



**United Nations
Conference
on Trade and
Development**

Distr.
LIMITED

TD/B/COM.3/EM.13/L.1
29 October 2001

Original : ENGLISH

TRADE AND DEVELOPMENT BOARD
Commission on enterprise, Business Facilitation
and Development
Expert Meeting on Improving Competitiveness of SMEs
in Developing Countries: The Role of Finance, Including
E-Finance, to Enhance Enterprise Development
Geneva, 22-24 October 2001

Agenda item 3

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

Outcome of the expert meeting

1. The Expert Meeting on Improving the Competitiveness of SMEs in Developing Countries: The Role of Finance, including E-Finance, to Enhance Enterprise Development examined a range of issues for consideration by the Commission on Enterprise, Business Facilitation and Development pursuant to paragraphs 119 and 156 of the Bangkok Plan of Action (TD/386). Experts made presentations and exchanged views on trends in financial innovation and best practices at the international and national levels.
2. The experts noted that sustainable economic growth is strongly related to the rate of enterprise creation and technical innovation. Vigorous enterprise creation depends on a nation's entrepreneurial culture and the ease with which businesses can be started and financed.

3. They recognized that many financial institutions in developed and developing countries find it difficult to serve small and medium-sized enterprises (SMEs) because of high perceived risk and high transaction costs and lack of experienced personnel and appropriate corporate structures, which bias them against SMEs, including those created by women entrepreneurs. The key to securing access for SMEs is to improve the ability of financial institutions to seriously expand and make more efficient the delivery of financial products, both offline and online, for different segments of SMEs. It is important for financial institutions to know their markets and customer needs and offer packages of tailor-made products, as well as automatic and standardized ones.

4. They equally stressed that the advent of the Internet, with the possibility of achieving enormous efficiency gains, including much lower transaction costs, faster communication and unparalleled networking opportunities, has brought about new opportunities and challenges for SME access to finance and in particular to e-finance.

5. The experts reviewed a number of innovations used by international and national financial institutions to facilitate SME finance. Local financial institutions in developed countries, which have been particularly successful in serving the SME market, have found that it is highly profitable. Their strategy is to improve their core competencies by adopting sophisticated credit techniques such as credit scoring, strengthening management and information systems and developing highly efficient automatic processes, efficient marketing and distribution, and developing close ties to clients. The experts also discussed complements to finance such as insurance and guarantee schemes that could increase a bank's ability and interest in terms of servicing SMEs. They considered how such innovations could be widely applied to developing countries, where the conditions for SME development are often much less favourable.

6. They also observed that in developing countries equity funds and especially venture capital funds have greater difficulty in serving SMEs or even identifying fundable ones. Such difficulties severely limit the amount of equity and venture capital funds available to SMEs in developing countries and particularly in LDCs. In the case of the LDCs, there is a special need for public-private investment funds devoted to the support and promotion of SMEs and information infrastructure development.

7. During the second part of the meeting, the experts stressed the revolutionary impact of open Internet technologies and platforms on financial services. In particular, they discussed the development of online payments with or without the use of cards, Internet banking, e-trade finance and e-credit insurance. The discussion centred on adapting these online financial services to the needs of SMEs and in particular SMEs from developing and transition economies.

8. The experts paid special attention to a number of innovations in the financial industry to reduce costs and risks, including modern Internet-based data mining technologies making it possible to build up huge credit information databases and apply modern credit analysis and related credit appraisal, scoring and rating techniques, permitting the appraisal of SME credit risks and the rapid processing of their credit applications. They considered how those innovations could be introduced or further developed in developing countries.

9. They agreed that the provision of medium and long-term finance should be closely linked to the delivery of business development services so as to improve both the viability of SMEs and their ability to repay loans. They urged that partnerships be struck between financial institutions, business associations, networks of entrepreneurs and business development service providers.

10. Lastly, they noted that the international financial system can influence the availability of domestic and external resources and in particular long-term finance for productive purposes in developing countries. They therefore requested that their recommendations on ways and means of increasing SME access to finance should be made available to the next preparatory meeting of the forthcoming UN conference on Financing for Development in Monterrey, Mexico, in March 2002.

11. The experts examined a number of best practices that can facilitate SME access to finance and recommended the following for consideration by:

Governments

Finance

- (a) Maintaining prudential supervision of the financial sector, taking into account the specific requirements for medium and long-term investment finance for SMEs, and ensuring that commercial lending to SMEs is on a sustainable basis;
- (b) Avoiding crowding out of the private sector by excessive borrowing from national financial institutions;
- (c) Designing loan guarantee schemes that reach target beneficiaries, ensure balanced risk sharing and avoid moral hazard;
- (d) Requiring commercial banks to disclose the composition of their loan portfolios, particularly the percentage of loans going to SMEs ;
- (e) Encouraging banks to implement good corporate governance practices and transparent procedures and, within this framework, to appoint independent outside experts with a knowledge of SMEs to their boards of directors;
- (f) Improving the reliability of financial information provided by SMEs by adopting user-friendly accounting and reporting requirements;
- (g) Promoting an institutional framework for SME support services;
- (h) Supporting public-private sector partnerships for SME venture capital funds and investment funds ensuring a level playing field for all market participants;
- (i) Adopting regulatory and legal frameworks that allow for the establishment and best use of financial sector infrastructure such as credit bureaus and other information sharing solutions, while maintaining appropriate privacy laws;

- (j) Creating conditions for promoting local capital markets;

Public and private sector

E-finance

- (k) Creating a technology-neutral e-commerce and e-finance friendly regulatory environment and developing secure methods of electronic transmission of commercial messages, e-signatures and e-contracts, which should be considered as legally binding by contracting parties;
- (l) Adopting flexible regulations and creating a supportive institutional environment to encourage the introduction of e-payments, Internet banking, online trade finance and credit information and other e-finance relevant to SMEs in developing and transition economies and ensure public-private cooperation in that respect;
- (m) Developing a conceptual framework to allow systematic collection of data on e-finance;
- (n) Encouraging a variety of partnerships and joint ventures between local and foreign e-finance service providers in order to ensure the possibility of rendering efficient services to customers at local, regional and global levels;
- (o) Improving international coordination among national financial supervisory authorities to better manage systemic risks related to the borderless nature of e-finance;
- (p) Developing online credit information, credit scoring and rating databases for SMEs from developing and transition economies to facilitate and shorten their credit appraisal process and hence improve their access to finance and e-finance both locally and internationally;

- (q) Creating local, regional and global e-finance platforms with the active participation of financial service providers and other companies from developing countries and making them accessible to developing country SMEs;
- (r) Developing online business development and information services and supporting capacity building for SMEs in respect of getting online access to business opportunities and facilitating online matching of best conditions for their financing requirements;
- (s) Supporting SMEs in acquiring technologies and skills required to pay and be paid online, as well as entering into longer-term trade-related e-financing arrangements;
- (t) Laying foundations to develop a strategy for online access to longer term e-finance for SMEs;
- (u) Developing alternative bilateral and multilateral online payments and financing arrangements, such as online clearinghouses, and making it possible to expand productive and trading frontiers of SMEs from developing and transition countries;

Development agencies and international financial institutions

- (v) Bringing the recommendations of the Expert Meeting to the attention of Governments and national development finance institutions;
- (w) Bringing the outcome of the Expert Meeting to the attention of the forthcoming UN Conference on Financing for Development in Mexico;
- (x) Supporting SME associations in setting up infrastructure to collate and update SME data;

Finance

- (y) Developing, whenever appropriate, 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, also taking into consideration finance and guarantee schemes in local currency. Debt swaps should also be used to provide business development services. This could be useful to complement the HIPC debt alleviation facility and for countries not benefiting from the facility. When dealing with capacity building, development agencies should be ready to enter into full partnerships with public and private stakeholders and share risks and responsibilities;
- (z) Promoting user-friendly accounting and reporting systems for SMEs that would provide uniform (within the country) and useful financial information to managers, creditors and investors;
- (aa) Disseminating information on financial innovations and assisting commercial banks in developing core competencies in credit policy making, risk management, credit information and management systems, and efficient marketing and distribution;
- (bb) Developing/strengthening programmes that assist commercial banks in developing countries to train bank management and staff to better appraise SME credit risk, particularly in the case of women entrepreneurs;
- (cc) Encouraging banks to develop contractual relations with business development service providers to better identify opportunities and to provide efficient follow-up services;
- (dd) Joining with Governments and private partners in creating public-private venture capital funds and investment banks to assist SMEs;

- (ee) Urging development banks to adopt a sectoral approach to:
- (i) Policy dialogue with Governments and domestic national banks to create an enabling environment for SME support;
 - (ii) Long-term assistance through loans and equity to local institutions with a perspective of long-term sustainability;
 - (iii) Complementary capacity building for financial institutions and SMEs via business development service providers;
- (ff) Developing common standards and systems to link commercial banks and micro-finance institutions to increase outreach and accelerate the mainstreaming of productive poor into the formal financial system;

E-finance

- (gg) Facilitating, through policy dialogue, financing and technical cooperation, the introduction of a technology-neutral regulatory and institutional environment for e-finance;
- (hh) Encouraging, through training, co-financing and various partnerships between local and international financial service providers, the introduction of e-finance and related financial innovation by banks and other financial service providers from developing and transition countries and thus demonstrating to them possibilities to tap into e-finance related efficiency gains;
- (ii) Participating through co-financing and technical assistance in the creation of local and regional e-finance platforms of various types with a view to improving the quality of services rendered to SMEs and other customers;

- (jj) Assisting the SME sector in developing and transition economies to acquire e-finance related technologies and skills as a part of improving their competitiveness and participation in the global economy;
- (kk) Supporting Governments, public and private sector entities and NGOs in fulfilling the above-mentioned recommendations on e-finance;
- (ll) Doing a more effective job of networking and creating clearing houses for information and experiences relating to types of infrastructure to support e-finance, in close consultation with private market participants;
- (mm) Exploring a more structured approach to transfer of knowledge and training and associated cooperation between public agencies;

Commission on Enterprise, Business Facilitation and Development

- (nn) Selecting a topic for the next two years which develops coherent approaches to SME finance, e-finance and non-financial business support services, taking into consideration the work of other agencies, in order to contribute to the effectiveness of UNCTAD's research, intergovernmental discussions and technical cooperation and ultimately to UNCTAD XI;

UNCTAD

- (oo) Continuing its research on financing for SMEs particularly in the fields of new technology acquisition, export credit, e-finance and e-economy, which are critical for the competitiveness of SMEs and their participation in the global economy;

Finance

- (pp) Completing 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 reporting back to the Commission as soon as possible;
- (qq) Ensuring, in its technical cooperation programmes for entrepreneurship, that business development services are linked to financial services and developing the necessary products and services within its programmes in order to facilitate this;
- (rr) Developing, together with other relevant international agencies, programmes for women entrepreneurs to facilitate their access to finance, extrabudgetary funds permitting;

E-finance

- (ss) Continuing systematic research into various online financial services and their impact on economic development and in particular on opportunities opened up for SMEs to improve their access to finance and e-finance;
- (tt) Organizing 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;
- (uu) Incorporating the aspects of e-finance that are more relevant to the needs of SMEs into UNCTAD technical cooperation activities in the area of e-commerce, and ensuring coordination and synergies with other international organizations active in this field;
- (vv) Encouraging Governments, central banks and financial institutions to collect information on e-finance and using it for analysis, intergovernmental deliberations and technical cooperation.