

• MSMEs are major generators of employment and income.

• Therefore their contribution to the national economy is essential
Characteristics and issues

• Definition of microenterprise and SME varies across jurisdictions.

• Lack of formalization of the activities, administration and accounting records.

• Low administrative capacity.

• Lack of access to financing. In developing countries, close to 70% do not use external financing from financial institutions (WB and McKinsey).

• Finance gap estimated in 3.1 trillion with approximately 420 to 510 million of MSMEs in the world (WB and McKinsey).

• High rate of failure in the early years.
Financing gap

Bar graphs refer to millions of MSMEs in the region (informal and formal).

<table>
<thead>
<tr>
<th>Region</th>
<th>Number of MSMEs (Millions)</th>
<th>Value of MSME credit gap</th>
<th>% MSMEs that need but have neither a loan nor an overdraft</th>
</tr>
</thead>
<tbody>
<tr>
<td>High-income OECD countries</td>
<td>Total 56-68</td>
<td>$1,000bn-$1,300bn</td>
<td></td>
</tr>
<tr>
<td></td>
<td>With deposit accounts 54-60</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>With loans or overdrafts 24-30</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Middle East and North Africa</td>
<td>19-23</td>
<td>$165bn-$200bn</td>
<td></td>
</tr>
<tr>
<td>Latin America</td>
<td>47-57</td>
<td>$330bn-$410bn</td>
<td></td>
</tr>
<tr>
<td></td>
<td>31-37</td>
<td>$140bn-$170bn</td>
<td></td>
</tr>
<tr>
<td>Sub-Saharan Africa</td>
<td>36-44</td>
<td>$310bn-$370bn</td>
<td></td>
</tr>
<tr>
<td>South Asia</td>
<td>75-91</td>
<td></td>
<td></td>
</tr>
<tr>
<td>East Asia</td>
<td>170-205</td>
<td>$900bn-$1,100bn</td>
<td></td>
</tr>
</tbody>
</table>

Total value of the gap in MSME credit:

- High-income OECD countries: $3,100bn-$3,800bn
- Latin America: $3,100bn-$3,800bn
- Sub-Saharan Africa: $3,100bn-$3,800bn
- East Asia: $3,100bn-$3,800bn

Total value of the gap in MSME credit excluding high-income OECD:

- $2,100bn-$2,500bn

- $1,400bn-$1,700bn

- $365-445

- 240-350

- 75-90
Preliminary results from UNCTAD research (2013)

- Most countries in the study do not have a separate framework for microenterprises.
- Some countries have softer requirements for MSMEs in relation to audit
- Capacity building needs highlighted by countries include:
  - More professionals needed in this sector
  - Simplified standards
  - More training required
  - A legal framework for micros is required
UNCTAD’s initiative: Accounting for entrepreneurs and microenterprises

• Accounting training course for owners and employees of micro and small enterprises with no or limited accounting knowledge.

• Content (available in Spanish) is based on the Guidelines for Small and Medium Enterprises (SMEGA) Level 3 developed by UNCTAD.

• Based on accrual basis accounting, but closely linked to cash transactions.
Training workshop objectives

To enable micro and small enterprises to:

• Understand the accounting flow and keep accounting records.

• Use of this information for management purposes.

• Increase their knowledge and use of different financing alternatives (module on local sources of microfinancing)

• Prepare the required documents for a credit application.
Methodology

- 5 days of training
- Questionnaire for local financing institutions to provide better understanding of recurrent errors and their needs for credit approval
- Accounting training manual for trainers
- Accounting training manual for participants
- Visual aids
- Additional practical exercises
Pilot Workshop

• A pilot workshop organised with Empretec-Peru was conducted in Lima in 2011 to validate training materials with local stakeholders.

• UNCTAD is ready to collaborate with other development partners to deploy the training materials in other jurisdictions.
Thank you!

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