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2018 ECOSOC Forum on Financing for Development follow-up (FfD Forum)

Side event:

Unlocking the potential of the Small and Medium Enterprise (SMEs) to accelerate structural economic transformation in the LLDCs and the achievement of the SDGs

1:15pm to 2:30pm, 25 April 2018

Trusteeship Council Chamber, UN Headquarter, New York

1. Introduction

Small and Medium Sized Enterprises (SMEs)¹ play a key role in the world economy and contribute substantially to income, output and employment. They are also key in technological innovation and change in production and distribution systems with direct contribution to efforts to build productive capacities and fostering structural economic transformation. The growth and expansion of SMEs can also serve as a litmus test to countries' micro and macroeconomic environment, help attract foreign direct investment and, thereby, facilitate transfer of capital, knowledge and technology including best business models and practices. According to the World Trade Report 2016, micro firms and SMEs account for the majority of the firms in most countries (95% on average) and for the vast majority of the jobs. SMEs have also been found to contribute more than 50% of the world GDP. Jobs in small and medium enterprises (SMEs) account for more than half of all formal employment worldwide and in developing countries, including in the LLDCs, the share is even higher for developing countries when the informal sector is added. In view of the importance of the SMEs in employment creation, economic diversification and improving competitiveness in developing countries, they are seen as critical vehicles of social inclusion.

SME sector is and has been acknowledged worldwide as an economic powerbase to stimulate economic growth, enhance economic diversification including value-addition and effective

¹ There is no commonly agreed definition of micro firms and SMEs. In majority of the countries, SMEs are defined as firms employing between 10 and 250 people and firms with up to 10 employees are usually referred to as micro firms.

tools for structural transformation and sustainable development with substantial impact on poverty alleviation. As a result, the development of SMEs is vital to developing countries including the LLDCs. The 2030 Agenda for Sustainable Development recognises the key role of the SMEs in achieving sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all (Goal 8). The SDGs call for multiple interventions to build strong SMEs, notably in the areas of access to finance and skills; knowledge and technology transfer; and by creating linkages with regional and global value chains.

The Vienna Programme of Action, which is an integral part of the 2030 Agenda also recognises the importance of the SMEs in integrating the LLDCs into global trade and value chains and the role of the SMEs in achieving structural economic transformation in the LLDCs. The VPoA stipulates several actions to be implemented by both the LLDCs and the development partners to facilitate the development of the SMEs in the LLDCs. To promote international trade, the VPoA mandates the LLDCs to promote policies to help national firms, especially the SMEs, to participate better in international trade. In addition, the LLDCs as well as Development Partners are expected to promote better integration of SMEs within international trade by, when appropriate, strengthening institutions that support trade, fostering trade competitiveness, building spaces for private-public dialogue, fostering technical and vocational education and training and capacity-building, and creating market linkages through business-to-business platforms. For building or developing productive capacities and accelerating structural economic transformation, the LLDCs are required to prioritize private sector development, in particular small and medium-sized enterprises amongst other actions.

Despite the importance of the SMEs to economic and social development, they are confronted with significant obstacles that impede their development and their contribution to sustainable development and poverty alleviation. According to a study on the biggest obstacles to growth of SMEs in developing countries by Yao Wang, 2016, the five most significant obstacles faced by the SMEs in developing countries include: access to finance, prohibitive cost of electricity; political instability; competition and high tax rates. Among those five obstacles, “access to finance” appeared to be the biggest barrier, followed by “competition”. A study by ADB Institute 2016, on “Major Challenges Facing Small and Medium-sized Enterprises in Asia” identified accessing finance, lack of information infrastructure for SMEs, low level of R&D in the SME business sector, and insufficient use of information technology as the key challenges facing the SMEs. Other challenges identified by other studies include human resource capabilities, identification of new markets and low production capacity.

For the SMEs to play a key role in the development of the LLDCs, it is necessary to create a conducive environment for their growth, competitiveness and sustainability. Devoting time and resources to addressing SMEs challenges, will indirectly create a room for development through thousands of jobs to be created by SMEs thereby boosting individual country’s economic development and overall growth and poverty reduction. The Addis Ababa Action Agenda (AAAA) recognise the importance of an enabling environment at all levels, including enabling regulatory and governance frameworks, in nurturing science, innovation, the dissemination of technologies, particularly to micro, small and medium-sized enterprises, as

well as industrial diversification and value addition to commodities. The Nairobi Maafikiano recognises the important role of Governments in creating an enabling environment including by promoting investment in microenterprises and SMEs and improving their access to finance, technologies and services. Whilst Governments have a key role in creating an enabling environment for the growth of the SMEs, the support from development partners, private sector and international organisations is also important to complement the national efforts.

International trade has been found to improve the competitiveness of the SMEs' participation in trade and is envisaged as one of the keys that could help unlock the potential of the SMEs. According to OECD (2004), access to global markets by the SMEs offer a host of business opportunities, such as new niche markets; possibilities to exploit economies of scale, scope, volume and technological advantages; the upgrading of technological capability; ways of spreading risks; lowering and sharing costs, including R&D costs; and in many cases, affording improved access to finance. While the participation of the SMEs in international trade is recognised to be important to facilitate growth and thus can contribute significantly to the achievement of the SDGs particularly by developing countries, the trade participation of SMEs in developing countries is quite low, with exports accounting for 7.6% of manufacturing sales compared to 14.1% for larger firms (World Trade Report 2016). According to the World Trade Report, on average the micro and SMEs account for 78% of exporters in developed countries but only 34% of exports in developing countries, direct exports represent just 8% of the total sales of the SMEs in the manufacturing sector. SMEs in developing countries have also been found to have low levels of integration in global value chains, with few backward and forward linkages in production. New communication tools make it easier for the SMEs to reach international markets.

Several reasons can be attributed to the lack of international competitiveness of the SMEs in developing countries, including in LLDCs and these include, lack of trade finance, tariffs and non-tariff barriers, high transport costs, intellectual property concerns, limited access to production infrastructure, standards, cumbersome exporting procedures/documentation, insufficient information about overseas markets and slow collection of payments from abroad. Addressing these challenges is crucial to ensure that the SMEs take advantage of international trade and are integrated into the global value chains and they contribute to the structural economic transformation of the LLDCs as well as to the attainment of the SDGs. Joint efforts with the LLDCs, the private sector, development partners and relevant international organisations is vital in this process.

Objectives of the event

The event will be organised in the margins of the Forum on Financing for Development follow-up to facilitate the implementation of the Vienna Programme of Action and the 2030 Agenda and it is aimed at encouraging the LLDCs to build strong SME sectors and enhance their contribution to structural economic transformation.

The specific objectives include:

- i. Provide platform to discuss policies and measures that could help strengthen the SME sector in LLDCs including the SMEs participation in trade;
- ii. Provide an opportunity for exchange of information on SME experiences in LLDCs,
- iii. Identify opportunities for capacity building and technical assistance aimed at SME development; and
- iv. Explore practical ideas for joint efforts between the LLDCs and the development partners in creating a conducive environment for better integration of the SMEs into global trade.

Expected Outcome

- i. Policy recommendations for strengthening the competitiveness of the SMEs in LLDCs;
- ii. Identified opportunities for technical assistance and capacity building and possible partners;
- iii. Identified opportunities for SMEs in international trade

Format of the event

The event will feature panel presentations by panelists representing different stakeholders including representatives from UN, other international organizations, private sector and Members States. The panel presentations will be followed by an interactive dialogue with members of the audience.

Co-organizers

The event is being organized by Paraguay (the Chair of the LLDCs), UNCTAD, International Chamber of Commerce, International Trade Centre (ITC), Common Fund for Commodities and UN-OHRLLS.

Participants

The event will bring together senior officials from the landlocked developing countries, development partners and other member states, United Nations organizations, multilateral development institutions, academia, and the private sector.

Background Documents

- i. 2030 Agenda for Sustainable Development
- ii. Addis Ababa Action Agenda
- iii. Vienna Programme of Action
- iv. World Trade Report: Levelling the trading field for SMEs